

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

Independent Auditor's Report and Financial Statements

December 31, 2019 and 2018

**Salida Hospital District d/b/a Heart of the Rockies
Regional Medical Center
December 31, 2019 and 2018**

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the business-type activities and the fiduciary activities of Salida Hospital District d/b/a Heart of the Rockies Regional Medical Center (the Organization), as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the fiduciary activities of Salida Hospital District d/b/a Heart of the Rockies Regional Medical Center as of December 31, 2019 and 2018, and the respective changes in financial position and, where applicable, cash flows thereof 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 2 to the financial statements, in 2019, the Organization adopted new accounting guidance, GASB Statement No. 84, *Fiduciary Activities*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not 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 audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Organization's basic financial statements. The combining statements of net position, combining statements of revenues, expenses and changes in net position, and budgeted and actual revenues and expenses as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The combining statements of net position, combining statements of revenues, expenses and changes in net position, and budgeted and actual revenues and expenses have been subjected to the auditing procedures applied in the audits of the basic

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

financial statements, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements of net position, combining statements of revenues, expenses and changes in net position, and budgeted and actual revenues and expenses are fairly stated in all material respects in relation to the financial statements as a whole.

BKD, LLP

Colorado Springs, Colorado
April 1, 2020

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

Management's Discussion and Analysis (Unaudited) Years Ended December 31, 2019 and 2018

Introduction

Management's discussion and analysis of the financial performance of Salida Hospital District d/b/a Heart of the Rockies Regional Medical Center (the Organization) provides an overview of the Organization's financial activities for the years ended December 31, 2019 and 2018. It should be read in conjunction with the accompanying financial statements of the Organization. The information and financial data included in the management's discussion and analysis relate to either Heart of the Rockies Regional Medical Center (Medical Center), or the Medical Center and its blended component unit (Salida Hospital Foundation d/b/a Heart of the Rockies Regional Medical Center Foundation) (Foundation), collectively referred to as the "Organization."

Financial Highlights

Organization (Excluding Fiduciary Activities)

- Cash and investments decreased by \$3,980,263 in 2019 and increased by \$8,753,390 in 2018.
- Net position increased in 2019 by \$10,313,523 and increased in 2018 by \$11,872,629.

Heart of the Rockies Regional Medical Center (Medical Center)

- Cash and investments decreased in 2019 by \$4,036,953, or 8%, and increased in 2018 by \$8,730,115, or 20%.
- Net position increased in 2019 by \$10,311,434, or 14%, and increased in 2018 by \$11,799,900, or 20%.
- Operating income decreased in 2019 by \$2,333,716, or 22%, and increased in 2018 by \$3,912,216, or 59%.
- Total operating revenues increased in 2019 by \$5,584,205, or 7%, and increased in 2018 by \$11,448,283, or 17%.
- Total operating expenses increased in 2019 by \$7,917,921, or 12%, and increased in 2018 by \$7,536,067, or 13%.

Salida Hospital Foundation (Foundation)

- Cash and investments increased by \$56,690, or 6%, in 2019 and increased by \$23,275, or 2%, in 2018.
- Net position increased by \$2,089, or 0%, in 2019, and increased by \$72,729, or 8%, in 2018.

Adoption of GASB 84

In 2019, the Organization adopted GASB Statement No. 84, *Fiduciary Activities*, which was applied retrospectively by restating the 2018 financial statements through inclusion of fiduciary fund statements for 2018.

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

Management's Discussion and Analysis (Unaudited) Years Ended December 31, 2019 and 2018

Using This Annual Report

The Organization's financial statements, excluding fiduciary activities, consist of three statements – the statement of net position; the statement of revenues, expenses and changes in net position; and the statement of cash flows. These financial statements and the financial statements of the Organization's fiduciary funds, which are comprised of a statement of fiduciary net position and a statement of changes in fiduciary net position, provide information about the activities of the Organization, including resources held by the Foundation but restricted for specific purposes by creditors, contributors, grantors or enabling legislation.

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

One of the most important questions asked about any Organization's finances is "Is the Organization as a whole better or worse off as a result of the year's activities?" The statement of net position and the statement of revenues, expenses and changes in net position report information about the Organization's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets, all liabilities, and deferred inflows of resources using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

The Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting periods.

Fiduciary Fund Statements

Fiduciary funds are used to account for resources held for the benefit of parties other than the Organization. Fiduciary funds are not reflected in the statements of the business-type activity because the resources of these funds are not available to support the Organization.

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

Management's Discussion and Analysis (Unaudited) Years Ended December 31, 2019 and 2018

The Organization's Net Position

The Organization's combined net position, the difference between its assets, liabilities and deferred inflows of resources reported in the statements of net position, increased by \$10,313,523, or 14%, over 2018, as shown in Table 1.

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

Noteworthy changes in the Organization's assets, liabilities and deferred inflows of resources for 2019 are the increases in net patient accounts receivable; capital assets, net; and noncurrent cash and investments, and the decreases in investments internally designated by the Board of Directors, current liabilities, and long-term debt. Changes of note in 2018 are the increases in net patient accounts receivable; investments internally designated by the Board of Directors; capital assets, net; noncurrent cash and investments; current liabilities and long-term debt, and the decreases in cash and cash equivalents and current investments.

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

Management's Discussion and Analysis (Unaudited) Years Ended December 31, 2019 and 2018

	2019	2018	2017
Assets			
Cash and cash equivalents	\$ 5,591,111	\$ 5,294,411	\$ 7,611,420
Patient accounts receivable, net	12,903,307	11,040,333	10,282,499
Investments internally designated by Board of Directors, current	21,655,158	31,483,505	25,515,496
Other current investments	706,617	864,360	2,627,440
Other current assets	4,718,370	4,008,498	3,316,369
Capital assets, net	54,675,557	46,409,472	33,659,429
Noncurrent cash and investments	21,374,978	15,665,851	8,800,381
Investment in joint venture	212,012	56,551	99,153
Other assets	435,608	469,116	502,624
	<u>435,608</u>	<u>469,116</u>	<u>502,624</u>
Total assets	<u>\$ 122,272,718</u>	<u>\$ 115,292,097</u>	<u>\$ 92,414,811</u>
Liabilities and Deferred Inflows of Resources			
Current liabilities (including current maturities on long-term debt)	\$ 10,575,939	\$ 12,509,983	\$ 10,146,469
Long-term debt	28,825,000	30,220,000	21,575,000
Deferred inflows of resources - lease revenue	50,149	54,007	57,864
	<u>50,149</u>	<u>54,007</u>	<u>57,864</u>
Total liabilities and deferred inflows of resources	<u>39,451,088</u>	<u>42,783,990</u>	<u>31,779,333</u>
Net Position			
Net investment in capital assets	24,455,557	14,834,472	11,184,429
Restricted			
Expendable	346,596	365,254	308,124
Nonexpendable	40,000	40,000	40,000
Unrestricted	57,979,477	57,268,381	49,102,925
	<u>57,979,477</u>	<u>57,268,381</u>	<u>49,102,925</u>
Total net position	<u>82,821,630</u>	<u>72,508,107</u>	<u>60,635,478</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 122,272,718</u>	<u>\$ 115,292,097</u>	<u>\$ 92,414,811</u>

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

Management's Discussion and Analysis (Unaudited)

Years Ended December 31, 2019 and 2018

In 2019, the Medical Center experienced continued success. A balanced strategic and operational focus, emphasizing Service, People, Quality, Finance, Facilities, Growth, and Physician Relations, continues to be fundamental.

The Medical Center added several physicians to existing service lines including the rural health, general surgery and pain clinics, and opened cardiology and family practice clinics with the addition of five employed providers. Its outpatient dialysis clinic, opened in 2017, continued to see growth in patient volumes and received certification to add peritoneal in addition to hemodialysis services. Construction on the campus expansion which began in 2017 was practically completed with the opening of a three-story outpatient pavilion, housing outpatient rehabilitation with a therapy pool, wellness services and all specialty physician clinics, in May. Remaining work on the laboratory expansion will be completed in early 2020. Construction on the first phase of the master facility plan development envisioned in 2017 continued with completion of an 88 space parking lot and the Air Ambulance Hanger and Crew Quarters leased to REACH Air in June. This activity is reflected in the decrease in current investments and cash and cash equivalents in 2019 and 2018 and current investments in 2019.

Inpatient discharges increased by 4% and patient days increased by 7%, including a 67% increase in swing bed days driven by a strategic initiative to expand this service line. Inpatient surgeries also realized an 11% increase. Outpatient services saw a mix of increases and decreases in volumes over 2018 with increases in: (1) physician clinics, 22%, (2) dialysis treatments, 17%, (3) laboratory services, 9%, (4) rehab services, 5%, (4) surgery, 4%, and (5) emergency department, 3%, and decreases in: (1) chemo therapy and infusion services, 6% and (2) cardiopulmonary, 5%. These changes, in conjunction with ongoing operating costs and productivity management, caused the Medical Center's increase in net position.

The increase in net patient accounts receivable of \$1,862,974, or 17%, in 2019 represents an increase in net days outstanding from 51.1 to 53.6 and an overall 8% growth in services and associated gross revenue. Effective systems and processes continued with an increase in collectability realized and strong management of aging.

In 2019 and 2018, capital assets net of depreciation were impacted by the annual acquisition of new and replacement capital equipment, construction in progress related to the building expansion and master facility plan development, disposal of retired equipment and an increase in accumulated depreciation.

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

In 2019 and 2018, increases in current liabilities represent construction, architect and project management fees payable, and construction retainage, offset in 2019 by a decrease in the current year Medicare cost report settlement resulting from the increase in capital costs and depreciation expense.

Long-term debt decreased in 2019 with debt service payments under the terms of the promissory note issued in 2016 to refund the 2006 Revenue Bonds while 2018 increased due to funding of the final \$10 million borrowing included in this promissory note. The decrease in current board

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

Management's Discussion and Analysis (Unaudited) Years Ended December 31, 2019 and 2018

internally designated funds in 2019 is attributable to changes in the Medical Center's portfolio for construction and development related liquidity needs. In 2019, the Medical Center was able to significantly fund its construction projects from short-term investments and in 2018 from operating cash and short-term investments, enabling it to invest the additional borrowed funds. Consequently, non-current cash and investments increased in 2019 and 2018.

Operating Results and Changes in the Organization's Net Position

In 2019, the Organization's increase in net position was \$10,313,523 as shown in Table 2. This increase is made up of the following components:

Table 2: Operating Results and Changes in Net Position

	2019	2018	2017
Operating Revenues			
Net patient service revenue, net	\$ 81,499,086	\$ 76,203,300	\$ 64,971,670
Other operating revenue	<u>1,628,351</u>	<u>1,339,932</u>	<u>1,123,279</u>
Total operating revenues	<u>83,127,437</u>	<u>77,543,232</u>	<u>66,094,949</u>
Operating Expenses			
Salaries, wages and employee benefits	42,295,021	37,569,642	32,151,781
Purchased services and professional fees	6,312,021	4,972,060	5,054,049
Depreciation	4,271,417	3,643,655	3,662,398
Other operating expenses	<u>22,042,250</u>	<u>20,809,446</u>	<u>18,589,196</u>
Total operating expenses	<u>74,920,709</u>	<u>66,994,803</u>	<u>59,457,424</u>
Operating Income	<u>8,206,728</u>	<u>10,548,429</u>	<u>6,637,525</u>
Nonoperating Revenues (Expenses)			
Property taxes	963,874	888,326	833,305
Interest income	1,127,841	729,969	328,894
Other nonoperating revenues and expenses, net	<u>(130,382)</u>	<u>(357,246)</u>	<u>(328,079)</u>
Net nonoperating revenues (expenses)	<u>1,961,333</u>	<u>1,261,049</u>	<u>834,120</u>
Gifts and Grants to Purchase Capital Assets	<u>145,462</u>	<u>63,151</u>	<u>-</u>
Increase in Net Position	<u><u>\$ 10,313,523</u></u>	<u><u>\$ 11,872,629</u></u>	<u><u>\$ 7,471,645</u></u>

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

Management's Discussion and Analysis (Unaudited)

Years Ended December 31, 2019 and 2018

Operating Income

The first component of the overall change in the Organization's net position for 2019 and 2018 is its operating income or loss – generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In each of the past three years, the Medical Center has reported operating income.

The Medical Center's vision is to be the healthcare provider of choice for its region as a world class rural healthcare organization, providing personalized and exceptional healthcare while maintaining a strong financial position in order to withstand the industry environment of regulatory uncertainty, declining reimbursement and increasing costs. The 2008 completion of, and relocation to, the replacement facility begun in 2006 established a strategically strong position for the Medical Center's future. A surgical, clinic and support areas expansion followed in 2012 with a further build out in late 2014 providing for a third operating room which opened early 2015. In 2016, the Medical Center established and received accreditation for a cardiac rehab program and in 2017 received Centers for Medicare and Medicaid Services certification of the outpatient dialysis clinic it opened in late 2016, assuring one of the most significant and long awaited community service needs to patients with end stage renal disease. During this growth in hospital services the Medical Center also focused on expanding primary and specialty physician clinics. After the 2011 acquisition of a Rural Health Clinic in the northern part of its district and the 2013 purchase of a medical office building long occupied as a tenant for the provision of outpatient and clinic services, significant annual growth in physician clinic specialties began in 2014 and continued to a lesser extent into 2019 with the addition of a cardiology and family practice clinics, and peritoneal dialysis services. The Medical Center's operating income for 2019 decreased \$2,333,716, or 22%, and for 2018 increased by \$3,912,216, or 59%, respectively. The primary components of these changes are:

- In 2019 and 2018, an increase in net patient service revenue of \$5,295,786, or 7%, and \$11,231,630, or 17%, respectively.
- Gross patient revenues increased by \$12,274,736, or 8%, in 2019 and by \$19,574,673, or 15%, in 2018.
 - Services had an aggregate price increase of 5% in 2019 and in 2018.
 - Contrary to national trends, and despite the 1% decrease in inpatient discharges in 2018, discharges increased by 4% in 2019, average length of stay increased by 3% and patient days increased by 7%.
- Total outpatient visits increased in 2019 and 2018 by 5%.
 - Emergency department visits increased by 3% in 2019 with higher patient acuity, following a 2% decrease in 2018.
 - Rehabilitation services increased by 5% in 2019 and by 14% in 2018.
 - Infusion department visits decreased by 6% after an 11% increase in 2018. Significant provider availability challenges in 2019 are a contributing factor in addition to possible changes in referral patterns from out of area providers.

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

Management's Discussion and Analysis (Unaudited) Years Ended December 31, 2019 and 2018

- Imaging services in total including CT, MRI, x-rays, fluoroscopy, mammography and nuclear medicine saw no growth in 2019 and 2018, although CT and MRI increased by 5% and 8%, respectively in 2019, and by 11% and 1%, respectively in 2018.
- Lab saw faster growth in 2019 with a 9% increase as compared to a 2% increase in 2018.
- Dialysis Clinic treatments increased by 17% in 2019 and by 32% in 2018. The Dialysis Clinic was certified by the Centers for Medicare and Medicaid Services on January 3, 2017 to provide hemo dialysis and received certification on February 13, 2019 to provide Home and Peritoneal Dialysis Training and Support.
- Physician clinic visits increased by 22% in 2019 with the addition of cardiology and family practice providers and growth in 10 of 12 specialties. A 21% growth in 2018 reflected the addition of ENT, Audiology and Allergy providers and growth in 8 of 11 specialties.
- Outpatient surgeries increased by 4% in 2019, primarily due to general surgeon and pain provider availability, and decreased by 3% in 2018, primarily due to orthopedic physician availability.
- The Medical Center recorded an increase in deductions as a percentage of gross revenue of 1% in 2019 and a decrease in deductions as a percentage of gross revenue of 1% in 2018. Deductions from gross revenues result from changes to the listed price of services imposed by Medicare and Medicaid reimbursement rules, as well as changes negotiated with other third-party payers.
 - The 2% Medicare sequestration increased 2019 and 2018 deductions by \$345,334 and \$372,223, respectively.
 - In 2019, inpatient and outpatient volume increases, in excess of cost increases, increased Medicare deductions by decreasing per diem payments for inpatient by 3% by decreasing outpatient charge based payments by 3%, and decreased deductions by increasing per diem payments for swing bed by 4%.
 - Both 2019 and 2018 deductions have been reduced by Medicaid supplemental payments in the amount of \$5,406,072 and \$5,280,351, respectively, under the Colorado Healthcare Accountability and Sustainability Enterprise Legislation adopted by the State of Colorado. In addition, 2019 deductions decreased by \$2.9 million, or 1% of gross revenue, primarily due to additional reimbursable depreciation expense following occupancy of the Outpatient Pavilion in May. 2018 deductions also decreased by \$700,000, 0.5% of gross revenue, due to the release of a FY2015 reserve following the state's audit of the disproportionate share (DSH) component of the Medicare Provider Fee supplemental payments.
 - Charity and other deductions increased \$663,001 (from 0.9% to 1.2% of gross revenue) in 2019 compared to the increase of \$546,853 (from 0.7% to 0.9% of gross revenue) in 2018. Supplemental Colorado Indigent Care Program payments under the Medicaid Provider Fee legislation for 2019 in the amount of \$526,506 were \$147,910 short of write-offs, and for 2018 in the amount of \$542,385 exceeded write-offs by \$230,131.

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Management's Discussion and Analysis (Unaudited)

Years Ended December 31, 2019 and 2018

- Salaries, wages and benefits for the Organization's employees increased \$4,725,379, or 13% in 2019 and \$5,417,861, or 17%, in 2018.
 - Employee salaries and benefits increased in 2019 in part due to an increase of 14.1 full time equivalents (FTEs) in nursing and physician clinic services and 17.9 FTEs in ancillary/outreach/wellness services. The 2018 increase was due in part to an increase of 19.6 FTEs in nursing and physician clinics and 5.2 FTEs in ancillary/outreach/wellness services.
 - The Medical Center's self-insured employee health plan realized increases in claims experience of \$1,013,791 in 2019 and \$1,369,091 in 2018 following the \$231,936 decrease in 2017. This is representative of the claims volatility often experienced in small self-insured plans as well as the increase in covered members. Employee contribution rates were not changed in either year in spite of the volatility.
 - Increases in both 2019 and 2018 were also attributable to average salary increases of 3% in addition to the Colorado Hospital Association survey data used to determine market adjustments for a significant number of employees, including all nursing staff. These increases contributed to success in the Medical Center's retention and recruitment efforts with a turnover rate of 16% in 2019 and 15% in 2018, well below the state average of 24%.
- Depreciation expense increased by \$627,762 to \$4,271,417, or 6% of total operating expenses, in 2019 and decreased by \$18,743 to \$3,643,655, or 5%, of total operating expenses in 2018.
 - Depreciation expense is driven by the cost of capital assets purchased and their estimated useful lives. The bulk of depreciation expense relates to the buildings owned by the hospital and includes the completion of the outpatient pavilion in May 2019.
 - Major moveable equipment accounts for about 37% of total depreciation expense. In 2019 the largest additions to major moveable equipment were two autoclaves, a distributed antenna system upgrade, two hematology analyzers and a specialized surgical table. Purchases in 2018 primarily included a C-Arm and Mini C-Arm for operative imaging, patient monitoring systems and an infant security system. Both 2019 and 2018 have also included new and updated surgical and diagnostic equipment as well as information technology upgrades.
- Purchased services and professional fees increased by \$1,339,961, or 27%, in 2019 and decreased by \$81,989, or 2%, in 2018. Purchased services and professional fees are impacted by a number of operational decisions.
 - In 2019, staffing shortages and recruiting challenges resulted in an increase in the use of agency and contract staffing in the Family Birthing Center and ICU departments in addition to the Surgery, Emergency, Imaging and Cardiopulmonary departments. Additionally, an independent contractor filled the Health Information Management position for the majority of the year.

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Management's Discussion and Analysis (Unaudited) Years Ended December 31, 2019 and 2018

- In 2019, an increase in professional fees resulted from successful recruitment of an independent contractor pain management physician and to a full year of the independent contractor allergy physician's services. Locum tenens coverage for the oncology clinic due to a provider absence contributed significantly in addition to more limited needs for the orthopedic and general surgery clinics.
- Supplies expense increased by \$847,526, or 6%, in 2019 and by \$1,916,641, or 17%, in 2018.
 - Departmental supplies, driven by offsetting volume and service line changes, increased by 7% in 2019 and by 11% in 2018.
 - Pharmaceuticals expense increased by 11% in 2019, including a 43% increase in all clinics, and 23% in 2018. This is commensurate with a 2019 volume decrease of 12% in infusion services offset by volume increases primarily in orthopedic, neurology, allergy and family practice clinics, and an overall 28% volume increase in 2018. Internal automated auditing capabilities continued to enable purchasing at discounted 340B pricing despite market increases in many drugs.
 - Minor equipment expense increased by 25% in 2019 due to additional needs for the outpatient pavilion and new family practice clinic.

Nonoperating Revenues and Expenses

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

The Medical Center was formed and is operated primarily to serve residents of the Salida Hospital District in Chaffee, Fremont and Saguache counties, where it levies property taxes in the amount of less than 1% of gross financial support. Property taxes increased 8% and 7% in 2019 and 2018, respectively, according to Statutory Property Tax Revenue Limitations.

Investment income increased 55% in 2019 with an increase in the long-term investment portfolio and an overall improvement in reinvested fund returns. The Medical Center incurred interest expense in 2019 and 2018 on the long-term debt outstanding that was used to finance the current hospital facility.

The Medical Center also recorded an unrealized gain on investments of \$205,304 and \$70,585 in 2019 and 2018, respectively. As a result of management and operational changes focusing on efficiency and a sustained increase in hospice census it realized a gain on its joint ventured home health and hospice company of \$155,461, following a loss of \$42,602 in 2018.

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

Management's Discussion and Analysis (Unaudited) Years Ended December 31, 2019 and 2018

Capital and Operating Gifts

The Medical Center receives capital and operating gifts for specific programs from donors or private foundations and other grant sources. Grants in 2019 and 2018 of \$293,861 and \$250,276, respectively, were received primarily from the Women's Wellness Connection Program to support access to diagnostic services, and for other wellness initiatives.

Additionally, in 2018, the Foundation received a grant from Colorado Grand Inc. in the amount of \$5,000 to partially fund emergency preparedness activities.

In 2019 and 2018, the Foundation collected unrestricted donations in the amount of \$42,033 and \$29,582, respectively. Donations for the Buena Vista Health Center expansion project and additional restricted contributions were transferred to the Medical Center in the amounts of \$128,818 and \$17,954, respectively.

The Medical Center's Cash Flows

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

Capital Assets and Debt Administration

Capital Assets

At December 31, 2019 and 2018, the Medical Center had \$54,675,557 and \$46,409,472, respectively, of net investment in capital assets, as detailed in Note 10 to the financial statements. The net change year over year resulted from facility expansion and fixed equipment of \$21,676,401, land development of \$1,932,222 and major moveable equipment purchases of \$2,792,950, comprising primarily \$1,140,129 for inpatient, ancillary and clinic services equipment, \$220,342 for IT, \$130,311 for facilities infrastructure and equipment, \$33,356 for EHR technology and \$29,834 for emergency preparedness equipment; offset by an increase in accumulated depreciation of \$3,817,465.

Debt

In October 2016, the Medical Center refunded its 2006, \$30,200,000 non-rated 30-year tax-exempt revenue bonds, issued at a 5.25% fixed rate, through a privately placed 20-year promissory note at a 2.96% fixed rate. The refunding transaction included additional financing of \$10,000,000 which was funded October 2018 to replenish cash reserves the Medical Center expended on its outpatient pavilion, laboratory and parking expansion which began mid-2017. The Medical Center had \$30,220,000 and \$31,575,000 outstanding in notes payable at December 31, 2019 and December 31, 2018, respectively. The Medical Center's formal debt issuances are subject to limitations imposed by state law.

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

Management's Discussion and Analysis (Unaudited)

Years Ended December 31, 2019 and 2018

Other Economic Factors

It is management's opinion that the continuing impact of healthcare legislation at both the national and state levels focused on repeal of or changes to the Patient Protection and Affordable Care Act, implementation of a Colorado Public Option payer system as well as reductions in reimbursement to fund a statewide reinsurance program to lower individual market premiums, ongoing sequestered federal payment reductions, physician and staff recruitment and retention challenges, the continued high cost of housing and below average income trends within the Medical Center's service area are all contributing factors to its financial risks.

Contacting the Medical Center's Financial Management

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

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

Statements of Net Position December 31, 2019 and 2018

Assets

	<u>2019</u>	<u>2018</u>
Current Assets		
Cash and cash equivalents	\$ 5,591,111	\$ 5,294,411
Certificates of deposit	706,617	864,360
Patient accounts receivable, net of allowance for uncollectible accounts; 2019 - \$3,720,350 and 2018 - \$3,228,841	12,903,307	11,040,333
Inventories	2,501,754	2,145,982
Prepaid expenses and other	1,992,057	1,862,516
Estimated amounts due from third-party payers	224,559	-
Cash and investments internally designated by Board of Directors, current	<u>21,655,158</u>	<u>31,483,505</u>
Total current assets	<u>45,574,563</u>	<u>52,691,107</u>
Noncurrent Cash and Investments		
Cash and investments internally designated by Board of Directors	20,471,343	14,815,672
Certificates of deposit	517,039	500,000
Externally restricted by donors	<u>386,596</u>	<u>350,179</u>
Total noncurrent cash and investments	<u>21,374,978</u>	<u>15,665,851</u>
Investment in Joint Venture	<u>212,012</u>	<u>56,551</u>
Capital Assets, Net	<u>54,675,557</u>	<u>46,409,472</u>
Other Assets		
Lease receivable	<u>435,608</u>	<u>469,116</u>
Total assets	<u><u>\$ 122,272,718</u></u>	<u><u>\$ 115,292,097</u></u>

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

Statements of Net Position (continued)

December 31, 2019 and 2018

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

	2019	2018
Current Liabilities		
Accounts payable	\$ 3,925,056	\$ 4,137,624
Accrued compensation and paid time off	3,854,692	3,407,567
Current maturities of long-term debt	1,395,000	1,355,000
Estimated amounts due to third-party payers	-	2,683,224
Other current liabilities	501,191	426,568
Estimated self-insurance costs	900,000	500,000
Total current liabilities	10,575,939	12,509,983
Long-term Debt		
	28,825,000	30,220,000
Total liabilities	39,400,939	42,729,983
Deferred Inflows of Resources		
Lease revenue	50,149	54,007
Total liabilities and deferred inflows of resources	39,451,088	42,783,990
Net Position		
Net investment in capital assets	24,455,557	14,834,472
Restricted expendable		
Scholarships	25,905	29,349
Other	320,691	335,905
Restricted nonexpendable	40,000	40,000
Unrestricted	57,979,477	57,268,381
Total net position	82,821,630	72,508,107
Total liabilities, deferred inflows of resources and net position	<u>\$ 122,272,718</u>	<u>\$ 115,292,097</u>

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

Statements of Revenues, Expenses and Changes in Net Position Years Ended December 31, 2019 and 2018

	2019	2018
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2019 - \$2,264,549 and 2018 - \$2,715,688	\$ 81,499,086	\$ 76,203,300
Other operating revenue	1,628,351	1,339,932
Total operating revenues	<u>83,127,437</u>	<u>77,543,232</u>
Operating Expenses		
Salaries and wages	31,018,926	27,787,561
Employee benefits	11,276,095	9,782,081
Supplies	13,972,656	13,125,130
Purchased services	4,309,553	3,768,512
Professional fees	2,002,468	1,203,548
Depreciation	4,271,417	3,643,655
Provider fee expense	1,808,263	1,833,305
Repairs and maintenance	2,340,388	2,124,674
Lease and rental	393,278	473,507
Utilities	707,844	624,669
Insurance	385,327	365,141
Other expenses	2,434,494	2,263,020
Total operating expenses	<u>74,920,709</u>	<u>66,994,803</u>
Operating Income	<u>8,206,728</u>	<u>10,548,429</u>
Nonoperating Revenues (Expenses)		
Property taxes	963,874	888,326
Interest income	1,127,841	729,969
Noncapital grants and gifts	378,128	370,488
Gain on investments	205,304	70,585
Interest expense	(924,593)	(732,600)
Gain on sale of capital assets	132,515	55,367
Gain (loss) on other investments	155,461	(42,602)
Other	(77,197)	(78,484)
Total nonoperating revenues (expenses)	<u>1,961,333</u>	<u>1,261,049</u>
Excess of Revenues Over Expenses Before Capital Gifts	10,168,061	11,809,478
Gifts and Grants to Purchase Capital Assets	<u>145,462</u>	<u>63,151</u>
Increase in Net Position	10,313,523	11,872,629
Net Position, Beginning of Year	<u>72,508,107</u>	<u>60,635,478</u>
Net Position, End of Year	<u><u>\$ 82,821,630</u></u>	<u><u>\$ 72,508,107</u></u>

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

Statements of Cash Flows

Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities		
Receipts from, and on behalf of, patients	\$ 76,728,329	\$ 74,999,133
Payments to suppliers and contractors	(19,787,121)	(18,376,205)
Payments to employees	(41,847,896)	(37,105,433)
Other payments, net	<u>(6,056,484)</u>	<u>(6,949,526)</u>
Net cash provided by operating activities	<u>9,036,828</u>	<u>12,567,969</u>
Cash Flows from Noncapital Financing Activities		
Property taxes supporting operations	963,874	888,326
Contributions	378,128	370,488
Other nonoperating expense	<u>(77,197)</u>	<u>(78,484)</u>
Net cash provided by noncapital financing activities	<u>1,264,805</u>	<u>1,180,330</u>
Cash Flows from Capital and Related Financing Activities		
Gifts to purchase capital assets	145,462	63,151
Principal paid on long-term debt	(1,355,000)	(900,000)
Proceeds from issuance of long-term debt	-	10,000,000
Interest paid on long-term debt	(934,620)	(665,260)
Purchase of capital assets	(13,999,380)	(14,452,554)
Proceeds from the sale of fixed assets	<u>528,497</u>	<u>159,200</u>
Net cash used in capital and related financing activities	<u>(15,615,041)</u>	<u>(5,795,463)</u>
Cash Flows from Investing Activities		
Purchase of investments	(31,969,099)	(25,976,482)
Proceeds from disposition of investments	35,777,199	13,979,786
Investment income	<u>904,493</u>	<u>800,554</u>
Net cash provided by (used in) investing activities	<u>4,712,593</u>	<u>(11,196,142)</u>
Decrease in Cash and Cash Equivalents	(600,815)	(3,243,306)
Cash and Cash Equivalents, Beginning of Year	<u>7,258,479</u>	<u>10,501,785</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 6,657,664</u></u>	<u><u>\$ 7,258,479</u></u>

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

Statements of Cash Flows (continued) Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position		
Cash and cash equivalents	\$ 5,591,111	\$ 5,294,411
Cash in noncurrent cash and investments		
Internally designated	679,957	1,613,889
Externally restricted by donors	<u>386,596</u>	<u>350,179</u>
Total cash and cash equivalents	<u><u>\$ 6,657,664</u></u>	<u><u>\$ 7,258,479</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 8,206,728	\$ 10,548,429
Depreciation	4,271,417	3,643,655
Provision for uncollectible accounts	2,264,549	2,715,688
Changes in operating assets and liabilities		
Patient accounts receivable, net	(4,127,523)	(3,473,522)
Estimated amounts due from and to third-party payers	(2,907,783)	(446,333)
Accounts payable and accrued expenses	1,310,480	334,028
Other assets and liabilities	<u>18,960</u>	<u>(753,976)</u>
Net cash provided by operating activities	<u><u>\$ 9,036,828</u></u>	<u><u>\$ 12,567,969</u></u>
Supplemental Cash Flows Information		
Capital asset acquisition in accounts payable	\$ 1,946,485	\$ 3,012,381

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

Statements of Fiduciary Net Position

Fiduciary Funds

December 31, 2019 and 2018

		Pension and Other Employee Benefit Trust Funds	
		2019	2018
Assets			
Contributions receivable	\$	201,216	\$ 197,760
Investments, at fair value		38,480,264	28,377,398
Participant loans		344,997	248,289
		<u>39,026,477</u>	<u>28,823,447</u>
Total assets			
		<u>39,026,477</u>	<u>28,823,447</u>
Net Position			
Restricted for:			
Pensions (401(a) Plan)		18,976,687	14,183,958
Postemployment benefits other than pensions (457(b) Plan)		<u>20,049,790</u>	<u>14,639,489</u>
		<u>39,026,477</u>	<u>28,823,447</u>
Total net position	\$	<u>39,026,477</u>	\$ <u>28,823,447</u>

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

Statements of Changes in Fiduciary Net Position

Fiduciary Funds

Years Ended December 31, 2019 and 2018

		Pension and Other Employee Benefit Trust Funds	
		2019	2018
Additions			
Contributions			
Members		\$ 3,188,016	\$ 2,927,041
Employers		1,835,579	1,701,479
Other plans		499,758	843,280
	Total contributions	<u>5,523,353</u>	<u>5,471,800</u>
Investment earnings			
Net increase (decrease) in fair value of investments		4,624,323	(4,002,199)
Interest, dividends and other		<u>1,954,662</u>	<u>2,188,901</u>
	Total investment earnings	<u>6,578,985</u>	<u>(1,813,298)</u>
	Total additions	<u>12,102,338</u>	<u>3,658,502</u>
Deductions			
Benefits paid		1,776,497	1,424,414
Administrative expense		<u>122,811</u>	<u>167,952</u>
	Total deductions	<u>1,899,308</u>	<u>1,592,366</u>
Net Increase in Fiduciary Net Position		<u>10,203,030</u>	<u>2,066,136</u>
Net Position, Beginning of Year		<u>28,823,447</u>	<u>26,757,311</u>
Net Position, End of Year		<u><u>\$ 39,026,477</u></u>	<u><u>\$ 28,823,447</u></u>

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

Notes to Financial Statements

December 31, 2019 and 2018

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

Nature of Operations and Reporting Entity

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

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

The 401(a) Money Purchase Plan and the 457(b) plan are single-employer defined contributions plans (the plans) covering its employees (see Note 15). The Medical Center contributes to the plans and has primary responsibility for management of the plans as all retirement plan committee members are appointed by the Board of Directors. The Medical Center has fiduciary responsibility for the plans. Accordingly, an evaluation of the plans using the above considerations results in the inclusion of the plans in the accompanying basis financial statements as fiduciary funds of the Medical Center.

The 401(a) Money Purchase Plan is reported as a fiduciary component unit of the Organization because it is a separate legal entity, a majority of the retirement committee of the Plan consists of members appointed by the Organization and the Organization has a financial burden with respect to the Plan because of its obligation to make contributions to the Plan.

The 457(b) Plan is an other fiduciary activity of the Organization because, among other characteristics required for such inclusion under GASB 84 (Note 2), the assets of the Plan are controlled by the Organization.

Foundation

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

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

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

Notes to Financial Statements

December 31, 2019 and 2018

Basis of Accounting and Presentation

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

Use of Estimates

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

Cash Equivalents

The Organization considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2019 and 2018, cash equivalents consisted primarily of repurchase agreements secured by ownership in Public Deposit Protection Act qualifying securities.

Investments and Investment Income

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

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

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

Notes to Financial Statements

December 31, 2019 and 2018

Patient Accounts Receivable

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

Inventories

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

Capital Assets

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

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

Capital Asset Impairment

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

No asset impairment was recognized during the years ended December 31, 2019 and 2018.

Compensated Absences

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

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

Notes to Financial Statements

December 31, 2019 and 2018

Risk Management

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

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

Deferred Inflows of Resources

The Medical Center reports an acquisition of net position that is applicable to a future reporting period as deferred inflows of resources in separate sections of its statements of net position.

Net Position

Net position of the Organization is classified in four components on its statements of net position.

- Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets.
- Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Organization, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings.
- Restricted nonexpendable net position consists of noncapital assets that are required to be maintained in perpetuity as specified by parties external to the Organization, such as permanent endowments.
- Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Net Patient Service Revenue

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

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

Notes to Financial Statements

December 31, 2019 and 2018

estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

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

Property Taxes

The Medical Center received approximately 1% of its gross financial support from property taxes in 2019 and 2018. These funds were used to support operations. Taxes are recorded as revenue in the year they are assessed.

Income Taxes

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

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

Note 2: Changes In Accounting Principles

In 2019, the Organization implemented GASB Statement No. 84, *Fiduciary Activities* (GASB 84). GASB 84 establishes criteria for identifying fiduciary activities. It presents separate criteria for evaluating fiduciary component units, pension and other postemployment benefit arrangements, and other fiduciary activities. When this criteria is applied to the Medical Center's defined contribution retirement plans (as described in Note 15) these plans are considered fiduciary trust funds. Other than the inclusion of the defined contribution retirement plan's trust funds as fiduciary funds, the implementation of GASB 84 had no other impact on its financial statements.

In 2019, the Organization implemented GASB No. 88, *Certain Disclosures Related to Debt including Direct Borrowing and Direct Placements* (Statement No. 88), which was effective for financial statements for periods beginning after June 15, 2018. Statement No. 88 clarifies which liabilities should be included in disclosures related to debt and the information that should be disclosed related to the debt for a better understanding of the debt effects on future resource flows. Specifically, the Organization has added disclosures for its note from direct borrowing (Note 11)

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

Notes to Financial Statements

December 31, 2019 and 2018

regarding significant events of default with finance-related consequences or significant acceleration clauses.

Note 3: Tax, Spending and Debt Limitations

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

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

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

Note 4: Charity Care

The costs of charity care provided under the Medical Center's charity care policy and participation in the Colorado Indigent Care Program were approximately \$258,000 and \$313,000 in 2019 and 2018, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges. Applications for charitable assistance have been significantly reduced by the Medicaid expansion under the Affordable Care Act.

Note 5: Net Patient Service Revenue

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

Medicare. Inpatient acute care services rendered to Medicare program beneficiaries are paid on a cost reimbursed basis. Certain outpatient services related to Medicare beneficiaries are paid based on a combination of fee schedules and a cost-reimbursement methodology. The Medical Center is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicare Administrative Contractor.

Medicaid. Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient nonacute services, certain outpatient services and defined capital costs related to Medicaid beneficiaries are paid based on a cost-reimbursement methodology. The Medical Center is

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

Notes to Financial Statements

December 31, 2019 and 2018

reimbursed for cost-reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicaid fiscal intermediary.

Approximately 58% and 59% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2019 and 2018, respectively. Laws and regulations governing Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

The Colorado Healthcare Affordability Act, designated as House Bill 1293 (HB 1293), was passed during 2009 implementing a fee on hospitals to generate matching funds to the State of Colorado from federal sources. Implementation of this act occurred during April of 2010. HB 1293 was superseded by Senate Bill 17-267 which repealed the Hospital Provider Fee and created the Colorado Healthcare Accountability and Sustainability Enterprise (CHASE), with the following effect on the Medical Center's financial statements:

	2019	2018
Colorado Indigent Care Program - supplemental revenue	\$ 526,506	\$ 542,385
CHASE supplemental payments included in patient service revenue	5,406,072	5,980,351
CHASE fee expense	<u>(1,808,263)</u>	<u>(1,833,305)</u>
Effect of SB 17-267	<u>\$ 4,124,315</u>	<u>\$ 4,689,431</u>

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

	2019		
	Gross Revenue	Contractual Adjustments and Uncollectible Accounts	Net Patient Service Revenue
Medicare	\$ 88,976,178	\$ 53,730,244	\$ 35,245,934
Medicaid	23,062,826	10,926,499	12,136,327
Other	<u>51,034,180</u>	<u>16,917,355</u>	<u>34,116,825</u>
	<u>\$ 163,073,184</u>	<u>\$ 81,574,098</u>	<u>\$ 81,499,086</u>

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

Notes to Financial Statements

December 31, 2019 and 2018

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

Note 6: Patients Accounts Receivable

The Medical Center grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31, 2019 and 2018 consisted of:

	2019	2018
Medicare	\$ 11,470,135	\$ 13,438,134
Medicaid	3,134,478	2,988,545
Other third-party payers	11,444,853	8,784,582
Patients	<u>1,715,322</u>	<u>1,567,191</u>
	27,764,788	26,778,452
Less allowance for contractals and uncollectible accounts	<u>14,861,481</u>	<u>15,738,119</u>
	<u>\$ 12,903,307</u>	<u>\$ 11,040,333</u>

Note 7: Deposits and Investments

Deposits

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

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

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institution in accordance with the PDPA. Pledged collateral is reported to, and reviewed by, the Medical Center.

At December 31, 2019 and 2018, \$6,981,011 and \$6,600,596, respectively, of the Organization's bank balances of \$8,361,733 and \$7,981,318, respectively, were exposed to custodial credit risk as follows:

	2019	2018
Insured (FDIC) or collateralized with securities held by the Organization	\$ 1,380,722	\$ 1,380,722
Uninsured and collateral held by the pledging financial institution's trust department or agent in other than the Organization's name	6,981,011	6,600,596
	<u>\$ 8,361,733</u>	<u>\$ 7,981,318</u>

Investments

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

At December 31, 2019 and 2018, the Organization had the following investments and maturities:

Type	Fair Value	2019	
		Maturities in Years	
		Less than 1	1-5
U.S. Treasury and Agency obligations	\$ 36,423,167	\$ 16,631,781	\$ 19,791,386
Money market funds	4,862,423	4,862,423	-
	<u>\$ 41,285,590</u>	<u>\$ 21,494,204</u>	<u>\$ 19,791,386</u>
Type	Fair Value	2018	
		Maturities in Years	
		Less than 1	1-5
U.S. Treasury and Agency obligations	\$ 37,627,213	\$ 24,425,431	\$ 13,201,782
Money market funds	6,950,957	6,950,957	-
	<u>\$ 44,578,170</u>	<u>\$ 31,376,388</u>	<u>\$ 13,201,782</u>

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

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the Organization’s policy to limit new purchases of investments to only investments in compliance with the Colorado PDPA. At December 31, 2019 and 2018, the Organization’s investments were in compliance with the policy, including the investments in money market funds which are unrated.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Organization will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

Concentration of Credit Risk – The Organization will not have any single investment exceed one-third of the total portfolio, except for U.S. Treasury securities and federal agencies. At December 31, 2019 and 2018, the Organization’s investment in U.S. Treasury securities and agency obligations constituted 88% and 84%, respectively, of its total investments.

Foreign Currency Risk – This risk is related to adverse effects on the fair value of an investment from changes in exchange rates. The Organization’s investment policy does not permit foreign currency holdings at December 31, 2019.

Summary of Carrying Values

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

	2019	2018
Carrying value		
Deposits	\$ 7,879,149	\$ 8,621,125
Money market funds	4,862,423	6,950,957
Investments	36,423,167	37,627,213
Interest receivable	160,954	107,117
Cash on hand	2,171	1,715
	<u>\$ 49,327,864</u>	<u>\$ 53,308,127</u>

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Notes to Financial Statements December 31, 2019 and 2018

Included in the following statements of net position captions:

	2019	2018
Cash and cash equivalents	\$ 5,591,111	\$ 5,294,411
Certificates of deposit	706,617	864,360
Cash and investments internally designated by Board of Directors, current	21,655,158	31,483,505
Noncurrent cash and investments		
Certificates of deposit	517,039	500,000
Internally designated by Board of Directors	20,471,343	14,815,672
Externally restricted by donors	386,596	350,179
	<u>\$ 49,327,864</u>	<u>\$ 53,308,127</u>

Investment Income

Investment income for the years ended December 31 consisted of:

	2019	2018
Interest income/realized gains	\$ 1,127,841	\$ 729,969
Net change in fair value of investments - unrealized gains and losses	205,304	70,585
	<u>\$ 1,333,145</u>	<u>\$ 800,554</u>

Note 8: Disclosures About Fair Value of Assets

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

The Organization has the following recurring fair value measurements as of December 31, 2019 and 2018:

- U.S. Treasury and Agency obligations of \$36,423,167 and \$37,627,213, respectively, are valued using quoted prices for similar assets, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset (Level 2 inputs)

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Note 9: Investment in Joint Venture

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

	2019	2018
	(Unaudited)	(Unaudited)
Current assets	\$ 684,284	\$ 493,876
Property and other long-term assets, net	<u>57,113</u>	<u>68,132</u>
Total assets	<u>741,397</u>	<u>562,008</u>
Current liabilities	<u>317,373</u>	<u>448,907</u>
Members' equity	<u>\$ 424,024</u>	<u>\$ 113,101</u>
Net revenues	<u>\$ 2,682,309</u>	<u>\$ 1,907,160</u>
Net Income (loss)	<u>\$ 310,923</u>	<u>\$ (85,205)</u>

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Notes to Financial Statements December 31, 2019 and 2018

Note 10: Capital Assets

Capital assets activity for the years ended December 31, 2019 and 2018 were:

	2019				
	Beginning Balance	Additions	Disposals and Retirements	Transfers	Ending Balance
Land	\$ 1,666,837	\$ 94,469	\$ (5,524)	\$ 381,929	\$ 2,137,711
Land improvements	6,033,001	26,310	(371,297)	1,932,222	7,620,236
Buildings and improvements	22,984,055	50,618	-	12,538,658	35,573,331
Equipment	32,443,679	2,494,404	(447,973)	9,436,288	43,926,398
Construction in progress	16,725,786	10,242,543	-	(24,289,097)	2,679,232
	<u>79,853,358</u>	<u>12,908,344</u>	<u>(824,794)</u>	<u>-</u>	<u>91,936,908</u>
Less accumulated depreciation					
Land improvements	2,781,819	427,891	(5,978)	-	3,203,732
Buildings and improvements	8,483,235	1,141,092	-	-	9,624,327
Equipment	22,178,832	2,702,434	(447,974)	-	24,433,292
	<u>33,443,886</u>	<u>4,271,417</u>	<u>(453,952)</u>	<u>-</u>	<u>37,261,351</u>
Capital assets, net	<u>\$ 46,409,472</u>	<u>\$ 8,636,927</u>	<u>\$ (370,842)</u>	<u>\$ -</u>	<u>\$ 54,675,557</u>

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

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Note 11: Long-term Obligations

The following is a summary of long-term obligation transactions for the Medical Center for the years ended December 31, 2019 and 2018:

2019				
	Beginning Balance	Additions	Reductions	Ending Balance
				Amounts Due Within One Year
Long-term debt				
Note from direct borrowing	\$ 31,575,000	\$ -	\$ 1,355,000	\$ 30,220,000
				\$ 1,395,000
2018				
	Beginning Balance	Additions	Reductions	Ending Balance
				Amounts Due Within One Year
Long-term debt				
Note from direct borrowing	\$ 22,475,000	\$ 10,000,000	\$ 900,000	\$ 31,575,000
				\$ 1,355,000

Note from Direct Borrowing

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

The Organization's outstanding note from direct borrowing of \$30,220,000 is secured by the Medical Center's net revenues. This outstanding note contains a provision that in an event of default, the timing of repayment of outstanding amounts become immediately due as listed in the events of default in the agreement.

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The debt service requirements as of December 31, 2019, are as follows:

Year Ended December 31,	Total to be Paid	Principal	Interest
2020	\$ 2,289,512	\$ 1,395,000	\$ 894,512
2021	2,288,220	1,435,000	853,220
2022	2,290,744	1,480,000	810,744
2023	2,286,936	1,520,000	766,936
2024	2,286,944	1,565,000	721,944
2025 - 2029	11,436,740	8,550,000	2,886,740
2030 - 2034	11,438,936	9,895,000	1,543,936
2035 - 2036	4,575,360	4,380,000	195,360
	<u>\$ 38,893,392</u>	<u>\$ 30,220,000</u>	<u>\$ 8,673,392</u>

Note 12: Risk Management

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

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

Activity in the Medical Center's accrued employee health claims liability during 2019 and 2018 is summarized as follows:

	2019	2018
Balance, beginning of year	\$ 500,000	\$ 400,000
Current year claims incurred and changes in estimates for claims incurred in prior years	5,704,313	4,560,263
Claims and expenses paid	<u>(5,304,313)</u>	<u>(4,460,263)</u>
Balance, end of year	<u>\$ 900,000</u>	<u>\$ 500,000</u>

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

Note 13: Medical Malpractice Claims

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

Note 14: Restricted Net Position

At December 31, 2019 and 2018, restricted expendable and nonexpendable net position were available for the following purposes:

	<u>2019</u>	<u>2018</u>
Restricted – Expendable		
Scholarships	\$ 25,905	\$ 29,349
Other	<u>320,691</u>	<u>335,905</u>
	<u>\$ 346,596</u>	<u>\$ 365,254</u>
Restricted – Nonexpendable		
Endowment restricted by donors for investment in perpetuity	<u>\$ 40,000</u>	<u>\$ 40,000</u>

Note 15: Employee Retirement Plans

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

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

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

Contribution rates to all plans for plan members and the Medical Center expressed as a percentage of covered payrolls were 10.02% and 6.25% for 2019 and 10.27% and 6.41% for 2018, respectively. Contributions actually made by plan members and the Medical Center aggregated \$3,097,628 and \$1,932,121 during 2019, and \$2,854,033 and \$1,779,776 during 2018.

Note 16: Fiduciary Funds

During 2019, the Organization adopted GASB Statement No. 84, *Fiduciary Activities*. GASB 84 established standards of accounting and financial reporting for fiduciary activities for all state and local governments. Under the provisions of GASB 84, the District is required to report its 457(b) plan and its 401(a) plan (see Note 15) as fiduciary activities in its fiduciary funds statements. Under GASB 84, the 401(a) plan is classified as a pension (and other employee benefit) trust fund and the 457(b) plan, a postemployment benefit other than pensions is included in the same column in the fiduciary funds statements as the 401(a) plan in accordance with GASB 84. Both are defined contribution plans. GASB 84 has been applied retroactively by restating prior year statements to include fiduciary fund statements. The combining statements of fiduciary net position as of December 31, 2019 and 2018 are as follows:

	December 31, 2019		
	401(a)	457(b)	Total
Assets			
Contributions receivable	\$ 98,116	\$ 103,100	\$ 201,216
Investments, at fair value	18,878,571	19,601,693	38,480,264
Participant loans	-	344,997	344,997
Total assets	18,976,687	20,049,790	39,026,477
Plan net position	<u>\$ 18,976,687</u>	<u>\$ 20,049,790</u>	<u>\$ 39,026,477</u>

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Notes to Financial Statements December 31, 2019 and 2018

	December 31, 2018		
	401(a)	457(b)	Total
Assets			
Contributions receivable	\$ 89,650	\$ 108,110	\$ 197,760
Investments, at fair value	14,094,308	14,283,090	28,377,398
Participant loans	-	248,289	248,289
Total assets	14,183,958	14,639,489	28,823,447
Plan net position	<u>\$ 14,183,958</u>	<u>\$ 14,639,489</u>	<u>\$ 28,823,447</u>

The combining statements of changes in fiduciary net position for the years ended December 31, 2019 and 2018 are as follows:

	Year Ended December 31, 2019		
	401(a)	457(b)	Total
Additions			
Contributions			
Members	\$ 1,238,404	\$ 1,949,612	\$ 3,188,016
Employers	1,238,404	597,175	1,835,579
Other plans	-	499,758	499,758
Total contributions	2,476,808	3,046,545	5,523,353
Investment earnings			
Net increase in fair value of investments	2,271,546	2,352,777	4,624,323
Interest, dividends and other	953,843	1,000,819	1,954,662
Total investment earnings	3,225,389	3,353,596	6,578,985
Total additions	5,702,197	6,400,141	12,102,338
Deductions			
Benefits paid to participants	849,911	926,586	1,776,497
Administrative expense (income)	59,557	63,254	122,811
Total deductions	909,468	989,840	1,899,308
Net Increase in Fiduciary Net Position	4,792,729	5,410,301	10,203,030
Net Position, Beginning of Year	14,183,958	14,639,489	28,823,447
Net Position, End of Year	<u>\$ 18,976,687</u>	<u>\$ 20,049,790</u>	<u>\$ 39,026,477</u>

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	Year Ended December 31, 2018		
	401(a)	457(b)	Total
Additions			
Contributions			
Members	\$ 1,111,014	\$ 1,816,027	\$ 2,927,041
Employers	1,111,014	590,465	1,701,479
Other plans	-	843,280	843,280
Total contributions	<u>2,222,028</u>	<u>3,249,772</u>	<u>5,471,800</u>
Investment earnings			
Net decrease in fair value of investments	(2,003,828)	(1,998,371)	(4,002,199)
Interest, dividends and other	<u>1,095,726</u>	<u>1,093,175</u>	<u>2,188,901</u>
Total investment earnings	<u>(908,102)</u>	<u>(905,196)</u>	<u>(1,813,298)</u>
Total additions	<u>1,313,926</u>	<u>2,344,576</u>	<u>3,658,502</u>
Deductions			
Benefits paid	635,780	788,634	1,424,414
Administrative expense	<u>83,915</u>	<u>84,037</u>	<u>167,952</u>
Total deductions	<u>719,695</u>	<u>872,671</u>	<u>1,592,366</u>
Net Increase in Fiduciary Net Position	<u>594,231</u>	<u>1,471,905</u>	<u>2,066,136</u>
Net Position, Beginning of Year	<u>13,589,727</u>	<u>13,167,584</u>	<u>26,757,311</u>
Net Position, End of Year	<u>\$ 14,183,958</u>	<u>\$ 14,639,489</u>	<u>\$ 28,823,447</u>

Investments

The Plans may legally invest in investments with authorized investment options. At December 31, 2019 and 2018, the Plans held investments in mutual funds which mature in less than one year because the average maturity is less than one year.

Interest Rate Risk – As a means of limiting its exposure to fair value losses arising from rising interest rates, the Plan has authorized investment products and funds in which participants may invest their accounts under the plan. No accounts may be invested in any investment product that is not approved and authorized by the District. The methodology for calculating interest crediting rate is based on the earnings of the underlying assets in the entire medium-long term new portfolio compared to the minimum interest crediting rate. The actual average yield earned by the plan for both the 401(a) and 475(b) plans was 2.40% for 2019 and 2018.

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Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Plan’s investment policy applies the prudent person standard and is applied in the context of managing an overall portfolio. Each participant is responsible for determining the risks and commensurate returns of his or her portfolio.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All of the Plan’s deposits are fully insured by FDIC insurance or collateralized with securities held by the Plan or the Plan’s agent in the Plan’s name. Therefore, the Plan is not exposed to custodial credit risk.

Concentration of Credit Risk – The Plan’s investment options are all mutual funds; thus, no concentration risk exists at December 31, 2019 and 2018.

Foreign Currency Risk – This risk relates to adverse affects on the fair value of an investment from changes in exchange rates. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The investment options offered to participants under the Plans do not include foreign currency holdings at December 31, 2019 and 2018.

Disclosures About Fair Value of Assets and Liabilities

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2019 and 2018:

Fair Value Measurements Using				
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2019				
Investments				
Mutual funds	\$ 38,480,264	\$ 38,480,264	\$ -	\$ -
Total investments	<u>\$ 38,480,264</u>	<u>\$ 38,480,264</u>	<u>\$ -</u>	<u>\$ -</u>

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	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2018				
Investments				
Mutual funds	\$ 28,377,398	\$ 28,377,398	\$ -	\$ -
Total investments	<u>\$ 28,377,398</u>	<u>\$ 28,377,398</u>	<u>\$ -</u>	<u>\$ -</u>

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. All securities held at December 31, 2019 and 2018 are classified within Level 1 of the hierarchy.

Note 17: Commitments and Contingencies

Litigation

In the normal course of business, the Medical Center is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Medical Center's self-insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Medical Center evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. No such loss has been recorded for the year ended December 31, 2019. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

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Notes to Financial Statements

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Future Land Development

In 2019, the Medical Center completed much of its main campus expansion and development initiatives begun in 2017. The hospital outpatient pavilion housing all provider-based physician clinics as well as expanded rehabilitation and wellness services opened in May. The completion schedule for the lab expansion component of the project slipped further from the end of April 2019 to the first quarter of 2020 although the project budget is unaffected with the balance to finish, including retainage, at approximately \$1,200,000 as of December 31, 2019. The medical air transport hangar, crew quarters and taxiway were completed and the associated long-term lease executed as of May. A second of four development lots was sold to a behavioral health care provider and plans to expand the Rural Health Clinic in the northern part of the district continued with the appointment of an architect and general contractor, and groundbreaking in December. The expansion is slated for completion in August 2020.

Note 18: Subsequent Events

In late 2019, a novel strain of coronavirus (COVID-19) was reported to have surfaced in China. Subsequent to year-end, the World Health Organization declared a global pandemic and the spread of COVID-19 began to cause business disruption through reduced patient revenue, specifically related to elective procedures and outpatient therapeutic and diagnostic services, and to physician office visits. Additionally, there has been significant volatility in the investment markets both nationally and globally since December 31, 2019, resulting in an overall market decline in certain market segments which has resulted in a decline in the value of our investment portfolio and associated earnings. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration. The Organization expects this matter to negatively impact its financial condition and operating results. However, the related financial impact and duration cannot be reasonably estimated at this time.

Supplementary Information

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

Combining Statement of Net Position December 31, 2019

Assets

	Medical Center	Foundation	Eliminations	Combined
Current Assets				
Cash and cash equivalents	\$ 5,022,677	\$ 568,434	\$ -	\$ 5,591,111
Certificates of deposit	500,000	206,617	-	706,617
Patient accounts receivable, net of allowance of \$3,720,350	12,903,307	-	-	12,903,307
Inventories	2,501,754	-	-	2,501,754
Prepaid expenses and other	1,991,143	914	-	1,992,057
Estimated amounts due from third-party payers	224,559	-	-	224,559
Cash and investments internally designated by Board of Directors, current	21,655,158	-	-	21,655,158
Total current assets	44,798,598	775,965	-	45,574,563
Noncurrent Cash and Investments				
Cash and investments internally designated by Board of Directors	20,471,343	-	-	20,471,343
Certificates of deposit	517,039	-	-	517,039
Externally restricted by donors	132,425	254,171	-	386,596
Total noncurrent cash and investments	21,120,807	254,171	-	21,374,978
Investment in Joint Venture	212,012	-	-	212,012
Capital Assets, Net	54,675,557	-	-	54,675,557
Other Assets				
Lease receivable	435,608	-	-	435,608
Total assets	\$ 121,242,582	\$ 1,030,136	\$ -	\$ 122,272,718

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

Combining Statement of Net Position (continued)

December 31, 2019

Liabilities, Deferred Inflows of Resources and Net Position

	Medical Center	Foundation	Eliminations	Combined
Current Liabilities				
Accounts payable	\$ 3,925,056	\$ -	\$ -	\$ 3,925,056
Accrued compensation and paid time off	3,854,692	-	-	3,854,692
Current maturities of long-term debt	1,395,000	-	-	1,395,000
Other current liabilities	501,191	-	-	501,191
Estimated self-insurance costs	900,000	-	-	900,000
Total current liabilities	10,575,939	-	-	10,575,939
Long-term Debt	28,825,000	-	-	28,825,000
Total liabilities	39,400,939	-	-	39,400,939
Deferred Inflows of Resources				
Lease revenue	50,149	-	-	50,149
Total liabilities and deferred inflows of resources	39,451,088	-	-	39,451,088
Net Position				
Net investment in capital assets	24,455,557	-	-	24,455,557
Restricted expendable				
Scholarships	-	25,905	-	25,905
Other	92,425	228,266	-	320,691
Restricted nonexpendable	40,000	-	-	40,000
Unrestricted	57,203,512	775,965	-	57,979,477
Total net position	81,791,494	1,030,136	-	82,821,630
Total liabilities, deferred inflows of resources and net position	\$ 121,242,582	\$ 1,030,136	\$ -	\$ 122,272,718

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

Combining Statement of Net Position December 31, 2018

Assets

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

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

Combining Statement of Net Position (continued)

December 31, 2018

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

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

Salida Hospital District d/b/a Heart of the Rockies
Regional Medical Center
Combining Statement of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2019

	Medical Center	Foundation	Eliminations	Combined
Operating Revenues				
Net patient service revenue, net of provision for uncollectible accounts of \$2,264,549	\$ 81,499,086	\$ -	\$ -	\$ 81,499,086
Other operating revenue	1,628,351	-	-	1,628,351
Total operating revenues	83,127,437	-	-	83,127,437
Operating Expenses				
Salaries and wages	31,010,358	8,568	-	31,018,926
Employee benefits	11,276,095	-	-	11,276,095
Supplies	13,972,656	-	-	13,972,656
Purchased services	4,301,747	7,806	-	4,309,553
Professional fees	2,002,468	-	-	2,002,468
Depreciation	4,271,417	-	-	4,271,417
Provider fee expense	1,808,263	-	-	1,808,263
Repairs and maintenance	2,340,388	-	-	2,340,388
Lease and rental	393,278	-	-	393,278
Utilities	707,844	-	-	707,844
Insurance	385,327	-	-	385,327
Other expenses	2,423,336	11,158	-	2,434,494
Total operating expenses	74,893,177	27,532	-	74,920,709
Operating Income (Loss)	8,234,260	(27,532)	-	8,206,728
Nonoperating Revenues (Expenses)				
Property taxes	963,874	-	-	963,874
Interest income	1,121,934	5,907	-	1,127,841
Noncapital grants and gifts	238,691	141,443	(2,006)	378,128
Contributions to the Medical Center	-	(128,818)	128,818	-
Gain on investments	205,304	-	-	205,304
Interest expense	(924,593)	-	-	(924,593)
Gain on sale of capital assets	132,515	-	-	132,515
Gain on other investments	155,461	-	-	155,461
Other	-	(77,197)	-	(77,197)
Total nonoperating revenues (expenses)	1,893,186	(58,665)	126,812	1,961,333
Excess (Deficiency) of Revenues Over Expenses Before Capital Gifts	10,127,446	(86,197)	126,812	10,168,061
Gifts and Grants to Purchase Capital Assets	183,988	88,286	(126,812)	145,462
Increase in Net Position	10,311,434	2,089	-	10,313,523
Net Position, Beginning of Year	71,480,060	1,028,047	-	72,508,107
Net Position, End of Year	\$ 81,791,494	\$ 1,030,136	\$ -	\$ 82,821,630

Salida Hospital District d/b/a Heart of the Rockies
Regional Medical Center
Combining Statement of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2018

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

**Salida Hospital District d/b/a Heart of the Rockies
Regional Medical Center**
Budgeted and Actual Revenues and Expenses – Medical Center Only
Year Ended December 31, 2019

	Actual	Budget	Favorable (Unfavorable) Variance
Operating Revenues			
Net patient service revenue	\$ 81,499,086	\$ 81,061,034	\$ 438,052
Other operating revenue	<u>1,628,351</u>	<u>1,447,445</u>	<u>180,906</u>
	<u>83,127,437</u>	<u>82,508,479</u>	<u>618,958</u>
Operating Expenses			
Salaries, wages and employee benefits	42,286,453	42,452,281	165,828
Other operating expenses	<u>32,606,724</u>	<u>34,603,511</u>	<u>1,996,787</u>
	<u>74,893,177</u>	<u>77,055,792</u>	<u>2,162,615</u>
Operating Income	8,234,260	5,452,687	2,781,573
Nonoperating Revenues (Expenses), Net	<u>1,893,186</u>	<u>907,918</u>	<u>985,268</u>
Excess of Revenues Over Expenses Before Capital Gifts	<u><u>\$ 10,127,446</u></u>	<u><u>\$ 6,360,605</u></u>	<u><u>\$ 3,766,841</u></u>

Notes to Schedule

Annual budgets are adopted as required by Colorado statutes. Formal budgetary integration is employed as a management control device during the year. Budgets are adopted on a basis that is consistent with generally accepted accounting principles.

Appropriations are adopted by resolution in total. There were no supplemental budgets adopted during 2019.