

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

Combined Basic Financial Statements and
Independent Auditors' Reports

December 31, 2019 and 2018



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 years ended December 31, 2019 and 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 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 audits 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, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 11 to the financial statements, the COVID-19 pandemic has created economic uncertainties which may negatively impact the District's financial position. Management's evaluation of the events and conditions and management's plans to mitigate these matters are also described in Note 11. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the 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 as a whole. 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 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 and schedule of expenditures of federal awards 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 expenses and schedule of expenditures of federal awards 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 May 19, 2020, 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, 2019. We issued a similar report for the year ended December 31, 2018, dated April 18, 2019, which has not been included with the 2019 financial and compliance report. The purpose of those reports 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 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
May 19, 2020

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Combined Statements of Net Position
December 31, 2019 and 2018

ASSETS	2019	2018
<i>Current assets</i>		
Cash and cash equivalents	\$ 2,987,074	\$ 4,778,903
Certificate of deposit	52,643	51,828
Receivables:		
Patient accounts	2,244,543	2,433,167
Taxes	989,655	946,694
Other	242,165	286,845
Estimated third-party payor settlements	1,052,000	61,000
Inventories	815,063	677,506
Prepaid expenses	465,460	327,101
Total current assets	8,848,603	9,563,044
<i>Noncurrent assets</i>		
Cash and cash equivalents restricted by debt agreement	4,028,816	4,022,007
Capital assets, net	14,051,909	13,218,619
Total noncurrent assets	18,080,725	17,240,626
Total assets	\$ 26,929,328	\$ 26,803,670

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, 2019 and 2018

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	2019	2018
<i>Current liabilities</i>		
Estimated third-party payor settlements	\$ -	\$ 440,000
Current maturities of long-term debt	862,479	683,827
Accounts payable	770,206	654,257
Accrued compensation and related liabilities	797,110	616,001
Accrued interest	39,561	39,561
Total current liabilities	2,469,356	2,433,646
<i>Noncurrent liabilities</i>		
Long-term debt, less current maturities	12,427,830	12,400,515
Total liabilities	14,897,186	14,834,161
<i>Deferred inflows of resources, property taxes</i>	989,655	946,694
<i>Net position</i>		
Net investment in capital assets	722,039	94,716
Restricted for debt service	4,028,816	4,022,007
Unrestricted	6,291,632	6,906,092
Total net position	11,042,487	11,022,815
Total liabilities, deferred inflows of resources, and net position	\$ 26,929,328	\$ 26,803,670

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, 2019 and 2018

	2019	2018
<i>Operating revenues</i>		
Net patient service revenue	\$ 16,398,430	\$ 16,185,143
Grants	208,150	163,586
Other	184,591	155,090
Total operating revenues	16,791,171	16,503,819
<i>Operating expenses</i>		
Salaries and wages	7,393,225	6,461,448
Employee benefits	1,501,431	1,268,362
Insurance	131,525	122,487
Professional fees	1,603,048	1,819,075
Purchased services	2,498,844	2,198,407
Provider tax fees	273,307	302,089
Supplies	2,236,018	2,169,882
Utilities	381,751	364,461
Repairs and maintenance	112,361	62,990
Rentals and leases	123,353	118,430
Depreciation and amortization	1,239,557	1,033,309
Other	698,449	626,250
Total operating expenses	18,192,869	16,547,190
<i>Operating loss</i>	(1,401,698)	(43,371)
<i>Nonoperating revenues (expenses)</i>		
Taxation for maintenance and operations	1,059,637	1,043,953
Contributions	40,335	43,015
Investment income	23,158	20,400
Interest expense	(506,351)	(480,568)
Total nonoperating revenues, net	616,779	626,800
Excess of revenues (expenses) before capital grants and contributions	(784,919)	583,429
<i>Capital grants and contributions</i>	804,591	-
Change in net position	19,672	583,429
Net position, beginning of year	11,022,815	10,439,386
Net position, end of year	\$ 11,042,487	\$ 11,022,815

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, 2019 and 2018

	2019	2018
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Cash received from and on behalf of patients	\$ 15,156,054	\$ 16,786,678
Cash received from other revenue	229,271	63,512
Cash received from grants	208,150	163,586
Cash paid to and on behalf of employees	(8,713,547)	(7,669,402)
Cash paid to suppliers and contractors	(8,218,623)	(7,945,879)
Net cash provided by (used in) operating activities	(1,338,695)	1,398,495
<i>Cash flows from noncapital financing activities</i>		
Cash received from taxation for maintenance and operations	1,059,637	1,043,953
Cash received from contributions and donations	40,335	43,015
Net cash provided by noncapital financing activities	1,099,972	1,086,968
<i>Cash flows from capital and related financing activities</i>		
Principal payments on long-term debt	(857,531)	(772,511)
Interest paid on long-term debt	(506,351)	(480,568)
Purchase of capital assets	(1,009,349)	(286,068)
Cash received from capital grants and contributions	804,591	-
Net cash used in capital and related financing activities	(1,568,640)	(1,539,147)
<i>Cash flows from investing activities, investment income</i>	22,343	19,838
Net increase (decrease) in cash and cash equivalents	(1,785,020)	966,154
Cash and cash equivalents, beginning of year	8,800,910	7,834,756
Cash and cash equivalents, end of year	\$ 7,015,890	\$ 8,800,910

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, 2019 and 2018

	2019	2018
<i>Reconciliation of Cash and Cash Equivalents</i>		
<i>to the Combined Statements of Net Position</i>		
Cash and cash equivalents	\$ 2,987,074	\$ 4,778,903
Cash and cash equivalents restricted by debt agreement	4,028,816	4,022,007
Total cash and cash equivalents	\$ 7,015,890	\$ 8,800,910
<i>Reconciliation of Operating Loss to Net Cash</i>		
<i>Provided by (used in) Operating Activities</i>		
Operating loss	\$ (1,401,698)	\$ (43,371)
<i>Adjustments to reconcile operating loss to net cash</i>		
<i>provided by (used in) operating activities</i>		
Depreciation and amortization	1,239,557	1,033,309
Provision for bad debts	957,115	686,443
Increase (decrease) in current assets:		
Receivables:		
Patient accounts, net	(768,491)	(505,908)
Estimated third-party payor settlements	(991,000)	265,471
Other	44,680	(91,578)
Inventories	(137,557)	(107,678)
Prepaid expenses	(138,359)	(126,652)
Increase (decrease) in liabilities:		
Accounts payable	115,949	72,522
Accrued compensation and related liabilities	181,109	60,408
Estimated third-party payor settlements	(440,000)	155,529
Net cash provided by (used in) operating activities	\$ (1,338,695)	\$ 1,398,495

Noncash Investing, Capital, and Financing Activities

During the year ended December 31, 2019, the District entered into a capital lease obligation in the amount of \$1,063,498, to finance the purchase of a magnetic resonance imaging scanner.

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, 2019 and 2018

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. 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 Service (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, 2019 and 2018

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 2018 financial statements to conform to the classifications used in the 2019 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, 2019 and 2018

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 May 19, 2020, the date on which the financial statements were available to be issued.

Upcoming accounting standards pronouncements – In June 2017, the Governmental Accounting Standards Board (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, 2022, 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 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, 2021. Management is currently evaluating the effect this statement will have on the financial statements and related disclosures.

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2019 and 2018

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 if 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, 2019 and 2018

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 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 decreased from the prior year's due to the aging of receivables due from patients becoming more current. 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:

	2019	2018
Receivables from patients and their insurance carriers	\$ 2,069,192	\$ 2,219,674
Receivables from Medicare	714,815	927,319
Receivables from Medicaid	139,536	135,174
Total patient accounts receivable	2,923,543	3,282,167
Less allowance for uncollectible accounts	679,000	849,000
Patient accounts receivable, net	\$ 2,244,543	\$ 2,433,167

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2019 and 2018

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 statements of net position dates. A deferred inflow of resources and a receivable were recorded at December 31, 2019 and 2018, for taxes levied for 2020 and 2019, respectively.

In 2019, the District's regular tax levy was \$13.70 per \$1,000 on a total assessed valuation of \$69,101,780, for a total regular levy of \$946,694. In 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.

5. Capital Assets:

The District's capital assets are stated at cost. The District's policy is to capitalize all capital asset expenditures exceeding \$5,000. 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, 2019 and 2018

5. Capital Assets (continued):

A schedule of changes in capital asset balances follows:

	Balance December 31, 2018	Additions	Retirements	Transfers	Balance December 31, 2019
<i>Capital assets not being depreciated</i>					
Land	\$ 266,021	\$ -	\$ -	\$ -	\$ 266,021
Construction in progress	-	475,408	-	-	475,408
Total capital assets not being depreciated	266,021	475,408	-	-	741,429
<i>Capital assets being depreciated</i>					
Land improvements	1,122,519	-	-	-	1,122,519
Buildings and improvements	17,205,809	60,011	-	-	17,265,820
Fixed equipment	206,392	40,939	-	-	247,331
Major movable equipment	6,363,315	1,496,489	-	-	7,859,804
Total capital assets being depreciated	24,898,035	1,597,439	-	-	26,495,474
<i>Less accumulated depreciation for</i>					
Land improvements	(890,965)	(40,982)	-	-	(931,947)
Buildings and improvements	(6,028,854)	(667,523)	-	-	(6,696,377)
Fixed equipment	(640,629)	(88,133)	-	-	(728,762)
Major movable equipment	(4,384,989)	(442,919)	-	-	(4,827,908)
Total accumulated depreciation	(11,945,437)	(1,239,557)	-	-	(13,184,994)
<i>Total capital assets being depreciated, net</i>	12,952,598	357,882	-	-	13,310,480
Capital assets, net	\$ 13,218,619	\$ 833,290	\$ -	\$ -	\$ 14,051,909

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2019 and 2018

5. Capital Assets (continued):

	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

Construction in progress at December 31, 2019, consisted of the following:

- A chemotherapy department, which has an expected completion date of March 2020, and has no significant remaining completion costs.
- Dental equipment purchased, which is expected to be placed into service in December 2020. The cost to complete is estimated to be \$10,000.

East Phillips County Hospital District
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Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2019 and 2018

6. Long-term Debt:

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

	Balance December 31, 2018			Balance December 31, 2019		Amount Due Within One Year
		Additions	Reductions			
Red Capital Mortgage	\$ 10,603,578	\$ -	\$ (547,878)	\$ 10,055,700	\$ 571,397	
Original issue premium	489,295	-	(32,259)	457,036	-	
Highline Electric Association	8,627	-	(8,627)	-	-	
First Pioneer National Bank 2015	1,811,098	-	(94,572)	1,716,526	93,550	
Capital lease - Telemetry unit	171,744	-	(34,434)	137,310	36,445	
Capital lease - MRI unit	-	1,063,498	(139,761)	923,737	161,087	
Total long-term debt	\$ 13,084,342	\$ 1,063,498	\$ (857,531)	\$ 13,290,309	\$ 862,479	

	Balance December 31, 2017			Balance December 31, 2018		Amount Due Within One Year
		Additions	Reductions			
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	

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 statements 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. The agreement also requires the District to meet certain loan covenants relating to operating income which the District did not meet during 2019 and will require a plan of action describing measures being taken to improve financial operations.

East Phillips County Hospital District
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Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2019 and 2018

6. Long-term Debt (continued):

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. The loan was paid off in 2019.

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, 2019, 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.

Capital lease obligations – Capital lease obligations are due in monthly installments including principal and interest payments at varying amounts from \$3,617 to \$17,500, including interest rates of 5.75 percent through January 2025. At December 31, 2019 and 2018, the capitalized cost of the equipment acquired under capital lease obligations was \$1,251,687 and \$188,189, and accumulated depreciation was \$203,253 and \$3,316, respectively.

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
2020	\$ 862,479	\$ 481,239	\$ 1,343,718
2021	899,438	444,279	1,343,717
2022	938,061	405,657	1,343,718
2023	956,531	365,483	1,322,014
2024	974,931	325,380	1,300,311
2025 - 2029	4,349,452	1,119,605	5,469,057
2030 - 2034	3,643,013	257,053	3,900,066
2035 - 2036	209,368	2,283	211,651
	\$ 12,833,273	\$ 3,400,979	\$ 16,234,252
Original issue premium	457,036		
Total	\$ 13,290,309		

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

East Phillips County Hospital District
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Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2019 and 2018

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 have increased from the prior year due to the District writing off old patient accounts, maintained in the previous electronic health records system. The District has not changed its charity care or uninsured discount policies during 2019 or 2018. 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:

	2019	2018
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	\$ 8,312,075	\$ 8,026,141
Medicaid	1,073,555	1,061,276
Other third-party payors	4,557,012	4,782,739
Patients	465,252	502,035
Retail Pharmacy	1,704,806	1,489,915
Supplemental payments	1,319,090	1,079,849
	17,431,790	16,941,955
Less:		
Charity care	76,245	70,369
Provision for bad debts	957,115	686,443
Net patient service revenue	\$ 16,398,430	\$ 16,185,143

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, 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
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Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2019 and 2018

7. Net Patient Service Revenue (continued):

- *Medicaid* – Inpatient and outpatient service to Medicaid program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. 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 increased by approximately \$62,000 and decreased by \$325,000 in 2019 and 2018, 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, 2019 and 2018, were approximately \$56,000 and \$47,000, respectively. The District did not receive any gifts or grants to subsidize charity services during 2019 and 2018.

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 \$157,000 and \$145,000 for 2019 and 2018, respectively. Employee contributions to the plan were approximately \$294,000 and \$249,000 for 2019 and 2018, respectively. Forfeitures were not material in 2019 and 2018. The District has the authority to amend the plan.

East Phillips County Hospital District
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Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2019 and 2018

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
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Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2019 and 2018

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:

	2019	2018
Medicare	30 %	36 %
Medicaid	10	9
Other third-party payors	39	31
Patients	21	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. COVID-19 Pandemic:

The COVID-19 pandemic has created economic uncertainties which may negatively impact the District’s financial position. Beginning in March 2020, the District began experiencing significant declines in revenues due to the state of Colorado temporarily suspending all elective surgeries and other elective procedures. In addition, the District has experienced declines in volumes of outpatient and ancillary services, such as radiology, laboratory, emergency department, and clinic visits.

The District received approximately \$3,525,000 of funding from the CARES Act Provider Relief Fund through May 2020.

Medicare sequestration has been suspended from May 1, 2020, through December 31, 2020, which will increase Medicare reimbursement by 2 percent.

The District also entered into a loan for \$1,452,355 in April 2020 as part of the Small Business Administration Paycheck Protection Program, also a part of the federal government’s response to the pandemic. The loan bears interest at 1 percent and matures in April 2022. The loan has the potential to be forgiven in full or in part based on certain payroll and other costs incurred in the eight-week period following the date of first disbursement of the loan funds.

East Phillips County Hospital District
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Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2019 and 2018

11. COVID-19 Pandemic (continued):

As of December 31, 2019, the District had unrestricted reserves representing 67 days of operating expenses.

The District has also received Medicare accelerated payments of \$2,679,266 subsequent to year end. The Medicare accelerated payments will begin to be repaid after 120 days of receipt.

The District has also implemented cost containment efforts in response to COVID-19.

State and federal governments are also considering additional emergency funding to help hospitals overcome these negative effects.

In addition to accepting funding from the CARES Act Provider Relief Fund and other relief legislation passed by Congress, management plans on restarting elective surgeries in May 2020, when the state of Colorado removes the restrictions. The District could also utilize its unrestricted reserves to cover operating expenses until revenues recover. The ultimate COVID-19 pandemic effect on the District's financial position is unknown at this time.

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2019 and 2018

12. Blended Component Unit:

The combining statement of net position for the year ended December 31, 2019, is as follows:

	Melissa Memorial Hospital	Melissa Memorial Hospital Corporation	Eliminations	Totals
ASSETS				
<i>Current assets</i>				
Cash and cash equivalents	\$ 2,933,743	\$ 53,331	\$ -	\$ 2,987,074
Certificate of deposit	52,643	-	-	52,643
Receivables:				
Patient accounts	2,244,543	-	-	2,244,543
Taxes	989,655	-	-	989,655
Other	240,583	1,582	-	242,165
Estimated third-party payor settlements	1,052,000			1,052,000
Due from the District	-	10,055,880	(10,055,880)	-
Inventories	815,063	-	-	815,063
Prepaid expenses	423,480	41,980	-	465,460
Total current assets	8,751,710	10,152,773	(10,055,880)	8,848,603
<i>Noncurrent assets</i>				
Cash and cash equivalents restricted by debt agreement	3,994,968	33,848	-	4,028,816
Capital assets, net	14,051,909	-	-	14,051,909
Total noncurrent assets	18,046,877	33,848	-	18,080,725
Total assets	\$ 26,798,587	\$ 10,186,621	\$ (10,055,880)	\$ 26,929,328
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION				
<i>Current liabilities</i>				
Current maturities of long-term debt	\$ 291,081	\$ 571,398	\$ -	\$ 862,479
Accounts payable	743,788	26,418	-	770,206
Accrued compensation and related liabilities	797,110	-	-	797,110
Accrued interest	39,561	-	-	39,561
Due to Melissa Memorial Corporation	10,055,880	-	(10,055,880)	-
Total current liabilities	11,927,420	597,816	(10,055,880)	2,469,356
<i>Noncurrent liabilities</i>				
Long-term debt, less current maturities	2,486,492	9,941,338	-	12,427,830
Total liabilities	14,413,912	10,539,154	(10,055,880)	14,897,186
<i>Deferred inflows of resources, property taxes</i>	989,655	-	-	989,655
<i>Net position</i>				
Net investment in capital assets	11,234,775	(10,512,736)	-	722,039
Restricted for debt service	3,994,968	33,848	-	4,028,816
Unrestricted	(3,834,723)	10,126,355	-	6,291,632
Total net position	11,395,020	(352,533)	-	11,042,487
Total liabilities, deferred inflows of resources, and net position	\$ 26,798,587	\$ 10,186,621	\$ (10,055,880)	\$ 26,929,328

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2019 and 2018

12. Blended Component Unit (continued):

The combining statement of revenues, expenses, and changes in net position for the year ended December 31, 2019, is as follows:

	Melissa Memorial Hospital	Melissa Hospital Corporation	Eliminations	Totals
<i>Operating revenues</i>				
Net patient service revenue	\$ 16,398,430	\$ -	\$ -	\$ 16,398,430
Grants	208,150	-	-	208,150
Other	184,591	90,865	(90,865)	184,591
Total operating revenues	16,791,171	90,865	(90,865)	16,791,171
<i>Operating expenses</i>				
Salaries and wages	7,393,225	-	-	7,393,225
Employee benefits	1,501,431	-	-	1,501,431
Insurance	77,180	54,345	-	131,525
Professional fees	1,603,048	-	-	1,603,048
Purchased services	2,498,844	-	-	2,498,844
Provider tax fees	273,307	-	-	273,307
Supplies	2,236,018	-	-	2,236,018
Utilities	381,751	-	-	381,751
Repairs and maintenance	112,361	-	-	112,361
Rentals and leases	214,218	-	(90,865)	123,353
Depreciation and amortization	1,239,557	-	-	1,239,557
Other	698,449	-	-	698,449
Total operating expenses	18,229,389	54,345	(90,865)	18,192,869
<i>Operating income (loss)</i>	(1,438,218)	36,520	-	(1,401,698)
<i>Nonoperating revenues (expenses)</i>				
Taxation for maintenance and operations	1,059,637	-	-	1,059,637
Contributions	40,335	-	-	40,335
Investment income	23,158	436,385	(436,385)	23,158
Interest expense	(509,436)	(433,300)	436,385	(506,351)
Total nonoperating revenues, net	613,694	3,085	-	616,779
Excess of revenues (expenses) before capital grants and contributions	(824,524)	39,605	-	(784,919)
<i>Capital grants and contributions</i>	804,591	-	-	804,591
Change in net position	(19,933)	39,605	-	19,672
Net position, beginning of year	11,414,953	(392,138)	-	11,022,815
Net position, end of year	\$ 11,395,020	\$ (352,533)	\$ -	\$ 11,042,487

East Phillips County Hospital District
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Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2019 and 2018

12. Blended Component Unit (continued):

The combining statement of cash flows for the year ended December 31, 2019, 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	\$ 15,156,054	\$ -	\$ -	\$ 15,156,054
Cash received from other revenue	229,361	90,775	(90,865)	229,271
Cash received from grants	208,150	-	-	208,150
Cash paid to and on behalf of employees	(8,713,547)	-	-	(8,713,547)
Cash paid to suppliers and contractors	(8,829,002)	519,514	90,865	(8,218,623)
Net cash provided by (used in) operating activities	(1,948,984)	610,289	-	(1,338,695)
<i>Cash flows from noncapital financing activities</i>				
Cash received from taxation for maintenance and operations	1,059,637	-	-	1,059,637
Cash received from contributions and donations	40,335	-	-	40,335
Net cash provided by noncapital financing activities	1,099,972	-	-	1,099,972
<i>Cash flows from capital and related financing activities</i>				
Principal payments on long-term debt	(268,767)	(588,764)	-	(857,531)
Interest paid on long-term debt	(509,436)	(433,300)	436,385	(506,351)
Purchase of capital assets	(1,009,349)	-	-	(1,009,349)
Cash received from capital grants and contributions	804,591	-	-	804,591
Net cash used in capital and related financing activities	(982,961)	(1,022,064)	436,385	(1,568,640)
<i>Cash flows from investing activities, investment income</i>				
	22,343	436,385	(436,385)	22,343
Net (increase) decrease in cash and cash equivalents	(1,809,630)	24,610	-	(1,785,020)
Cash and cash equivalents, beginning of year	8,738,341	62,569	-	8,800,910
Cash and cash equivalents, end of year	\$ 6,928,711	\$ 87,179	\$ -	\$ 7,015,890
<i>Reconciliation of Cash and Cash Equivalents to the Combining Statements of Net Position</i>				
Cash and cash equivalents	\$ 2,933,743	\$ 53,331	\$ -	\$ 2,987,074
Cash and cash equivalents restricted by debt agreement	3,994,968	33,848	-	4,028,816
Total cash and cash equivalents	\$ 6,928,711	\$ 87,179	\$ -	\$ 7,015,890
<i>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</i>				
Operating income (loss)	\$ (1,438,218)	\$ 36,520	\$ -	\$ (1,401,698)
<i>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</i>				
Depreciation and amortization	1,239,557	-	-	1,239,557
Provision for bad debts	957,115	-	-	957,115
(Increase) decrease in current assets:				
Receivables:				
Patient accounts, net	(768,491)	-	-	(768,491)
Estimated third-party payor settlements	(991,000)	-	-	(991,000)
Other	44,770	(90)	-	44,680
Inventories	(137,557)	-	-	(137,557)
Prepaid expenses	(137,700)	(659)	-	(138,359)
Due from the District	-	548,100	(548,100)	-
Increase (decrease) in liabilities:				
Accounts payable	89,531	26,418	-	115,949
Accrued compensation and related liabilities	181,109	-	-	181,109
Estimated third-party payor settlements	(440,000)	-	-	(440,000)
Due to Melissa Memorial Corporation	(548,100)	-	548,100	-
Net cash provided by (used in) operating activities	\$ (1,948,984)	\$ 610,289	\$ -	\$ (1,338,695)

East Phillips County Hospital District
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Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2019 and 2018

12. Blended Component Unit (continued):

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	2,433,167	-	-	2,433,167
Taxes	946,694	-	-	946,694
Due from the District	-	10,603,980	(10,603,980)	-
Other	285,353	1,492	-	286,845
Estimated third-party payor settlements	61,000	-	-	61,000
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
Registered warrants outstanding	-	-	-	-
Accounts payable	654,257	-	-	654,257
Accrued compensation and related liabilities	616,001	-	-	616,001
Accrued interest	39,561	-	-	39,561
Due to Melissa Memorial Corporation	10,603,980	-	(10,603,980)	-
Estimated third-party payor settlements	440,000	-	-	440,000
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, 2019 and 2018

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 Memorial 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>	<i>(182,069)</i>	<i>138,698</i>	<i>-</i>	<i>(43,371)</i>
<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
doing business as Melissa Memorial Hospital
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2019 and 2018

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	\$ 16,786,678	\$ -	\$ -	\$ 16,786,678
Cash received from other revenue	63,596	184,648	(184,732)	63,512
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
Cash received from contributions and donations	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
(Increase) decrease in current assets:				
Receivables:				
Patient accounts, net	(505,908)	-	-	(505,908)
Estimated third-party payor settlements	265,471	-	-	265,471
Other	(91,494)	(84)	-	(91,578)
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	155,529	-	-	155,529
Due to Melissa Memorial Corporation	(525,752)	-	525,752	-
Net cash provided by operating activities	\$ 734,664	\$ 663,831	\$ -	\$ 1,398,495

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, 2019

	Budgeted	Actual	Variance Favorable (Unfavorable)
<i>Operating Revenues</i>			
Net patient service revenue	\$ 17,963,886	\$ 16,398,430	\$ (1,565,456)
Other	452,498	392,741	(59,757)
Total operating revenue	18,416,384	16,791,171	(1,625,213)
<i>Operating Expenses</i>			
Salaries, wages, and employee benefits	9,163,466	8,894,656	268,810
Other	9,812,350	9,298,213	514,137
Total operating expenses	18,975,816	18,192,869	782,947
<i>Operating income (loss)</i>	(559,432)	(1,401,698)	(842,266)
<i>Nonoperating revenues (expenses)</i>	946,694	1,421,370	474,676
Change in net position	\$ 387,262	\$ 19,672	\$ (367,590)

SINGLE AUDIT

AUDITORS' SECTION



DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

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, 2019, 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 and have issued our report thereon dated May 19, 2020.

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. We did identify a certain deficiency in internal control, described in the accompanying schedule of audit findings and questioned costs as item 2019-001, that we consider to be a material weakness.

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
May 19, 2020



DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

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's (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, 2019. 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 program.

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, 2019.

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
May 19, 2020

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Schedule of Audit Findings and Questioned Costs
Year Ended December 31, 2019

Section I – Summary of Auditors’ Results

Financial Statements:

Type of auditors’ report issued:	<i>Unmodified</i>		
Internal control over financial reporting:			
• Material weakness(es) identified?	<u> X </u> yes	<u> </u> no	
• Significant deficiency(ies) identified?	<u> </u> yes	<u> X </u> none reported	
Noncompliance material to financial statements noted?	<u> </u> yes	<u> X </u> no	

Federal Awards:

Internal control over major federal program:			
• Material weakness(es) identified?	<u> </u> yes	<u> X </u> no	
• Significant deficiency(ies) identified?	<u> </u> yes	<u> X </u> none reported	
Type of auditors’ report issued on compliance for major federal programs:	<i>Unmodified</i>		
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	<u> </u> yes	<u> X </u> no	

Identification of major programs:

<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?	<u> </u> yes	<u> X </u> no
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East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Schedule of Audit Findings and Questioned Costs (Continued)
Year Ended December 31, 2019

Section II – Financial Statements Findings

2019–001 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 changes in reimbursement from significant payors that were not reflected in the allowance for doubtful accounts, the estimate was under stated at year end.
<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 is updated for changes in reimbursement.
<i>Views of responsible officials and planned corrective actions</i>	Management implemented changes to increase the accuracy of the monthly estimate for uncollectible accounts by immediately updating contract payment rates in the calculation, decreasing the estimated payment rates for all Medicare aging categories to estimate denials and noncovered charges, and decreased the payment rates for accounts aged over 180 days. Management is implementing testing of the adequacy of prior month estimates in May by testing the calculated estimate against finalized claims.

Section III - Federal Award Findings and Questioned Costs

No matters were reported. Therefore, no corrective action plan is necessary nor has one been prepared.

AUDITEE'S SECTION

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2019

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: Mortgage Insurance - Hospitals	14.128	Not applicable	\$ 10,603,578
Total expenditures of federal awards			\$ 10,603,578

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 East Phillips County Hospital District doing business as Melissa Memorial Hospital (the District) under programs of the federal government for the year ended December 31, 2019. 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 Guarantee:

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 \$10,055,700, at December 31, 2019.

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Corrective Action Plan
Year Ended December 31, 2019



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

Current year audit finding:

2019-001 Auditor Detected Adjusting Journal Entries

Planned corrective action: Management implemented changes to increase the accuracy of the monthly estimate for uncollectible accounts by immediately updating contract payment rates in the calculation, decreasing the estimated payment rates for all Medicare aging categories to estimate denials and noncovered charges, and decreased the payment rates for accounts aged over 180 days. Management is implementing testing of the adequacy of prior month estimates in May by testing the calculated estimate against finalized claims.

Anticipated completion date: May 31, 2020

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, 2019



2018-001 Auditor Detected Adjusting Journal Entries

Status: Repeated as 2019-001

Reason for recurrence: Due to changes in the reimbursement from various payors during the year, the allowance was understated.

Planned corrective action: Management implemented changes to increase the accuracy of the monthly estimate for uncollectible accounts by immediately updating contract payment rates in the calculation, decreasing the estimated payment rates for all Medicare aging categories to estimate denials and noncovered charges, and decreased the payment rates for accounts aged over 180 days. Management is implementing testing of the adequacy of prior month estimates in May by testing the calculated estimate against finalized claims.

Partial corrective action taken: Management implemented these changes in May 2020 and has received consulting to ensure the estimate is complete.