

**Grand River Hospital District  
doing business as  
Grand River Health**

Basic Financial Statements and  
Independent Auditors' Report

December 31, 2018 and 2017



**DINGUS | ZARECOR & ASSOCIATES** PLLC  
Certified Public Accountants

**Grand River Hospital District**  
**doing business as Grand River Health**  
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DINGUS | ZARECOR & ASSOCIATES PLLC  
Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Grand River Hospital District  
doing business as Grand River Health  
Rifle, Colorado

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Grand River Hospital District doing business as Grand River Health (the District) as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

### **Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider 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 the District as of December 31, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 1 to the financial statements, in 2018 the District early implemented Government Accounting Standards Board Statement No. 89, *Accounting for Interest Cost Incurred Before the end of a Construction Period*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the District's financial statements as a whole. The schedule of budget and actual revenues and expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of budget and actual revenues and expenses 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Dingus, Zarecor & Associates PLLC*

Spokane Valley, Washington  
April 16, 2019

**Grand River Hospital District**  
**doing business as Grand River Health**  
**Statements of Net Position**  
**December 31, 2018 and 2017**

| <b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>             | <b>2018</b>           | <b>2017</b>           |
|--|-----------------------|-----------------------|
| <i>Current assets</i>  |                       |                       |
| Cash and cash equivalents                                    | \$ 4,276,802          | \$ 10,421,244         |
| Investments  | 5,598,528             | 9,228,851             |
| Receivables:   |                       |                       |
| Patient accounts, net of estimated uncollectibles            | 7,538,924             | 8,560,037             |
| Other receivables  | 166,706               | 7,655                 |
| Property tax levy  | 16,528,558            | 14,297,379            |
| Property taxes   | 100,373               | 135,055               |
| Estimated third-party payor settlements                      | 4,775,554             | 6,186,452             |
| Inventories  | 2,353,984             | 2,272,561             |
| Prepaid expenses   | 1,236,893             | 946,179               |
| Total current assets   | 42,576,322            | 52,055,413            |
| <i>Noncurrent assets</i>                                     |                       |                       |
| Cash and cash equivalents restricted for Memorial Trust Fund | 1,125,269             | 1,121,806             |
| Cash and cash equivalents restricted for bond repayment      | 1,000,429             | 402,103               |
| Investments  | 16,950,480            | 9,981,980             |
| Investments restricted by bond for construction              | 104,432,517           | -                     |
| Investment in joint ventures                                 | 1,120,023             | 941,031               |
| Capital assets, net  | 77,220,467            | 71,673,007            |
| Total noncurrent assets                                      | 201,849,185           | 84,119,927            |
| Total assets   | 244,425,507           | 136,175,340           |
| <i>Deferred outflows of resources</i>                        |                       |                       |
| Deferred charge on debt refunding                            | 95,114                | 181,581               |
| <b>Total assets and deferred outflows of resources</b>       | <b>\$ 244,520,621</b> | <b>\$ 136,356,921</b> |

*See accompanying notes to basic financial statements.*

**Grand River Hospital District**  
**doing business as Grand River Health**  
**Statements of Net Position (Continued)**  
**December 31, 2018 and 2017**

| <b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES,<br/>AND NET POSITION</b>   | <b>2018</b>           | <b>2017</b>           |
|---|-----------------------|-----------------------|
| <i>Current liabilities</i>  |                       |                       |
| Current maturities of long-term debt                                      | \$ 2,940,000          | \$ 1,155,000          |
| Accounts payable  | 1,320,344             | 1,035,119             |
| Refunds payable   | 584,301               | 477,213               |
| Accrued compensation and related liabilities                              | 5,704,689             | 5,303,848             |
| Accrued interest payable  | 385,635               | 12,533                |
| Estimated third-party payor settlements                                   | -                     | 837,405               |
| Property tax abatement payable  | -                     | 1,000,000             |
| Total current liabilities   | <b>10,934,969</b>     | 9,821,118             |
| <i>Noncurrent liabilities</i>   |                       |                       |
| Capital accounts payable  | 695,541               | 408,804               |
| Long-term debt, net of current maturities                                 | 102,437,984           | 2,570,731             |
| Total noncurrent liabilities  | <b>103,133,525</b>    | 2,979,535             |
| Total liabilities   | <b>114,068,494</b>    | 12,800,653            |
| <i>Deferred inflows of resources</i>                                      |                       |                       |
| Deferred property tax levy  | 16,528,558            | 14,297,379            |
| <i>Net position</i>   |                       |                       |
| Net investment in capital assets  | 75,288,938            | 67,707,520            |
| Restricted for Memorial Trust Fund  | 1,125,269             | 1,121,806             |
| Restricted for bond repayment   | 1,000,429             | 402,103               |
| Unrestricted  | 36,508,933            | 40,027,460            |
| Total net position  | <b>113,923,569</b>    | 109,258,889           |
| <b>Total liabilities, deferred inflows of resources, and net position</b> | <b>\$ 244,520,621</b> | <b>\$ 136,356,921</b> |

*See accompanying notes to basic financial statements.*

**Grand River Hospital District**  
**doing business as Grand River Health**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**Years Ended December 31, 2018 and 2017**

|   | <b>2018</b>           | <b>2017</b>           |
|---|-----------------------|-----------------------|
| <i>Operating revenues</i>                                   |                       |                       |
| Net patient service revenue, net of provision for bad debts | \$ 73,924,112         | \$ 69,940,043         |
| Electronic health records incentive                         | 233,750               | 7,405                 |
| Other revenues  | 1,020,537             | 1,128,151             |
| <b>Total operating revenues</b>                             | <b>75,178,399</b>     | <b>71,075,599</b>     |
| <i>Operating expenses</i>                                   |                       |                       |
| Salaries and wages  | 38,485,590            | 37,251,277            |
| Employee benefits   | 12,564,799            | 11,339,649            |
| Professional fees and other purchased services              | 3,865,876             | 3,742,407             |
| Supplies  | 8,751,791             | 8,458,660             |
| Depreciation  | 5,233,944             | 5,460,588             |
| Utilities   | 1,040,400             | 972,699               |
| Repairs and maintenance                                     | 5,989,944             | 5,214,566             |
| Provider fees   | 1,772,339             | 1,611,381             |
| Other   | 3,908,904             | 3,426,320             |
| <b>Total operating expenses</b>                             | <b>81,613,587</b>     | <b>77,477,547</b>     |
| <i>Operating loss</i>                                       | <b>(6,435,188)</b>    | <b>(6,401,948)</b>    |
| <i>Nonoperating revenues (expenses)</i>                     |                       |                       |
| Taxation for operations                                     | 7,484,009             | 6,955,271             |
| Taxation for bond principal and interest                    | 7,919,552             | 1,395,077             |
| Tax collection expense                                      | (242,359)             | (170,447)             |
| Investment income   | 1,554,233             | 406,822               |
| Contributions   | 117,463               | 102,232               |
| Interest expense  | (3,728,209)           | (286,875)             |
| Bond issuance costs   | (2,004,821)           | -                     |
| <b>Total nonoperating revenues, net</b>                     | <b>11,099,868</b>     | <b>8,402,080</b>      |
| Change in net position                                      | 4,664,680             | 2,000,132             |
| Net position, beginning of year                             | 109,258,889           | 107,258,757           |
| <b>Net position, end of year</b>                            | <b>\$ 113,923,569</b> | <b>\$ 109,258,889</b> |

*See accompanying notes to basic financial statements.*

**Grand River Hospital District**  
**doing business as Grand River Health**  
**Statements of Cash Flows**  
**Years Ended December 31, 2018 and 2017**

|   | 2018                 | 2017                 |
|---|----------------------|----------------------|
| <i>Increase (Decrease) in Cash and Cash Equivalents</i>                 |                      |                      |
| <i>Cash flows from operating activities</i>                             |                      |                      |
| Receipts from and on behalf of patients                                 | \$ 75,625,806        | \$ 69,389,169        |
| Electronic health records incentive payment                             | 233,750              | 7,405                |
| Other receipts  | 861,486              | 1,131,661            |
| Payments to and on behalf of employees                                  | (50,649,548)         | (47,975,796)         |
| Payments to suppliers and contractors                                   | (25,416,166)         | (23,578,552)         |
| Net cash provided by (used in) operating activities                     | <b>655,328</b>       | <b>(1,026,113)</b>   |
| <i>Cash flows from noncapital financing activities</i>                  |                      |                      |
| Taxation for operations   | 6,518,691            | 7,930,526            |
| Payments for tax collection   | (242,359)            | (170,447)            |
| Contributions   | 117,463              | 102,232              |
| Net cash provided by noncapital financing activities                    | <b>6,393,795</b>     | <b>7,862,311</b>     |
| <i>Cash flows from capital and related financing activities</i>         |                      |                      |
| Purchase of capital assets  | (10,494,667)         | (1,850,001)          |
| Principal paid on long-term debt  | (2,975,000)          | (1,120,000)          |
| Proceeds from issuance of long-term debt                                | 105,469,696          | -                    |
| Taxation for bond principal and interest                                | 7,919,552            | 1,395,077            |
| Interest paid   | (4,111,083)          | (184,000)            |
| Bond issuance costs   | (2,004,821)          | -                    |
| Net cash provided by (used in) capital and related financing activities | <b>93,803,677</b>    | <b>(1,758,924)</b>   |
| <i>Cash flows from investing activities</i>                             |                      |                      |
| Purchase of investments   | (106,467,428)        | (9,276,611)          |
| Sale of investments   | -                    | 10,106,466           |
| Interest on investments   | 71,975               | 180,091              |
| Net cash provided by (used in) investing activities                     | <b>(106,395,453)</b> | <b>1,009,946</b>     |
| Net increase (decrease) in cash and cash equivalents                    | <b>(5,542,653)</b>   | <b>6,087,220</b>     |
| Cash and cash equivalents, beginning of year                            | <b>11,945,153</b>    | <b>5,857,933</b>     |
| <b>Cash and cash equivalents, end of year</b>                           | <b>\$ 6,402,500</b>  | <b>\$ 11,945,153</b> |

See accompanying notes to basic financial statements.

**Grand River Hospital District**  
**doing business as Grand River Health**  
**Statements of Cash Flows (continued)**  
**Years Ended December 31, 2018 and 2017**

|   | 2018                | 2017                  |
|---|---------------------|-----------------------|
| <b><i>Reconciliation of Cash and Cash Equivalents<br/>to the Statements of Net Position</i></b>           |                     |                       |
| Cash and cash equivalents in current assets   | \$ 4,276,802        | \$ 10,421,244         |
| Cash and cash equivalents restricted for Memorial Trust Fund  | 1,125,269           | 1,121,806             |
| Cash and cash equivalents restricted for bond repayment   | 1,000,429           | 402,103               |
| <b>Total cash and cash equivalents</b>  | <b>\$ 6,402,500</b> | <b>\$ 11,945,153</b>  |
| <b><i>Reconciliation of Operating Loss to Net Cash Provided by<br/>(Used in) Operating Activities</i></b> |                     |                       |
| Operating loss  | \$ (6,435,188)      | \$ (6,401,948)        |
| <i>Adjustments to reconcile operating loss to net cash provided by<br/>(used in) operating activities</i> |                     |                       |
| Provision for bad debts   | 5,874,539           | 3,866,294             |
| Depreciation  | 5,233,944           | 5,460,588             |
| Decrease (increase) in assets:  |                     |                       |
| Receivables:  |                     |                       |
| Patient accounts, net   | (4,853,426)         | (348,570)             |
| Other receivables   | (159,051)           | 3,510                 |
| Estimated third-party payor settlements   | 1,410,898           | (3,193,892)           |
| Inventories   | (81,423)            | (39,191)              |
| Prepaid expenses  | (290,714)           | 17,983                |
| Increase (decrease) in liabilities:   |                     |                       |
| Accounts payable  | 285,225             | (131,311)             |
| Refunds payable   | 107,088             | (201,232)             |
| Accrued compensation and related liabilities  | 400,841             | 615,130               |
| Estimated third-party payor settlements   | (837,405)           | (673,474)             |
| <b>Net cash provided by (used in) operating activities</b>  | <b>\$ 655,328</b>   | <b>\$ (1,026,113)</b> |

***Noncash Investing Activity***

During the years ended December 31, 2018 and 2017, the District recognized \$1,482,258 and \$226,731 in noncash investment income.

*See accompanying notes to basic financial statements.*

**Grand River Hospital District**  
**doing business as Grand River Health**  
**Notes to Basic Financial Statements**  
**Years Ended December 31, 2018 and 2017**

**1. Reporting Entity and Summary of Significant Accounting Policies:**

**a. Reporting Entity**

Grand River Hospital District doing business as Grand River Health (the District) owns and operates Grand River Medical Center, a 25-bed acute care hospital (the Hospital) in Rifle, Colorado. Additionally, the District operates E. Dene Moore Memorial Home (the Nursing Home), Grand River Primary Care, and Grand River Health Clinic West. As a political subdivision of the state of Colorado, the District is exempt from income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. The District is governed by a Board of Directors (the Board) consisting of seven community members elected by the residents of the District. The District is not a component unit of another governmental entity.

As required by accounting principles generally accepted in the United States of America, the basic financial statements present the District – the primary government – and its component unit. The component unit discussed below is included in the District’s reporting entity because of the significance of its operations and financial relationship with the District. The Grand River Hospital District Memorial Trust Fund (the Trust Fund) is a component unit of the District since its trustees are appointed from the District’s Board of Directors.

The Trust Fund was established for the purpose of receiving and holding bequests and gifts to be distributed to the Hospital and the Nursing Home. Trustees of the Trust Fund are responsible for the appropriate disposition of funds. The Trust Fund’s restricted resources are distributed to the Hospital or the Nursing Home as required to comply with purposes specified by donors. The Trust Fund’s unrestricted resources are distributed to the Hospital or the Nursing Home in amounts and for purposes determined by the Trustees. The Trust Fund is presented as a blended component unit of the District. The assets, liabilities, revenues, and expenses are included in the District’s financial statements.

**b. Summary of Significant Accounting Policies**

*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, deferred outflows of resources 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.

*Enterprise fund accounting* – The District’s accounting policies conform to accounting principles generally accepted in the United States of America as applicable to proprietary funds of governments. The District uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

**Grand River Hospital District**  
**doing business as Grand River Health**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

**1. Reporting Entity and Summary of Significant Accounting Policies (continued):**

**b. Summary of Significant Accounting Policies (continued)**

*Cash and cash equivalents* – Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less.

*Inventories* – Supply inventories are stated at cost, determined using the first-in, first-out method. Inventories consist of pharmaceutical, medical-surgical, and other supplies used in the operations of the District.

*Prepaid expenses* – Prepaid expenses are expenses paid during the year relating to expenses incurred in future periods. Prepaid expenses are amortized over the expected benefit period of the related expense. Prepaid expenses include prepaid insurance, prepaid equipment maintenance expenses, and other expenses.

*Capital assets* – It is the District’s policy to capitalize property and equipment over \$5,000 and having a useful life of at least two years; lesser amounts are expensed. Capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Capital assets other than land are depreciated on a straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are amortized over the shorter of the lease term or their respective estimated useful lives. Amortization of assets subject to leases is reported with depreciation expense.

Estimated useful lives are as follows:

|                            |               |
|----------------------------|---------------|
| Land improvements          | 5 to 15 years |
| Buildings and improvements | 5 to 40 years |
| Equipment                  | 2 to 20 years |

*Deferred charge on debt refunding* – The difference between the reacquisition price and the carrying amount of the refinanced 2000, 2001, and 2002 general obligation bonds has been deferred and is amortized using the straight-line basis over the life of the refunding bonds.

*Compensated absences* – The District’s policies permit most employees to accumulate vacation 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 and are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay rate in effect at the statements of net position dates plus an additional amount for compensation related payments such as Social Security and Medicare taxes computed using rates in effect at those dates.

*Net position* – The net position of the District is classified into three components. *Net investment in capital assets* consists of the District’s capital assets net of accumulated depreciation and amortization and is reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net position* is composed of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the District. *Unrestricted net position* is composed of remaining net position that does not meet the definition of *net investment in capital assets* or *restricted*.

**Grand River Hospital District**  
**doing business as Grand River Health**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

**1. Reporting Entity and Summary of Significant Accounting Policies (continued):**

**b. Summary of Significant Accounting Policies (continued)**

*Operating revenues and expenses* – The District’s statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions, including grants for specific operating activities, associated with providing healthcare services – the District’s principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs.

*Restricted resources* – When the District has both restricted and unrestricted resources available to finance a particular program, it is the District’s policy to use restricted resources before unrestricted resources.

*Grants and contributions* – From time to time, the District receives grants from the state of Colorado and others 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 restricted for capital acquisitions are reported after nonoperating revenues and expenses. Grants that are restricted for specific projects or purposes related to the District’s operating activities are reported as operating revenue. Grants that are used to subsidize operating deficits are reported as nonoperating revenue. Contributions, except for capital contributions, are reported as nonoperating revenue.

*Reclassifications* – Certain items included in the accompanying 2017 financial statements have been reclassified to conform to the 2018 presentation, with no effect on the previously reported change in net position.

*New accounting standard pronouncements* – In June 2018, the Governmental Accounting Standards Board (GASB) issued Statement No. 89, *Accounting for Interest Cost Incurred Before the end of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The Statement is effective for reporting periods beginning after December 15, 2019. The District has elected to implement this statement early for the year ended December 31, 2018.

*Upcoming accounting standard pronouncements* – In June 2017, the GASB issued Statement No. 87, *Leases*, which increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible asset representing the lessee’s right to use the leased asset, thereby enhancing the relevance and consistency of information about governments’ leasing activities. The new guidance is effective for the District’s year ending December 31, 2020, although earlier application is encouraged. The District has not elected to implement this statement early; however, management is still evaluating the impact, if any, of this statement in the year of adoption.

**Grand River Hospital District**  
**doing business as Grand River Health**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

**1. Reporting Entity and Summary of Significant Accounting Policies (continued):**

**b. Summary of Significant Accounting Policies (continued)**

*Upcoming accounting standard pronouncements (continued)* – In March 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowing and Direct Placements*, to improve the information that is disclosed in governmental entity financial statements related to debt, including direct borrowing and direct placements. It also clarifies which liabilities government entities should include when disclosing information related to debt. The statement defines debt and requires additional essential information related to debt to be disclosed in the notes to financial statements, including unused lines of credit, assets pledged as collateral for the debt, and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This statement also requires that existing and additional information be provided for direct borrowings and direct placement of debt separately from other debt. The new guidance is effective for the District's year ending December 31, 2019, although earlier application is encouraged. Management is currently evaluating the effect this statement will have on the financial statements and related disclosures.

*Subsequent events* – The District has evaluated subsequent events through April 16, 2019, the date on which the financial statements were available to be issued.

**2. Bank Deposits and Investments:**

*Deposits* – The Colorado Public Deposit Protection Act (CPDPA) requires financial institutions to collateralize any uninsured public deposits. The bank balance at each institution is insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Any excess of deposits over the FDIC limit not insured is covered by collateral pledged by the financial institution in accordance with the CPDPA.

Custodial credit risk is the risk that, in the event of a depository institution failure, the District's deposits may not be returned. The District does not have a deposit policy for custodial credit risk.

*Investments* – Colorado State statutes authorize the District to invest in U.S. Treasury bills, obligations of any other U.S. agencies, obligations of the World Bank, general obligation bonds of any state or any of their subdivisions, revenue bonds of any state or any of their subdivisions, bankers acceptance notes, commercial paper, repurchase agreements, money market funds, and guaranteed investment contracts. All investments must be held by the District, in their name, or in the custody of a third-party on behalf of the local government.

The District invests in Wells Fargo Money Market Mutual Funds, Federal National Mortgage Association Bonds, Federal Home Loan Bank Bonds, and United States Treasury notes. All funds are pooled, and a designated custodian provides safekeeping and depository service in connection with direct investment and withdrawal functions. Management believes there is no significant custodial, interest rate, or foreign currency risk exposure.

**Grand River Hospital District**  
**doing business as Grand River Health**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

**2. Bank Deposits and Investments (continued):**

The District's investments consisted of:

|                                       | S&P<br>Rating | Fair<br>Value  | 2018                             |                |
|---------------------------------------|---------------|----------------|----------------------------------|----------------|
|                                       |               |                | Investment Maturities (in Years) |                |
|                                       |               |                | Less Than<br>One                 | One to<br>Five |
| United States Treasury Notes          | Not rated     | \$ 55,972,961  | \$ 55,972,961                    | \$ -           |
| Freddie Mac Fixed Rate Bonds          | AA+           | 4,984,145      | 4,984,145                        | -              |
| Federal Home Loan Bank Bonds          | AA+           | 49,765,800     | -                                | 49,765,800     |
| Wells Fargo Money Market Mutual Funds | Not rated     | 16,258,619     | 16,258,619                       | -              |
|                                       |               | \$ 126,981,525 | \$ 77,215,725                    | \$ 49,765,800  |

|                                       | S&P<br>Rating | Fair<br>Value | 2017                             |                |
|---------------------------------------|---------------|---------------|----------------------------------|----------------|
|                                       |               |               | Investment Maturities (in Years) |                |
|                                       |               |               | Less Than<br>One                 | One to<br>Five |
| Federal Home Loan Bank Bonds          | AA+           | \$ 4,989,310  | \$ 4,989,310                     | \$ -           |
| Freddie Mac Fixed Rate Bonds          | AA+           | 4,992,670     | -                                | 4,992,670      |
| Wells Fargo Money Market Mutual Funds | Not rated     | 9,228,851     | 9,228,851                        | -              |
|                                       |               | \$ 19,210,831 | \$ 14,218,161                    | \$ 4,992,670   |

A reconciliation of investments follows:

|   | 2018           | 2017          |
|---|----------------|---------------|
| Investments in current assets                   | \$ 5,598,528   | \$ 9,228,851  |
| Investments in noncurrent assets                | 16,950,480     | 9,981,980     |
| Investments restricted by bond for construction | 104,432,517    | -             |
| Total investments, end of year                  | \$ 126,981,525 | \$ 19,210,831 |

**Fair value measurements** – The District 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 District has the following recurring fair value measurements as of December 31, 2018 and 2017, respectively:

- Freddie Mac Fixed Rate Bond of \$4,984,145 as of December 31, 2018, and \$4,992,670 as of December 31, 2017, and Federal Home Loan Bank Bonds of \$49,765,800 as of December 31, 2018, and \$4,989,310 as of December 31, 2017, and United States Treasury Note of \$19,042,305 as of December 31, 2018, valued using quoted market prices (Level 1).
- United States Treasury Notes of \$36,930,656 as of December 31, 2018, are valued using a fair market yield pricing methodology (Level 2).

**Grand River Hospital District**  
**doing business as Grand River Health**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

**3. Patient Accounts Receivable:**

Patient accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of patient accounts receivable, the District analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. For receivables associated with services provided to patients who have third-party coverage, the District analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which include both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the District records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

The District's allowance for uncollectible accounts for self-pay patients has not changed significantly from prior years. The District does not maintain a material allowance for uncollectible accounts from third-party payors, nor did it have significant writeoffs from third-party payors.

Patient accounts receivable reported as current assets by the District were as follows:

|   | <b>2018</b>         | <b>2017</b>         |
|---|---------------------|---------------------|
| Receivable from patients and their insurance carriers | \$ 15,490,678       | \$ 15,679,798       |
| Receivable from Medicare                              | 4,872,205           | 3,717,874           |
| Receivable from Medicaid                              | 3,749,702           | 6,420,043           |
| Total patient accounts receivable                     | <b>24,112,585</b>   | 25,817,715          |
| Less allowance for uncollectible accounts             | <b>16,573,661</b>   | 17,257,678          |
| <b>Patient accounts receivable, net</b>               | <b>\$ 7,538,924</b> | <b>\$ 8,560,037</b> |

**Grand River Hospital District**  
**doing business as Grand River Health**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

**4. Investment in Joint Ventures:**

The District holds an equity interest in Healthcare Management, LLC (the LLC). The District owns approximately 12 percent of the LLC. The value of the District's equity interest in the LLC was \$1,120,023 and \$941,031 as of December 31, 2018 and 2017, respectively.

**5. Capital Assets:**

A schedule of changes in capital assets follows:

|  | Balance<br>December 31,<br>2017 | Additions           | Retirements | Transfers   | Balance<br>December 31,<br>2018 |
|--|---------------------------------|---------------------|-------------|-------------|---------------------------------|
| <i>Capital assets not being depreciated</i>        |                                 |                     |             |             |                                 |
| Land   | \$ 4,861,735                    | \$ -                | \$ -        | \$ -        | \$ 4,861,735                    |
| Land held for future development                   | 822,635                         | -                   | -           | -           | 822,635                         |
| Construction in progress                           | 1,215,375                       | 8,936,943           | -           | (56,716)    | 10,095,602                      |
| Total capital assets not being depreciated         | 6,899,745                       | 8,936,943           | -           | (56,716)    | 15,779,972                      |
| <i>Capital assets being depreciated</i>            |                                 |                     |             |             |                                 |
| Land improvements                                  | 247,226                         | -                   | -           | -           | 247,226                         |
| Buildings and fixed equipment                      | 76,538,660                      | 1,227,113           | -           | 56,716      | 77,822,489                      |
| Equipment  | 33,803,338                      | 617,348             | -           | -           | 34,420,686                      |
| Total capital assets being depreciated             | 110,589,224                     | 1,844,461           | -           | 56,716      | 112,490,401                     |
| <i>Less accumulated depreciation for</i>           |                                 |                     |             |             |                                 |
| Land improvements                                  | 178,103                         | 22,387              | -           | -           | 200,490                         |
| Buildings and fixed equipment                      | 20,426,103                      | 2,969,877           | -           | -           | 23,395,980                      |
| Equipment  | 25,211,756                      | 2,241,680           | -           | -           | 27,453,436                      |
| Total accumulated depreciation                     | 45,815,962                      | 5,233,944           | -           | -           | 51,049,906                      |
| <i>Total capital assets being depreciated, net</i> | 64,773,262                      | (3,389,483)         | -           | 56,716      | 61,440,495                      |
| <b>Capital assets, net</b>                         | <b>\$ 71,673,007</b>            | <b>\$ 5,547,460</b> | <b>\$ -</b> | <b>\$ -</b> | <b>\$ 77,220,467</b>            |

**Grand River Hospital District**  
**doing business as Grand River Health**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

**5. Capital Assets (continued):**

|  | Balance<br>December 31,<br>2016 | Additions             | Retirements | Transfers   | Balance<br>December 31,<br>2017 |
|--|---------------------------------|-----------------------|-------------|-------------|---------------------------------|
| <i>Capital assets not being depreciated</i>        |                                 |                       |             |             |                                 |
| Land   | \$ 4,823,432                    | \$ 7,463              | \$ -        | \$ 30,840   | \$ 4,861,735                    |
| Land held for future development                   | 822,635                         | -                     | -           | -           | 822,635                         |
| Construction in progress                           | 359,197                         | 1,019,988             | -           | (163,810)   | 1,215,375                       |
| Total capital assets not being depreciated         | 6,005,264                       | 1,027,451             | -           | (132,970)   | 6,899,745                       |
| <i>Capital assets being depreciated</i>            |                                 |                       |             |             |                                 |
| Land improvements                                  | 247,226                         | -                     | -           | -           | 247,226                         |
| Buildings and fixed equipment                      | 76,293,008                      | 228,687               | -           | 16,965      | 76,538,660                      |
| Equipment  | 32,814,209                      | 873,124               | -           | 116,005     | 33,803,338                      |
| Total capital assets being depreciated             | 109,354,443                     | 1,101,811             | -           | 132,970     | 110,589,224                     |
| <i>Less accumulated depreciation for</i>           |                                 |                       |             |             |                                 |
| Land improvements                                  | 156,140                         | 21,963                | -           | -           | 178,103                         |
| Buildings and fixed equipment                      | 17,452,275                      | 2,973,828             | -           | -           | 20,426,103                      |
| Equipment  | 22,746,959                      | 2,464,797             | -           | -           | 25,211,756                      |
| Total accumulated depreciation                     | 40,355,374                      | 5,460,588             | -           | -           | 45,815,962                      |
| <i>Total capital assets being depreciated, net</i> | 68,999,069                      | (4,358,777)           | -           | 132,970     | 64,773,262                      |
| <b>Capital assets, net</b>                         | <b>\$ 75,004,333</b>            | <b>\$ (3,331,326)</b> | <b>\$ -</b> | <b>\$ -</b> | <b>\$ 71,673,007</b>            |

Construction in progress at December 31, 2018, consisted primarily of a hospital expansion, with estimated costs to complete of \$45,000,000 and an estimated date of completion of 2021; a new care center building, with estimated costs to complete of \$48,000,000 and an estimated date of completion of 2020; and electronic health records software, with estimated costs to complete of \$4,000,000 and an estimated date of completion of April 2019.

**Grand River Hospital District**  
**doing business as Grand River Health**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

**6. Healthcare Self-insurance:**

The District partially self-insures the cost of employee healthcare benefits as it purchases annual stop-loss insurance coverage for all claims in excess of \$100,000 per individual. An accrual for claims that have been incurred but not reported is included in the statements of net position in accrued compensation and related liabilities. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, frequency of claims, and other economic and social factors.

Changes in the District's claim liability were as follows:

|  | <b>2018</b> | <b>2017</b> |
|--|-------------|-------------|
| Claim liability, beginning of year           | \$ 699,204  | \$ 540,000  |
| Current year claims and changes in estimates | 7,434,397   | 6,358,535   |
| Claims payments                              | (7,310,382) | (6,199,331) |
| Claim liability, end of year                 | \$ 823,219  | \$ 699,204  |

**7. Long-term Debt:**

A schedule of changes in the District's long-term debt follows:

|                                | Balance              |                       |                       | Balance<br>December 31,<br>2018 | Amounts<br>Due Within<br>One Year |
|--------------------------------|----------------------|-----------------------|-----------------------|---------------------------------|-----------------------------------|
|                                | December 31,<br>2017 | Additions             | Reductions            |                                 |                                   |
| General Obligation Bonds, 2010 | \$ 3,610,000         | \$ -                  | \$ (1,155,000)        | \$ 2,455,000                    | \$ 1,200,000                      |
| Bond premium, 2010             | 115,731              | -                     | (38,958)              | 76,773                          | -                                 |
| General Obligation Bonds, 2018 | -                    | 89,400,000            | (1,820,000)           | 87,580,000                      | 1,740,000                         |
| Bond premium, 2018             | -                    | 16,069,696            | (803,485)             | 15,266,211                      | -                                 |
| <b>Total long-term debt</b>    | <b>\$ 3,725,731</b>  | <b>\$ 105,469,696</b> | <b>\$ (3,817,443)</b> | <b>\$ 105,377,984</b>           | <b>\$ 2,940,000</b>               |

|                                | Balance              |                  |                       | Balance<br>December 31,<br>2017 | Amounts<br>Due Within<br>One Year |
|--------------------------------|----------------------|------------------|-----------------------|---------------------------------|-----------------------------------|
|                                | December 31,<br>2016 | Additions        | Reductions            |                                 |                                   |
| General Obligation Bonds, 2010 | \$ 4,730,000         | \$ -             | \$ (1,120,000)        | \$ 3,610,000                    | \$ 1,155,000                      |
| Bond premium                   | 96,523               | 19,208           | -                     | 115,731                         | -                                 |
| <b>Total long-term debt</b>    | <b>\$ 4,826,523</b>  | <b>\$ 19,208</b> | <b>\$ (1,120,000)</b> | <b>\$ 3,725,731</b>             | <b>\$ 1,155,000</b>               |

**Grand River Hospital District**  
**doing business as Grand River Health**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

**7. Long-term Debt (continued):**

General Obligation Bonds Series 2010 and 2018 in the original amounts of \$11,190,000 and \$89,400,000, respectively, are secured by the District's full faith and credit. The 2010 bonds mature annually at amounts ranging from \$1,200,000 in 2019 to \$1,255,000 in 2020, with semiannual interest payments at rates ranging from 4.0 percent to 4.5 percent. The 2018 bonds mature annually at amounts ranging from \$1,740,000 in 2019 to \$7,195,000 in 2037, with semiannual interest payments at rates ranging from 5.0 percent to 5.25 percent.

The General Obligation Bonds Series 2010 and 2018 (the Bonds) are direct and general obligations of the District and are secured by an irrevocable pledge of the District that it will have sufficient funds available to pay the bond principal and interest due by levying each year a tax upon the taxable property within the District. The District Board of Directors approved the Bonds and a special levy to pay the principal and interest. Tax receipts limited for bond redemption and interest are used to pay the principal and interest each year.

Scheduled principal and interest repayments are as follows:

| <b>Years Ending<br/>December 31,</b> | <b>General Obligation Bonds</b> |                      |
|--------------------------------------|---------------------------------|----------------------|
|                                      | <b>Principal</b>                | <b>Interest</b>      |
| 2019                                 | \$ 2,940,000                    | \$ 4,627,588         |
| 2020                                 | 3,085,000                       | 4,486,588            |
| 2021                                 | 3,225,000                       | 4,344,888            |
| 2022                                 | 3,385,000                       | 4,183,638            |
| 2023                                 | 3,555,000                       | 4,014,388            |
| 2024-2028                            | 20,630,000                      | 17,220,688           |
| 2029-2033                            | 26,520,000                      | 11,326,875           |
| 2034-2037                            | 26,695,000                      | 3,593,360            |
|                                      | <b>\$ 90,035,000</b>            | <b>\$ 53,798,013</b> |

**Grand River Hospital District**  
**doing business as Grand River Health**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

**8. Net Patient Service Revenue:**

The District recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for charity care, the District recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the District's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the District records a significant provision for bad debts related to uninsured patients in the period the services are provided. The District's provisions for bad debts and writeoffs increased from the prior year due to the District more accurately tracking contractual adjustments and bad debt. The District has not changed its charity care or uninsured discount policies during fiscal years 2018 or 2017. Patient service revenue, net of contractual adjustments and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows.

|   | <b>2018</b>          | <b>2017</b>          |
|---|----------------------|----------------------|
| Patient service revenue (net of contractual adjustments and discounts): |                      |                      |
| Medicare  | \$ 21,192,536        | \$ 18,235,408        |
| Medicaid  | 11,321,637           | 19,278,148           |
| Colorado Indigent Care Program and Medicaid Supplemental Payments       | 4,387,998            | 5,258,981            |
| Other third-party payors  | 33,470,336           | 23,197,155           |
| Patients  | 11,349,593           | 10,149,684           |
| 340(b) contract pharmacy program revenue                                | 1,011,075            | 698,013              |
|   | <b>82,733,175</b>    | <b>76,817,389</b>    |
| Less:   |                      |                      |
| Charity care  | 2,934,524            | 3,011,052            |
| Provision for bad debts   | 5,874,539            | 3,866,294            |
| Net patient service revenue   | <b>\$ 73,924,112</b> | <b>\$ 69,940,043</b> |

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

- *Medicare* – The Hospital has been designated a critical access hospital, and Grand River Primary Care and Grand River Health Clinic West (the Clinics) as rural health clinics by Medicare. The Hospital and Clinics are reimbursed on a cost basis as defined and limited by the Medicare program. The District is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare administrative contractor. Nonrural health clinic physician services are reimbursed on a fee schedule. The District is reimbursed for skilled nursing facility services under a prospective payment system.

**Grand River Hospital District**  
**doing business as Grand River Health**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

**8. Net Patient Service Revenue (continued):**

- *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. Medicaid outpatient services are paid based on prospectively determined rates. Skilled nursing services are paid on prospectively determined rates per day. Rural health clinic encounters are reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by Medicaid. Physician services are reimbursed on a fee schedule.
- *Other* – The District has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the District under these agreements includes prospectively determined rates per discharge, discounts from established charges, fee schedules, and prospectively determined daily rates.

Laws and regulations governing the Medicare and Medicaid 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. Net patient service revenue increased by approximately \$294,000 and \$247,000 in the years ended December 31, 2018 and 2017, respectively, due to differences between original estimates and final settlements or revised estimates.

During the year ended December 31, 2017, the District received notice that their Medicaid rural health clinic rates were being updated to the higher of the prospectively determined rate or the cost per encounter as determined by the District's annual Medicare cost reports. Rate reconciliations are being conducted by the Colorado Department of Health Care Policy and Financing. As a result, Medicaid claims from 2010 through 2017 are being reprocessed, resulting in estimated additional reimbursement of approximately \$7,685,000. The rate reconciliation has been accounted for as a change in estimate, and as a result, net patient service revenue increased approximately \$2,285,000 and \$4,200,000 for the years ended December 31, 2018 and 2017, respectively, due to changes in the original estimate of Medicaid rural health clinic revenue from 2010 through 2017. For the year ended December 31, 2018, the District has estimated a receivable of approximately \$328,000 for the rate reconciliation.

Under the Colorado Health Care Affordability Act (Act), the District pays provider fees to the state of Colorado. The provider fees are based on inpatient days and outpatient charges. The District also receives various supplemental payments from the state of Colorado under this Act.

The District provides charity care to patients who are financially unable to pay for the healthcare services they receive. The District's policy is not to pursue collection of amounts determined to qualify as charity care. Accordingly, the District does not report these amounts in net operating revenues or in the allowance for uncollectible accounts. The District determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including salaries and wages, benefits, supplies, and other operating expenses, based on data from its costing system. The costs of caring for charity care patients were approximately \$1,920,000 and \$1,844,000 for the years ended December 31, 2018 and 2017, respectively. The District received approximately \$4,388,000 and \$5,259,000 from supplemental Medicaid payments and the Colorado Indigent Care Program for the years ended December 31, 2018 and 2017, respectively, to subsidize the cost of caring for charity care patients.

**Grand River Hospital District**  
**doing business as Grand River Health**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

**9. Electronic Health Records Incentive Payments:**

The District recognized Medicaid electronic health records (EHR) incentive payments during the years ended December 31, 2018 and 2017 in the approximate amounts of \$234,000 and \$7,000. EHR incentive payments are provided to incent hospitals to become meaningful users of EHR technology, not to reimburse providers for the cost of acquiring EHR assets. EHR incentive payments are therefore reported as operating revenue.

**10. Property Taxes:**

The Garfield County Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities. Taxes are levied annually in December on property values assessed as of the same date. Assessed values are established by the County Assessor at fair market value. A revaluation of all property is required every two years. Ad valorem tax revenue is recognized in the period assessed to the extent such taxes are collected and available for use. The District received approximately 17 percent and 10 percent of its financial support in 2018 and 2017, respectively, from ad valorem taxes.

Taxes are due in either two equal installments on February 28 and June 16, or in one installment on April 30. Collections are distributed monthly to the District by the County Treasurer.

The District is permitted by law to levy up to \$5.597 per \$1,000 of assessed valuation for general District purposes. Colorado State Law, C.R.S. 39-5-121 & 39-5-128, limits the rate. The District may also levy taxes at a lower rate. Further amounts of tax need to be authorized by the vote of the people. The District has a fixed mill tax rate of \$5.597 per \$1,000, which will not be amended with population growth. For 2018, the District's total assessed valuation was \$1,662,726,180, for a total regular levy of \$9,306,279. Of this revenue, \$1,305,240 was designated for repayment of the District's general obligation bonds. For 2017, the District's total assessed valuation was \$1,462,497,770 for a total regular levy of \$8,185,600. Of this revenue, \$1,306,010 was designated for repayment of the District's general obligation bonds.

During the years ended December 31, 2018 and 2017, the District assessed general obligation bond and interest levies in the amount of \$6,263,490 and \$6,111,778, respectively. This bond levy, approved by the voters in the November 2017 election, will be used to pay the principal and interest on the Series 2018 general obligation bonds. Collections on this levy began in 2018.

During the year ended December 31, 2018, the District had abated taxes of \$949,788 and interest on the abated taxes of \$118,006. The abated taxes are expected to be recovered in the year ended December 2019 by way of an additional tax levy with a mill rate of \$0.581 per \$1,000 of assessed valuation resulting in \$958,790 of additional property tax revenue. The interest on the tax abatement is not expected to be recovered.

Property taxes are recorded as receivables when levied. Since state law allows for the sale of property for failure to pay taxes, no estimate of uncollectible taxes is made.

Deferred inflows of resources are recorded when the taxes are levied, and recognized as tax revenues in the following fiscal year.

**Grand River Hospital District**  
**doing business as Grand River Health**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

**11. Deferred Compensation Plan:**

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The District participates in the Grand River Hospital District 457 Deferred Compensation Plan, a 457(b) retirement plan (the Plan) administered by One America Financial Partners, Inc. All full-time and part-time employees are eligible to participate in the Plan through pre-tax payroll deductions. After one year of service, the District will match 3 percent of salary for full-time and part-time employees. All monies are sent to the 457(b) account that has been set up for the employee each pay period and are vested immediately. The Plan is available for all District employees and permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees or their heirs until termination, retirement, death, or unforeseen emergency. Total employer contributions to the Plan during 2018 and 2017 were \$823,042 and \$716,154, respectively. Total employee contributions to the Plan during 2018 and 2017 were \$2,043,022 and \$1,942,720, respectively.

Benefit terms including contribution requirements are established and may be amended by the District.

**12. Risk Management and Contingencies:**

***Risk management*** – The District is exposed to various risks of loss related to 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. Settled claims have not exceeded this commercial coverage for any of the three preceding years.

***Medical malpractice claims*** – The District has its professional liability insurance with Copic Insurance (Copic). The Copic policy provides protection on a “claims-made” basis whereby only malpractice claims reported to the insurance carriers in the current year are covered by the current policies. If there are unreported incidents which result in a malpractice claim in the current year, such claims would be covered in the year the claim was reported to the insurance carrier only if the District purchased claims-made insurance in that year or the District purchased “tail” insurance to cover claims incurred before but reported to the insurance carrier after cancellation or expiration of a claims-made policy.

The malpractice insurance provides \$1,000,000 per claim with an additional aggregate limit of \$3,000,000. The policy has a \$100,000 deductible per claim.

No liability has been accrued for future coverage of acts, if any, occurring in this or prior years. Also, it is possible that claims may exceed coverage available in any given year. Further, the District is subject to provisions of the Colorado Governmental Immunity Act which provides a limitation on the liability of the District.

**Grand River Hospital District**  
**doing business as Grand River Health**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

**12. Risk Management and Contingencies (continued):**

*Industry regulations* – The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of various statutes and regulations by healthcare providers. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Management believes that the District is in compliance with fraud and abuse as well as other applicable government laws and regulations. If the District is found in violation of these laws, the District could be subject to substantial monetary fines, civil and criminal penalties, and exclusion from participation in the Medicare and Medicaid programs.

*Taxpayer’s Bill of Rights* – 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 amendment is complex and subject to judicial interpretation. The District believes it is in compliance with the requirements of the amendment. However, the District has made certain interpretations of the amendment’s language in order to determine its compliance.

**13. Concentration of Credit Risk:**

*Patient accounts receivable* – The District grants credit without collateral to its patients, most of whom are area residents and are insured under third-party agreements. The following is the mix of receivables from patients and third-party payors:

|                          | <b>2018</b>  | <b>2017</b> |
|--------------------------|--------------|-------------|
| Medicare                 | <b>20 %</b>  | 14 %        |
| Medicaid                 | <b>16</b>    | 25          |
| Other third-party payors | <b>35</b>    | 33          |
| Patients                 | <b>29</b>    | 28          |
|                          | <b>100 %</b> | 100 %       |

*Physicians* – The District is dependent on local physicians practicing in its service area to provide admissions and utilize hospital services on an outpatient basis. A decrease in the number of physicians providing these services or change in their utilization patterns may have an adverse effect on District operations.

**Grand River Hospital District**  
**doing business as Grand River Health**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

**14. Blended Component Unit:**

A condensed combining statement of net position as of December 31, 2018, is as follows:

|   | Grand River<br>Hospital<br>District | Grand River<br>Hospital District<br>Memorial Trust Fund | Eliminations        | Combined              |
|---|-------------------------------------|---|---------------------|-----------------------|
| <i>Assets</i>   |                                     |   |                     |                       |
| Current assets  | \$ 42,193,427                       | \$ 1,059,013  | \$ (676,118)        | \$ 42,576,322         |
| Capital assets, net   | 77,220,467                          | -   | -                   | 77,220,467            |
| Other noncurrent assets   | 124,628,718                         | -   | -                   | 124,628,718           |
| Total assets  | 244,042,612                         | 1,059,013   | (676,118)           | 244,425,507           |
| <i>Deferred outflows of resources</i>                                     |                                     |   |                     |                       |
| Deferred charge on debt refunding   | 95,114                              | -   | -                   | 95,114                |
| <b>Total assets and deferred outflows of resources</b>                    | <b>\$ 244,137,726</b>               | <b>\$ 1,059,013</b>                                     | <b>\$ (676,118)</b> | <b>\$ 244,520,621</b> |
| <i>Liabilities</i>  |                                     |   |                     |                       |
| Current liabilities   | \$ 10,934,969                       | \$ 676,118  | \$ (676,118)        | \$ 10,934,969         |
| Noncurrent liabilities, less current maturities                           | 103,133,525                         | -   | -                   | 103,133,525           |
| Total liabilities   | 114,068,494                         | 676,118   | (676,118)           | 114,068,494           |
| <i>Deferred inflows of resources</i>                                      |                                     |   |                     |                       |
| Deferred property tax levy  | 16,528,558                          | -   | -                   | 16,528,558            |
| <i>Net position</i>   |                                     |   |                     |                       |
| Net investment in capital assets  | 75,288,938                          | -   | -                   | 75,288,938            |
| Restricted for Memorial Trust Fund  | 1,125,269                           | -   | -                   | 1,125,269             |
| Restricted for bond repayment   | 1,000,429                           | -   | -                   | 1,000,429             |
| Unrestricted  | 36,126,038                          | 382,895   | -                   | 36,508,933            |
| Total net position  | 113,540,674                         | 382,895   | -                   | 113,923,569           |
| <b>Total liabilities, deferred inflows of resources, and net position</b> | <b>\$ 244,137,726</b>               | <b>\$ 1,059,013</b>                                     | <b>\$ (676,118)</b> | <b>\$ 244,520,621</b> |

**Grand River Hospital District**  
**doing business as Grand River Health**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

**14. Blended Component Unit (continued):**

A condensed combining statement of revenues, expenses, and changes in net position for the year ended December 31, 2018, is as follows:

|   | Grand River<br>Hospital<br>District | Grand River<br>Hospital District<br>Memorial Trust Fund | Eliminations | Combined              |
|---|-------------------------------------|---|--------------|-----------------------|
| <i>Operating revenues</i>                                   |                                     |   |              |                       |
| Net patient service revenue, net of provision for bad debts | \$ 73,924,112                       | \$ -  | \$ -         | \$ 73,924,112         |
| Electronic health records incentive payment                 | 233,750                             | -   | -            | 233,750               |
| Other revenue   | 1,020,537                           | -   | -            | 1,020,537             |
| <b>Total operating revenues</b>                             | <b>75,178,399</b>                   | <b>-</b>  | <b>-</b>     | <b>75,178,399</b>     |
| <i>Operating expenses</i>                                   |                                     |   |              |                       |
| Depreciation  | 5,233,944                           | -   | -            | 5,233,944             |
| Other operating expenses                                    | 76,379,317                          | 326   | -            | 76,379,643            |
| <b>Total operating expenses</b>                             | <b>81,613,261</b>                   | <b>326</b>  | <b>-</b>     | <b>81,613,587</b>     |
| <i>Operating loss</i>                                       | (6,434,862)                         | (326)   | -            | (6,435,188)           |
| <i>Nonoperating revenues (expenses)</i>                     |                                     |   |              |                       |
| Taxation for operations                                     | 7,484,009                           | -   | -            | 7,484,009             |
| Taxation for bond principal and interest                    | 7,919,552                           | -   | -            | 7,919,552             |
| Tax collection expense                                      | (242,359)                           | -   | -            | (242,359)             |
| Bond issuance costs   | (2,004,821)                         | -   | -            | (2,004,821)           |
| Investment income   | 1,553,920                           | 313   | -            | 1,554,233             |
| Contributions   | 114,313                             | 3,150   | -            | 117,463               |
| Interest expense  | (3,728,209)                         | -   | -            | (3,728,209)           |
| <b>Total nonoperating revenues (expenses), net</b>          | <b>11,096,405</b>                   | <b>3,463</b>  | <b>-</b>     | <b>11,099,868</b>     |
| Change in net position                                      | 4,661,543                           | 3,137   | -            | 4,664,680             |
| Net position, beginning of year                             | 108,879,131                         | 379,758   | -            | 109,258,889           |
| <b>Net position, end of year</b>                            | <b>\$ 113,540,674</b>               | <b>\$ 382,895</b>                                       | <b>\$ -</b>  | <b>\$ 113,923,569</b> |

A condensed combining statement of cash flows for the year ended December 31, 2018, is as follows:

|  | Grand River<br>Hospital<br>District | Grand River<br>Hospital District<br>Memorial Trust Fund | Eliminations | Combined            |
|--|-------------------------------------|---|--------------|---------------------|
| <i>Net cash provided by (used in):</i>               |                                     |   |              |                     |
| Operating activities                                 | \$ 652,178                          | \$ 3,150  | \$ -         | \$ 655,328          |
| Noncapital financing activities                      | 6,393,795                           | -   | -            | 6,393,795           |
| Capital and related financing activities             | 93,803,677                          | -   | -            | 93,803,677          |
| Investing activities                                 | (106,395,766)                       | 313   | -            | (106,395,453)       |
| Net increase (decrease) in cash and cash equivalents | (5,546,116)                         | 3,463   | -            | (5,542,653)         |
| Cash and cash equivalents, beginning of year         | 10,889,603                          | 1,055,550   | -            | 11,945,153          |
| <b>Cash and cash equivalents, end of year</b>        | <b>\$ 5,343,487</b>                 | <b>\$ 1,059,013</b>                                     | <b>\$ -</b>  | <b>\$ 6,402,500</b> |

**Grand River Hospital District**  
**doing business as Grand River Health**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

**14. Blended Component Unit (continued):**

A condensed combining statement of net position as of December 31, 2017, is as follows:

|   | Grand River<br>Hospital<br>District | Grand River<br>Hospital District<br>Memorial Trust Fund | Eliminations        | Combined              |
|---|-------------------------------------|---|---------------------|-----------------------|
| <i>Assets</i>   |                                     |   |                     |                       |
| Current assets  | \$ 51,675,981                       | \$ 1,055,550  | \$ (676,118)        | \$ 52,055,413         |
| Capital assets, net   | 71,673,007                          | -   | -                   | 71,673,007            |
| Other noncurrent assets   | 12,446,920                          | -   | -                   | 12,446,920            |
| Total assets  | 135,795,908                         | 1,055,550   | (676,118)           | 136,175,340           |
| <i>Deferred outflows of resources</i>                                     |                                     |   |                     |                       |
| Deferred charge on debt refunding   | 181,581                             | -   | -                   | 181,581               |
| <b>Total assets and deferred outflows of resources</b>                    | <b>\$ 135,977,489</b>               | <b>\$ 1,055,550</b>                                     | <b>\$ (676,118)</b> | <b>\$ 136,356,921</b> |
| <i>Liabilities</i>  |                                     |   |                     |                       |
| Current liabilities   | \$ 9,821,444                        | \$ 675,792  | \$ (676,118)        | \$ 9,821,118          |
| Noncurrent liabilities, less current maturities                           | 2,979,535                           | -   | -                   | 2,979,535             |
| Total liabilities   | 12,800,979                          | 675,792   | (676,118)           | 12,800,653            |
| <i>Deferred inflows of resources</i>                                      |                                     |   |                     |                       |
| Deferred property tax levy  | 14,297,379                          | -   | -                   | 14,297,379            |
| <i>Net position</i>   |                                     |   |                     |                       |
| Net investment in capital assets  | 67,707,520                          | -   | -                   | 67,707,520            |
| Restricted for Memorial Trust Fund  | 1,121,806                           | -   | -                   | 1,121,806             |
| Restricted for bond repayment   | 402,103                             | -   | -                   | 402,103               |
| Unrestricted  | 39,647,702                          | 379,758   | -                   | 40,027,460            |
| Total net position  | 108,879,131                         | 379,758   | -                   | 109,258,889           |
| <b>Total liabilities, deferred inflows of resources, and net position</b> | <b>\$ 135,977,489</b>               | <b>\$ 1,055,550</b>                                     | <b>\$ (676,118)</b> | <b>\$ 136,356,921</b> |

**Grand River Hospital District**  
**doing business as Grand River Health**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended December 31, 2018 and 2017**

**14. Blended Component Unit (continued):**

A condensed combining statement of revenues, expenses, and changes in net position for the year ended December 31, 2017, is as follows:

|   | Grand River<br>Hospital<br>District | Grand River<br>Hospital District<br>Memorial Trust Fund | Eliminations | Combined              |
|---|-------------------------------------|---|--------------|-----------------------|
| <i>Operating revenues</i>                                   |                                     |   |              |                       |
| Net patient service revenue, net of provision for bad debts | \$ 69,940,043                       | \$ -  | \$ -         | \$ 69,940,043         |
| Electronic health records incentive                         | 7,405                               | -   | -            | 7,405                 |
| Other revenue   | 1,128,151                           | -   | -            | 1,128,151             |
| <b>Total operating revenues</b>                             | <b>71,075,599</b>                   | <b>-</b>  | <b>-</b>     | <b>71,075,599</b>     |
| <i>Operating expenses</i>                                   |                                     |   |              |                       |
| Depreciation  | 5,460,588                           | -   | -            | 5,460,588             |
| Other operating expenses                                    | 72,016,959                          | -   | -            | 72,016,959            |
| <b>Total operating expenses</b>                             | <b>77,477,547</b>                   | <b>-</b>  | <b>-</b>     | <b>77,477,547</b>     |
| <i>Operating loss</i>                                       | <i>(6,401,948)</i>                  | <i>-</i>  | <i>-</i>     | <i>(6,401,948)</i>    |
| <i>Nonoperating revenues (expenses)</i>                     |                                     |   |              |                       |
| Taxation for operations                                     | 6,955,271                           | -   | -            | 6,955,271             |
| Taxation for bond principal and interest                    | 1,395,077                           | -   | -            | 1,395,077             |
| Tax collection expense                                      | (170,447)                           | -   | -            | (170,447)             |
| Investment income   | 406,170                             | 652   | -            | 406,822               |
| Contributions   | 102,232                             | -   | -            | 102,232               |
| Interest expense  | (286,875)                           | -   | -            | (286,875)             |
| <b>Total nonoperating revenues, net</b>                     | <b>8,401,428</b>                    | <b>652</b>  | <b>-</b>     | <b>8,402,080</b>      |
| Change in net position                                      | 1,999,480                           | 652   | -            | 2,000,132             |
| Net position, beginning of year                             | 106,879,651                         | 379,106   | -            | 107,258,757           |
| <b>Net position, end of year</b>                            | <b>\$ 108,879,131</b>               | <b>\$ 379,758</b>                                       | <b>\$ -</b>  | <b>\$ 109,258,889</b> |

A condensed combining statement of cash flows for the year ended December 31, 2017, is as follows:

|   | Grand River<br>Hospital<br>District | Grand River<br>Hospital District<br>Memorial Trust Fund | Eliminations | Combined             |
|---|-------------------------------------|---|--------------|----------------------|
| <i>Net cash provided by (used in):</i>        |                                     |   |              |                      |
| Operating activities                          | \$ (1,026,113)                      | \$ -  | \$ -         | \$ (1,026,113)       |
| Noncapital financing activities               | 7,862,311                           | -   | -            | 7,862,311            |
| Capital and related financing activities      | (1,758,924)                         | -   | -            | (1,758,924)          |
| Investing activities                          | 1,009,620                           | 326   | -            | 1,009,946            |
| Net increase in cash and cash equivalents     | 6,086,894                           | 326   | -            | 6,087,220            |
| Cash and cash equivalents, beginning of year  | 4,802,709                           | 1,055,224   | -            | 5,857,933            |
| <b>Cash and cash equivalents, end of year</b> | <b>\$ 10,889,603</b>                | <b>\$ 1,055,550</b>                                     | <b>\$ -</b>  | <b>\$ 11,945,153</b> |

**15. Budget and Actual Revenues and Expenses:**

The District overspent the approved budget by \$2,234,945 in 2018.

**SUPPLEMENTARY INFORMATION**

**Grand River Hospital District**  
**doing business as Grand River Health**  
**Budget and Actual Revenues and Expenses**  
**Year Ended December 31, 2018**

|  | Actual<br>2018      | Preliminary and<br>Final Approved<br>Budget | Favorable<br>(Unfavorable)<br>Variance |
|--|---------------------|---|--|
| <i>Operating revenues</i>                      |                     |   |  |
| Net patient service revenue                    | \$ 73,924,112       | \$ 67,184,953                               | \$ 6,739,159                           |
| Electronic health records incentive            | 233,750             | -   | 233,750                                |
| Other revenues                                 | 1,020,537           | 595,000                                     | 425,537                                |
| <b>Total operating revenues</b>                | <b>75,178,399</b>   | <b>67,779,953</b>                           | <b>7,398,446</b>                       |
| <i>Operating expenses</i>                      |                     |   |  |
| Salaries and wages                             | 38,485,590          | 38,930,027                                  | 444,437                                |
| Employee benefits                              | 12,564,799          | 12,203,748                                  | (361,051)                              |
| Professional fees and other purchased services | 3,865,876           | 3,199,686                                   | (666,190)                              |
| Supplies                                       | 8,751,791           | 8,577,614                                   | (174,177)                              |
| Depreciation                                   | 5,233,944           | 5,723,504                                   | 489,560                                |
| Utilities                                      | 1,040,400           | 1,038,105                                   | (2,295)                                |
| Other  | 11,671,187          | 9,705,958                                   | (1,965,229)                            |
| <b>Total operating expenses</b>                | <b>81,613,587</b>   | <b>79,378,642</b>                           | <b>(2,234,945)</b>                     |
| <i>Operating loss</i>                          | <b>(6,435,188)</b>  | <b>(11,598,689)</b>                         | <b>5,163,501</b>                       |
| <i>Nonoperating revenues (expenses)</i>        |                     |   |  |
| Taxation                                       | 15,161,202          | 14,297,379                                  | 863,823                                |
| Investment income                              | 1,554,233           | -   | 1,554,233                              |
| Contributions                                  | 117,463             | 150,000                                     | (32,537)                               |
| Other  | -                   | 170,200                                     | (170,200)                              |
| Interest expense                               | (3,728,209)         | (4,613,096)                                 | 884,887                                |
| Bond issuance costs                            | (2,004,821)         | -   | (2,004,821)                            |
| <b>Total nonoperating revenues, net</b>        | <b>11,099,868</b>   | <b>10,004,483</b>                           | <b>1,095,385</b>                       |
| <b>Change in net position</b>                  | <b>\$ 4,664,680</b> | <b>\$ (1,594,206)</b>                       | <b>\$ 6,258,886</b>                    |

*See accompanying independent auditors' report.*