

**East Phillips County Hospital District
doing business as
Melissa Memorial Hospital**

Combined Basic Financial Statements and
Independent Auditors' Reports

December 31, 2018 and 2017



DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
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DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Directors
East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Holyoke, Colorado

Report on the Financial Statements

We have audited the accompanying combined financial statements of East Phillips County Hospital District doing business as Melissa Memorial Hospital (the District) as of and for the year ended December 31, 2018, and the related notes to the combined basic financial statements, which collectively comprise the District's combined basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2018, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior year (December 31, 2017) Auditors' Report

The combined financial statements of the District as of and for the year ended December 31, 2017, were audited by Eide Baily, LLP, and whose report dated April 20, 2018, expressed an unmodified opinion of those financial statements.

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the combined basic financial statements. Such missing information, although not a part of the combined 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 combined basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the combined basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the combined financial statements that collectively comprise the District's combined basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the combined basic financial statements. The schedule of actual and budgeted revenues and expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 18, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended December 31, 2018. Eide Bailly, LLP, issued a similar report for the year ended December 31, 2017, dated April 20, 2018, which has not been included with the 2018 financial and compliance report. The purpose of those reports is 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 District's internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
April 18, 2019

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Combined Statements of Net Position
December 31, 2018 and 2017

ASSETS	2018	2017
<i>Current assets</i>		
Cash and cash equivalents	\$ 4,778,903	\$ 3,881,421
Certificate of deposit	51,828	51,266
Receivables:		
Patient accounts	2,437,078	2,613,702
Estimated third-party payor settlements	61,000	326,471
Taxes	946,694	947,314
Other	282,934	195,267
Inventories	677,506	569,828
Prepaid expenses	327,101	200,449
Total current assets	9,563,044	8,785,718
<i>Noncurrent assets</i>		
Cash and cash equivalents restricted by debt agreement	4,022,007	3,953,335
Capital assets, net	13,218,619	13,777,671
Total noncurrent assets	17,240,626	17,731,006
Total assets	\$ 26,803,670	\$ 26,516,724

See accompanying notes to combined basic financial statements.

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Combined Statements of Net Position (Continued)
December 31, 2018 and 2017

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	2018	2017
<i>Current liabilities</i>		
Estimated third-party payor settlements	\$ 440,000	\$ 284,471
Current maturities of long-term debt	683,827	715,272
Accounts payable	654,257	581,735
Accrued compensation and related liabilities	616,001	555,593
Accrued interest	39,561	39,561
Total current liabilities	2,433,646	2,176,632
<i>Noncurrent liabilities</i>		
Long-term debt, less current maturities	12,400,515	12,953,392
Total liabilities	14,834,161	15,130,024
<i>Deferred inflows of resources, property taxes</i>	946,694	947,314
<i>Net position</i>		
Net investment in capital assets	94,716	69,446
Restricted for debt service	4,022,007	3,953,335
Unrestricted	6,906,092	6,416,605
Total net position	11,022,815	10,439,386
Total liabilities, deferred inflows of resources, and net position	\$ 26,803,670	\$ 26,516,724

See accompanying notes to combined basic financial statements.

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Combined Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2018 and 2017

	2018	2017
<i>Operating revenues</i>		
Net patient service revenue	\$ 16,185,143	\$ 13,418,877
Grants	163,586	61,554
Other	155,090	166,903
Total operating revenues	16,503,819	13,647,334
<i>Operating expenses</i>		
Salaries and wages	6,461,448	5,515,201
Employee benefits	1,268,362	1,190,338
Insurance	122,487	139,610
Professional fees	1,819,075	1,477,005
Purchased services	2,198,407	1,706,767
Provider tax fees	302,089	259,965
Supplies	2,169,882	1,790,594
Utilities	364,461	359,731
Repairs and maintenance	62,990	80,560
Rentals and leases	118,430	153,127
Depreciation and amortization	1,033,309	1,124,061
Other	626,250	508,229
Total operating expenses	16,547,190	14,305,188
<i>Operating loss</i>	(43,371)	(657,854)
<i>Nonoperating revenues (expenses)</i>		
Taxation for maintenance and operations	1,043,953	1,053,588
Contributions	43,015	65,279
Investment income	20,400	14,095
Interest expense	(480,568)	(464,513)
Gain on disposal of assets	-	48,289
Total nonoperating revenues, net	626,800	716,738
Change in net position	583,429	58,884
Net position, beginning of year	10,439,386	10,380,502
Net position, end of year	\$ 11,022,815	\$ 10,439,386

See accompanying notes to combined basic financial statements.

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Combined Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Cash received from and on behalf of patients	\$ 16,782,767	\$ 13,629,322
Cash received from other revenue	67,423	109,716
Cash received from grants	163,586	61,554
Cash paid to and on behalf of employees	(7,669,402)	(6,879,503)
Cash paid to suppliers and contractors	(7,945,879)	(6,246,173)
Net cash provided by operating activities	1,398,495	674,916
<i>Cash flows from noncapital financing activities</i>		
Cash received from taxation for maintenance and operations	1,043,953	1,053,588
Cash received from contributions and donations	43,015	65,279
Net cash provided by noncapital financing activities	1,086,968	1,118,867
<i>Cash flows from capital and related financing activities</i>		
Principal payments on long-term debt	(772,511)	(735,440)
Interest paid on long-term debt	(480,568)	(465,380)
Proceeds from sale of capital assets	-	48,289
Purchase of capital assets	(286,068)	(426,603)
Net cash used in capital and related financing activities	(1,539,147)	(1,579,134)
<i>Cash flows from investing activities, investment income</i>	19,838	14,795
Net increase in cash and cash equivalents	966,154	229,444
Cash and cash equivalents, beginning of year	7,834,756	7,605,312
Cash and cash equivalents, end of year	\$ 8,800,910	\$ 7,834,756

See accompanying notes to combined basic financial statements.

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Combined Statements of Cash Flows (Continued)
Years Ended December 31, 2018 and 2017

	2018	2017
<i>Reconciliation of Cash and Cash Equivalents to the Combined Statements of Net Position</i>		
Cash and cash equivalents	\$ 4,778,903	\$ 3,881,421
Cash and cash equivalents restricted by debt agreement	4,022,007	3,953,335
Total cash and cash equivalents	\$ 8,800,910	\$ 7,834,756
<i>Reconciliation of Operating Loss to Net Cash Provided by Operating Activities</i>		
Operating loss	\$ (43,371)	\$ (657,854)
<i>Adjustments to reconcile operating loss to net cash provided by operating activities</i>		
Depreciation and amortization	1,033,309	1,124,061
Provision for bad debts	686,443	638,234
Decrease (increase) in current assets:		
Receivables:		
Patient accounts, net	(509,819)	(1,170,789)
Estimated third-party payor settlements	265,471	458,529
Other	(87,667)	(57,187)
Inventories	(107,678)	(186,206)
Prepaid expenses	(126,652)	182,338
Increase (decrease) in liabilities:		
Accounts payable	72,522	233,283
Accrued compensation and related liabilities	60,408	(173,964)
Estimated third-party payor settlements	155,529	284,471
Net cash provided by operating activities	\$ 1,398,495	\$ 674,916

Noncash Investing, Capital, and Financing Activities

During the year ended December 31, 2018, the District entered into a capital lease obligation in the amount of \$188,189, to finance the purchase of a cardiac monitoring unit.

See accompanying notes to combined basic financial statements.

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Notes to Combined Basic Financial Statements
Years Ended December 31, 2018 and 2017

1. Reporting Entity and Summary of Significant Accounting Policies:

a. Reporting Entity

East Phillips County Hospital District (the District) doing business as Melissa Memorial Hospital (the Hospital), is a 15-bed critical access hospital and a rural health clinic. The District provides healthcare services to patients in the Holyoke, Colorado, area. The services provided include acute care, emergency room, physicians' clinics, and related ancillary procedures (laboratory, imaging, therapy, etc.).

The Hospital is governed by a five member Board of Directors who serve terms of four years.

As required by accounting principles generally accepted in the United States of America, the combined basic financial statements present the District—the primary government—and its component unit. The component unit discussed below is included in the District's reporting entity because of the significance of its operations and financial relationship with the District.

Melissa Memorial Hospital Corporation (MMHC) was created by the District 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 District and MMHC, collectively referred to as the District.

As an essential government function, the District is exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of the state law.

MMHC is organized as a Colorado nonprofit corporation and has been recognized by the Internal Revenue (IRS) as exempt from federal income taxes under Internal Revenue Code 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.

b. Summary of Significant Accounting Policies

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

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

Cash and cash equivalents – Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less. All cash receipts are deposited directly to the District's depository accounts at banks.

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

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

b. Summary of Significant Accounting Policies (continued)

Inventories – Inventories are stated at cost on the first-in, first-out method. Inventories consist of pharmaceutical, medical-surgical, and other supplies used in the operation of the District.

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

Accrued vacation – The District’s policy is to permit employees to accumulate earned but unused paid time off and holiday benefits up to a maximum range of 240 to 400 hours, depending on their years of service. The District recognizes an expense for vacation when it is earned.

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

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

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

Grants and contributions – From time to time, the District receives grants from the state of Colorado and others as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts restricted for capital acquisitions are reported after nonoperating revenues and expenses. Grants that are restricted for specific projects or purposes related to the District’s operating activities are reported as operating revenue. Grants that are used to subsidize operating deficits are reported as nonoperating revenue. Contributions, except for capital contributions, are reported as nonoperating revenue.

Reclassifications – Certain reclassifications have been made to the 2017 financial statements to conform to the classifications used in the 2018 financial statements, with no effect on previously reported change in net position.

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

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

b. Summary of Significant Accounting Policies (continued)

Subsequent events – Subsequent events have been reviewed through April 18, 2019 the date on which the financial statements were available to be issued.

Upcoming accounting standards pronouncements – In November 2016, the Governmental Accounting Standards Board (GASB) issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. Specifically, this statement requires a government entity with legal obligations to perform future asset retirement activities related to its tangible capital assets to recognize a liability based on the guidance in this statement. This statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. The determination of when a liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event obligating a government entity to perform asset retirement activities. This statement requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. The new guidance is effective for the District's year ending December 31, 2019. The District has not elected to implement this statement early; however, management is still evaluating the impact, if any, of this statement in the year of adoption.

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

In March 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowing and Direct Placements*, to improve the information that is disclosed in governmental entity financial statements related to debt, including direct borrowing and direct placements. It also clarifies which liabilities government entities should include when disclosing information related to debt. The statement defines debt and requires additional essential information related to debt to be disclosed in the notes to financial statements, including unused lines of credit, assets pledged as collateral for the debt, and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This statement also requires that existing and additional information be provided for direct borrowings and direct placement of debt separately from other debt. The new guidance is effective for the District's year ending December 31, 2019, although earlier application is encouraged. The District has not elected to implement this statement early; however, management is still evaluating the impact, if any, of this statement in the year of adoption.

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

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

b. Summary of Significant Accounting Policies (continued)

Upcoming accounting standards pronouncements (continued) – In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The statement is effective for reporting periods beginning after December 31, 2019. Management is currently evaluating the effect this statement will have on the financial statements and related disclosures.

2. Bank Deposits and Investments:

Custodial credit risk – Custodial credit risk is the risk that in the event of a depository institution failure, the District's deposits may not be returned.

Under Colorado State Statute, the Commercial Bank Code Public Deposit Protection Act of 1989 (PDPA) protects public funds held in bank deposit accounts in the event that the bank holding the public deposits becomes insolvent. As defined by the PDPA, deposit accounts include checking, savings, bank money market, and certificate of deposit accounts. Banks must deliver bank assets (usually securities) to a third-party institution, which are pledged to the Colorado Division of Banking, for all Colorado public depositors.

The District's deposits and certificates of deposit are entirely covered by the Federal Deposit Insurance Corporation or by deposits collateralized by securities not held in the District's name under the PDPA.

Credit risk – Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is typically measured by the assignment of a rating by a nationally recognized statistical rating organization.

Concentration of credit risk – The inability to recover the value of deposits, investments, or collateral securities in the possession of an outside party caused by a lack of diversification (investments acquired from a single issuer). The District does not have a policy limiting the amount it may invest in any one issuer or multiple issuers.

Interest rate risk – The possibility that an interest rate change could adversely affect an investment's fair value. The District does not have a policy specifically managing its exposure to fair value losses arising from changing interest rates.

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

3. Patient Accounts Receivable:

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

The District's allowance for uncollectible accounts for self-pay patients has increased from the prior year's due to an aging of receivables due from patients. The District does not maintain a material allowance for uncollectible accounts from third-party payors, nor did it have significant writeoffs from third-party payors.

Patient accounts receivable reported as current assets by the District consisted of the following amounts:

	2018	2017
Receivables from patients and their insurance carriers	\$ 2,223,585	\$ 1,696,589
Receivables from Medicare	927,319	1,136,760
Receivables from Medicaid	135,174	304,794
Total patient accounts receivable	3,286,078	3,138,143
Less allowance for uncollectible accounts	849,000	524,441
Patient accounts receivable, net	\$ 2,437,078	\$ 2,613,702

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

4. Property Taxes:

Property taxes are levied and assessed in December on property values assessed as of January 1 of the prior year. Taxes are due in two equal amounts by February 28 and June 15, or in one installment by April 30. The assessed property is subject to lien on the levy date. 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 becomes effective on the first day of the following year. No allowance for uncollectible taxes receivable is considered necessary at the statement of net position dates. A deferred inflow of resources and a receivable were recorded at December 31, 2018 and 2017, for taxes levied for 2019 and 2018, respectively.

For 2018 the District's regular tax levy was \$13.70 per \$1,000 on a total assessed valuation of \$69,147,020 for a total regular levy of \$947,314. For 2017 the District's regular tax levy was \$13.70 per \$1,000 on a total assessed valuation of \$66,643,091 for a total regular levy of \$913,010.

5. Capital Assets:

The District's capital assets are stated at cost. The District's policy is to capitalize all capital asset expenditures exceeding \$1,500. Expenditures for maintenance and repairs are charged to operations as incurred; betterments and major renewals are capitalized. When capital assets are disposed of, the related costs and accumulated depreciation and amortization are removed from the accounts, and the resulting gain or loss is classified in nonoperating revenue or expense. Donated items are recorded at fair value at the date of contribution.

Depreciation is recorded over the estimated useful life of each class of depreciable asset using the American Hospital Association's guidelines and is computed using the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. The estimated useful lives used by the District are as follows:

Land improvements	8 to 20 years
Buildings and improvements	5 to 25 years
Fixed equipment	3 to 20 years
Major movable equipment	3 to 25 years

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

5. Capital Assets (continued):

Capital asset additions, retirements, transfers, and balances were as follows:

	Balance December 31, 2017	Additions	Retirements	Transfers	Balance December 31, 2018
<i>Capital assets not being depreciated</i>					
Land	\$ 266,021	\$ -	\$ -	\$ -	\$ 266,021
<i>Capital assets being depreciated</i>					
Land improvements	1,106,131	16,388	-	-	1,122,519
Buildings and improvements	17,191,587	14,222	-	-	17,205,809
Fixed equipment	1,224,341	166,421	-	(1,184,370)	206,392
Major movable equipment	4,901,719	277,226	-	1,184,370	6,363,315
Total capital assets being depreciated	24,423,778	474,257	-	-	24,898,035
<i>Less accumulated depreciation for</i>					
Land improvements	(851,281)	(39,684)	-	-	(890,965)
Buildings and improvements	(5,361,834)	(667,020)	-	-	(6,028,854)
Fixed equipment	(606,231)	(56,642)	-	22,244	(640,629)
Major movable equipment	(4,092,782)	(269,963)	-	(22,244)	(4,384,989)
Total accumulated depreciation	(10,912,128)	(1,033,309)	-	-	(11,945,437)
<i>Total capital assets being depreciated, net</i>					
	13,511,650	(559,052)	-	-	12,952,598
Capital assets, net	\$ 13,777,671	\$ (559,052)	\$ -	\$ -	\$ 13,218,619

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

5. Capital Assets (continued):

	Balance December 31, 2016	Additions	Retirements	Transfers	Balance December 31, 2017
<i>Capital assets not being depreciated</i>					
Land	\$ 276,848	\$ -	(10,827)	\$ -	\$ 266,021
<i>Capital assets being depreciated</i>					
Land improvements	1,106,131	-	-	-	1,106,131
Buildings and improvements	17,292,429	-	(100,842)	-	17,191,587
Fixed equipment	1,155,557	358,502	-	(289,718)	1,224,341
Major movable equipment	4,543,310	68,691	-	289,718	4,901,719
Total capital assets being depreciated	24,097,427	427,193	(100,842)	-	24,423,778
<i>Less accumulated depreciation for</i>					
Land improvements	(804,274)	(47,007)	-	-	(851,281)
Buildings and improvements	(4,759,732)	(713,178)	111,079	-	(5,361,834)
Fixed equipment	(526,593)	(107,127)	-	27,489	(606,231)
Major movable equipment	(3,808,547)	(256,749)	-	(27,489)	(4,092,782)
Total accumulated depreciation	(9,899,146)	(1,124,061)	111,079	-	(10,912,128)
Total capital assets being depreciated, net	14,198,281	(696,868)	10,237	-	13,511,650
Capital assets, net	\$ 14,475,129	\$ (696,868)	\$ (590)	\$ -	\$ 13,777,671

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

6. Long-term Debt:

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

	Balance December 31, 2017			Balance December 31, 2018		
		Additions	Reductions			Amount Due Within One Year
Red Capital Mortgage	\$ 11,129,732	\$ -	\$ (526,154)	\$ 10,603,578	\$	548,100
Original issue premium	521,632	-	(32,337)	489,295		-
Highline Electric Association	112,631	-	(104,004)	8,627		8,627
First Pioneer National Bank 2015	1,904,669	-	(93,571)	1,811,098		92,666
Capital lease - Telemetry unit	-	188,189	(16,445)	171,744		34,434
Total long-term debt	\$ 13,668,664	\$ 188,189	\$ (772,511)	\$ 13,084,342	\$	683,827

	Balance December 31, 2016			Balance December 31, 2017		
		Additions	Reductions			Amount Due Within One Year
Red Capital Mortgage	\$ 11,634,047	\$ -	\$ (504,315)	\$ 11,129,732	\$	526,520
Original issue premium	553,422	-	(31,790)	521,632		-
Highline Electric Association	216,635	-	(104,004)	112,631		104,004
First Pioneer National Bank 2015	2,000,000	-	(95,331)	1,904,669		84,748
Total long-term debt	\$ 14,404,104	\$ -	\$ (735,440)	\$ 13,668,664	\$	715,272

The terms and due dates of the District's long-term debt are as follows:

Mortgage payable to Red Capital Mortgage, LLC (Red Capital) – The mortgage note payable carries an interest rate of 4.17 percent 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 Capital 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 District 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 District satisfy certain measures of financial performance as long as the mortgage note is outstanding.

Note payable to Highline Electric Association (HEA) – The 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.

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

6. Long-term Debt (continued):

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 Capital. 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 percent 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 Capital.

Note Payable to First Pioneer National Bank – This note payable carries a variable interest rate calculated as the sum of .80 percent plus the Savings Rate, but shall not exceed 9 percent. 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, 2018, the interest rate was 1 percent. 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.

On June 30, 2018, the District entered into a capital lease agreement with First Pioneer National Bank to acquire medical equipment. The agreement carries an interest rate of 5.75 percent and payments are due in monthly installments of \$3,617 through June 2023. At December 31, 2018, the capitalized cost and accumulated depreciation of the capital lease obligation was \$188,189 and \$3,316, respectively.

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

6. Long-term Debt (continued):

Aggregate annual principal and interest payments over the terms of long-term debt are as follows:

	Future Maturities of Long-term Debt		
	Principal	Interest	Total
2019	\$ 683,827	\$ 458,517	\$ 1,142,344
2020	701,392	432,325	1,133,717
2021	728,841	404,876	1,133,717
2022	757,392	376,326	1,133,718
2023	765,195	346,819	1,112,014
2024 - 2028	4,170,840	1,280,716	5,451,556
2029 - 2033	4,468,852	411,103	4,879,955
2034 - 2036	318,708	5,050	323,758
	\$ 12,595,047	\$ 3,715,732	\$ 16,310,779
Original issue premium	489,295		
Total	\$ 13,084,342		

The District's debt agreements contain covenants regarding certain financial statement amounts, ratios, and activities of the District.

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

7. Net Patient Service Revenue:

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

	2018	2017
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	\$ 8,026,141	\$ 7,001,162
Medicaid	1,061,276	539,043
Other third-party payors	4,782,739	4,496,093
Patients	502,035	242,334
Retail Pharmacy	1,489,915	912,627
Supplemental payments	1,079,849	923,896
	16,941,955	14,115,155
Less:		
Charity care	70,369	58,044
Provision for bad debts	686,443	638,234
Net patient service revenue	\$ 16,185,143	\$ 13,418,877

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

- *Medicare* – The District has been designated a critical access hospital by Medicare and is reimbursed for inpatient and outpatient services and rural health clinic visits on a cost basis as defined and limited by the Medicare program. Physician services outside the rural health clinic are paid on a fee schedule. The District is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare administrative contractor.

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

7. Net Patient Service Revenue (continued):

- *Medicaid* – Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Most outpatient services were paid on a cost basis through October 31, 2016, and subsequently on a prospective payment system. Rural health clinic visits are reimbursed on a cost basis. Physician services outside the rural health clinic are reimbursed on a fee schedule. The District is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by Medicaid.

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

Laws and regulations governing 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. Net patient service revenue decreased by approximately \$325,000 and \$240,000 in 2018 and 2017, respectively, due to differences between original estimates and final settlements or revised estimates.

The District provides charity care to patients who are financially unable to pay for the healthcare services they receive. The District's policy is not to pursue collection of amounts determined to qualify as charity care. Accordingly, the District does not report these amounts in net operating revenues or in the allowance for uncollectible accounts. The District determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including salaries and wages, benefits, supplies, and other operating expenses, based on data from its costing system. The costs of caring for charity care patients for the years ended December 31, 2018 and 2017, were approximately \$47,000 and \$45,000, respectively. The District did not receive any gifts or grants to subsidize charity services during 2018 and 2017.

8. Retirement Plan:

The District has a deferred compensation plan created in accordance with Internal Revenue Code Section 457. Under the plan employees become participants upon completing 90 days of service, and if working at least 1,000 hours per year. Employer contributions of 3 percent annual compensation are deposited with the plan trustee who invests the plan assets. Employer contributions were approximately \$145,000 and \$123,000 for 2018 and 2017, respectively. Employee contributions to the plan were approximately \$249,000 and \$250,000 for 2018 and 2017, respectively. Forfeitures were not material in 2018 and 2017. The District has the authority to amend the plan.

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

9. Risk Management and Contingencies:

Medical malpractice claims – The District has professional liability insurance coverage with COPIC Insurance Company. The policy provides protection on a “claims-made” basis whereby claims filed in the current year are covered by the current policy. If there are occurrences in the current year that are not claimed until future years, these will only be covered in the year the claim is filed if claims-made coverage is obtained in that year or if the District purchases insurance to cover prior acts. The current professional liability insurance provides \$1,000,000 per claim of primary coverage with an annual aggregate limit of \$3,000,000. The District does not have a deductible.

Risk management – The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters.

Industry regulations – The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditations, and government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity continues with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the District is in compliance with fraud and abuse statutes, as well as other applicable government laws and regulations.

While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

Taxpayer’s bill of rights – Colorado voters passed an amendment to the State Constitution, Article X, Section 20, which has several limitations including revenue raising, spending abilities, and other specific requirements of state and local governments. The amendment is complex and subject to judicial interpretation. The District believes it is in compliance with the requirements of the amendment. However, the District has made certain interpretations of the amendment’s language in order to determine its compliance.

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

10. Concentrations of Risk:

Patient accounts receivable – The District grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The majority of these patients are geographically concentrated in and around East Phillips County.

The mix of receivables from patients was as follows:

	2018	2017
Medicare	36 %	36 %
Medicaid	17	9
Other third-party payors	29	31
Patients	18	24
	100 %	100 %

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

11. Budget and Actual Revenues and Expenses:

The District overspent the approved budget by \$188,333 in 2018.

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

12. Blended Component Unit:

The combining statement of net position for the year ended December 31, 2018, is as follows:

	Melissa Memorial Hospital	Melissa Memorial Hospital Corporation	Eliminations	Totals
ASSETS				
<i>Current assets</i>				
Cash and cash equivalents	\$ 4,751,904	\$ 26,999	\$ -	\$ 4,778,903
Certificate of deposit	51,828	-	-	51,828
Receivables:				
Patient accounts	2,437,078	-	-	2,437,078
Estimated third-party payor settlements	61,000	-	-	61,000
Taxes	946,694	-	-	946,694
Other	281,442	1,492	-	282,934
Due from the District	-	10,603,980	(10,603,980)	-
Inventories	677,506	-	-	677,506
Prepaid expenses	285,780	41,321	-	327,101
Total current assets	9,493,232	10,673,792	(10,603,980)	9,563,044
<i>Noncurrent assets</i>				
Cash and cash equivalents restricted by debt agreement	3,986,437	35,570	-	4,022,007
Capital assets, net	13,218,619	-	-	13,218,619
Total noncurrent assets	17,205,056	35,570	-	17,240,626
Total assets	\$ 26,698,288	\$ 10,709,362	\$ (10,603,980)	\$ 26,803,670
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION				
<i>Current liabilities</i>				
Current maturities of long-term debt	\$ 127,100	\$ 556,727	\$ -	\$ 683,827
Accounts payable	654,257	-	-	654,257
Accrued compensation and related liabilities	616,001	-	-	616,001
Accrued interest	39,561	-	-	39,561
Estimated third-party payor settlements	440,000	-	-	440,000
Due to Melissa Memorial Corporation	10,603,980	-	(10,603,980)	-
Total current liabilities	12,480,899	556,727	(10,603,980)	2,433,646
<i>Noncurrent liabilities</i>				
Long-term debt, less current maturities	1,855,742	10,544,773	-	12,400,515
Total liabilities	14,336,641	11,101,500	(10,603,980)	14,834,161
<i>Deferred inflows of resources, property taxes</i>	946,694	-	-	946,694
<i>Net position</i>				
Net investment in capital assets	11,196,216	(11,101,500)	-	94,716
Restricted for debt service	3,986,437	35,570	-	4,022,007
Unrestricted	(3,767,700)	10,673,792	-	6,906,092
Total net position	11,414,953	(392,138)	-	11,022,815
Total liabilities, deferred inflows of resources, and net position	\$ 26,698,288	\$ 10,709,362	\$ (10,603,980)	\$ 26,803,670

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

12. Blended Component Unit (continued):

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

	Melissa Memorial Hospital	Melissa Hospital Corporation	Eliminations	Totals
<i>Operating revenues</i>				
Net patient service revenue	\$ 16,185,143	\$ -	\$ -	\$ 16,185,143
Grants	163,586	-	-	163,586
Other	155,090	184,732	(184,732)	155,090
Total operating revenues	16,503,819	184,732	(184,732)	16,503,819
<i>Operating expenses</i>				
Salaries and wages	6,461,448	-	-	6,461,448
Employee benefits	1,268,362	-	-	1,268,362
Insurance	76,454	46,033	-	122,487
Professional fees	1,819,075	-	-	1,819,075
Purchased services	2,198,407	-	-	2,198,407
Provider fee taxes	302,089	-	-	302,089
Supplies	2,169,882	-	-	2,169,882
Utilities	364,461	-	-	364,461
Repairs and maintenance	62,990	-	-	62,990
Rentals and leases	303,162	-	(184,732)	118,430
Depreciation and amortization	1,033,309	-	-	1,033,309
Other	626,249	1	-	626,250
Total operating expenses	16,685,888	46,034	(184,732)	16,547,190
<i>Operating income (loss)</i>	(182,069)	138,698	-	(43,371)
<i>Nonoperating revenues (expenses)</i>				
Taxation for maintenance and operations	1,043,953	-	-	1,043,953
Contributions	18,015	25,000	-	43,015
Investment income	20,400	457,025	(457,025)	20,400
Interest expense	(477,318)	(460,275)	457,025	(480,568)
Total nonoperating revenues, net	605,050	21,750	-	626,800
Change in net position	422,981	160,448	-	583,429
Net position, beginning of year	10,991,972	(552,586)	-	10,439,386
Net position, end of year	\$ 11,414,953	\$ (392,138)	\$ -	\$ 11,022,815

East Phillips County Hospital District
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Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

12. Blended Component Unit (continued):

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

	Melissa Memorial Hospital	Melissa Memorial Hospital Corporation	Eliminations	Totals
<i>Increase (Decrease) in Cash and Cash Equivalents</i>				
<i>Cash flows from operating activities</i>				
Cash received from and on behalf of patients	\$ 16,782,767	\$ -	\$ -	\$ 16,782,767
Cash received from other revenue	67,507	184,648	(184,732)	67,423
Cash received from grants	163,586	-	-	163,586
Cash paid to and on behalf of employees	(7,669,402)	-	-	(7,669,402)
Cash paid to suppliers and contractors	(8,609,794)	479,183	184,732	(7,945,879)
Net cash provided by operating activities	734,664	663,831	-	1,398,495
<i>Cash flows from noncapital financing activities</i>				
Cash received from taxation for maintenance and operations	1,043,953	-	-	1,043,953
Nonoperating income	18,015	25,000	-	43,015
Net cash provided by noncapital financing activities	1,061,968	25,000	-	1,086,968
<i>Cash flows from capital and related financing activities</i>				
Principal payments on long-term debt	(110,016)	(662,495)	-	(772,511)
Interest paid on long-term debt	(477,318)	(460,275)	457,025	(480,568)
Purchase of capital assets	(286,068)	-	-	(286,068)
Net cash used in capital and related financing activities	(873,402)	(1,122,770)	457,025	(1,539,147)
<i>Cash flows from investing activities, investment income</i>				
	19,838	457,025	(457,025)	19,838
Net increase in cash and cash equivalents	943,068	23,086	-	966,154
Cash and cash equivalents, beginning of year	7,795,273	39,483	-	7,834,756
Cash and cash equivalents, end of year	\$ 8,738,341	\$ 62,569	\$ -	\$ 8,800,910
<i>Reconciliation of Cash and Cash Equivalents to the Combining Statements of Net Position</i>				
Cash and cash equivalents	\$ 4,751,904	\$ 26,999	\$ -	\$ 4,778,903
Cash and cash equivalents restricted by debt agreement	3,986,437	35,570	-	4,022,007
Total cash and cash equivalents	\$ 8,738,341	\$ 62,569	\$ -	\$ 8,800,910
<i>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</i>				
Operating income (loss)	\$ (182,069)	\$ 138,698	\$ -	\$ (43,371)
<i>Adjustments to reconcile operating income (loss) to net cash provided by operating activities</i>				
Depreciation and amortization	1,033,309	-	-	1,033,309
Provision for bad debts	686,443	-	-	686,443
Decrease (increase) in current assets:				
Receivables:				
Patient accounts, net	(509,819)	-	-	(509,819)
Estimated third-party payor settlements	265,471	-	-	265,471
Other	(87,583)	(84)	-	(87,667)
Inventories	(107,678)	-	-	(107,678)
Prepaid expenses	(126,117)	(535)	-	(126,652)
Due from the District	-	525,752	(525,752)	-
Increase (decrease) in liabilities:				
Accounts payable	72,522	-	-	72,522
Accrued compensation and related liabilities	60,408	-	-	60,408
Estimated third-party payor settlements payable	155,529	-	-	155,529
Due to the Corporation	(525,752)	-	525,752	-
Net cash provided by operating activities	\$ 734,664	\$ 663,831	\$ -	\$ 1,398,495

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

12. Blended Component Unit (continued):

The combining statement of net position for the year ended December 31, 2017, is as follows:

	Melissa Memorial Hospital	Melissa Memorial Hospital Corporation	Eliminations	Totals
ASSETS				
<i>Current assets</i>				
Cash and cash equivalents	\$ 3,879,421	\$ 2,000	\$ -	\$ 3,881,421
Certificate of deposit	51,266			51,266
Receivables:				
Patient accounts, less allowance for uncollectibles	2,613,702	-	-	2,613,702
Estimated third-party payor settlements	326,471	-	-	326,471
Taxes	947,314	-	-	947,314
Due from the District	-	11,129,732	(11,129,732)	-
Other	193,859	1,408	-	195,267
Inventories	569,828	-	-	569,828
Prepaid expenses	159,663	40,786	-	200,449
Total current assets	8,741,524	11,173,926	(11,129,732)	8,785,718
<i>Noncurrent assets</i>				
Cash and cash equivalents restricted by debt agreement	3,915,852	37,483	-	3,953,335
Capital assets, net	13,777,671	-	-	13,777,671
Total noncurrent assets	17,693,523	37,483	-	17,731,006
Total assets	\$ 26,435,047	\$ 11,211,409	\$ (11,129,732)	\$ 26,516,724
LIABILITIES AND NET POSITION				
<i>Current liabilities</i>				
Current maturities of long-term debt	\$ 84,748	\$ 630,524	\$ -	\$ 715,272
Registered warrants outstanding	-	-	-	-
Accounts payable	581,735	-	-	581,735
Accrued compensation and related liabilities	555,593	-	-	555,593
Accrued interest	39,561	-	-	39,561
Due to Corporation	11,129,732	-	(11,129,732)	-
Estimated third-party payor settlements	284,471	-	-	284,471
Total current liabilities	12,675,840	630,524	(11,129,732)	2,176,632
<i>Noncurrent liabilities</i>				
Long-term debt, less current maturities	1,819,921	11,133,471	-	12,953,392
Total liabilities	14,495,761	11,763,995	(11,129,732)	15,130,024
<i>Deferred inflows of resources, property taxes</i>	947,314	-	-	947,314
<i>Net position</i>				
Net investment in capital assets	11,833,441	(11,763,995)	-	69,446
Restricted for debt service	3,915,852	37,483	-	3,953,335
Unrestricted	(4,757,321)	11,173,926	-	6,416,605
Total net position	10,991,972	(552,586)	-	10,439,386
Total liabilities and net position	\$ 26,435,047	\$ 11,211,409	\$ (11,129,732)	\$ 26,516,724

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

12. Blended Component Unit (continued):

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

	Melissa Memorial Hospital	Melissa Memorial Hospital Corporation	Eliminations	Totals
<i>Operating revenues</i>				
Net patient service revenue	\$ 13,418,877	\$ -	\$ -	\$ 13,418,877
Grants	61,554	-	-	61,554
Other	166,903	172,853	(172,853)	166,903
Total operating revenues	13,647,334	172,853	(172,853)	13,647,334
<i>Operating expenses</i>				
Salaries and wages	5,515,201	-	-	5,515,201
Employee benefits	1,190,338	-	-	1,190,338
Insurance	60,378	79,232	-	139,610
Professional fees	1,477,005	-	-	1,477,005
Purchased services	1,706,767	-	-	1,706,767
Provider fee taxes	259,965	-	-	259,965
Supplies	1,790,594	-	-	1,790,594
Utilities	359,731	-	-	359,731
Repairs and maintenance	80,560	-	-	80,560
Rentals and leases	325,980	-	(172,853)	153,127
Depreciation and amortization	1,124,061	-	-	1,124,061
Other	508,229	-	-	508,229
Total operating expenses	14,398,809	79,232	(172,853)	14,305,188
<i>Operating income (loss)</i>	(751,475)	93,621	-	(657,854)
<i>Nonoperating revenues (expenses)</i>				
Taxation for maintenance and operations	1,053,588	-	-	1,053,588
Contributions	65,279	-	-	65,279
Investment income	14,095	478,241	(478,241)	14,095
Interest expense	(496,620)	(446,134)	478,241	(464,513)
Gain on disposal of property	48,289	-	-	48,289
Total nonoperating revenues, net	684,631	32,107	-	716,738
Change in net position	(66,844)	125,728	-	58,884
Net position, beginning of year	11,058,816	(678,314)	-	10,380,502
Net position, end of year	\$ 10,991,972	\$ (552,586)	\$ -	\$ 10,439,386

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

12. Blended Component Unit (continued):

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

	Melissa Memorial Hospital	Melissa Memorial Hospital Corporation	Eliminations	Totals
<i>Increase (Decrease) in Cash and Cash Equivalents</i>				
<i>Cash flows from operating activities</i>				
Cash received from and on behalf of patients	\$ 13,629,322	\$ -	\$ -	\$ 13,629,322
Cash received from other revenue	109,716	172,853	(172,853)	109,716
Cash received from grants	61,554	-	-	61,554
Cash paid to and on behalf of employees	(6,879,503)	-	-	(6,879,503)
Cash paid to suppliers and contractors	(6,849,604)	430,578	172,853	(6,246,173)
Net cash provided by operating activities	71,485	603,431	-	674,916
<i>Cash flows from noncapital financing activities</i>				
Cash received from taxation for maintenance and operations	1,053,588	-	-	1,053,588
Contributions	65,279	-	-	65,279
Net cash provided by noncapital financing activities	1,118,867	-	-	1,118,867
<i>Cash flows from capital and related financing activities</i>				
Principal payments on long-term debt	(95,331)	(640,109)	-	(735,440)
Interest paid on long-term debt	(497,487)	(446,134)	478,241	(465,380)
Purchase of capital assets	(426,603)	-	-	(426,603)
Proceeds from sale of capital assets	48,289	-	-	48,289
Net cash used in capital and related financing activities	(971,132)	(1,086,243)	478,241	(1,579,134)
<i>Cash flows from investing activities</i>				
Investment income	14,795	478,241	(478,241)	14,795
Net decrease in cash and cash equivalents	234,015	(4,571)	-	229,444
Cash and cash equivalents, beginning of year	7,561,258	44,054	-	7,605,312
Cash and cash equivalents, end of year	\$ 7,795,273	\$ 39,483	\$ -	\$ 7,834,756
<i>Reconciliation of Cash and Cash Equivalents to the Combining Statements of Net Position</i>				
Cash and cash equivalents	\$ 3,879,421	\$ 2,000	\$ -	\$ 3,881,421
Cash and cash equivalents restricted by debt agreement	3,915,852	37,483	-	3,953,335
Total cash and cash equivalents	\$ 7,795,273	\$ 39,483	\$ -	\$ 7,834,756
<i>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</i>				
Operating income (loss)	\$ (751,475)	\$ 93,621	\$ -	\$ (657,854)
<i>Adjustments to reconcile operating income (loss) to net cash provided by operating activities</i>				
Depreciation and amortization	1,124,061	-	-	1,124,061
Provision for bad debts	638,234	-	-	638,234
Decrease (increase) in current assets:				
Receivables:				
Patient accounts, net	(1,170,789)	-	-	(1,170,789)
Estimated third-party payor settlements	458,529	-	-	458,529
Other	(57,187)	-	-	(57,187)
Inventories	(186,206)	-	-	(186,206)
Prepaid expenses	182,337	1	-	182,338
Due from District	-	528,585	(528,585)	-
Increase (decrease) in liabilities:				
Accounts payable	252,059	(18,776)	-	233,283
Accrued compensation and related liabilities	(173,964)	-	-	(173,964)
Estimated third-party payor settlements payable	284,471	-	-	284,471
Due to Corporation	(528,585)	-	528,585	-
Net cash provided by operating activities	\$ 71,485	\$ 603,431	\$ -	\$ 674,916

SUPPLEMENTARY INFORMATION

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Schedule of Actual and Budgeted Revenues and Expenses
Year Ended December 31, 2018

	Budgeted	Actual	Variance Favorable (Unfavorable)
<i>Operating Revenues</i>			
Net patient service revenue	\$ 15,048,798	\$ 16,185,143	\$ 1,136,345
Other	1,341,314	318,676	(1,022,638)
Total operating revenue	16,390,112	16,503,819	113,707
<i>Operating Expenses</i>			
Salaries, wages, and employee benefits	8,149,482	7,729,810	419,672
Other	8,209,375	8,817,380	(608,005)
Total operating expenses	16,358,857	16,547,190	(188,333)
<i>Operating income (loss)</i>	31,255	(43,371)	(74,626)
<i>Nonoperating revenues (expenses)</i>	428,409	626,800	198,391
Change in net position	\$ 459,664	\$ 583,429	\$ 123,765

SINGLE AUDIT

AUDITORS' SECTION



INDEPENDENT AUDITORS' 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*

Board of Directors
East Phillips County Hospital District
doing business as 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 combined basic financial statements of East Phillips County Hospital District doing business as Melissa Memorial Hospital (the District), as of and for the year ended December 31, 2018, and the related notes to the combined basic financial statements, which collectively comprise the District's combined basic financial statements and have issued our report thereon dated April 18, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the combined basic financial statements, we considered the District'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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Our consideration of internal control 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of audit findings and questioned costs as item 2018-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's combined basic 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 District's Response to the Finding

The District's response to the finding identified in our audit is described in the accompanying schedule of audit findings and questioned costs. The District's response was 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
April 18, 2019



INDEPENDENT AUDITORS' REPORT ON
COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Holyoke, Colorado

Report on Compliance for the Major Federal Program

We have audited East Phillips County Hospital District doing business as Melissa Memorial Hospital (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended December 31, 2018. The District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of audit findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the District'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 types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District'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 District's compliance.

Opinion on the Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2018.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above.

In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each 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 District'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 a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program 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 over compliance 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.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
April 18, 2019

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Schedule of Audit Findings and Questioned Costs
Year Ended December 31, 2018

Section I – Summary of Auditors’ Results

Financial Statements:

Type of auditors’ report issued: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? X yes none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards:

Internal control over major programs:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? yes X none reported

Type of auditors’ report issued on compliance for major programs: *Unmodified*

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes X no

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
14.128	U.S. Department of Housing and Urban Development Mortgage Insurance – Hospitals

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? yes X no

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Schedule of Audit Findings and Questioned Costs (Continued)
Year Ended December 31, 2018



Section II – Financial Statements Findings

2018-001 Auditor Detected Adjusting Journal Entries

Compliance Finding Significant Deficiency Material Weakness

<i>Criteria</i>	There should not be any significant or material adjusting journal entries made during the audit process.
<i>Condition</i>	A material adjustment was made to adjust the allowance for doubtful accounts.
<i>Context</i>	This finding appears to be an isolated problem.
<i>Cause</i>	Due to the conversion to the new electronic health records system, accounts receivable from the old system had been carried over and became aged and needed a more conservative estimate for uncollectible accounts.
<i>Effect</i>	Financial reports depended on by management, the Board of Directors, and external financial statement users may not present an accurate image of the District's financial position.
<i>Recommendation</i>	We recommend management develops a process to calculate an estimate for uncollectible accounts which takes into consideration the age of the accounts.
<i>Views of responsible officials and planned corrective actions</i>	The Chief Financial Officer will develop a process to calculate an estimate for uncollectible accounts which takes into consideration the age of the accounts.

AUDITEE'S SECTION

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2018

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
Direct Program from:			
U.S. Department of Housing and Urban Development:		Not applicable	
Mortgage Insurance - Hospitals	14.128		\$ 11,129,732
Total expenditures of federal awards			\$ 11,129,732

See accompanying independent auditors' report. The accompanying notes are an integral part of this schedule.

1. Basis of Presentation:

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal award activity of the District under programs of the federal government for the year ended December 31, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the District.

2. Summary of Significant Accounting Policies:

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The District has not elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

3. Loan:

Nonmonetary assistance in the form of a loan guarantee is included in the accompanying Schedule of expenditures of federal awards. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. The related loan balance was \$10,603,578, at December 31, 2018.

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Corrective Action Plan
Year Ended December 31, 2018



The current year Schedule of Audit Findings and Questioned Costs reported one matter in Section II – *Financial Statement Findings*.

Current year audit finding:

2018-001 Auditor Detected Adjusting Journal Entries

Corrective Action Planned: The Chief Financial Officer will develop a process to calculate an estimate for uncollectible accounts which takes into consideration the age of the accounts.

Anticipated completion date: April 30, 2019

Contact person responsible for corrective action plan: Wesley D. White, CFO

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2018



The current year Schedule of Audit Findings and Questioned Costs reported one matter in Section II – *Financial Statement Findings*.

2017-00B Auditor Detected Adjusting Journal Entries

Status Repeated as 2018-001

Reason for recurrence Due to the conversion to the new electronic health records system, accounts receivable from the old system had been carried over and became aged and needed a more conservative estimate for uncollectible accounts.

Planned corrective action: The Chief Financial Officer will develop a process to calculate an estimate for uncollectible accounts which takes into consideration the age of the accounts.

Partial corrective action taken:

2017-A Preparation of Financial Statements

Status Resolved

2017-C Segregation of Duties

Status Resolved