



Financial Statements
December 31, 2016 and 2015

**East Phillips County Hospital District
d/b/a Melissa Memorial Hospital**



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East Phillips County Hospital District
d/b/a Melissa Memorial Hospital
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Independent Auditor's Report

The Board of Directors
East Phillips County Hospital District
d/b/a Melissa Memorial Hospital
Holyoke, Colorado

Report on the Financial Statements

We have audited the accompanying statements of net position of East Phillips County Hospital District, d/b/a Melissa Memorial Hospital (Hospital) as of December 31, 2016 and 2015, and the related statements of revenues, expenses, and changes in net position and statements of cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of East Phillips County Hospital District, d/b/a Melissa Memorial Hospital as of December 31, 2016 and 2015, and the changes in its net position, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated May 30, 2017 on our consideration of East Phillips County Hospital District, d/b/a Melissa Memorial Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of the testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering East Phillips County Hospital District, d/b/a Melissa Memorial Hospital's internal control over financial reporting and compliance.



Fargo, North Dakota
May 30, 2017

Introduction

Our discussion and analysis of the financial performance for East Phillips County Hospital District d/b/a Melissa Memorial Hospital (Hospital) and Melissa Memorial Hospital Corporation (MMHC) (collectively, the Hospital), provides an overview of the Hospital and MMHC financial activities for the years ended December 31, 2016, 2015, and 2014. Please read it in conjunction with the Hospital's financial statements, which begin on page 9.

On April 14, 2006, MMHC, a Colorado nonprofit corporation, was established to facilitate the financing of the new hospital project. Under Colorado law, the Hospital, as a unit of local government, has some limitations on its ability to mortgage its own property, or to enter into a "multiple fiscal year financial obligation," without electoral approval. For these reasons the new hospital was financed through a lease-purchase agreement (the "Lease") between the Hospital and MMHC. MMHC was established to own the new Hospital, incur indebtedness and lease such property back to the Hospital. MMHC has no members (i.e. it is not owned by the Hospital), but the Hospital appoints MMHC's management and board and the entities are related in their essential purpose of providing healthcare services to Phillips County and the surrounding area.

MMHC has a leasehold interest under a ground lease (the "Site Lease") in the site of the new hospital (the "Site"), and subleases the Site and the new hospital back to the Hospital. The sublease payments will be sufficient to pay principal, interest, and other fees due on the HUD FHA Section 242 insured mortgage loan (the "Loan") which has been obtained by MMHC. At the end of the Lease term, after all rental payments have been made and the loan is paid in full, the Site Lease and the sublease will terminate and MMHC will convey or release its interest in the Site and the hospital facility to the Hospital.

During the term of the Lease, the Loan will be secured by a leasehold mortgage upon MMHC's leasehold interest in the Site. In the event of the Hospital's default or failure to appropriate rentals under the sublease, Red Mortgage Capital, or HUD, as the mortgagee, would have the ability, with or without terminating the Site Lease or the sublease, to take possession of or relet the leased property for the remainder of the term of the Site Lease, which would extend approximately five years beyond the term of the sublease.

The Hospital and MMHC are not legal affiliates, but are related in their essential purpose of providing health care services to Phillips County and the surrounding area. In accordance with GASB 61, it has been determined that MMHC is a component unit of the Hospital and thus, MMHC's financial activities are being presented as a blended component unit with the financial activities of the Hospital.

Financial Highlights

- Cash, cash equivalents, and investments decreased in 2016 by \$1,664,353 (18%) and increased in 2015 by \$134,453 (1%).
- Net patient accounts receivable decreased in 2016 by \$255,665 (11%) and increased in 2015 by \$526,345 (29%).
- Net capital assets increased in 2016 and 2015 by \$2,316,187 (19%) and \$848,898 (8%).
- Long-term debt increased in 2016 by \$1,380,829 (11%) and decreased in 2015 by \$599,136 (4%).
- Net position increased in 2016 and 2015 by \$1,212,996 (12%) and \$396,061 (4%).
- The Hospital reported an operating income in 2016 of \$64,652 and an operating loss 2015 of \$3,616.
- Total operating revenues increased in 2016 by \$1,235,399 (11%) and decreased in 2015 by \$789,562 (7%).
- Operating expenses increased in 2016 and 2015 by \$1,167,131 (11%) and \$517,612 (5%).

Using This Annual Report

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

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

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

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

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

East Phillips County Hospital District
d/b/a Melissa Memorial Hospital
Management Discussion and Analysis
December 31, 2016, 2015, and 2014

The Hospital's Net Position

The Hospital's net position is the difference between its assets, deferred inflow of resources, liabilities, and deferred outflow of resources in the Statements of Net Position on page 9. The Hospital's net position increased in 2016 and 2015 by \$1,212,996 (12%) and \$396,061 (4%) as shown below:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Assets and Deferred Outflows of Resources			
Cash, cash equivalents and investments	\$ 7,657,278	\$ 9,321,631	\$ 9,187,178
Patient accounts receivable, net	2,081,147	2,336,812	1,810,467
Other current assets	2,602,498	1,666,061	2,105,054
Capital assets, net	14,475,129	12,158,942	11,310,044
Other noncurrent assets	-	-	117,389
	<u>26,816,052</u>	<u>25,483,446</u>	<u>24,530,132</u>
Deferred Outflows of Resources			
Debt refunding costs	<u>553,422</u>	<u>584,836</u>	<u>615,939</u>
	<u>\$ 27,369,474</u>	<u>\$ 26,068,282</u>	<u>\$ 25,146,071</u>
Liabilities and Deferred Inflows of Resources			
Current liabilities	\$ 1,816,821	\$ 2,743,583	\$ 1,622,331
Long-term debt, less current maturities	<u>13,705,720</u>	<u>12,435,522</u>	<u>13,054,378</u>
	<u>15,522,541</u>	<u>15,179,105</u>	<u>14,676,709</u>
Deferred Inflows of Resources			
	<u>913,010</u>	<u>1,168,250</u>	<u>1,144,496</u>
	<u>16,435,551</u>	<u>16,347,355</u>	<u>15,821,205</u>
Net Position			
Net investment in capital assets	624,447	(1,187,439)	(1,579,039)
Restricted, expendable	1,793,992	1,630,056	1,466,571
Unrestricted	<u>8,515,484</u>	<u>9,278,310</u>	<u>9,437,334</u>
	<u>10,933,923</u>	<u>9,720,927</u>	<u>9,324,866</u>
	<u>\$ 27,369,474</u>	<u>\$ 26,068,282</u>	<u>\$ 25,146,071</u>

Operating Results and Changes in the Hospital's Net Position

Table 2: Operating Results and Changes in Net Position

	2016	2015	2014
Operating Revenues	\$ 12,185,787	\$ 10,950,388	\$ 11,739,950
Operating Expenses			
Salaries and wages and employee benefits	6,071,860	5,495,537	5,193,654
Purchased services and professional fees	2,863,572	2,237,912	1,871,494
Other operating expense	3,185,703	3,220,555	3,371,244
Total operating expenses	12,121,135	10,954,004	10,436,392
Operating Income (Loss)	64,652	(3,616)	1,303,558
Nonoperating Revenues (Expenses)			
Property taxes	1,014,190	892,845	833,892
Other, net	9,422	8,752	7,141
Interest expense	(499,600)	(518,492)	(540,067)
Nonoperating revenues (expenses), net	524,012	383,105	300,966
Revenue in Excess of Expenses	588,664	379,489	1,604,524
Capital Gifts	624,332	16,572	121,193
Increase in Net Position	\$ 1,212,996	\$ 396,061	\$ 1,725,717

Operating Income (Loss)

The first component of the overall change in the Hospital's net position is its operating income – generally, the difference between operating revenues and the expenses incurred to perform those services. The Hospital is reporting an operating gain in 2016 of \$64,652 and an operating loss in 2015 of \$3,616 and an operating gain in 2014 of \$1,303,558.

The primary components of the operating gain in 2016 and operating loss in 2015 are as follows:

- There was an increase in net patient service revenue of \$1,325,690 (13%) from 2015. In 2015, the Hospital experienced an increased number of denials on payments due to documentation practices. Allowances for bad debt and discounts taken by government payors and commercial insurances increased substantially. This resulted in an increase to contractual adjustments and bad debt expense, causing the net patient service revenue to decrease. In 2016, these matters were corrected, as is shown by the increase in net patient service revenue. Net patient service revenue decreased from 2014 by \$789,562 (4%) due to the aforementioned denials due to documentation practices.

- Salaries, wages, and employee benefits increased by \$576,323 (10%) in 2016. This increase was due to inflationary pressures and requirements to provide greater health insurance coverage. The total number of employees has not changed significantly from prior years. In 2015, salaries, wages, and employee benefits increased by \$301,883 (6%). This increase was due to inflationary pressures and requirements to provide greater health insurance coverage.
- Purchased services and professional fees increased by \$625,660 (28%) in 2016. The increase was due to the Hospital needing to add additional locum coverage for physician and nursing services. The Hospital also used contracted services to help with the financial management department throughout 2016. Purchased services and professional fees increased by \$366,418 (20%) in 2015. The increase was due to the need to provide interim leadership during a transition period of both the CEO and CFO. The Hospital also had additional locum coverage for medical staff and agency expense for nursing services.
- Other operating expenses decreased in 2016 and 2015 by \$34,852 (1%) and \$150,689 (4%). The decrease is due to better management and contracting for areas such as supplies, service contracts, telephone and utilities expense.

Non-Operating Revenues and Expenses

Non-operating revenues and expenses consist primarily of property taxes levied by the Hospital, interest expense, debt financing costs, and investment income. Mill levy and specific ownership tax receipts generated \$1,014,190 in 2016 which is an increase of \$121,345 or approximately 14%. This increase is due to an increase in the assessed valuation of property located in the East Phillips Hospital District. In 2015, mill levy taxes increased from 2014 by \$58,953 or 7%, which was due to an increase in the assessed valuation.

Interest expense decreased \$18,892 (4%) from \$518,492 in 2015 to \$499,600 in 2016. Interest expense decreased \$21,575 (4%) from \$540,067 in 2014 to \$518,492 in 2015.

Other non-operating revenues increased by \$670 and \$1,611 in 2016 and 2015 due to an increase in interest income.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating income and non-operating revenues and expenses, as discussed earlier. In addition, please refer to the discussions relative to changes in net patient accounts receivable and cost report settlements.

Capital Asset and Debt Administration

Capital Assets

At the end of 2016, 2015, and 2014, the Hospital had \$14,475,129, \$12,158,942, and \$11,310,044 invested in capital assets, net of accumulated depreciation. During 2016, the Hospital purchased new capital assets in the amount of \$4,273,463. Capital assets in the amount of \$1,050,523 and \$217,623 were purchased in 2015 and 2014.

Debt

During 2016, the Hospital incurred additional debt in the amount of \$2,000,000 to help finance facility renovations. Cash used for the principal payments of the HUD insured mortgage and the Highline Electric Association Note amounts was \$587,757 and cash used for interest payments on these debt amounts was \$501,281. As of December 31, 2016, 2015, and 2014, the balance of long-term indebtedness was \$14,404,104, \$13,023,275, and \$13,622,411.

Other Economic Factors

The Hospital is located in a rural area which is predominately a farming community. Additional economic factors affecting the Hospital include changes in county population, increasing numbers of uninsured or underinsured patients and increasing costs of recruiting, hiring, and retaining health care professionals.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the funds it receives. Questions about this report and requests for additional financial information should be directed to the Hospital Administration by telephoning (970) 854-2241.

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	<u>2016</u>	<u>2015</u>
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and cash equivalents	\$ 3,810,727	\$ 4,337,511
Restricted cash	44,054	40,460
Short-term investments	51,966	435,310
Receivables		
Patient, net of estimated uncollectibles of \$742,000 in 2016 and \$1,050,000 in 2015	2,081,147	2,336,812
Estimated third-party payor settlements	785,000	-
Property tax	913,010	958,250
Electronic health record and other	138,080	145,695
Supplies	383,621	277,517
Prepaid expenses and other	382,787	284,599
	<u>8,590,392</u>	<u>8,816,154</u>
Noncurrent Cash and Investments		
Internally designated for capital improvements	2,000,593	2,918,754
Restricted cash held for debt reserve	1,749,938	1,589,596
	<u>3,750,531</u>	<u>4,508,350</u>
Capital Assets		
Capital assets not being depreciated	276,848	1,919,088
Capital assets being depreciated, net	14,198,281	10,239,854
	<u>14,475,129</u>	<u>12,158,942</u>
	<u>26,816,052</u>	<u>25,483,446</u>
Deferred Outflows of Resources		
Debt refunding costs	553,422	584,836
	<u>553,422</u>	<u>584,836</u>
	<u>\$ 27,369,474</u>	<u>\$ 26,068,282</u>

See Notes to Financial Statements

East Phillips County Hospital District
d/b/a Melissa Memorial Hospital
Statements of Net Position
December 31, 2016 and 2015

	2016	2015
Liabilities, Deferred Inflows of Resources, and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ 698,384	\$ 587,753
Accounts payable		
Trade	348,452	433,685
Estimated third-party payor settlements	-	209,926
Construction payables	-	907,942
Accrued expenses		
Salaries and wages	253,833	235,865
Vacation and employee benefits	459,258	318,619
Interest	40,428	42,109
Other	16,466	7,684
Total current liabilities	1,816,821	2,743,583
Long-Term Debt, Less Current Maturities	13,705,720	12,435,522
Total liabilities	15,522,541	15,179,105
Deferred Inflows of Resources		
Electronic health records (EHR) incentive payments	-	210,000
Property tax receivable	913,010	958,250
Total deferred inflows of resources	913,010	1,168,250
Total liabilities and deferred inflow of resources	16,435,551	16,347,355
Net Position		
Net investment in capital assets	624,447	(1,187,439)
Restricted - expendable	1,793,992	1,630,056
Unrestricted	8,515,484	9,278,310
Total net position	10,933,923	9,720,927
Total liabilities, deferred inflows of resources, and net position	\$ 27,369,474	\$ 26,068,282

East Phillips County Hospital District
d/b/a Melissa Memorial Hospital
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2016 and 2015

	2016	2015
Operating Revenues		
Net patient service revenue, net of provision for bad debts of \$936,912 in 2016 and \$983,048 in 2015	\$ 11,771,905	\$ 10,419,215
Other operating revenue	413,882	531,173
Total operating revenues	12,185,787	10,950,388
Operating Expenses		
Salaries and wages	5,030,672	4,636,233
Employee benefits	1,041,188	859,304
Supplies and other	2,162,293	1,997,881
Purchased services and professional fees	2,863,572	2,237,912
Depreciation	1,023,410	1,222,674
Total operating expenses	12,121,135	10,954,004
Operating Income (Loss)	64,652	(3,616)
Nonoperating Revenues (Expense)		
Property taxes	1,014,190	892,845
Interest income	9,422	8,752
Interest expense	(499,600)	(518,492)
Nonoperating revenues (expense), net	524,012	383,105
Revenues in Excess of Expenses	588,664	379,489
Capital Grants and Gifts	624,332	16,572
Increase in Net Position	1,212,996	396,061
Net Position, Beginning of Year	9,720,927	9,324,866
Net Position, End of Year	\$ 10,933,923	\$ 9,720,927

East Phillips County Hospital District
d/b/a Melissa Memorial Hospital
Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	2016	2015
Operating Activities		
Receipts from and on behalf of patients	\$ 11,032,644	\$ 10,051,667
Payments to employees and for employee benefits	(5,913,253)	(5,547,934)
Payments to suppliers and contractors	(5,306,608)	(4,288,285)
Other receipts	237,421	1,133,748
	50,204	1,349,196
Net Cash From Operating Activities		
Noncapital Financing Activity		
Property taxes supporting operations	1,014,190	892,845
Capital and Related Financing Activities		
Purchase and construction of capital assets	(4,273,463)	(1,050,523)
Proceeds from issuance of long-term debt	2,000,000	-
Repayment of long-term debt	(587,757)	(568,033)
Interest paid on long-term debt	(501,281)	(520,106)
Capital grants and gifts to purchase capital assets	624,332	16,572
Proceeds from sale of capital assets	-	5,750
	(2,738,169)	(2,116,340)
Net Cash Used For Capital and Related Financing Activities		
Investing Activities		
Sales of short-term investments	383,344	735,848
Investment income	9,422	8,752
	392,766	744,600
Net Cash From Investing Activities		
Net Increase (Decrease) in Cash and Cash Equivalents	(1,281,009)	870,301
Cash and Cash Equivalents, Beginning of Year	8,886,321	8,016,020
Cash and Cash Equivalents, End of Year	\$ 7,605,312	\$ 8,886,321
Reconciliation of Cash to the Statements of Net Position		
Cash and cash equivalents	\$ 3,810,727	\$ 4,337,511
Restricted cash	44,054	40,460
Internally designated for capital improvements	2,000,593	2,918,754
Restricted cash held for debt reserve	1,749,938	1,589,596
	\$ 7,605,312	\$ 8,886,321

East Phillips County Hospital District
d/b/a Melissa Memorial Hospital
Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	2016	2015
Reconciliation of Operating Loss		
to Net Cash From Operating Activities		
Operating loss	\$ 64,652	\$ (3,616)
Adjustments to reconcile operating loss		
to net cash from operating activities		
Depreciation	1,023,410	1,222,674
Provision for bad debts	936,912	983,048
Loss (gain) on disposal of capital assets	25,924	(1,468)
Changes in assets and liabilities		
Patient receivables	(681,247)	(1,509,393)
Estimated third-party payor settlements	(994,926)	158,797
Electronic health record receivable	7,615	645,694
Supplies	(106,104)	(136,390)
Prepaid expenses and other	(98,188)	(4,906)
Accounts payable and accrued expenses	82,156	36,407
Deferred inflows of resources - EHR	(210,000)	(41,651)
	\$ 50,204	\$ 1,349,196
Net Cash From Operating Activities		
Supplemental Disclosure of Noncash Capital and Capital Related		
Financing Activities		
Accounts payable for construction	\$ -	\$ 907,942
Transfer of land held for expansion to capital assets not being depreciated	\$ -	\$ 117,389

Note 1 - Reporting Entity and Summary of Significant Accounting Policies

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

Reporting Entity

East Phillips County Hospital District d/b/a Melissa Memorial Hospital is a 15-bed acute care hospital located in Holyoke, CO. The Hospital is governed by a five member Board of Directors. The Board of Directors exercises governing oversight responsibility for the Hospital, which includes such duties as budget review, care of patients, and management of the facilities as set forth by the ordinance of Holyoke.

For financial reporting purposes, the Hospital has included all funds, organizations, agencies, boards, commissions, and authorities. The Hospital has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Hospital are such that the exclusion would cause the Hospital's financial situation to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Hospital.

Blended Component Unit

Melissa Memorial Hospital Corporation (MMHC) was created by the Hospital in 2006 as a non-profit corporation to facilitate financing of a replacement hospital project and has been recognized by the Internal Revenue Service as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). MMHC is included as a blended component unit of the Hospital. The financial statements include only the financial activity of the Hospital and MMHC, collectively referred to as the Hospital.

Income Taxes

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

MMHC is organized as a Colorado nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Internal Revenue Section 501(c)(3). MMHC is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, MMHC is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. MMHC has determined it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990T) with the IRS.

MMHC believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. MMHC would recognize future accrued interest and penalties related to unrecognized tax benefit and liabilities in income tax expense if such interest and penalties are incurred.

Measurement Focus and Basis of Accounting

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

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

Basis of Presentation

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

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

Restricted net position:

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

Nonexpendable – Non expendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Hospital.

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

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

Use of Estimates

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

Cash and Cash Equivalents

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

Restricted Cash

Restricted cash includes assets required to be set aside for future insurance premiums and debt payments under indenture agreements.

Short-Term Investments

Short-term investments include certificates of deposit with an original maturity of three to twelve months, excluding internally designated or restricted cash and investments.

Patient Receivables

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

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

Property Tax Receivable and Revenue

Property tax receivable is recognized on the lien date, which is January 1 of the tax year in Colorado. The property tax receivable represents taxes certified by the Board of Directors to be collected in the next fiscal year. However, by statute, the tax asking becomes effective on the first day of the following year. Although the property tax receivable has been recorded, the related revenue is considered a deferred inflows of resources – unavailable revenue and will not be recognized as revenue until the year in which it is levied.

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

Supplies

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

Noncurrent Cash and Investments

Noncurrent cash and investments include funds that are set aside by the Board of Directors for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes; and funds restricted under a trust agreement for a debt reserve fund. Deposits are recorded at cost.

Capital Assets

Property and equipment acquisitions in excess of \$1,500 are capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Amortization is included in depreciation and amortization in the financial statements. The estimated useful lives of capital assets are as follows:

Buildings and improvements	15-33 years
Fixed equipment	3-30 years
Major moveable equipment	2-20 years

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

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until then. The Hospital has recognized one item that qualifies for reporting in this category, which is debt refunding costs. Debt refunding costs are amortized over the period the related obligation is outstanding using the effective interest method. Amortization of the debt refunding costs is included in interest expense in the financial statements.

Original Issue Premium

The original issue premium is amortized over the period the related obligation is outstanding using the effective interest method. Amortization of the original issue premium is included in interest expense in the financial statements.

Compensated Absences

Most of the Hospital's employees earn paid-time-off (PTO) for vacation and sick leave. Expense and the related liability are recognized as benefits when accrued. PTO is computed using the regular pay rates in effect at the statement of net position date, plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Electronic Health Record Incentives

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

To qualify for the EHR incentive payments, hospitals and physicians must meet designated EHR meaningful use criteria. In addition, hospitals must attest that they have used certified EHR technology, satisfied the meaningful use objectives, and specify the EHR reporting period. This attestation is subject to audit by the federal government or its designee. The EHR incentive payment to hospitals for each payment year is calculated as a product of (1) allowable costs as defined by the Centers for Medicare & Medicaid Services (CMS) and (2) the Medicare share. Once the initial attestation of meaningful use is completed, critical access hospitals receive the entire EHR incentive payment for submitted allowable costs of the respective periods in a lump sum, subject to a final adjustment on the cost report.

As the entire EHR incentive payment is received in a lump sum for critical access hospitals and the Hospital must annually attest to increasingly stringent meaningful use criteria, the EHR incentive payment is first recognized as a deferred revenue with a ratable recognition of revenue of a specified time period. EHR incentive payments are included in other operating revenue in the accompanying financial statements. The amount of EHR incentive payments recognized are based on management's best estimate and those amounts are subject to change with such changes impacting the period in which they occur.

The Hospital is recognizing revenue ratably over four years. As a result, the Hospital recognized revenue of \$282,961 and \$381,182 for the years ended December 31, 2016 and 2015 by amortizing the deferred inflows of resources into other revenue. The Hospital had unearned revenue related to EHR incentive payments of \$210,000 remaining at December 31, 2015.

Deferred Inflows of Resources

Deferred inflows of resources represent an increase in net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until then. The deferred inflows of resources reported in the financial statements are for deferred electronic health record incentive payments and property taxes. The incentive payments are being recognized ratably over a four year period. Property taxes are recognized as revenue in the year they are levied.

Operating Revenues and Expenses

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

Net Patient Service Revenue

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

Charity Care

The Hospital provides health care services to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Since the Hospital does not pursue collection of these amounts, they are not reported as patient service revenue. The estimated cost of providing these services was \$55,000 and \$33,000 for the years ended December 31, 2016 and 2015, calculated by multiplying the ratio of cost to gross charges for the Hospital by the gross uncompensated charges associated with providing charity care to its patients.

Provider Fee Program

The Hospital participates in the State of Colorado provider fee program, approved by the Centers for Medicare and Medicaid Services (CMS), under which all hospitals in the state were assessed a fee based on bed size and payor mix. The state of Colorado uses the fees to supplement state budget funds for the Medicaid program, which brings matching federal monies into the program, enabling the state of Colorado to fund Medicaid payments to hospitals at a higher rate than would otherwise be possible. The Hospital recorded approximately \$190,000 and \$211,000 in provider fees for the years ended December 31, 2016 and 2015, which are recorded in operating expenses. The Hospital recorded approximately \$944,000 and \$1,155,000 of supplemental payments for the years ended December 31, 2016 and 2015, which are recorded as part of net patient service revenue.

In addition, the Colorado Hospital Association manages a redistribution pool for participating facilities. The Hospital recorded revenue of approximately \$23,000 and \$8,000 for the years ended December 31, 2016 and 2015, which is recorded as part of net patient service revenue.

Grants and Contributions

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

Budgets

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

Note 2 - Net Patient Service Revenue

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

Medicare. The Hospital is licensed as a Critical Access Hospital (CAH). The Hospital is reimbursed for most acute care services under a cost reimbursement methodology with final settlement determined after submission of annual cost reports by the Hospital and are subject to audits thereof by the Medicare Administrative Contractor (MAC). The Hospital’s Medicare cost reports have been audited by the MAC through the year ended December 31, 2014. Clinical services are paid on a cost basis or fixed fee schedule.

Medicaid. Inpatient 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. Outpatient services related to Medicaid beneficiaries are paid based on the lower of customary charges, allowable cost as determined through the Hospital’s Medicare cost report, or rates as established by the Medicaid program. The Hospital is reimbursed at a tentative rate with final settlement determined by the program based on the Hospital’s final Medicaid cost report. The Hospital’s Medicaid cost reports have been settled by the Medicaid program through December 31, 2013.

Blue Cross. Inpatient services rendered to Blue Cross subscribers are paid at prospectively determined rates per discharge. Outpatient services are reimbursed at outpatient payment fee screens or at charges less a prospectively determined discount. The prospectively determined discount is not subject to retroactive adjustment.

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

Concentration of gross revenues by major payor accounted for the following percentages of the Hospital’s patient service revenues for the years ended December 31, 2016 and 2015:

	2016	2015
Medicare	46%	54%
Medicaid	16%	11%
Blue Cross and other commercial payors	36%	25%
Self pay and other	2%	10%
	100%	100%

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The net patient service revenue for the year ended December 31, 2016 increased by approximately \$368,000 and decreased by approximately \$44,000 for the year ended December 31, 2015 due to removal of allowances previously estimated that are no longer necessary as a result of final settlements, adjustments to amounts previously estimated, and for years that are no longer likely subject to audits, reviews, and investigations.

The Centers for Medicare and Medicaid Services (CMS) has implemented a Recovery Audit Contractor (RAC) program under which claims are reviewed by contractors for validity, accuracy, and proper documentation. A demonstration project completed in several other states resulted in the identification of potential overpayments, some being significant. If selected for audit, the potential exists that the Hospital may incur a liability for a claims overpayment at a future date. The Hospital is unable to determine if it will be audited and, if so, the extent of the liability of overpayments, if any. As the outcome of such potential reviews is unknown and cannot be reasonably estimated, it is the Hospital's policy to adjust revenue for deductions from overpayment amounts or additions from underpayment amounts determined under the RAC audits at the time a change in reimbursement is agreed upon between the Hospital and CMS.

Note 3 - Deposits and Investment

The carrying amounts of deposits and investments as of December 31, 2016 and 2015 are as follows:

	2016	2015
Carrying amount		
Deposits in banks	\$ 7,605,312	\$ 8,886,321
Short-term investments	51,966	435,310
	\$ 7,657,278	\$ 9,321,631
Included in the following statement of net position captions		
Cash and cash equivalents	\$ 3,810,727	\$ 4,337,511
Restricted cash	44,054	40,460
Short-term investments	51,966	435,310
Internally designated for capital improvements	2,000,593	2,918,754
Restricted cash held for debt reserve	1,749,938	1,589,596
	\$ 7,657,278	\$ 9,321,631

Deposits – Custodial Credit Risk

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

PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. The Hospital’s deposits in banks at December 31, 2016 and 2015 were entirely covered by federal depository insurance or by PDPA.

Investments

The Hospital’s investments are reported at cost. The Hospital is authorized by statute to invest funds in obligations of the United States and certain U.S. government agency securities; certain general and revenue obligations of any state of the United States; local government investment pools; certain money market funds; commercial paper; written repurchase and reverse repurchase agreements collateralized by certain authorized securities; certain guaranteed investment contracts, and certain U.S. dollar denominated corporate or bank security. The Hospital’s investment policy does not further restrict or limit investments.

The Hospital had the following investments and maturities at December 31, 2016 and 2015:

December 31, 2016		Investment Maturities (in Years)			
Investment Type	Carrying Amount	Rating	Less Than 1	1 - 5	6 - 10
Certificates of deposit	\$ 51,966	N/A	\$ 51,966	\$ -	\$ -
December 31, 2015		Investment Maturities (in Years)			
Investment Type	Carrying Amount	Rating	Less Than 1	1 - 5	6 - 10
Certificates of deposit	\$ 435,310	N/A	\$ 435,310	\$ -	\$ -

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Hospital does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, the Hospital invests in short-term certificates of deposits and money market accounts as a means to limit their exposure to this risk.

Credit Risk

State statutes limit investments in U.S. government agency securities to the highest rating issued by at least two nationally recognized statistical rating organizations (NRSROs). Corporate securities must not be rated below AA – or Aa3 by any NRSRO. Investments in money market funds are limited to those with the highest rating issued by NRSROs and with a constant share price.

Concentration of Credit Risk

The Hospital’s investment policy currently does not place a limit on the amount of investments that can be held in any one company or government agency.

Interest Income

Interest income consists of interest earned on deposits and certificate of deposits of \$9,422 and \$8,752 for the years ended December 31, 2016 and 2015.

Note 4 - Capital Assets

Capital assets additions, retirements, transfers and balances for the year ended December 31, 2016 is as follows:

	December 31, 2015	Additions	Retirements/ transfers	December 31, 2016
Capital assets not being depreciated				
Land	\$ 276,848	\$ -	\$ -	\$ 276,848
Construction in progress	1,642,240	2,962,716	(4,604,956)	-
Total capital assets not being depreciated	<u>\$ 1,919,088</u>	<u>\$ 2,962,716</u>	<u>\$ (4,604,956)</u>	<u>\$ 276,848</u>
Capital assets being depreciated				
Land and improvements	\$ 1,106,131	\$ -	\$ -	\$ 1,106,131
Buildings	12,684,923	2,550	4,604,956	17,292,429
Fixed equipment	887,241	268,316	-	1,155,557
Major movable equipment	4,464,323	131,939	(52,952)	4,543,310
Total capital assets being depreciated	<u>19,142,618</u>	<u>\$ 402,805</u>	<u>\$ 4,552,004</u>	<u>24,097,427</u>
Less accumulated depreciation for				
Land improvements	753,489	\$ 50,785	\$ -	804,274
Buildings	4,202,194	557,538	-	4,759,732
Fixed equipment	470,376	56,217	-	526,593
Movable equipment	3,476,705	358,870	(27,028)	3,808,547
Total accumulated depreciation	<u>8,902,764</u>	<u>\$ 1,023,410</u>	<u>\$ (27,028)</u>	<u>9,899,146</u>
Net capital assets being depreciated	<u>\$ 10,239,854</u>			<u>\$ 14,198,281</u>
Capital assets, net	<u>\$ 12,158,942</u>			<u>\$ 14,475,129</u>

East Phillips County Hospital District
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Notes to Financial Statements
December 31, 2016 and 2015

Capital assets additions, retirements, transfers and balances for the year ended December 31, 2015 is as follows:

	December 31, 2014	Additions	Retirements/ transfers	December 31, 2015
Capital assets not being depreciated				
Land	\$ 139,535	\$ 19,924	\$ 117,389	\$ 276,848
Construction in progress	-	1,642,240	-	1,642,240
Total capital assets not being depreciated	\$ 139,535	1,662,164	117,389	\$ 1,919,088
Capital assets being depreciated				
Land improvements	\$ 1,106,131	-	-	\$ 1,106,131
Buildings	12,684,923	-	-	12,684,923
Fixed equipment	887,241	-	-	887,241
Major movable equipment	4,194,336	296,301	(26,314)	4,464,323
Total capital assets being depreciated	18,872,631	\$ 296,301	\$ (26,314)	19,142,618
Less accumulated depreciation for				
Land improvements	661,129	\$ 92,360	-	753,489
Buildings	3,712,752	489,442	-	4,202,194
Fixed equipment	415,576	54,800	-	470,376
Movable equipment	2,912,665	586,072	(22,032)	3,476,705
Total accumulated depreciation	7,702,122	\$ 1,222,674	\$ (22,032)	8,902,764
Net capital assets being depreciated	11,170,509			10,239,854
Capital assets, net	\$ 11,310,044			\$ 12,158,942
Capital assets - land held for expansion	\$ 117,389	-	\$ (117,389)	\$ -

Note 5 - Operating Leases

The Hospital has entered into certain noncancelable operating leases for equipment expiring in various years through 2021. Future minimum lease payments are as follows:

Years Ending December 31,	Operating Leases
2017	\$ 104,862
2018	57,437
2019	41,330
2020	33,680
2021	1,788
Total minimum lease payments	\$ 239,097

Total lease expense was \$167,162 and \$173,706 for the years ended December 31, 2016 and 2015.

Note 6 - Long-Term Debt

A schedule of changes in the Hospital's long-term debt for December 31, 2016 and 2015 is as follows:

	Balance December 31, 2015	Additions	Payments	Balance December 31, 2016	Due within One Year
Red Mortgage Capital, LLC (1)	\$ 12,117,800	\$ -	\$ 483,753	\$ 11,634,047	\$ 504,315
Highline Electric Assoc. (2)	320,639	-	104,004	216,635	104,004
Original issue premium (1)	584,836	-	31,414	553,422	-
First Pioneer National Bank (3)	-	2,000,000	-	2,000,000	90,065
Total long-term debt	\$ 13,023,275	\$ 2,000,000	\$ 619,171	\$ 14,404,104	\$ 698,384

	Balance December 31, 2014	Additions	Payments	Balance December 31, 2015	Due within One Year
Red Mortgage Capital, LLC (1)	\$ 12,581,829	\$ -	\$ 464,029	\$ 12,117,800	\$ 483,753
Highline Electric Assoc. (2)	424,643	-	104,004	320,639	104,000
Original issue premium (1)	615,939	-	31,103	584,836	-
Total long-term debt	\$ 13,622,411	\$ -	\$ 599,136	\$ 13,023,275	\$ 587,753

The terms and due dates of the Hospital's long-term debt, at December 31, 2016 and 2015 are as follows:

1. Mortgage note payable to Red Mortgage Capital, LLC - The mortgage note payable carries an interest rate of 4.17% per annum and payments are due in monthly installments for principal and interest of \$81,657 through May 2033. The note is secured by a leasehold deed of trust on real estate located in Phillips County. The mortgage note is insured by the Secretary of Housing and Urban Development (HUD) acting by and through the Federal Housing Commissioner pursuant to Section 242 of the National Housing Act, as amended.

The Original Issue Premium relates to the refinanced Red Mortgage Capital, LLC. The premium is being amortized over the life of the loan using the effective interest method.

Under the terms of the Regulatory Agreement with HUD, the Hospital is required to establish a Mortgage Reserve Fund in which the deposits are held by a trustee. Such deposits are included with Restricted Cash Held for Debt Reserve in the statement of net position. The Regulatory Agreement also places restrictions on the incurrence of additional borrowings and requires that the Hospital satisfy certain measures of financial performance as long as the mortgage note is outstanding.

2. Note payable to Highline Electric Association - A loan made to Melissa Memorial Hospital Corporation (MMHC) through Highline Electric Association of Holyoke, Colorado ("HEA"), pursuant to 7 C.F.R. Part 1703, Subpart B – Rural Economic Loan and Grant Program. Under this Program HEA has been given a direct loan and a grant to establish a revolving loan fund to provide local financing for projects that foster economic development in rural areas.

On January 15, 2009 a note was executed between HEA and MMHC where HEA loaned the Corporation \$1,040,000 in connection with construction of the new hospital facility. The proceeds of the loan were used to reduce the amount of the principal balance of the Mortgage Loan with Red Mortgage Capital, Inc. Repayment to HEA will be in equal monthly installments of \$8,667 until the entire amount of the unpaid principal and accrued interest, if any, is paid in full, which shall be on or before January 2019. The loan is a zero interest loan with an annual administrative fee of 1% that is calculated based upon the remaining principal balance on the first day of each year of the note and is payable in addition to the January principal payment each year.

The loan is secured by certain equipment, which has been released from the lien originally secured under a Security Agreement with Red Mortgage Capital, LLC.

3. Note payable to First Pioneer National Bank – This note payable carries a variable interest rate calculated as the sum of .80% plus the Savings Rate, but shall not exceed 9%. The Savings Rate is the interest rate per annum published from time to time by First Pioneer National Bank and designated as the savings rate in such publication. As of December 31, 2016, the interest rate was 1%. Payments are due in monthly installments of principal and interest of \$9,202 through December 2036.

The note payable is secured by a pledge and assignment of a combination of all security agreements, deeds of trust, mortgages, and pledge agreements.

Scheduled debt service requirements for the Hospital’s long-term debt are as follows:

<u>Years Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 698,384	\$ 497,329
2018	721,500	473,855
2019	649,392	449,632
2020	664,947	425,364
2021	690,222	400,089
2022-2026	3,867,538	1,584,018
2027-2031	4,674,695	776,862
2032-2036	1,884,004	56,282
	<u>13,850,682</u>	<u>\$ 4,663,431</u>
Original issue premium	553,422	
Total	<u>\$ 14,404,104</u>	

Note 7 - Pension Plan

The Hospital has a deferred compensation plan under which employees become participants upon completing 90 days of service, and if working at least 1,000 hours per year. Employer contributions of 3% of annual compensation are deposited with the plan trustee who invests the plan assets. Total pension plan expense for the years ended December 31, 2016, 2015, and 2014 were \$108,791, \$89,034, and \$85,327.

Note 8 - Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at December 31, 2016 and 2015 was as follows:

	2016	2015
Medicare	28%	44%
Medicaid	9%	6%
Blue Cross Blue Shield	10%	5%
Other third-party payors	25%	18%
Patients	28%	27%
	100%	100%

Note 9 - Phillips County Healthcare Foundation

The Phillips County Healthcare Foundation (Foundation), a separate legal entity with its own board of trustees, exists to raise funds for the Hospital. The Foundation made contributions to the Hospital of \$79,848 and \$13,765 during the years ended December 31, 2016 and 2015.

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

Note 10 - Condensed Combining Information

The following summarizes combining information for the Hospital and MMHC, which has been presented as a blended component unit, as of and for the year ended December 31, 2016.

Statement of net position as of December 31, 2016:

	Hospital	MMHC	Eliminations	Total
Assets and deferred outflows of resources				
Assets				
Current assets	\$ 8,492,572	\$ 642,563	\$ (544,743)	\$ 8,590,392
Noncurrent cash and investments	3,750,531	1,749,938	(1,749,938)	3,750,531
Capital assets, net	14,475,129	-	-	14,475,129
Other noncurrent assets	-	11,129,732	(11,129,732)	-
Total assets	<u>26,718,232</u>	<u>13,522,233</u>	<u>(13,424,413)</u>	<u>26,816,052</u>
Deferred outflows of resources	-	553,422	-	553,422
Total assets and deferred outflows of resources	<u>\$ 26,718,232</u>	<u>\$ 14,075,655</u>	<u>\$ (13,424,413)</u>	<u>\$ 27,369,474</u>
Liabilities, deferred inflows of resources, and net position				
Liabilities				
Current liabilities	\$ 1,706,739	\$ 654,825	\$ (544,743)	\$ 1,816,821
Long-term debt, less current maturities	13,039,667	11,795,785	(11,129,732)	13,705,720
Other long-term liabilities	-	1,749,938	(1,749,938)	-
Total liabilities	<u>14,746,406</u>	<u>14,200,548</u>	<u>(13,424,413)</u>	<u>15,522,541</u>
Deferred inflows of resources	913,010	-	-	913,010
Net position				
Net investment in capital assets	841,082	(11,850,682)	11,634,047	624,447
Restricted, expendable	1,749,938	1,793,992	(1,749,938)	1,793,992
Unrestricted	8,467,796	9,931,797	(9,884,109)	8,515,484
Total net position	<u>11,058,816</u>	<u>(124,893)</u>	<u>-</u>	<u>10,933,923</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 26,718,232</u>	<u>\$ 14,075,655</u>	<u>\$ (13,424,413)</u>	<u>\$ 27,369,474</u>

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Notes to Financial Statements
December 31, 2016 and 2015

Operating results and changes in net position for the year ended December 31, 2016:

	<u>Hospital</u>	<u>MMHC</u>	<u>Eliminations</u>	<u>Total</u>
Operating revenues				
Net patient service revenue	\$ 11,771,905	\$ -	\$ -	\$ 11,771,905
Other operating revenues	413,882	188,312	(188,312)	413,882
Total operating revenues	<u>12,185,787</u>	<u>188,312</u>	<u>(188,312)</u>	<u>12,185,787</u>
Operating expenses				
Depreciation	1,023,410	-	-	1,023,410
Other operating expenses	11,210,153	75,884	(188,312)	11,097,725
Total operating expenses	<u>12,233,563</u>	<u>75,884</u>	<u>(188,312)</u>	<u>12,121,135</u>
Operating income (loss)	(47,776)	112,428	-	64,652
Nonoperating revenues (expenses), net	524,012	-	-	524,012
Revenue in excess of expenses	476,236	112,428	-	588,664
Capital grants and gifts	624,332	-	-	624,332
Increase in net position	1,100,568	112,428	-	1,212,996
Net position, beginning of year	9,958,248	(237,321)	-	9,720,927
Net position, end of year	<u>\$ 11,058,816</u>	<u>\$ (124,893)</u>	<u>\$ -</u>	<u>\$ 10,933,923</u>

Cash flows for the year ended December 31, 2016:

	<u>Hospital</u>	<u>MMHC</u>	<u>Eliminations</u>	<u>Total</u>
Net cash from (used for) operating activities	\$ (1,106,728)	\$ 107,598	\$ 1,049,334	\$ 50,204
Net cash from noncapital financing activities	1,014,190	-	-	1,014,190
Net cash used for capital and related financing activities	(1,584,831)	(104,004)	(1,049,334)	(2,738,169)
Net cash from investing activities	392,766	-	-	392,766
Net increase (decrease) in cash and cash equivalents	(1,284,603)	3,594	-	(1,281,009)
Cash and cash equivalents, beginning of year	8,845,861	40,460	-	8,886,321
Cash and cash equivalents, end of year	<u>\$ 7,561,258</u>	<u>\$ 44,054</u>	<u>\$ -</u>	<u>\$ 7,605,312</u>

East Phillips County Hospital District
d/b/a Melissa Memorial Hospital
Notes to Financial Statements
December 31, 2016 and 2015

The following summarizes combining information of the Hospital and MMHC, which has been presented as a blended component unit, as of and for the year ended December 31, 2015.

Statement of net position as of December 31, 2015:

	Hospital	MMHC	Eliminations	Total
Assets and deferred outflows of resources				
Assets				
Current assets	\$ 8,732,836	\$ 609,180	\$ (525,862)	\$ 8,816,154
Noncurrent cash and investments	4,508,350	1,589,596	(1,589,596)	4,508,350
Capital assets, net	12,158,942	-	-	12,158,942
Other noncurrent assets	-	11,634,047	(11,634,047)	-
Total assets	25,400,128	13,832,823	(13,749,505)	25,483,446
Deferred outflows of resources	-	584,836	-	584,836
Total assets and deferred outflows of resources	<u>\$ 25,400,128</u>	<u>\$ 14,417,659</u>	<u>\$ (13,749,505)</u>	<u>\$ 26,068,282</u>
Liabilities, deferred inflows of resources, and net position				
Liabilities				
Current liabilities	\$ 2,639,583	\$ 629,862	\$ (525,862)	\$ 2,743,583
Long-term debt, less current maturities	11,634,047	12,435,522	(11,634,047)	12,435,522
Other long-term liabilities	-	1,589,596	(1,589,596)	-
Total liabilities	14,273,630	14,654,980	(13,749,505)	15,179,105
Deferred Inflows of Resources	1,168,250	-	-	1,168,250
Net Position				
Net investment in capital assets	(866,800)	(12,438,439)	12,117,800	(1,187,439)
Restricted, expendable	1,589,596	1,630,056	(1,589,596)	1,630,056
Unrestricted	9,235,452	10,571,062	(10,528,204)	9,278,310
Total net position	9,958,248	(237,321)	-	9,720,927
Total liabilities, deferred inflows of resources, and net position	<u>\$ 25,400,128</u>	<u>\$ 14,417,659</u>	<u>\$ (13,749,505)</u>	<u>\$ 26,068,282</u>

East Phillips County Hospital District
d/b/a Melissa Memorial Hospital
Notes to Financial Statements
December 31, 2016 and 2015

Operating results and changes in net position for the year ended December 31, 2015:

	Hospital	MMHC	Eliminations	Total
Operating revenues				
Net patient service revenue	\$ 10,419,215	\$ -	\$ -	\$ 10,419,215
Other operating revenues	531,173	192,615	(192,615)	531,173
Total operating revenues	<u>10,950,388</u>	<u>192,615</u>	<u>(192,615)</u>	<u>10,950,388</u>
Operating expenses				
Depreciation	1,222,674	-	-	1,222,674
Other operating expenses	9,838,379	85,566	(192,615)	9,731,330
Total operating expenses	<u>11,061,053</u>	<u>85,566</u>	<u>(192,615)</u>	<u>10,954,004</u>
Operating income (loss)	(110,665)	107,049	-	(3,616)
Nonoperating revenues (expenses), net	383,105	-	-	383,105
Revenue in excess of expenses	272,440	107,049	-	379,489
Capital grants and gifts	16,572	-	-	16,572
Increase in net position	289,012	107,049	-	396,061
Net position, beginning of year	9,669,236	(344,370)	-	9,324,866
Net position, end of year	<u>\$ 9,958,248</u>	<u>\$ (237,321)</u>	<u>\$ -</u>	<u>\$ 9,720,927</u>

Cash flows for the year ended December 31, 2015:

	Hospital	MMHC	Eliminations	Total
Net cash from operating activities	\$ 20,784	\$ 107,206	\$ 1,221,206	\$ 1,349,196
Net cash from noncapital financing activities	892,845	-	-	892,845
Net cash used for capital and related financing activities	(791,130)	(104,004)	(1,221,206)	(2,116,340)
Net cash from investing activities	744,600	-	-	744,600
Net increase in cash and cash equivalents	867,099	3,202	-	870,301
Cash and cash equivalents, beginning of year	7,978,762	37,258	-	8,016,020
Cash and cash equivalents, end of year	<u>\$ 8,845,861</u>	<u>\$ 40,460</u>	<u>\$ -</u>	<u>\$ 8,886,321</u>

Note 11 - Contingencies

Risk Management

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

Malpractice Insurance

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. The limits of the malpractice insurance are \$1 million per claim with an annual aggregate limit of \$3 million. The Hospital also has an umbrella liability insurance policy that provides additional protection on a claims-made basis subject to a limit of \$4 million per claim and aggregate. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, would be uninsured.

Litigations, Claims, and Disputes

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

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



Supplementary and Combining Information
December 31, 2016 and 2015

**East Phillips County Hospital District
d/b/a Melissa Memorial Hospital**



Independent Auditor's Report on Supplementary and Combining Information

The Board of Directors
East Phillips County Hospital District
d/b/a Melissa Memorial Hospital
Holyoke, Colorado

We have audited the financial statements of East Phillips County Hospital District d/b/a Melissa Memorial Hospital (Hospital) as of and for the years ended December 31, 2016 and 2015, and our report thereon dated May 30, 2017, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The combining information on pages 34 to 37 is presented for the purposes of additional analysis of the financial statements, rather than to present financial position, results of operations, and cash flows of the individual entities, and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The Budgeted and Actual Revenues and Expenses shown on page 33, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. The Budgeted and Actual Revenues and Expenses has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express and opinion or provide any assurance on it.

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

Fargo, North Dakota
May 30, 2017

East Phillips County Hospital District
d/b/a Melissa Memorial Hospital
Budgeted and Actual Revenues and Expenses
Year Ended December 31, 2016

	Actual	Budgeted	Favorable (Unfavorable) Variance
Operating Revenues			
Net patient service revenue	\$ 11,771,905	\$ 11,761,459	\$ 10,446
Other	413,882	1,434,459	(1,020,577)
	12,185,787	13,195,918	(1,010,131)
Operating Expenses			
Salaries, wages, and employee benefits	6,071,860	6,750,836	678,976
Other	6,049,275	6,229,923	180,648
	12,121,135	12,980,759	859,624
Operating Loss	64,652	215,159	(150,507)
Nonoperating Revenues (Expenses) and Capital Grants and Gifts	1,148,344	443,658	704,686
Increase in Net Position	\$ 1,212,996	\$ 658,817	\$ 554,179

Notes to Schedule

1. Annual budgets are adopted as required by Colorado Statutes. Formal budgetary integration is employed as a management control device during the year. Budgets are adopted on a basis that is consistent with generally accepted accounting principles.
2. Appropriations are adopted by resolutions in total. For the year ended December 31, 2016, there were no additional resolutions for supplementary budget and appropriation.
3. Management believes that the Hospital is compliant with the rules of Colorado's Taxpayer's bill of Rights (TABOR).

	<u>Hospital</u>	<u>MMHC</u>	<u>Eliminations</u>	<u>Total</u>
Current Assets				
Cash and cash equivalents	\$ 3,810,727	\$ -	\$ -	\$ 3,810,727
Restricted cash	-	44,054	-	44,054
Short-term investments	51,966	-	-	51,966
Receivables				
Patient, net of estimated uncollectibles of \$742,000	2,081,147	-	-	2,081,147
Estimated third-party payor settlements	785,000	-	-	785,000
Property tax	913,010	-	-	913,010
Electronic health record and other	137,799	281	-	138,080
Note and interest receivable from District	-	544,743	(544,743)	-
Supplies	383,621	-	-	383,621
Prepaid expenses and other	329,302	53,485	-	382,787
	<u>8,492,572</u>	<u>642,563</u>	<u>(544,743)</u>	<u>8,590,392</u>
Noncurrent Cash and Investments				
Internally designated for capital improvements	2,000,593	-	-	2,000,593
Restricted cash held for debt reserve	1,749,938	1,749,938	(1,749,938)	1,749,938
	<u>3,750,531</u>	<u>1,749,938</u>	<u>(1,749,938)</u>	<u>3,750,531</u>
Note Receivable from District, Net of Current Portion	-	11,129,732	(11,129,732)	-
Capital Assets				
Capital assets not being depreciated	276,848	-	-	276,848
Capital assets being depreciated, net	14,198,281	-	-	14,198,281
	<u>14,475,129</u>	<u>-</u>	<u>-</u>	<u>14,475,129</u>
Total assets	26,718,232	13,522,233	(13,424,413)	26,816,052
Deferred Outflows of Resources				
Debt refunding costs	-	553,422	-	553,422
	<u>-</u>	<u>553,422</u>	<u>-</u>	<u>553,422</u>
Total assets and deferred outflows of resources	<u>\$ 26,718,232</u>	<u>\$ 14,075,655</u>	<u>\$ (13,424,413)</u>	<u>\$ 27,369,474</u>

East Phillips County Hospital District
d/b/a Melissa Memorial Hospital
Combining Statement of Net Position
December 31, 2016

	<u>Hospital</u>	<u>MMHC</u>	<u>Eliminations</u>	<u>Total</u>
Current Liabilities				
Current maturities of long-term debt	\$ 594,380	\$ 608,319	\$ (504,315)	\$ 698,384
Accounts payable	342,374	6,078	-	348,452
Accrued expenses				
Salaries and wages	253,833	-	-	253,833
Vacation and employee benefits	459,258	-	-	459,258
Interest	40,428	40,428	(40,428)	40,428
Other	16,466	-	-	16,466
Total current liabilities	<u>1,706,739</u>	<u>654,825</u>	<u>(544,743)</u>	<u>1,816,821</u>
District Reserve for Debt Payments	-	1,749,938	(1,749,938)	-
Long-Term Debt, Less Current Maturities	<u>13,039,667</u>	<u>11,795,785</u>	<u>(11,129,732)</u>	<u>13,705,720</u>
Total liabilities	<u>14,746,406</u>	<u>14,200,548</u>	<u>(13,424,413)</u>	<u>15,522,541</u>
Deferred Inflow of Resources				
Property taxes	<u>913,010</u>	<u>-</u>	<u>-</u>	<u>913,010</u>
Total liabilities and deferred inflows of resources	<u>15,659,416</u>	<u>14,200,548</u>	<u>(13,424,413)</u>	<u>16,435,551</u>
Net Position				
Net investment in capital assets	841,082	(11,850,682)	11,634,047	624,447
Restricted - expendable	1,749,938	1,793,992	(1,749,938)	1,793,992
Unrestricted	<u>8,467,796</u>	<u>9,931,797</u>	<u>(9,884,109)</u>	<u>8,515,484</u>
Total net position	<u>11,058,816</u>	<u>(124,893)</u>	<u>-</u>	<u>10,933,923</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 26,718,232</u>	<u>\$ 14,075,655</u>	<u>\$ (13,424,413)</u>	<u>\$ 27,369,474</u>

East Phillips County Hospital District
d/b/a Melissa Memorial Hospital
Combining Statement of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2016

	<u>Hospital</u>	<u>MMHC</u>	<u>Eliminations</u>	<u>Total</u>
Operating Revenues				
Net patient service revenue	\$ 11,771,905	\$ -	\$ -	\$ 11,771,905
Other operating revenue	413,882	-	-	413,882
Loan service fees	-	188,312	(188,312)	-
Total revenues, gains, and other support	<u>12,185,787</u>	<u>188,312</u>	<u>(188,312)</u>	<u>12,185,787</u>
Operating Expenses				
Salaries and wages	5,030,672	-	-	5,030,672
Employee benefits	1,041,188	-	-	1,041,188
Supplies and other	2,274,721	75,884	(188,312)	2,162,293
Purchased services and professional fees	2,863,572	-	-	2,863,572
Depreciation	1,023,410	-	-	1,023,410
Total expenses	<u>12,233,563</u>	<u>75,884</u>	<u>(188,312)</u>	<u>12,121,135</u>
Operating Income (Loss)	<u>(47,776)</u>	<u>112,428</u>	<u>-</u>	<u>64,652</u>
Nonoperating Revenues (Expense)				
Property taxes	1,014,190	-	-	1,014,190
Interest income	9,422	497,661	(497,661)	9,422
Interest expense	(499,600)	(497,661)	497,661	(499,600)
Nonoperating revenues (expense), net	<u>524,012</u>	<u>-</u>	<u>-</u>	<u>524,012</u>
Revenues in Excess of Expenses	476,236	112,428	-	588,664
Capital Grants and Gifts	<u>624,332</u>	<u>-</u>	<u>-</u>	<u>624,332</u>
Increase in Net Position	1,100,568	112,428	-	1,212,996
Net Position, Beginning of the Year	<u>9,958,248</u>	<u>(237,321)</u>	<u>-</u>	<u>9,720,927</u>
Net Position, End of the Year	<u>\$ 11,058,816</u>	<u>\$ (124,893)</u>	<u>\$ -</u>	<u>\$ 10,933,923</u>

	<u>Hospital</u>	<u>MMHC</u>	<u>Eliminations</u>	<u>Total</u>
Current Assets				
Cash and cash equivalents	\$ 4,337,511	\$ -	\$ -	\$ 4,337,511
Restricted cash	-	40,460	-	40,460
Short-term investments	435,310	-	-	435,310
Receivables				
Patient, net of estimated uncollectibles of \$1,050,000	2,336,812	-	-	2,336,812
Property tax	958,250	-	-	958,250
Electronic health record and other	145,695	-	-	145,695
Note and interest receivable from District	-	525,862	(525,862)	-
Supplies	277,517	-	-	277,517
Prepaid expenses and other	241,741	42,858	-	284,599
Total current assets	<u>8,732,836</u>	<u>609,180</u>	<u>(525,862)</u>	<u>8,816,154</u>
Noncurrent Cash and Investments				
Internally designated for capital improvements	2,918,754	-	-	2,918,754
Restricted cash held for debt reserve	1,589,596	1,589,596	(1,589,596)	1,589,596
Total noncurrent cash and investments	<u>4,508,350</u>	<u>1,589,596</u>	<u>(1,589,596)</u>	<u>4,508,350</u>
Note Receivable from District, Net of Current Portion	<u>-</u>	<u>11,634,047</u>	<u>(11,634,047)</u>	<u>-</u>
Capital Assets				
Capital assets not being depreciated	1,919,088	-	-	1,919,088
Capital assets being depreciated, net	10,239,854	-	-	10,239,854
Capital assets, net	<u>12,158,942</u>	<u>-</u>	<u>-</u>	<u>12,158,942</u>
Total assets	25,400,128	13,832,823	(13,749,505)	25,483,446
Deferred Outflows of Resources				
Debt refunding costs	<u>-</u>	<u>584,836</u>	<u>-</u>	<u>584,836</u>
Total assets and deferred outflows of resources	<u>\$ 25,400,128</u>	<u>\$ 14,417,659</u>	<u>\$ (13,749,505)</u>	<u>\$ 26,068,282</u>

East Phillips County Hospital District
d/b/a Melissa Memorial Hospital
Combining Statement of Net Position
December 31, 2015

	<u>Hospital</u>	<u>MMHC</u>	<u>Eliminations</u>	<u>Total</u>
Current Liabilities				
Current maturities of long-term debt	\$ 483,753	\$ 587,753	\$ (483,753)	\$ 587,753
Accounts payable				
Trade	433,685	-	-	433,685
Estimated third-party payor settlements	209,926	-	-	209,926
Construction payables	907,942	-	-	907,942
Accrued expenses				
Salaries and wages	235,865	-	-	235,865
Vacation and employee benefits	318,619	-	-	318,619
Interest	42,109	42,109	(42,109)	42,109
Other	7,684	-	-	7,684
	<u>2,639,583</u>	<u>629,862</u>	<u>(525,862)</u>	<u>2,743,583</u>
Total current liabilities				
District Reserve for Debt Payments	-	1,589,596	(1,589,596)	-
Long-Term Debt, Less Current Maturities	<u>11,634,047</u>	<u>12,435,522</u>	<u>(11,634,047)</u>	<u>12,435,522</u>
Total liabilities	<u>14,273,630</u>	<u>14,654,980</u>	<u>(13,749,505)</u>	<u>15,179,105</u>
Deferred Inflows of Resources				
Electronic health records incentive payments	210,000	-	-	210,000
Property taxes	<u>958,250</u>	<u>-</u>	<u>-</u>	<u>958,250</u>
Total deferred inflows of resources	<u>1,168,250</u>	<u>-</u>	<u>-</u>	<u>1,168,250</u>
Total liabilities and deferred inflows of resources	<u>15,441,880</u>	<u>14,654,980</u>	<u>(13,749,505)</u>	<u>16,347,355</u>
Net Position				
Net investments in capital assets	(866,800)	(12,438,439)	12,117,800	(1,187,439)
Restricted - expendable	1,589,596	1,630,056	(1,589,596)	1,630,056
Unrestricted	<u>9,235,452</u>	<u>10,571,062</u>	<u>(10,528,204)</u>	<u>9,278,310</u>
Total net position	<u>9,958,248</u>	<u>(237,321)</u>	<u>-</u>	<u>9,720,927</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 25,400,128</u>	<u>\$ 14,417,659</u>	<u>\$ (13,749,505)</u>	<u>\$ 26,068,282</u>

East Phillips County Hospital District
d/b/a Melissa Memorial Hospital
Combining Statement of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2015

	<u>Hospital</u>	<u>MMHC</u>	<u>Eliminations</u>	<u>Total</u>
Operating Revenues				
Net patient service revenue	\$ 10,419,215	\$ -	\$ -	\$ 10,419,215
Other operating revenue	531,173	-	-	531,173
Loan service fees	-	192,615	(192,615)	-
Total revenues, gains, and other support	<u>10,950,388</u>	<u>192,615</u>	<u>(192,615)</u>	<u>10,950,388</u>
Operating Expenses				
Salaries and wages	4,636,233	-	-	4,636,233
Employee benefits	859,304	-	-	859,304
Supplies and other	2,104,930	85,566	(192,615)	1,997,881
Purchased services and professional fees	2,237,912	-	-	2,237,912
Depreciation	1,222,674	-	-	1,222,674
Total expenses	<u>11,061,053</u>	<u>85,566</u>	<u>(192,615)</u>	<u>10,954,004</u>
Operating Income (Loss)	<u>(110,665)</u>	<u>107,049</u>	<u>-</u>	<u>(3,616)</u>
Nonoperating Revenues (Expense)				
Property taxes	892,845	-	-	892,845
Interest income	8,752	518,492	(518,492)	8,752
Interest expense	(518,492)	(518,492)	518,492	(518,492)
Nonoperating revenues (expense), net	<u>383,105</u>	<u>-</u>	<u>-</u>	<u>383,105</u>
Revenues in Excess of Expenses	272,440	107,049	-	379,489
Capital Grants and Gifts	<u>16,572</u>	<u>-</u>	<u>-</u>	<u>16,572</u>
Increase in Net Position	289,012	107,049	-	396,061
Net Position, Beginning of Year	<u>9,669,236</u>	<u>(344,370)</u>	<u>-</u>	<u>9,324,866</u>
Net Position, End of the Year	<u>\$ 9,958,248</u>	<u>\$ (237,321)</u>	<u>\$ -</u>	<u>\$ 9,720,927</u>



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

The Board of Directors
East Phillips County District
d/b/a Melissa Memorial Hospital
Holyoke, Colorado

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of East Phillips County Hospital District d/b/a Melissa Memorial Hospital (Hospital), which comprise the statements of net position as of December 31, 2016, and the related statements of revenue, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 30, 2017.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented, or detected and corrected on a timely basis. We consider deficiencies 2016-A, 2016-B, and 2016-C in internal control, described in the accompanying schedule of findings and questioned costs, to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

The Hospital's Response to Findings

The Hospital's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The Hospital's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Fargo, North Dakota
May 30, 2017



Independent Auditor's Report on Compliance for Its Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

The Board of Directors
East Phillips County Hospital District
d/b/a Melissa Memorial Hospital
Holyoke, Colorado

Report on Compliance for Its Major Federal Program

We have audited East Phillips County Hospital District d/b/a Melissa Memorial Hospital's (Hospital) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Hospital's major federal program for the year ended December 31, 2016. The Hospital's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on the compliance for the Hospital's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the major federal program occurred. An audit includes examining, on a test basis, evidence about the Hospital's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Hospital's compliance.

Opinion on Its Major Federal Program

In our opinion, the Hospital complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2016.

Report on Internal Control over Compliance

Management of the Hospital is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Hospital's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Hospital as of and for the year ended December 31, 2016, and the related notes to the financial statements, and have issued our report thereon dated May 30, 2017, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.



Fargo, North Dakota
May 30, 2017

East Phillips County Hospital District
d/b/a Melissa Memorial Hospital

Schedule of Expenditures of Federal Awards and Notes to the Schedule of Expenditures of Federal Awards
Year Ended December 31, 2016

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Federal Expenditures
US Department of Housing and Urban Development Mortgage Insurance Hospitals 242 Loan	14.128	<u>\$ 12,117,800</u>

Note 1 – Basis of Presentation and Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of East Phillips County Hospital District d/b/a Melissa Memorial Hospital (Hospital) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

The purpose of the Schedule is to present a summary of those activities of the Hospital for the year ended December 31, 2016, which the United States government has financed. For the purpose of the Schedule, federal awards include all federal assistance entered into directly between the Hospital and the federal government and subawards from nonfederal organizations made under federally sponsored agreements, if any. The Schedule does not include payments received under Medicare and Medicaid reimbursement programs. Since the Schedule presents only a selected portion of the activities of the Hospital, it is not intended to, and does not present the financial position, results of operations, changes in net position, or cash flows of the Hospital.

Note 2 – Section 242 Mortgage Insurance – Hospitals

The Hospital's 4.17% mortgage note payable is guaranteed under the Department of Housing and Urban Development Section 242 Program. The balance included on the Schedule represents 97.42% of the notes payable balance as of January 1, 2016, plus any additional borrowings under the note payable agreements during fiscal year 2016. The balance of the guaranteed notes payable as of December 31, 2016 was \$11,634,047.

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	None Reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major program:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516:	No

Identification of major programs:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Mortgage Insurance Hospitals	14.128
Dollar threshold used to distinguish between type A and type B programs:	\$ 750,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

2016-A	Preparation of Financial Statements Material Weakness in Internal Control over Financial Reporting
<i>Criteria</i>	A properly designed system of internal control over financial reporting includes preparation of an entity’s financial statements and accompanying notes by internal personnel of the entity. Management is responsible for establishing and maintaining internal control over financial reporting and procedures related to the fair presentation of the financial statements, including the accompanying footnotes, in accordance with generally accepted accounting principles (GAAP).
<i>Condition</i>	The Hospital does not have an internal control system designed to provide for the preparation of financial statements and related footnotes being audited in accordance with generally accepted accounting principles. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.
<i>Cause</i>	This situation is partially due to the limited resources in the financial reporting process due to budgetary constraints.
<i>Effect</i>	The effect of this condition is that the year-end financial reporting is prepared by a party outside of the entity. The outside party does not have constant contact with the ongoing financial transactions that internal staff have. Furthermore, it is possible that new standards may not be adopted and applied timely to the interim financial statements. It is the responsibility of the Hospital’s management and those charged with governance to make a decision whether to accept the degree of risk associated with this condition because of cost or other considerations.
<i>Recommendation</i>	We recommend that management continue reviewing operating procedures in order to obtain the maximum internal control over financial reporting possible under the circumstances to enable staff to draft the financial statements internally.
<i>Views of Responsible Officials</i>	Management agrees with the finding.
2016-B	Segregation of Duties Material Weakness in Internal Control over Financial Reporting
<i>Criteria</i>	A good system of internal control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to completion.
<i>Condition</i>	The limited number of staff of the Hospital does not facilitate the segregation of duties necessary to achieve a low level of control risk.

<i>Cause</i>	The number of office personnel prevents a proper segregation of accounting functions necessary to assure optimal internal control.
<i>Effect</i>	Inadequate segregation of duties could adversely affect the Hospital's ability to detect and correct unintentional or intentional misstatements in amounts that would be material to the financial statements in a timely period by employees in the normal course of performing their assigned functions.
<i>Recommendation</i>	While we recognize that the Hospital's staff may not be large enough to permit complete segregation of duties in all respects for an effective system of internal accounting control, all accounting functions should be reviewed to determine if additional segregation is feasible and to improve the efficiency and effectiveness of the financial management of the Hospital.
<i>Views of Responsible Officials</i>	Management agrees with the finding.
2016-C	Material Audit Adjustments Material Weakness in Internal Control over Financial Reporting
<i>Criteria</i>	A good system of internal control involves reconciliation of accounts on a monthly basis, with review for accuracy and timeliness.
<i>Condition</i>	During the audit process, we proposed material adjustments to the financial statements. As a result, the audit process included preparation of entries. With inaccurate financial statements, it is difficult to make changes in the operations on a timely basis in response to financial performance and make appropriate decisions for the future.
<i>Cause</i>	A proper reconciliation between the Hospital's general ledger and subsidiary accounts was not performed resulting in material adjustments.
<i>Effect</i>	During the course of our engagement, we proposed material audit adjustments to the Hospital's recorded account balances, which, if not recorded, would have resulted in a material misstatement of the Hospital's financial statements. The need for these adjustments indicates that the Hospital's interim financial information is not materially correct, which may affect management decisions made during the course of the year.
<i>Recommendation</i>	We recommend that the accounts be reviewed concurrently with monthly close out procedures by printing monthly reports from the supporting modules and reconciling the balances with the general ledger. Any differences should be investigated and corrected on a timely basis. In addition to performing these reconciliations, an individual should be assigned to review the reconciliations on a monthly basis to ensure the accuracy and timeliness of the reconciliations.
<i>Views of Responsible Officials</i>	Management agrees with the finding.

Section III – Federal Award Findings and Questioned Costs

None reported