



Financial Statements  
December 31, 2017 and 2016

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



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May 22, 2018

East Phillips County Hospital District  
d/b/a Melissa Memorial Hospital  
Table of Contents  
December 31, 2017 and 2016

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Independent Auditor’s Report.....	1
Management Discussion and Analysis .....	3
Financial Statements	
Statements of Net Position .....	9
Statements of Revenues, Expenses, and Changes in Net Position .....	10
Statements of Cash Flows .....	11
Notes to Financial Statements .....	13
Supplementary and Combining Information	
Independent Auditor’s Report on Supplementary and Combining Information.....	32
Budgeted and Actual Revenues and Expenses.....	33
Combining Information	
Combining Statement of Net Position – December 31, 2017.....	34
Combining Statement of Revenues, Expenses and Changes in Net Position - Year Ended December 31, 2017.....	35
Combining Statement of Net Position – December 31, 2016.....	36
Combining Statement of Revenues, Expenses and Changes in Net Position - Year Ended December 31, 2016.....	37
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 <i>Government Auditing Standards</i> .....	38
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.....	40
Schedule of Expenditures of Federal Awards and Notes to the Schedule of Expenditures of Federal Awards .....	42
Schedule of Findings and Questioned Costs.....	43



## 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, 2017 and 2016, 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, 2017 and 2016, 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.

**Correction of an Error**

As discussed in Note 12 to the financial statements, an error resulting in the overstatement of deferred inflows of resources, interest expense, and net position as of January 1, 2016, was discovered during the current year. Accordingly, the 2016 financial statements have been corrected and adjustments made to decrease deferred inflows of resources, interest expense, and long-term debt. Our opinion is not modified with respect to this matter.

**Other Matters****Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 April 20, 2018 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's 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  
April 20, 2018

## Introduction

Our discussion and analysis of the financial performance for East Phillips County Hospital District d/b/a Melissa Memorial Hospital (District) and Melissa Memorial Hospital Corporation (MMHC) (collectively, the Hospital), provides an overview of the Hospital financial activities for the years ended December 31, 2017, 2016, and 2015. 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 District, 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 District and MMHC. MMHC was established to own the new hospital facility, incur indebtedness and lease such property back to the District. MMHC has no members (i.e. it is not owned by the District), but the District 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 District. 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 District.

During the term of the Site Lease, the Loan will be secured by a leasehold mortgage upon MMHC's leasehold interest in the Site. In the event of the District'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 District 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, it has been determined that MMHC is a component unit of the District and thus, MMHC's financial activities are being presented as a blended component unit with the financial activities of the District.

## Financial Highlights

- Cash, cash equivalents, and investments increased in 2017 by \$225,439 (3%) and decreased in 2016 by \$1,664,353 (18%)
- Net patient accounts receivable increased in 2017 by \$699,013 (34%) and decreased in 2016 by \$255,665 (11%)
- Net capital assets decreased in 2017 by \$697,458 (5%) and increased in 2016 by \$2,316,187 (19%).
- Long-term debt, including current maturities, decreased in 2017 by \$735,440 (5%) and increased in 2016 by \$1,414,970 (11%).
- Net position increased in 2017 and 2016 by \$58,883 (1%) and \$1,244,410 (12%).
- The Hospital reported an operating loss in 2017 of \$671,125 and an operating income in 2016 of \$64,652.
- Total operating revenues increased in 2017 and 2016 by \$1,448,278 (12%) and \$1,235,399 (11%).
- Operating expenses increased in 2017 and 2016 by \$2,184,055 (18%) and \$1,167,131 (11%).

## **Using This Annual Report**

The Hospital'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?"

**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 2017 and 2016 by \$58,883 (1%) and \$1,244,410 (12%) as shown below:

	<u>2017</u>	<u>2016</u> (Restated)	<u>2015</u> (Restated)
<b>Assets</b>			
Cash, cash equivalents and investments	\$ 7,882,717	\$ 7,657,278	\$ 9,321,631
Patient accounts receivable, net	2,780,160	2,081,147	2,336,812
Other current assets	1,792,203	2,602,498	1,666,061
Capital assets, net	<u>13,777,671</u>	<u>14,475,129</u>	<u>12,158,942</u>
Total assets	<u>\$ 26,232,751</u>	<u>\$ 26,816,052</u>	<u>\$ 25,483,446</u>
<b>Liabilities and Deferred Inflows of Resources</b>			
Current liabilities	\$ 1,893,720	\$ 1,816,821	\$ 2,743,583
Long-term debt, less current maturities	<u>12,952,333</u>	<u>13,705,720</u>	<u>12,435,522</u>
Total liabilities	14,846,053	15,522,541	15,179,105
Deferred Inflows of Resources	<u>947,314</u>	<u>913,010</u>	<u>1,168,250</u>
Total liabilities and deferred inflows of resources	<u>15,793,367</u>	<u>16,435,551</u>	<u>16,347,355</u>
<b>Net Position</b>			
Net investment in capital assets	109,007	71,025	(1,803,689)
Restricted, expendable	1,950,737	1,793,992	1,630,056
Unrestricted	<u>8,379,640</u>	<u>8,515,484</u>	<u>9,309,724</u>
Total net position	<u>10,439,384</u>	<u>10,380,501</u>	<u>9,136,091</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 26,232,751</u>	<u>\$ 26,816,052</u>	<u>\$ 25,483,446</u>

**Operating Results and Changes in the Hospital's Net Position**

Table 2: Operating Results and Changes in Net Position

	2017	2016 (Restated)	2015 (Restated)
Operating Revenues	\$ 13,634,065	\$ 12,185,787	\$ 10,950,388
Operating Expenses			
Salaries and wages and employee benefits	6,785,574	6,071,860	5,495,537
Purchased services and professional fees	3,264,333	2,863,572	2,237,912
Other operating expense	4,255,283	3,185,703	3,220,555
Total operating expenses	14,305,190	12,121,135	10,954,004
Operating Income (Loss)	(671,125)	64,652	(3,616)
Nonoperating Revenues (Expenses)			
Property taxes	1,053,588	1,014,190	892,845
Other	14,098	9,422	8,752
Interest expense	(464,511)	(468,186)	(487,078)
Nonoperating revenues (expenses), net	603,175	555,426	414,519
Revenue in Excess of (Less Than) Expenses	(67,950)	620,078	410,903
Capital Gifts	126,833	624,332	16,572
Increase in Net Position	\$ 58,883	\$ 1,244,410	\$ 427,475

**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 loss in 2017 of \$671,125 an operating income in 2016 of \$64,652, and an operating loss in 2015 of \$3,616.

The primary components of the operating loss in 2017 and operating gain in 2016 are as follows:

- There was an increase in net patient service revenue of \$1,646,970 (14%) from 2016. The increase in 2017 was the result of operating the retail pharmacy, which opened in December 2016, for the full year in 2017, increasing charges 11 percent in January, opening the optometry clinic and retail optical store in May, and an increase in the number of joint replacement surgeries. Net patient service revenue increased from 2015 by \$1,352,690 (3%) due to the Hospital experiencing an increased number of denials on payments due to documentation practices during 2015. In 2016, these documentation practices were corrected.

- Salaries, wages, and employee benefits increased by \$713,714 (12%) in 2017. 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 2016, salaries, wages, and employee benefits increased by \$576,323 (10%). This increase was due to inflationary pressures and requirements to provide greater health insurance coverage.
- Purchased services and professional fees increased by \$400,761 (14%) in 2017. 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 2017. Purchased services and professional fees increased by \$625,660 (28%) in 2016. 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 increased by \$1,069,580 (33%) in 2017 and by \$34,852 (1%) in 2016. A majority of the 2017 increase is due to a full year of operating the outpatient retail pharmacy that opened in December 2016, and the opening of the optometrist clinic and retail optical shop in May 2017. \$657,862 (62%) of the \$1,069,580 increase in 2017 was pharmaceutical expense in the outpatient retail pharmacy.

### **Non-Operating Revenues and Expenses**

Non-operating revenues and expenses consist primarily of property taxes levied by the Hospital, interest expense, and investment income. Mill levy and specific ownership tax receipts generated \$1,053,588 in 2017, an increase of \$39,398 or approximately 4%, and \$1,014,190 in 2016, an increase of \$121,345 or 14%. The increases were due to an increase in the assessed valuation of property in the District.

Interest expense decreased \$3,675 (1%) from \$468,186 in 2016 to \$464,511 in 2017. Interest expense decreased \$18,892 (4%) from \$487,078 in 2015 to \$468,186 in 2016.

### **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 2017, 2016, and 2015, the Hospital had \$13,777,671; \$14,475,129; and \$12,158,942 invested in capital assets, net of accumulated depreciation. During 2017, the Hospital purchased new capital assets in the amount of \$427,195. Capital assets in the amount of \$4,273,463 and \$1,050,523 were purchased in 2016 and 2015. The significant purchases in 2016 and 2015 related to facility renovations, including the expansion of the clinic and ancillary living quarters.

### **Debt**

During 2016, the Hospital incurred additional debt in the amount of \$2,000,000 to help finance facility renovations. Principal payments on long-term debt totaled \$703,650 and \$587,757 for the years ended December 31, 2017 and 2016 and interest payments on these debt amounts was \$497,168 and \$501,281 during the years ended December 31, 2017 and 2016. As of December 31, 2017, 2016, and 2015, the balance of long-term indebtedness was \$13,668,664, \$14,404,104, and \$13,023,275.

### **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>2017</u>	<u>2016</u> (Restated)
Assets		
Current Assets		
Cash and cash equivalents	\$ 3,876,116	\$ 3,810,727
Restricted cash	39,483	44,054
Short-term investments	51,266	51,966
Receivables		
Patient, net of estimated uncollectibles of \$579,400 in 2017 and \$742,000 in 2016	2,780,160	2,081,147
Estimated third-party payor settlements	42,000	785,000
Property tax	947,314	913,010
Other	32,612	138,080
Supplies	569,828	383,621
Prepaid expenses and other	200,449	382,787
Total current assets	<u>8,539,228</u>	<u>8,590,392</u>
Noncurrent Cash and Investments		
Internally designated for capital improvements	2,004,598	2,000,593
Restricted cash held for debt reserve	1,911,254	1,749,938
Total noncurrent cash and investments	<u>3,915,852</u>	<u>3,750,531</u>
Capital Assets		
Capital assets not being depreciated	266,021	276,848
Capital assets being depreciated, net	13,511,650	14,198,281
Capital assets, net	<u>13,777,671</u>	<u>14,475,129</u>
Total assets	<u>\$ 26,232,751</u>	<u>\$ 26,816,052</u>

See Notes to Financial Statements

East Phillips County Hospital District  
d/b/a Melissa Memorial Hospital  
Statements of Net Position  
December 31, 2017 and 2016

	2017	2016 (Restated)
<b>Liabilities, Deferred Inflows of Resources, and Net Position</b>		
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 716,331	\$ 698,384
Accounts payable	575,283	348,452
Accrued expenses		
Salaries and wages	171,203	253,833
Vacation and employee benefits	372,692	459,258
Interest	39,561	40,428
Other	18,650	16,466
<b>Total current liabilities</b>	<b>1,893,720</b>	<b>1,816,821</b>
<b>Long-Term Debt, Less Current Maturities</b>	<b>12,952,333</b>	<b>13,705,720</b>
<b>Total liabilities</b>	<b>14,846,053</b>	<b>15,522,541</b>
<b>Deferred Inflows of Resources - Property Taxes</b>	<b>947,314</b>	<b>913,010</b>
<b>Total liabilities and deferred inflows of resources</b>	<b>15,793,367</b>	<b>16,435,551</b>
<b>Net Position</b>		
Net investment in capital assets	109,007	71,025
Restricted - expendable	1,950,737	1,793,992
Unrestricted	8,379,640	8,515,484
<b>Total net position</b>	<b>10,439,384</b>	<b>10,380,501</b>
<b>Total liabilities, deferred inflows of resources, and net position</b>	<b>\$ 26,232,751</b>	<b>\$ 26,816,052</b>

East Phillips County Hospital District  
d/b/a Melissa Memorial Hospital  
Statements of Revenues, Expenses, and Changes in Net Position  
Years Ended December 31, 2017 and 2016

	2017	2016 (Restated)
Operating Revenues		
Net patient service revenue, net of provision for bad debts of \$1,116,775 in 2017 and \$936,912 in 2016	\$ 13,418,875	\$ 11,771,905
Other operating revenue	215,190	413,882
Total operating revenues	13,634,065	12,185,787
Operating Expenses		
Salaries and wages	5,637,880	5,030,672
Employee benefits	1,147,694	1,041,188
Supplies and other	3,131,224	2,162,293
Purchased services and professional fees	3,264,333	2,863,572
Depreciation	1,124,059	1,023,410
Total operating expenses	14,305,190	12,121,135
Operating Income (Loss)	(671,125)	64,652
Nonoperating Revenues (Expense)		
Property taxes	1,053,588	1,014,190
Interest income	14,098	9,422
Interest expense	(464,511)	(468,186)
Nonoperating revenues (expense), net	603,175	555,426
Revenues in Excess of (Less Than) Expenses	(67,950)	620,078
Capital Grants and Gifts	126,833	624,332
Increase in Net Position	58,883	1,244,410
Net Position, Beginning of Year	10,380,501	9,136,091
Net Position, End of Year	\$ 10,439,384	\$ 10,380,501

East Phillips County Hospital District  
d/b/a Melissa Memorial Hospital  
Statements of Cash Flows  
Years Ended December 31, 2017 and 2016

	2017	2016
Operating Activities		
Receipts from and on behalf of patients	\$ 13,462,862	\$ 11,032,644
Payments to employees and for employee benefits	(6,954,770)	(5,913,253)
Payments to suppliers and contractors	(6,170,411)	(5,306,608)
Other receipts	272,369	237,421
	610,050	50,204
Net Cash From Operating Activities		
Noncapital Financing Activity		
Property taxes supporting operations	1,053,588	1,014,190
Capital and Related Financing Activities		
Purchase and construction of capital assets	(427,195)	(4,273,463)
Repayment of long-term debt	(703,650)	(587,757)
Interest paid on long-term debt	(497,168)	(501,281)
Capital grants and gifts to purchase capital assets	126,833	624,332
Proceeds from sale of capital assets	48,883	-
Proceeds from issuance of long-term debt	-	2,000,000
	(1,452,297)	(2,738,169)
Net Cash Used For Capital and Related Financing Activities		
Investing Activities		
Sales of short-term investments	700	383,344
Investment income	14,098	9,422
	14,798	392,766
Net Cash From Investing Activities		
Net Increase (Decrease) in Cash and Cash Equivalents	226,139	(1,281,009)
Cash and Cash Equivalents, Beginning of Year	7,605,312	8,886,321
Cash and Cash Equivalents, End of Year	\$ 7,831,451	\$ 7,605,312
Reconciliation of Cash to the Statements of Net Position		
Cash and cash equivalents	\$ 3,876,116	\$ 3,810,727
Restricted cash	39,483	44,054
Internally designated for capital improvements	2,004,598	2,000,593
Restricted cash held for debt reserve	1,911,254	1,749,938
	\$ 7,831,451	\$ 7,605,312

East Phillips County Hospital District  
d/b/a Melissa Memorial Hospital  
Statements of Cash Flows  
Years Ended December 31, 2017 and 2016

	2017	2016
Reconciliation of Operating Income (Loss)		
to Net Cash From Operating Activities		
Operating income (loss)	\$ (671,125)	\$ 64,652
Adjustments to reconcile operating income (loss)		
to net cash from operating activities		
Depreciation	1,124,059	1,023,410
Provision for bad debts	1,116,775	936,912
Loss (gain) on disposal of capital assets	(48,289)	25,924
Changes in assets and liabilities		
Patient receivables	(1,815,788)	(681,247)
Estimated third-party payor settlements	743,000	(994,926)
Other receivables	105,468	7,615
Supplies	(186,207)	(106,104)
Prepaid expenses and other	182,338	(98,188)
Accounts payable and accrued expenses	59,819	82,156
Deferred inflows of resources - EHR	-	(210,000)
	\$ 610,050	\$ 50,204

## **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, Colorado. 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 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 (less than) 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.

**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 accompanying 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 for the year ended December 31, 2016 by amortizing the deferred inflows of resources into other revenue. There was no revenue recognized for the year ended December 31, 2017.

### **Deferred Inflows of Resources**

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

### **Operating Revenues and Expenses**

The Hospital's 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 \$44,000 and \$55,000 for the years ended December 31, 2017 and 2016, 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 \$196,000 and \$169,000 in provider fees for the years ended December 31, 2017 and 2016, which are recorded in operating expenses. The Hospital recorded approximately \$924,000 and \$944,000 of supplemental payments for the years ended December 31, 2017 and 2016, 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 redistribution payments of approximately \$65,000 and \$23,000 for the years ended December 31, 2017 and 2016, which is recorded in operating expenses.

### **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 (less than) 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, 2015. Clinical services are paid on a cost basis or fixed fee schedule.

**Medicaid.** Inpatient services and outpatient services after November 1, 2016 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 prior to November 1, 2016 related to Medicaid beneficiaries are paid at interim rates based on Medicaid cost-to-charge ratio. Retrospective settlements based on audited cost-to-charge ratios are made periodically. The Hospital’s Medicaid cost reports have been settled by the Medicaid program through December 31, 2015.

**Blue Cross and Commercial Payors.** Inpatient services rendered to Blue Cross subscribers are paid at prospectively determined rates per discharge. Outpatient services are reimbursed at charges less a prospectively determined discount. The prospectively determined discount is not subject to retroactive adjustment.

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, 2017 and 2016:

	2017	2016
Medicare	52%	46%
Medicaid	14%	16%
Blue Cross and other commercial payors	32%	36%
Self pay and other	2%	2%
	100%	100%

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The net patient service revenue for the year ended December 31, 2017 decreased by approximately \$216,000 and increased by approximately \$368,000 for the year ended December 31, 2016 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.

**Note 3 - Deposits**

The carrying amounts of deposits as of December 31, 2017 and 2016 are as follows:

	2017	2016
Carrying amount		
Deposits in banks	\$ 7,831,451	\$ 7,605,312
Certificate of deposit	51,266	51,966
	\$ 7,882,717	\$ 7,657,278
Included in the following statement of net position captions		
Cash and cash equivalents	\$ 3,876,116	\$ 3,810,727
Restricted cash	39,483	44,054
Short-term investments	51,266	51,966
Internally designated for capital improvements	2,004,598	2,000,593
Restricted cash held for debt reserve	1,911,254	1,749,938
	\$ 7,882,717	\$ 7,657,278

**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, 2017 and 2016 were entirely covered by federal depository insurance or by PDPA.

**Interest Income**

Interest income consists of interest earned on deposits and certificate of deposits of \$14,098 and \$9,422 for the years ended December 31, 2017 and 2016.

East Phillips County Hospital District  
d/b/a Melissa Memorial Hospital  
Notes to Financial Statements  
December 31, 2017 and 2016

**Note 4 - Capital Assets**

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

	December 31, 2016	Additions	Retirements/ transfers	December 31, 2017
Capital assets not being depreciated				
Land	\$ 276,848	\$ -	\$ (10,827)	\$ 266,021
Capital assets being depreciated				
Land and improvements	\$ 1,106,131	\$ -	\$ -	\$ 1,106,131
Buildings	17,292,429	-	(100,842)	17,191,587
Fixed equipment	1,155,557	358,502	-	1,514,059
Major movable equipment	4,543,310	68,693	-	4,612,003
Total capital assets being depreciated	24,097,427	\$ 427,195	\$ (100,842)	24,423,780
Less accumulated depreciation for				
Land improvements	804,274	\$ 47,007	\$ -	851,281
Buildings	4,759,732	713,178	(111,075)	5,361,835
Fixed equipment	526,593	107,127	-	633,720
Movable equipment	3,808,547	256,747	-	4,065,294
Total accumulated depreciation	9,899,146	\$ 1,124,059	\$ (111,075)	10,912,130
Net capital assets being depreciated	\$ 14,198,281			\$ 13,511,650
Capital assets, net	\$ 14,475,129			\$ 13,777,671

East Phillips County Hospital District  
d/b/a Melissa Memorial Hospital  
Notes to Financial Statements  
December 31, 2017 and 2016

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	\$ 1,919,088	\$ 2,962,716	\$ (4,604,956)	\$ 276,848
Capital assets being depreciated				
Land 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	19,142,618	\$ 402,805	\$ 4,552,004	24,097,427
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	8,902,764	\$ 1,023,410	\$ (27,028)	9,899,146
Net capital assets being depreciated	\$ 10,239,854			\$ 14,198,281
Capital assets, net	\$ 12,158,942			\$ 14,475,129

**Note 5 - Operating Leases**

The Hospital has entered into certain noncancelable operating leases for equipment expiring in various years through 2022. Future minimum lease payments are as follows:

Years Ending December 31,	Operating Leases
2018	\$ 136,635
2019	178,633
2020	208,633
2021	209,080
2022	209,169
Total minimum lease payments	\$ 942,150

Total lease expense was \$180,297 and \$167,162 for the years ended December 31, 2017 and 2016.

**Note 6 - Long-Term Debt**

A schedule of changes in the Hospital's long-term debt for December 31, 2017 and 2016 is as follows:

	Balance December 31, 2016	Additions	Payments	Balance December 31, 2017	Due within One Year
Red Mortgage Capital, LLC (1)	\$ 11,634,047	\$ -	\$ 504,315	\$ 11,129,732	\$ 527,579
Original issue premium (1)	553,422	-	31,790	521,632	-
Highline Electric Assoc. (2)	216,635	-	104,004	112,631	104,004
First Pioneer National Bank (3)	2,000,000	-	95,331	1,904,669	84,748
<b>Total long-term debt</b>	<b>\$ 14,404,104</b>	<b>\$ -</b>	<b>\$ 735,440</b>	<b>\$ 13,668,664</b>	<b>\$ 716,331</b>

  

	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
Original issue premium (1)	584,836	-	31,414	553,422	-
Highline Electric Assoc. (2)	320,639	-	104,004	216,635	104,004
First Pioneer National Bank (3)	-	2,000,000	-	2,000,000	90,065
<b>Total long-term debt</b>	<b>\$ 13,023,275</b>	<b>\$ 2,000,000</b>	<b>\$ 619,171</b>	<b>\$ 14,404,104</b>	<b>\$ 698,384</b>

The terms and due dates of the Hospital's long-term debt, at December 31, 2017 and 2016 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 Red Mortgage Capital, LLC mortgage. The premium is being amortized over the life of the loan using the effective interest method. Amortization is included with interest expense.

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 – note payable made 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 administrative fee is included in interest expense.

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. The interest rate on this note payable will reset when the Savings Rate is adjusted by First Pioneer National Bank. As of December 31, 2017, 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>
2018	\$ 716,331	\$ 473,855
2019	649,392	449,632
2020	664,947	425,364
2021	690,222	400,089
2022	716,492	373,819
2023-2027	4,016,122	1,130,466
2028-2032	4,856,762	594,615
2033-2036	836,764	13,114
	<u>13,147,032</u>	<u>\$ 3,860,954</u>
Original issue premium	521,632	
Total	<u>\$ 13,668,664</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, 2017 and 2016 was \$122,681 and \$108,791.

**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, 2017 and 2016 was as follows:

	2017	2016
Medicare	36%	28%
Medicaid	16%	9%
Blue Cross Blue Shield	9%	10%
Other third-party payors	18%	25%
Patients	21%	28%
	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 supporting health care. The Foundation made contributions to the Hospital of \$64,181 and \$79,848 during the years ended December 31, 2017 and 2016.

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, are 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, 2017.

Statement of net position as of December 31, 2017:

	Hospital	MMHC	Eliminations	Total
<b>Assets</b>				
Current assets	\$ 8,457,551	\$ 648,817	\$ (567,140)	\$ 8,539,228
Noncurrent cash and investments	3,915,852	1,911,254	(1,911,254)	3,915,852
Capital assets, net	13,777,671	-	-	13,777,671
Other noncurrent assets	-	10,602,153	(10,602,153)	-
Total assets	<u>\$ 26,151,074</u>	<u>\$ 13,162,224</u>	<u>\$ (13,080,547)</u>	<u>\$ 26,232,751</u>
<b>Liabilities, deferred inflows of resources, and net position</b>				
<b>Liabilities</b>				
Current liabilities	\$ 1,789,716	\$ 671,144	\$ (567,140)	\$ 1,893,720
Long-term debt, less current maturities	12,422,074	11,132,412	(10,602,153)	12,952,333
Other long-term liabilities	-	1,911,254	(1,911,254)	-
Total liabilities	<u>14,211,790</u>	<u>13,714,810</u>	<u>(13,080,547)</u>	<u>14,846,053</u>
Deferred inflows of resources	<u>947,314</u>	<u>-</u>	<u>-</u>	<u>947,314</u>
<b>Net position</b>				
Net investment in capital assets	743,270	(11,763,995)	11,129,732	109,007
Restricted, expendable	1,911,254	1,950,737	(1,911,254)	1,950,737
Unrestricted	8,337,446	9,260,672	(9,218,478)	8,379,640
Total net position	<u>10,991,970</u>	<u>(552,586)</u>	<u>-</u>	<u>10,439,384</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 26,151,074</u>	<u>\$ 13,162,224</u>	<u>\$ (13,080,547)</u>	<u>\$ 26,232,751</u>

East Phillips County Hospital District  
d/b/a Melissa Memorial Hospital  
Notes to Financial Statements  
December 31, 2017 and 2016

Operating results and changes in net position for the year ended December 31, 2017:

	Hospital	MMHC	Eliminations	Total
Operating revenues				
Net patient service revenue	\$ 13,418,875	\$ -	\$ -	\$ 13,418,875
Other operating revenues	215,190	172,853	(172,853)	215,190
Total operating revenues	<u>13,634,065</u>	<u>172,853</u>	<u>(172,853)</u>	<u>13,634,065</u>
Operating expenses				
Depreciation	1,124,059	-	-	1,124,059
Other operating expenses	13,274,751	79,233	(172,853)	13,181,131
Total operating expenses	<u>14,398,810</u>	<u>79,233</u>	<u>(172,853)</u>	<u>14,305,190</u>
Operating income (loss)	(764,745)	93,620	-	(671,125)
Nonoperating revenues (expenses), net	571,066	32,109	-	603,175
Revenue in excess of (less than) expenses	(193,679)	125,729	-	(67,950)
Capital grants and gifts	126,833	-	-	126,833
Increase in net position	(66,846)	125,729	-	58,883
Net position, beginning of year	11,058,816	(678,315)	-	10,380,501
Net position, end of year	<u>\$ 10,991,970</u>	<u>\$ (552,586)</u>	<u>\$ -</u>	<u>\$ 10,439,384</u>

Cash flows for the year ended December 31, 2017:

	Hospital	MMHC	Eliminations	Total
Net cash from (used for) operating activities	\$ (564,834)	\$ 99,114	\$ 1,075,770	\$ 610,050
Net cash from noncapital financing activities	1,053,588	-	-	1,053,588
Net cash used for capital and related financing activities	(272,842)	(103,685)	(1,075,770)	(1,452,297)
Net cash from investing activities	14,798	-	-	14,798
Net increase (decrease) in cash and cash equivalents	230,710	(4,571)	-	226,139
Cash and cash equivalents, beginning of year	7,561,258	44,054	-	7,605,312
Cash and cash equivalents, end of year	<u>\$ 7,791,968</u>	<u>\$ 39,483</u>	<u>\$ -</u>	<u>\$ 7,831,451</u>

East Phillips County Hospital District  
d/b/a Melissa Memorial Hospital  
Notes to Financial Statements  
December 31, 2017 and 2016

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, 2016.

Statement of net position as of December 31, 2016:

	Hospital	MMHC (Restated)	Eliminations	Total (Restated)
<b>Assets</b>				
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>
<b>Liabilities, deferred inflows of resources, and net position</b>				
<b>Liabilities</b>				
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	<u>913,010</u>	<u>-</u>	<u>-</u>	<u>913,010</u>
<b>Net Position</b>				
Net investment in capital assets	841,082	(12,404,104)	11,634,047	71,025
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>(678,315)</u>	<u>-</u>	<u>10,380,501</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 26,718,232</u>	<u>\$ 13,522,233</u>	<u>\$ (13,424,413)</u>	<u>\$ 26,816,052</u>

East Phillips County Hospital District  
d/b/a Melissa Memorial Hospital  
Notes to Financial Statements  
December 31, 2017 and 2016

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

	<u>Hospital</u>	<u>MMHC (Restated)</u>	<u>Eliminations</u>	<u>Total (Restated)</u>
Operating revenues				
Net patient service revenue	\$ 11,771,905	\$ -	\$ -	\$ 11,771,905
Other operating revenues	<u>413,882</u>	<u>188,312</u>	<u>(188,312)</u>	<u>413,882</u>
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	<u>11,210,153</u>	<u>75,884</u>	<u>(188,312)</u>	<u>11,097,725</u>
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	<u>524,012</u>	<u>31,414</u>	<u>-</u>	<u>555,426</u>
Revenue in excess of expenses	476,236	143,842	-	620,078
Capital grants and gifts	<u>624,332</u>	<u>-</u>	<u>-</u>	<u>624,332</u>
Increase in net position	1,100,568	143,842	-	1,244,410
Net position, beginning of year	<u>9,958,248</u>	<u>(822,157)</u>	<u>-</u>	<u>9,136,091</u>
Net position, end of year	<u>\$ 11,058,816</u>	<u>\$ (678,315)</u>	<u>\$ -</u>	<u>\$ 10,380,501</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)	449,418	(1,049,334)	(2,184,747)
Net cash from investing activities	<u>392,766</u>	<u>-</u>	<u>-</u>	<u>392,766</u>
Net increase (decrease) in cash and cash equivalents	(1,284,603)	557,016	-	(727,587)
Cash and cash equivalents, beginning of year	<u>8,845,861</u>	<u>40,460</u>	<u>-</u>	<u>8,886,321</u>
Cash and cash equivalents, end of year	<u>\$ 7,561,258</u>	<u>\$ 597,476</u>	<u>\$ -</u>	<u>\$ 8,158,734</u>

## Note 11 - Contingencies

### Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction 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.

### **Note 12 - Correction of Error**

MMHC discovered an error in the accounting for debt issuance costs reported in the previously issued December 31, 2016 financial statements. MMHC, as a controlled entity of the District, under Government Accounting Standards is required to report debt issuance costs as an expense in the period incurred. MMHC has corrected this error by restating the December 31, 2016 financial statements reducing the applicable deferred outflows of resources, interest expense and net position in the financial statements.

The following is a summary of the effects of the correction of an error in the Hospital's December 31, 2016 financial statements.

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

Notes to Financial Statements  
December 31, 2017 and 2016

	<u>As Previously Reported</u>	<u>Correction of an Error</u>	<u>As Restated</u>
Statement of Net Position			
As of December 31, 2016			
Debt refunding costs	\$ 553,422	\$ (553,422)	\$ -
Total assets	27,369,474	(553,422)	26,816,052
Net Position			
Net investment in capital assets	624,447	(553,422)	71,025
Total net position	10,933,923	(553,422)	10,380,501
Total liabilities, deferred inflows of resources, and net position	27,369,474	(553,422)	26,816,052
Statement of Revenues, Expenses, and Changes in Net Position			
Year Ended December 31, 2016			
Interest Expense	(499,600)	31,414	(468,186)
Nonoperating revenues (expense), net	524,012	31,414	555,426
Revenues in Excess of (Less Than) Expenses	588,664	31,414	620,078
Increase in net position	1,212,996	31,414	1,244,410
Net Position, Beginning of Year	9,720,927	(584,836)	9,136,091
Net Position, End of Year	10,933,923	(553,422)	10,380,501



Supplementary and Combining Information  
December 31, 2017 and 2016

**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, 2017 and 2016, and our report thereon dated April 20, 2018, 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 actual revenues and expenses on page 33 and combining information on pages 34 to 37 are 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 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 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  
April 20, 2018

East Phillips County Hospital District  
d/b/a Melissa Memorial Hospital  
Budgeted and Actual Revenues and Expenses  
Year Ended December 31, 2017

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	Actual	Budgeted	Favorable (Unfavorable) Variance
Operating Revenues			
Net patient service revenue	\$ 13,418,875	\$ 13,529,586	\$ (110,711)
Other	215,190	122,840	92,350
	13,634,065	13,652,426	(18,361)
Operating Expenses			
Salaries, wages, and employee benefits	6,785,574	7,343,646	558,072
Other	7,519,616	6,661,438	(858,178)
	14,305,190	14,005,084	(300,106)
Operating Loss	(671,125)	(352,658)	(318,467)
Nonoperating Revenues (Expenses) and Capital Grants and Gifts	730,008	513,651	216,357
Increase in Net Position	\$ 58,883	\$ 160,993	\$ (102,110)

**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, 2017, 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>
<b>Current Assets</b>				
Cash and cash equivalents	\$ 3,876,116	\$ -	\$ -	\$ 3,876,116
Restricted cash	-	39,483	-	39,483
Short-term investments	51,266	-	-	51,266
Receivables				
Patient, net of estimated uncollectibles of \$579,400	2,780,160	-	-	2,780,160
Estimated third-party payor settlements	42,000	-	-	42,000
Property tax	947,314	-	-	947,314
Other	31,204	1,408	-	32,612
Note and interest receivable from District	-	567,140	(567,140)	-
Supplies	569,828	-	-	569,828
Prepaid expenses and other	159,663	40,786	-	200,449
	<u>8,457,551</u>	<u>648,817</u>	<u>(567,140)</u>	<u>8,539,228</u>
<b>Noncurrent Cash and Investments</b>				
Internally designated for capital improvements	2,004,598	-	-	2,004,598
Restricted cash held for debt reserve	1,911,254	1,911,254	(1,911,254)	1,911,254
	<u>3,915,852</u>	<u>1,911,254</u>	<u>(1,911,254)</u>	<u>3,915,852</u>
Note Receivable from District, Net of Current Portion	<u>-</u>	<u>10,602,153</u>	<u>(10,602,153)</u>	<u>-</u>
<b>Capital Assets</b>				
Capital assets not being depreciated	266,021	-	-	266,021
Capital assets being depreciated, net	13,511,650	-	-	13,511,650
	<u>13,777,671</u>	<u>-</u>	<u>-</u>	<u>13,777,671</u>
Total assets	<u>\$ 26,151,074</u>	<u>\$ 13,162,224</u>	<u>\$ (13,080,547)</u>	<u>\$ 26,232,751</u>

East Phillips County Hospital District  
d/b/a Melissa Memorial Hospital  
Combining Statement of Net Position  
December 31, 2017

	<u>Hospital</u>	<u>MMHC</u>	<u>Eliminations</u>	<u>Total</u>
<b>Current Liabilities</b>				
Current maturities of long-term debt	\$ 612,327	\$ 631,583	\$ (527,579)	\$ 716,331
Accounts payable	575,283	-	-	575,283
Accrued expenses				
Salaries and wages	171,203	-	-	171,203
Vacation and employee benefits	372,692	-	-	372,692
Interest	39,561	39,561	(39,561)	39,561
Other	18,650	-	-	18,650
<b>Total current liabilities</b>	<b>1,789,716</b>	<b>671,144</b>	<b>(567,140)</b>	<b>1,893,720</b>
District Reserve for Debt Payments	-	1,911,254	(1,911,254)	-
Long-Term Debt, Less Current Maturities and Unamortized Debt Issuance Costs	<u>12,422,074</u>	<u>11,132,412</u>	<u>(10,602,153)</u>	<u>12,952,333</u>
<b>Total liabilities</b>	<b>14,211,790</b>	<b>13,714,810</b>	<b>(13,080,547)</b>	<b>14,846,053</b>
Deferred Inflow of Resources - Property Taxes	<u>947,314</u>	<u>-</u>	<u>-</u>	<u>947,314</u>
<b>Total liabilities and deferred inflows     of resources</b>	<b><u>15,159,104</u></b>	<b><u>13,714,810</u></b>	<b><u>(13,080,547)</u></b>	<b><u>15,793,367</u></b>
<b>Net Position</b>				
Net investment in capital assets	743,270	(11,763,995)	11,129,732	109,007
Restricted - expendable	1,911,254	1,950,737	(1,911,254)	1,950,737
Unrestricted	<u>8,337,446</u>	<u>9,260,672</u>	<u>(9,218,478)</u>	<u>8,379,640</u>
<b>Total net position</b>	<b><u>10,991,970</u></b>	<b><u>(552,586)</u></b>	<b><u>-</u></b>	<b><u>10,439,384</u></b>
<b>Total liabilities, deferred inflows     of resources, and net position</b>	<b><u>\$ 26,151,074</u></b>	<b><u>\$ 13,162,224</u></b>	<b><u>\$ (13,080,547)</u></b>	<b><u>\$ 26,232,751</u></b>

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, 2017

	<u>Hospital</u>	<u>MMHC</u>	<u>Eliminations</u>	<u>Total</u>
Operating Revenues				
Net patient service revenue	\$ 13,418,875	\$ -	\$ -	\$ 13,418,875
Other operating revenue	215,190	-	-	215,190
Loan service fees	-	172,853	(172,853)	-
Total revenues, gains, and other support	<u>13,634,065</u>	<u>172,853</u>	<u>(172,853)</u>	<u>13,634,065</u>
Operating Expenses				
Salaries and wages	5,637,880	-	-	5,637,880
Employee benefits	1,147,694	-	-	1,147,694
Supplies and other	3,224,844	79,233	(172,853)	3,131,224
Purchased services and professional fees	3,264,333	-	-	3,264,333
Depreciation	1,124,059	-	-	1,124,059
Total expenses	<u>14,398,810</u>	<u>79,233</u>	<u>(172,853)</u>	<u>14,305,190</u>
Operating Income (Loss)	<u>(764,745)</u>	<u>93,620</u>	<u>-</u>	<u>(671,125)</u>
Nonoperating Revenues (Expense)				
Property taxes	1,053,588	-	-	1,053,588
Interest income	14,098	478,243	(478,243)	14,098
Interest expense	(496,620)	(446,134)	478,243	(464,511)
Nonoperating revenues (expense), net	<u>571,066</u>	<u>32,109</u>	<u>-</u>	<u>603,175</u>
Revenues in Excess of (Less Than) Expenses	(193,679)	125,729	-	(67,950)
Capital Grants and Gifts	126,833	-	-	126,833
Increase in Net Position	(66,846)	125,729	-	58,883
Net Position, Beginning of the Year	<u>11,058,816</u>	<u>(678,315)</u>	<u>-</u>	<u>10,380,501</u>
Net Position, End of the Year	<u>\$ 10,991,970</u>	<u>\$ (552,586)</u>	<u>\$ -</u>	<u>\$ 10,439,384</u>

	<u>Hospital</u>	<u>MMHC (Restated)</u>	<u>Eliminations</u>	<u>Total (Restated)</u>
<b>Current Assets</b>				
Cash and cash equivalents	\$ 3,810,727	\$ -	\$ -	\$ 3,810,727
Restricted cash	-	44,054	-	44,054
Short-term investments	51,966	-	-	51,966
<b>Receivables</b>				
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
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
<b>Total current assets</b>	<u>8,492,572</u>	<u>642,563</u>	<u>(544,743)</u>	<u>8,590,392</u>
<b>Noncurrent Cash and Investments</b>				
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
<b>Total noncurrent cash and investments</b>	<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)	-
<b>Capital Assets</b>				
Capital assets not being depreciated	276,848	-	-	276,848
Capital assets being depreciated, net	14,198,281	-	-	14,198,281
<b>Capital assets, net</b>	<u>14,475,129</u>	<u>-</u>	<u>-</u>	<u>14,475,129</u>
<b>Total assets</b>	<u>\$ 26,718,232</u>	<u>\$ 13,522,233</u>	<u>\$ (13,424,413)</u>	<u>\$ 26,816,052</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 (Restated)</u>	<u>Eliminations</u>	<u>Total (Restated)</u>
<b>Current Liabilities</b>				
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
<b>Total current liabilities</b>	<b>1,706,739</b>	<b>654,825</b>	<b>(544,743)</b>	<b>1,816,821</b>
District Reserve for Debt Payments	-	1,749,938	(1,749,938)	-
Long-Term Debt, Less Current Maturities and Unamortized Debt Issuance Costs	<u>13,039,667</u>	<u>11,795,785</u>	<u>(11,129,732)</u>	<u>13,705,720</u>
<b>Total liabilities</b>	<b>14,746,406</b>	<b>14,200,548</b>	<b>(13,424,413)</b>	<b>15,522,541</b>
Deferred Inflows of Resources - Property Taxes	<u>913,010</u>	<u>-</u>	<u>-</u>	<u>913,010</u>
<b>Total liabilities and deferred inflows     of resources</b>	<b><u>15,659,416</u></b>	<b><u>14,200,548</u></b>	<b><u>(13,424,413)</u></b>	<b><u>16,435,551</u></b>
<b>Net Position</b>				
Net investments in capital assets	841,082	(12,404,104)	11,634,047	71,025
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>
<b>Total net position</b>	<b><u>11,058,816</u></b>	<b><u>(678,315)</u></b>	<b><u>-</u></b>	<b><u>10,380,501</u></b>
<b>Total liabilities, deferred inflows     of resources, and net position</b>	<b><u>\$ 26,718,232</u></b>	<b><u>\$ 13,522,233</u></b>	<b><u>\$ (13,424,413)</u></b>	<b><u>\$ 26,816,052</u></b>

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 (Restated)</u>	<u>Eliminations</u>	<u>Total (Restated)</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)	(466,247)	497,661	(468,186)
Nonoperating revenues (expense), net	<u>524,012</u>	<u>31,414</u>	<u>-</u>	<u>555,426</u>
Revenues in Excess of Expenses	476,236	143,842	-	620,078
Capital Grants and Gifts	624,332	-	-	624,332
Increase in Net Position	1,100,568	143,842	-	1,244,410
Net Position, Beginning of Year	<u>9,958,248</u>	<u>(822,157)</u>	<u>-</u>	<u>9,136,091</u>
Net Position, End of the Year	<u>\$ 11,058,816</u>	<u>\$ (678,315)</u>	<u>\$ -</u>	<u>\$ 10,380,501</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, 2017, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated April 20, 2018.

**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 and significant deficiencies.

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 2017-A and 2017-B 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. We consider deficiency 2017-C in the accompanying schedule of findings and questioned costs to be a significant deficiency.

### **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 black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota  
April 20, 2018



**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, 2017. 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, 2017.

### **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, 2017, and have issued our report thereon dated April 20, 2018, 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 on page 42 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  
April 20, 2018

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, 2017

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>\$ 11,634,047</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 the 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, 2017, 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.

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Subpart E – Cost Principles of the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Hospital’s summary of significant accounting policies is presented in Note 1 of the financial statements.

The Hospital has not elected to use the 10% de minimis cost rate.

**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 program guarantees 100% of the outstanding mortgage note payable balance. The balance included on the schedule of expenditure of federal awards represents 100% of the mortgage note payable balance of \$11,634,047 as of January 1, 2017, which is \$11,634,047. The outstanding balance at December 31, 2017 is \$11,129,732.

**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	Yes
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

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**Section II – Financial Statement Findings**

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**2017-A**

**Preparation of Financial Statements  
Material Weakness in Internal Control over Financial Reporting**

*Criteria*

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).

*Condition*

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, which includes a restatement due to the correction of an error.

*Cause*

This situation is due to the limited resources in the financial reporting process due to budgetary constraints.

*Effect*

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.

*Recommendation*

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.

*Views of Responsible  
Officials*

Management agrees with the finding.

**2017-B**

**Material Audit Adjustments  
Material Weakness in Internal Control over Financial Reporting**

*Criteria*

A good system of internal control involves reconciliation of accounts on a monthly basis, with review for accuracy and timeliness.

*Condition*

During the audit process, we proposed material adjustments to the financial statements. Accurate financial statements are essential to making 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.
<b>2017-C</b>	<b>Segregation of Duties Significant Deficiency in Internal Control over Financial Reporting</b>
<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.

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**Section III – Federal Award Findings and Questioned Costs**

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There were no findings or questioned costs relating to the major federal award program which were required to be reported in accordance with 2 CFR 200.516.