

East Phillips County Hospital District doing business as Melissa Memorial Hospital

Combined Basic Financial Statements and
Independent Auditors' Reports

December 31, 2023 and 2022



East Phillips County Hospital District
doing business as Melissa Memorial Hospital
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INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Combined Financial Statements

Opinion

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, 2023 and 2022, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Combined Financial Statements section of our report. We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2023 the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 96, *Subscription-Based Information Technology Arrangements*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Combined Financial Statements

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

In preparing the combined financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Combined Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the combined financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the combined financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Management has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The schedule of revenues and expenses-budget to actual is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 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 21, 2024, 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, 2023. We issued a similar report for the year ended December 31, 2022, dated May 23, 2023, which has not been included with the 2023 financial 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.

D3A PLLC

Spokane Valley, Washington
May 21, 2024

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Combined Statements of Net Position
December 31, 2023 and 2022

ASSETS	2023	2022
<i>Current assets</i>		
Cash and cash equivalents	\$ 8,555,452	\$ 7,784,269
Certificates of deposit	806,533	53,830
Receivables:		
Patient accounts, net	2,117,864	2,898,104
Taxes	1,021,491	975,846
Other	390,321	264,558
Estimated third-party payor settlements	988,000	2,135,000
Inventories	1,129,810	1,043,137
Prepaid expenses	303,658	264,276
Total current assets	15,313,129	15,419,020
<i>Noncurrent assets</i>		
Cash and cash equivalents restricted by debt agreement	2,066,828	2,022,453
Capital assets, net	11,951,482	13,385,401
Total noncurrent assets	14,018,310	15,407,854
Total assets	\$ 29,331,439	\$ 30,826,874

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, 2023 and 2022

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	2023	2022
<i>Current liabilities</i>		
Accounts payable	\$ 932,708	\$ 1,349,069
Accrued compensation and related liabilities	830,569	742,138
Accrued interest	26,481	39,561
Current portion of long-term debt and other noncurrent liabilities	989,277	919,661
Total current liabilities	2,779,035	3,050,429
<i>Noncurrent liabilities</i>		
Long-term debt and other noncurrent liabilities, net of current portion	7,572,462	8,406,277
Total liabilities	10,351,497	11,456,706
<i>Deferred inflows of resources, property taxes</i>	1,021,491	975,846
<i>Net position</i>		
Net investment in capital assets	3,363,262	4,019,902
Restricted for debt service	2,066,828	2,022,453
Unrestricted	12,528,361	12,351,967
Total net position	17,958,451	18,394,322
Total liabilities, deferred inflows of resources, and net position	\$ 29,331,439	\$ 30,826,874

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, 2023 and 2022

	2023	2022
<i>Operating revenues</i>		
Net patient service revenue	\$ 22,948,430	\$ 23,850,972
Grants	142,639	155,573
Other	327,511	142,056
Total operating revenues	23,418,580	24,148,601
<i>Operating expenses</i>		
Salaries and wages	8,160,359	7,462,094
Employee benefits	1,737,674	1,690,120
Insurance	167,624	182,270
Professional fees	1,659,340	1,674,836
Purchased services	4,519,243	4,856,385
Provider tax fees	613,198	479,408
Supplies	4,363,934	4,266,698
Utilities	477,379	470,302
Repairs and maintenance	205,089	133,316
Rentals and leases	138,834	120,772
Depreciation and amortization	1,832,879	1,895,744
Other	796,785	756,220
Total operating expenses	24,672,338	23,988,165
<i>Operating income (loss)</i>	(1,253,758)	160,436
<i>Nonoperating revenues (expenses)</i>		
Taxation for maintenance and operations	1,089,098	1,117,725
CARES Act Provider Relief Fund	-	309,243
Investment income	82,078	11,250
Interest expense	(367,872)	(410,364)
Contributions	7,299	76,719
Loss on asset impairment	(223,008)	-
Total nonoperating revenues, net	587,595	1,104,573
Change in net position before capital grants and contributions	(666,163)	1,265,009
<i>Capital grants and contributions</i>	230,292	-
Change in net position	(435,871)	1,265,009
Net position, beginning of year	18,394,322	17,129,313
Net position, end of year	\$ 17,958,451	\$ 18,394,322

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, 2023 and 2022

	2023	2022
<i>Change in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Cash received from and on behalf of patients	\$ 24,824,443	\$ 21,616,494
Cash received from other revenue	327,511	142,056
Cash received from grants	142,639	155,573
Cash paid to and on behalf of employees	(9,809,602)	(9,174,616)
Cash paid to suppliers and contractors	(13,483,843)	(12,949,045)
Net cash from operating activities	2,001,148	(209,538)
<i>Cash flows from noncapital financing activities</i>		
Cash received from taxation for maintenance and operations	1,089,098	1,117,725
Cash received from contributions and donations	7,299	76,719
Medicare accelerated payments repayments	-	(1,581,769)
Net cash from noncapital financing activities	1,096,397	(387,325)
<i>Cash flows from capital and related financing activities</i>		
Principal payments on long-term debt and other noncurrent liabilities	(999,247)	(2,472,941)
Interest paid on long-term debt	(380,952)	(410,364)
Purchase of capital assets	(386,919)	(622,074)
Cash received from capital grants and contributions	155,756	-
Net cash from capital and related financing activities	(1,611,362)	(3,505,379)
<i>Cash flows from investing activities</i>		
Investment interest received	82,078	10,063
Purchase of investments	(752,703)	-
Net cash from investing activities	(670,625)	10,063
Net change in cash and cash equivalents	815,558	(4,092,179)
Cash and cash equivalents, beginning of year	9,806,722	13,898,901
Cash and cash equivalents, end of year	\$ 10,622,280	\$ 9,806,722

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, 2023 and 2022

	2023	2022
<i>Reconciliation of Cash and Cash Equivalents</i>		
<i>to the Combined Statements of Net Position</i>		
Cash and cash equivalents	\$ 8,555,452	\$ 7,784,269
Cash and cash equivalents restricted by debt agreement	2,066,828	2,022,453
Total cash and cash equivalents	\$ 10,622,280	\$ 9,806,722
<i>Reconciliation of Operating Income (Loss) to Net Cash</i>		
<i>From Operating Activities</i>		
Operating income (loss)	\$ (1,253,758)	\$ 160,436
<i>Adjustments to reconcile operating income (loss) to net cash</i>		
<i>from operating activities</i>		
Depreciation and amortization	1,832,879	1,895,744
Provision for bad debts	568,211	266,800
(Increase) decrease in assets:		
Receivables:		
Patient accounts, net	212,029	(440,850)
Estimated third-party payor settlements	1,147,000	(1,196,000)
Other	(51,227)	(130,689)
Inventories	(86,673)	(214,088)
Prepaid expenses	(39,382)	23,856
Increase (decrease) in liabilities:		
Estimated third-party payor settlements	-	(212,000)
Accounts payable	(416,362)	181,394
Accrued compensation and related liabilities	88,431	(22,402)
Unearned Hospital Transformation Program revenue	-	(521,739)
Net cash from operating activities	\$ 2,001,148	\$ (209,538)

Noncash Capital and Related Financing Activities

During the year ended December 31, 2023, the District recorded \$235,048 of right-of-use assets and subscription liabilities from the implementation of Governmental Accounting Standards Board Statement No. 96, *Subscription-Based Information Technology Arrangements*.

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, 2023 and 2022**

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 nonprofit 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, 2023 and 2022

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 revenues 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.

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2023 and 2022

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

b. Summary of Significant Accounting Policies (continued)

Change in accounting principle – In May 2020, the Governmental Accounting Standards Board (GASB) issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. The objectives of this statement are to (1) define a subscription-based information technology arrangement (SBITA); (2) establish that a SBITA results in a right-of-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provide the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) require note disclosures regarding a SBITA. The District adopted GASB No. 96 during the year ended December 31, 2023. The District did not restate the financial statements for the year ended December 31, 2022, for GASB No. 96 due to insufficient resources available to do so and due to management’s determination that the restatement would not provide significant benefit to the financial statement users. See Notes 6 and 7 for additional information on the subscription assets and liabilities recorded by the District.

Reclassifications – Certain reclassifications have been made to the 2022 financial statements to conform to the classifications used in the 2023 financial statements, with no effect on previously reported change in net position.

Subsequent events – Subsequent events have been reviewed through May 21, 2024, the date on which the financial statements were available to be issued.

2. Bank Deposits:

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 certificates 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.

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2023 and 2022

2. Bank Deposits and Investments (continued):

Concentration of credit risk – Concentration of credit risk is 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 – Interest rate risk is 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.

3. Investments:

The District had the following investments:

	2023			
	Fair Value	Investment Maturities (in Years)		
		Less than One	One to Five	More than Five
Certificates of Deposit	\$ 806,533	\$ 806,533	\$ -	\$ -
Total	\$ 806,533	\$ 806,533	\$ -	\$ -

Fair value measurements – Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date.

The District classified its investments as of December 31, 2023 and 2022, based upon an established fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are defined as follows:

- **Level 1** – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. The District did not have any Level 1 investments in the years ended December 31, 2023 and 2022.
- **Level 2** – Quoted prices in markets that are not considered to be active or financial instruments without quoted market prices, but for which all significant inputs are observable, either directly or indirectly.
- **Level 3** – Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable. The District did not have any Level 3 investments in the years ended December 31, 2023 and 2022.

Investments in certificates of deposit are stated at fair value, which is measured by the custodians using pricing models based on credit quality, time to maturity, stated interest rates, and market rate assumptions, and are classified within Level 2.

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2023 and 2022

4. 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 not changed significantly from the prior year. 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:

	2023	2022
Receivables from patients and their insurance carriers	\$ 2,261,491	\$ 2,721,565
Receivables from Medicare	723,161	1,086,148
Receivables from Medicaid	124,498	275,119
Total patient accounts receivable	3,109,150	4,082,832
Less allowance for uncollectible accounts	991,286	1,184,728
Patient accounts receivable, net	\$ 2,117,864	\$ 2,898,104

**East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2023 and 2022**

5. 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 combined statements of net position dates. A deferred inflow of resources and a receivable were recorded at December 31, 2023 and 2022, for taxes levied for 2024 and 2023, respectively.

In 2023, the District's regular tax levy was \$13.70 per \$1,000 on a total assessed valuation of \$74,396,300, for a total regular levy of \$1,019,229. In 2022, the District's regular tax levy was \$13.70 per \$1,000 on a total assessed valuation of \$73,226,610, for a total regular levy of \$1,003,205.

6. 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
Lease right-of-use assets	5 years
Subscription assets	5 years

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2023 and 2022

6. Capital Assets (continued):

A schedule of changes in capital asset balances follows:

	Balance December 31, 2022	Additions	Retirements	Transfers	Balance December 31, 2023
<i>Capital assets not being depreciated</i>					
Land	\$ 266,021	\$ -	\$ -	\$ -	\$ 266,021
Construction in progress	359,395	8,378	(223,214)	(127,966)	16,592
Total capital assets not being depreciated	625,416	8,378	(223,214)	(127,966)	282,613
<i>Capital assets being depreciated</i>					
Land improvements	1,122,519	-	-	-	1,122,519
Buildings and improvements	17,801,270	21,460	-	8,516	17,831,246
Fixed equipment	284,548	-	-	-	284,548
Major movable equipment	10,987,814	357,288	-	119,450	11,464,552
Subscription assets	-	235,048	-	-	235,048
Lease right-of-use assets					
Major movable equipment	676,941	-	-	-	676,941
Total capital assets being depreciated	30,873,092	613,796	-	127,966	31,614,854
<i>Less accumulated depreciation for</i>					
Land improvements	(1,051,095)	(11,426)	-	-	(1,062,521)
Buildings and improvements	(8,906,557)	(661,909)	-	-	(9,568,466)
Fixed equipment	(988,100)	(47,077)	-	-	(1,043,785)
Major movable equipment	(6,650,591)	(967,707)	-	-	(7,653,159)
Subscription assets	-	(47,010)	-	-	(47,010)
Lease right-of-use assets					
Major movable equipment	(516,764)	(97,750)	-	-	(571,044)
Total accumulated depreciation	(18,113,107)	(1,832,879)	-	-	(19,945,985)
<i>Total capital assets being depreciated, net</i>					
	12,759,985	(1,219,083)	-	127,966	11,668,869
Capital assets, net	\$ 13,385,401	\$ (1,210,705)	\$ (223,214)	\$ -	\$ 11,951,482

Construction in progress as of December 31, 2023, consisted primarily of a humidifier and pharmacy air flow project with an estimated remaining cost of \$638,700. The project is currently on hold with no estimated completion date.

East Phillips County Hospital District
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Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2023 and 2022

6. Capital Assets (continued):

	Balance				Balance	
	December 31,		Additions	Retirements	Transfers	December 31,
	2021					2022
<i>Capital assets not being depreciated</i>						
Land	\$ 266,021	\$ -	\$ -	\$ -	\$ -	\$ 266,021
Construction in progress	710,917	134,545	-	-	(486,067)	359,395
Total capital assets not being depreciated	976,938	134,545	-	-	(486,067)	625,416
<i>Capital assets being depreciated</i>						
Land improvements	1,122,519	-	-	-	-	1,122,519
Buildings and improvements	17,801,269	-	-	-	-	17,801,270
Fixed equipment	247,331	37,218	-	-	-	284,548
Major movable equipment	10,728,377	450,311	-	-	(190,874)	10,987,814
Lease right-of-use assets						
Major movable equipment	-	-	-	-	676,941	676,941
Total capital assets being depreciated	29,899,496	487,529	-	-	486,067	30,873,092
<i>Less accumulated depreciation for</i>						
Land improvements	(1,011,742)	(39,353)	-	-	-	(1,051,095)
Buildings and improvements	(8,082,859)	(823,698)	-	-	-	(8,906,557)
Fixed equipment	(897,314)	(90,786)	-	-	-	(988,100)
Major movable equipment	(6,225,448)	(612,498)	-	-	187,355	(6,650,591)
Lease right-of-use assets						
Major movable equipment	-	(329,409)	-	-	(187,355)	(516,764)
Total accumulated depreciation	(16,217,363)	(1,895,744)	-	-	-	(18,113,107)
<i>Total capital assets being depreciated, net</i>						
	13,682,133	(1,408,215)	-	-	486,067	12,759,985
Capital assets, net	\$ 14,659,071	\$ (1,273,670)	\$ -	\$ -	\$ -	\$ 13,385,401

East Phillips County Hospital District
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Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2023 and 2022

7. Long-term Debt, Lease Liabilities, and Subscription Liabilities:

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

	Balance December 31,			Balance December 31,		Amount Due Within
	2022	Additions	Reductions	2023	2023	One Year
<i>Long-term debt</i>						
Red Capital Mortgage	\$ 8,267,853	\$ -	\$ (648,281)	\$ 7,619,572	\$ -	\$ 674,921
Original issue premium	359,019	-	(32,242)	326,777	-	-
Note payable - MRI unit	411,322	-	(191,273)	220,049	-	202,632
Lease liability - Telemetry unit	21,410	-	(21,410)	-	-	-
Lease liability - CT Scanner	266,334	-	(59,577)	206,757	-	63,093
<i>Subscription liabilities</i>	-	235,048	(46,464)	188,584	-	48,631
Total long-term debt, lease liabilities, and subscription liabilities	\$ 9,325,938	\$ 235,048	\$ (999,247)	\$ 8,561,739	\$ -	\$ 989,277

	Balance December 31,			Balance December 31,		Amount Due Within
	2021	Additions	Reductions	2022	2022	One Year
Red Capital Mortgage	\$ 8,888,859	\$ -	\$ (621,006)	\$ 8,267,853	\$ -	\$ 647,402
Original issue premium	392,012	-	(32,993)	359,019	-	-
First Pioneer National Bank 2015	1,522,152	-	(1,522,152)	-	-	-
Note payable - MRI unit	615,628	-	(204,306)	411,322	-	191,336
Lease liability - Telemetry unit	62,205	-	(40,795)	21,410	-	21,347
Lease liability - CT Scanner	318,023	-	(51,689)	266,334	-	59,576
Total long-term debt	\$ 11,798,879	\$ -	\$ (2,472,941)	\$ 9,325,938	\$ -	\$ 919,661

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

Mortgage payable to Red Capital Mortgage, LLC (Red Capital) – Mortgage note payable, dated June 20 2013, in the original amount of \$13,207,000. The note 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.

East Phillips County Hospital District
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Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2023 and 2022

7. Long-term Debt, Lease Liabilities, and Subscription Liabilities (continued):

Mortgage payable to Red Capital Mortgage, LLC (Red Capital) (continued) – 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 combined 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 2023 and will require a plan of action describing measures being taken to improve financial operations.

Note payable – MRI unit – The note was issued in the original amount of \$1,063,498 and is due in monthly installments of \$17,500 and carries an interest rate of 5.75 percent through January 2025.

Subscription liabilities – Subscription liability payable to i2i Population Health in the amount of \$235,048, due in monthly installments of \$5,162, including interest of 7.99%, through March 2027.

Lease liabilities – Lease liabilities are comprised of medical equipment assets and have varying payment amounts and interest rates of 5.75 percent.

The District’s lease and subscription agreements do not contain any material residual value guarantees or material restrictive covenants. Lease and subscription liabilities are reflected in the District’s assets and liabilities.

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

Years Ending December 31,	Future Maturities of Long-term Debt			Lease and Subscription Liabilities		
	Principal	Interest	Total	Principal	Interest	Total
2024	\$ 877,553	\$ 312,336	\$ 1,189,889	\$ 111,724	\$ 23,556	\$ 135,280
2025	721,026	276,363	997,389	119,481	15,799	135,280
2026	733,517	246,371	979,888	127,791	7,489	135,280
2027	764,697	215,192	979,889	36,345	738	37,083
2028	4,339,578	559,867	4,899,445	-	-	-
2029-2033	403,250	4,222	407,472	-	-	-
	7,839,621					
Original issue premium	326,777					
Total	\$ 8,166,398	\$ 1,614,351	\$ 9,780,749	\$ 395,341	\$ 47,582	\$ 442,923

East Phillips County Hospital District
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Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2023 and 2022

8. 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 who 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 has increased from the cleanup of old patient accounts in the prior year.

The District has not changed its charity care or uninsured discount policies during 2023 or 2022. 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:

	2023	2022
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	\$ 11,589,337	\$ 11,490,620
Medicaid	1,864,745	1,878,554
Other third-party payors	4,796,833	5,355,197
Patients	270,481	318,076
Retail pharmacy	2,274,671	2,063,031
Supplemental payments	2,863,831	3,014,827
	23,659,898	24,120,305
Less:		
Charity care	143,257	2,533
Provision for bad debts	568,211	266,800
Net patient service revenue	\$ 22,948,430	\$ 23,850,972

East Phillips County Hospital District
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Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2023 and 2022

8. Net Patient Service Revenue (continued):

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.
- **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 \$52,000 and decreased by approximately \$47,000 in 2023 and 2022, 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, 2023 and 2022, were approximately \$121,000 and \$2,000, respectively. The District did not receive any gifts or grants to subsidize charity services during 2023 and 2022.

East Phillips County Hospital District
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Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2023 and 2022

9. 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 \$187,000 and \$188,000 for 2023 and 2022, respectively. Employee contributions to the plan were approximately \$312,000 and \$325,000 for 2023 and 2022, respectively. Forfeitures were not material in 2023 and 2022. The District has the authority to amend the plan.

10. 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, 2023 and 2022

11. 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 Phillips County.

The mix of receivables from patients was as follows:

	2023	2022
Medicare	27 %	31 %
Medicaid	6	8
Other third-party payors	39	32
Patients	28	29
	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.

12. Hospital Transformation Program:

In September 2021, the District received \$521,739 from the Rural Support Program, which is complementary to the Hospital Transformation Program (HTP) to prepare critical access and rural hospitals for future value-based payment environments. Under the HTP, hospitals are required to implement quality-based initiatives and projects to receive supplemental payments and demonstrate meaningful community engagement and improvements in health outcomes over time. For some rural hospital communities, layering quality-based initiatives on top of insufficient operational strategies or infrastructure may not allow the hospitals to prepare for the needs of the communities they serve or the payment methodologies of the future. Select critical access or rural hospitals will be eligible to receive additional support payments to prepare for alternative payment methodologies in the future through strategic planning and financial modeling, and then to operationalize those strategies. The District attested to the use of the funds from the program in the year ended December 31, 2022, and the funds were recognized as revenue included with net patient service revenue.

East Phillips County Hospital District
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Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2023 and 2022

13. Budget to Actual Revenues and Expenses:

The District overspent its approved budget by \$743,777 in 2023.

14. Blended Component Unit:

The combining statement of net position for the year ended December 31, 2023, is as follows:

	Melissa Memorial Hospital	Melissa Memorial Hospital Corporation	Eliminations	Totals
ASSETS				
<i>Current assets</i>				
Cash and cash equivalents	\$ 8,502,121	\$ 53,331	\$ -	\$ 8,555,452
Certificates of deposit	806,533	-	-	806,533
Receivables:				
Patient accounts, net	2,117,864	-	-	2,117,864
Taxes	1,021,491	-	-	1,021,491
Other	388,741	1,580	-	390,321
Estimated third-party payor settlements	988,000	-	-	988,000
Due from the District	-	7,620,389	(7,620,389)	-
Inventories	1,129,810	-	-	1,129,810
Prepaid expenses	303,658	-	-	303,658
Total current assets	15,258,218	7,675,300	(7,620,389)	15,313,129
<i>Noncurrent assets</i>				
Cash and cash equivalents restricted by debt agreement	2,001,174	65,654	-	2,066,828
Capital assets, net	11,951,482	-	-	11,951,482
Total noncurrent assets	13,952,656	65,654	-	14,018,310
Total assets	\$ 29,210,874	\$ 7,740,954	\$ (7,620,389)	\$ 29,331,439
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION				
<i>Current liabilities</i>				
Current maturities of long-term and other noncurrent liabilities	\$ 314,356	\$ 674,921	\$ -	\$ 989,277
Accounts payable	874,485	58,223	-	932,708
Accrued compensation and related liabilities	830,569	-	-	830,569
Accrued interest	26,481	-	-	26,481
Due to Melissa Memorial Hospital Corporation	7,620,389	-	(7,620,389)	-
Total current liabilities	9,666,280	733,144	(7,620,389)	2,779,035
<i>Noncurrent liabilities</i>				
Long-term debt and other noncurrent liabilities, net of current portion	301,034	7,271,428	-	7,572,462
Total liabilities	9,967,314	8,004,572	(7,620,389)	10,351,497
<i>Deferred inflows of resources, property taxes</i>	1,021,491	-	-	1,021,491
<i>Net position</i>				
Net investment in capital assets	11,309,611	(7,946,349)	-	3,363,262
Restricted for debt service	2,001,174	65,654	-	2,066,828
Unrestricted	4,911,284	7,617,077	-	12,528,361
Total net position	18,222,069	(263,618)	-	17,958,451
Total liabilities, deferred inflows of resources, and net position	\$ 29,210,874	\$ 7,740,954	\$ (7,620,389)	\$ 29,331,439

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Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2023 and 2022

14. Blended Component Unit (continued):

The combining statement of revenues, expenses, and changes in net position for the year ended December 31, 2023, is as follows:

	Melissa Memorial Hospital	Melissa Memorial Hospital Corporation	Eliminations	Totals
<i>Operating revenues</i>				
Net patient service revenue	\$ 22,948,430	\$ -	\$ -	\$ 22,948,430
Grants	142,639	-	-	142,639
Other	327,511	144,300	(144,300)	327,511
Total operating revenues	23,418,580	144,300	(144,300)	23,418,580
<i>Operating expenses</i>				
Salaries and wages	8,160,359	-	-	8,160,359
Employee benefits	1,737,674	-	-	1,737,674
Insurance	200,746	111,178	(144,300)	167,624
Professional fees	1,659,340	-	-	1,659,340
Purchased services	4,519,243	-	-	4,519,243
Provider tax fees	613,198	-	-	613,198
Supplies	4,363,934	-	-	4,363,934
Utilities	477,379	-	-	477,379
Repairs and maintenance	205,089	-	-	205,089
Rentals and leases	138,834	-	-	138,834
Depreciation and amortization	1,832,879	-	-	1,832,879
Other	796,785	-	-	796,785
Total operating expenses	24,705,460	111,178	(144,300)	24,672,338
<i>Operating income (loss)</i>	(1,286,880)	33,122	-	(1,253,758)
<i>Nonoperating revenues (expenses)</i>				
Taxation for maintenance and operations	1,089,098	-	-	1,089,098
Contributions	7,299	-	-	7,299
Investment income	82,078	340,794	(340,794)	82,078
Interest expense	(367,872)	(340,794)	340,794	(367,872)
Loss on asset impairment	(223,008)	-	-	(223,008)
Total nonoperating revenues, net	587,595	-	-	587,595
Change in net position before capital grants and contributions	(699,285)	33,122	-	(666,163)
<i>Capital grants and contributions</i>	230,292	-	-	230,292
Change in net position	(468,993)	33,122	-	(435,871)
Net position, beginning of year	18,691,062	(296,740)	-	18,394,322
Net position, end of year	\$ 18,222,069	\$ (263,618)	\$ -	\$ 17,958,451

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Years Ended December 31, 2023 and 2022

14. Blended Component Unit (continued):

The combining statement of cash flows for the year ended December 31, 2023, is as follows:

	Melissa Memorial Hospital	Melissa Memorial Hospital Corporation	Eliminations	Totals
<i>Change in Cash and Cash Equivalents</i>				
<i>Cash flows from operating activities</i>				
Cash received from and on behalf of patients	\$ 24,824,443	\$ -	\$ -	\$ 24,824,443
Cash received from other revenue	327,511	144,300	(144,300)	327,511
Cash received from grants	142,639	-	-	142,639
Cash paid to and on behalf of employees	(9,809,602)	-	-	(9,809,602)
Cash paid to suppliers and contractors	(14,199,657)	571,514	144,300	(13,483,843)
Net cash from operating activities	1,285,334	715,814	-	2,001,148
<i>Cash flows from noncapital financing activities</i>				
Cash received from taxation for maintenance and operations	1,089,098	-	-	1,089,098
Cash received from contributions and donations	7,299	-	-	7,299
Net cash from noncapital financing activities	1,096,397	-	-	1,096,397
<i>Cash flows from capital and related financing activities</i>				
Principal payments on long-term debt and other noncurrent liabilities	(318,724)	(680,523)	-	(999,247)
Interest paid on long-term debt	(380,952)	(340,794)	340,794	(380,952)
Purchase of capital assets	(386,919)	-	-	(386,919)
Cash received from capital grants and contributions	155,756	-	-	155,756
Net cash from capital and related financing activities	(930,839)	(1,021,317)	340,794	(1,611,362)
<i>Cash flows from investing activities</i>				
Sales of investments	-	340,794	(340,794)	-
Investment interest received	82,078	-	-	82,078
Purchase of investments	(752,703)	-	-	(752,703)
Net cash from investing activities	(670,625)	340,794	(340,794)	(670,625)
Net increase in cash and cash equivalents	780,267	35,291	-	815,558
Cash and cash equivalents, beginning of year	9,723,028	83,694	-	9,806,722
Cash and cash equivalents, end of year	\$ 10,503,295	\$ 118,985	\$ -	\$ 10,622,280
<i>Reconciliation of Cash and Cash Equivalents to the Combining Statements of Net Position</i>				
Cash and cash equivalents	\$ 8,502,121	\$ 53,331	\$ -	\$ 8,555,452
Cash and cash equivalents restricted by debt agreement	2,001,174	65,654	-	2,066,828
Total cash and cash equivalents	\$ 10,503,295	\$ 118,985	\$ -	\$ 10,622,280
<i>Reconciliation of Operating Income (Loss) to Net Cash From Operating Activities</i>				
Operating income (loss)	\$ (1,286,880)	\$ 33,122	\$ -	\$ (1,253,758)
<i>Adjustments to reconcile operating income (loss) to net cash from operating activities</i>				
Depreciation and amortization	1,832,879	-	-	1,832,879
Provision for bad debts	568,211	-	-	568,211
(Increase) decrease in assets:				
Receivables:				
Patient accounts, net	212,029	-	-	212,029
Estimated third-party payor settlements	1,147,000	-	-	1,147,000
Other	(51,227)	-	-	(51,227)
Inventories	(86,673)	-	-	(86,673)
Prepaid expenses	(39,382)	-	-	(39,382)
Due from the District	-	647,402	(647,402)	-
Increase (decrease) in liabilities:				
Accounts payable	(451,652)	35,290	-	(416,362)
Accrued compensation and related liabilities	88,431	-	-	88,431
Due to Melissa Memorial Hospital Corporation	(647,402)	-	647,402	-
Net cash from operating activities	\$ 1,285,334	\$ 715,814	\$ -	\$ 2,001,148

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Years Ended December 31, 2023 and 2022

14. Blended Component Unit (continued):

The combining statement of net position for the year ended December 31, 2022, is as follows:

	Melissa Memorial Hospital	Melissa Memorial Hospital Corporation	Eliminations	Totals
ASSETS				
<i>Current assets</i>				
Cash and cash equivalents	\$ 7,730,938	\$ 53,331	\$ -	\$ 7,784,269
Certificates of deposit	53,830	-	-	53,830
Receivables:				
Patient accounts, net	2,898,104	-	-	2,898,104
Taxes	975,846	-	-	975,846
Due from the District	-	8,267,791	(8,267,791)	-
Other	262,978	1,580	-	264,558
Estimated third-party payor settlements	2,135,000	-	-	2,135,000
Inventories	1,043,137	-	-	1,043,137
Prepaid expenses	264,276	-	-	264,276
Total current assets	15,364,109	8,322,702	(8,267,791)	15,419,020
<i>Noncurrent assets</i>				
Cash and cash equivalents restricted by debt agreement	1,992,090	30,363	-	2,022,453
Capital assets, net	13,385,401	-	-	13,385,401
Total noncurrent assets	15,377,491	30,363	-	15,407,854
Total assets	\$ 30,741,600	\$ 8,353,065	\$ (8,267,791)	\$ 30,826,874
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION				
<i>Current liabilities</i>				
Accounts payable	\$ 1,326,136	\$ 22,933	\$ -	\$ 1,349,069
Accrued compensation and related liabilities	742,138	-	-	742,138
Accrued interest	39,561	-	-	39,561
Current portion of long-term debt	272,259	647,402	-	919,661
Due to Melissa Memorial Hospital Corporation	8,267,791	-	(8,267,791)	-
Total current liabilities	10,647,885	670,335	(8,267,791)	3,050,429
<i>Noncurrent liabilities</i>				
Long-term debt and other noncurrent liabilities net of current portion	426,807	7,979,470	-	8,406,277
Total liabilities	10,647,885	670,335	(8,267,791)	3,050,429
<i>Deferred inflows of resources, property taxes</i>	975,846	-	-	975,846
<i>Net position</i>				
Net investment in capital assets	12,646,774	(8,626,872)	-	4,019,902
Restricted for debt service	1,992,090	30,363	-	2,022,453
Unrestricted	4,052,199	8,299,768	-	12,351,967
Total net position	18,691,063	(296,741)	-	18,394,322
Total liabilities, deferred inflows of resources, and net position	\$ 30,314,793	\$ 373,595	\$ (8,267,791)	\$ 22,420,597

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2023 and 2022

14. Blended Component Unit (continued):

The combining statement of revenues, expenses, and changes in net position for the year ended December 31, 2022, is as follows:

	Melissa Memorial Hospital	Melissa Memorial Hospital Corporation	Eliminations	Totals
<i>Operating revenues</i>				
Net patient service revenue	\$ 23,850,972	\$ -	\$ -	\$ 23,850,972
Grants	155,573	-	-	155,573
Other	142,056	122,458	(122,458)	142,056
Total operating revenues	24,148,601	122,458	(122,458)	24,148,601
<i>Operating expenses</i>				
Salaries and wages	7,462,094	-	-	7,462,094
Employee benefits	1,690,120	-	-	1,690,120
Insurance	212,207	92,521	(122,458)	182,270
Professional fees	1,674,836	-	-	1,674,836
Purchased services	4,856,385	-	-	4,856,385
Provider tax fees	479,408	-	-	479,408
Supplies	4,266,698	-	-	4,266,698
Utilities	470,302	-	-	470,302
Repairs and maintenance	133,316	-	-	133,316
Rentals and leases	120,772	-	-	120,772
Depreciation and amortization	1,895,744	-	-	1,895,744
Other	756,220	-	-	756,220
Total operating expenses	24,018,102	92,521	(122,458)	23,988,165
<i>Operating income</i>	130,499	29,937	-	160,436
<i>Nonoperating revenues (expenses)</i>				
Taxation for maintenance and operations	1,117,725	-	-	1,117,725
Contributions	76,719	-	-	76,719
CARES Act Provider Relief Fund	309,243	-	-	309,243
Investment income	11,250	360,710	(360,710)	11,250
Interest expense	(413,591)	(357,483)	360,710	(410,364)
Total nonoperating revenues, net	1,101,346	3,227	-	1,104,573
Change in net position	1,231,845	33,164	-	1,265,009
Net position, beginning of year	17,459,218	(329,905)	-	17,129,313
Net position, end of year	\$ 18,691,063	\$ (296,741)	\$ -	\$ 18,394,322

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2023 and 2022

14. Blended Component Unit (continued):

The combining statement of cash flows for the year ended December 31, 2022, 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	\$ 21,616,494	\$ -	\$ -	\$ 21,616,494
Cash received from other revenue	142,056	122,458	(122,458)	142,056
Cash received from grants	155,573	-	-	155,573
Cash paid to and on behalf of employees	(9,174,616)	-	-	(9,174,616)
Cash paid to suppliers and contractors	(13,586,779)	515,276	122,458	(12,949,045)
Net cash from operating activities	(847,272)	637,734	-	(209,538)
<i>Cash flows from noncapital financing activities</i>				
Cash received from taxation for maintenance and operations	1,117,725	-	-	1,117,725
Cash received from contributions and donations	76,719	-	-	76,719
Cash paid back to Medicare accelerated payments	(1,581,769)	-	-	(1,581,769)
Net cash from noncapital financing activities	(387,325)	-	-	(387,325)
<i>Cash flows from capital and related financing activities</i>				
Principal payments on long-term debt	(1,818,942)	(653,999)	-	(2,472,941)
Interest paid on long-term debt	(413,591)	(357,483)	360,710	(410,364)
Purchase of capital assets	(622,074)	-	-	(622,074)
Net cash from capital and related financing activities	(2,854,607)	(1,011,482)	360,710	(3,505,379)
<i>Cash flows from investing activities</i>				
Purchase of investments	-	360,710	(360,710)	-
Investment interest received	10,063	-	-	10,063
Net cash from investing activities	10,063	360,710	(360,710)	10,063
Net decrease in cash and cash equivalents	(4,079,141)	(13,038)	-	(4,092,179)
Cash and cash equivalents, beginning of year	13,802,169	96,732	-	13,898,901
Cash and cash equivalents, end of year	\$ 9,723,028	\$ 83,694	\$ -	\$ 9,806,722
<i>Reconciliation of Cash and Cash Equivalents to the Combining Statements of Net Position</i>				
Cash and cash equivalents	\$ 7,730,938	\$ 53,331	\$ -	\$ 7,784,269
Cash and cash equivalents restricted by debt agreement	1,992,090	30,363	-	2,022,453
Total cash and cash equivalents	\$ 9,723,028	\$ 83,694	\$ -	\$ 9,806,722
<i>Reconciliation of Operating Income to Net Cash From Operating Activities</i>				
Operating income	\$ 130,498	\$ 29,938	\$ -	\$ 160,436
<i>Adjustments to reconcile operating income to net cash from operating activities</i>				
Depreciation and amortization	1,895,744	-	-	1,895,744
Provision for bad debts	266,800	-	-	266,800
(Increase) decrease in assets:				
Receivables:				
Patient accounts, net	(440,850)	-	-	(440,850)
Estimated third-party payor settlements	(1,196,000)	-	-	(1,196,000)
Other	(130,689)	-	-	(130,689)
Inventories	(214,088)	-	-	(214,088)
Prepaid expenses	23,856	-	-	23,856
Due from the District	-	620,833	(620,833)	-
Increase (decrease) in liabilities:				
Estimated third-party payor settlements	(212,000)	-	-	(212,000)
Accounts payable	194,431	(13,037)	-	181,394
Accrued compensation and related liabilities	(22,402)	-	-	(22,402)
Unearned Hospital Transformation Program revenue	(521,739)	-	-	(521,739)
Due to Melissa Memorial Hospital Corporation	(620,833)	-	620,833	-
Net cash from operating activities	\$ (847,272)	\$ 637,734	\$ -	\$ (209,538)

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, 2023

	Budgeted	Actual	Variance Favorable (Unfavorable)
<i>Operating revenues</i>			
Net patient service revenue	\$ 21,083,388	\$ 22,948,430	\$ 1,865,042
Other	2,371,731	470,150	(1,901,581)
Total operating revenues	23,455,119	23,418,580	(36,539)
<i>Operating expenses</i>			
Salaries, wages, and employee benefits	10,123,672	9,898,033	225,639
Other	13,804,889	14,774,305	(969,416)
Total operating expenses	23,928,561	24,672,338	(743,777)
<i>Operating loss</i>	(473,442)	(1,253,758)	(780,316)
<i>Nonoperating revenues</i>	530,443	587,595	57,152
<i>Capital grants and contributions</i>	-	230,292	230,292
Change in net position	\$ 57,001	\$ (435,871)	\$ (492,872)

See accompanying independent auditors' report.

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, 2023, 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 21, 2024.

Report on 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) as a basis for designing 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 identified a certain deficiency in internal control, described in the accompanying schedule of audit findings and questioned costs as item 2023-001 that we consider to be a material weakness.

Report on 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, and contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 Findings

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the findings identified in our audit and described in the accompanying schedule of audit findings and questioned costs. The District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

D3A PLLC

Spokane Valley, Washington
May 21, 2024



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND 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

Opinion on 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 identified as subject to audit 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, 2023. 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.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2023.

Basis for Opinion on the Major Federal Program

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 (*Government Auditing Standards*); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the District's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the District's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of audit findings and questioned costs as item 2023-002 to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the internal control over compliance finding identified in our compliance audit described in the accompanying schedule of audit findings and questioned costs. The District's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

D3APLLC

Spokane Valley, Washington
May 21, 2024

**East Phillips County Hospital District
 doing business as Melissa Memorial Hospital
 Schedule of Audit Findings and Questioned Costs
 Year Ended December 31, 2023**

Section I - Summary of Auditors' Results

Financial Statements:

Type of auditors' report issued: *Unmodified*

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? yes X no

Federal Awards:

Internal control over major federal program:

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

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

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

Identification of major federal programs:

<i>Assistance Listing Number(s)</i>	<i>Name of Federal Programs or Cluster</i>
14.128	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, 2023**

Section II – Financial Statement Findings

2023-001	Material Adjusting Journal Entries
Criteria	[] Compliance Finding [] Significant Deficiency [X] Material Weakness There should not be any significant or material adjusting journal entries made during the audit process.
Condition	During our audit, material entries were necessary at year end to properly adjust balances related to accounts payable, operating expenses, receivables, construction in progress, and loss on capital asset impairment.
Context	This finding appears to be a <i>systemic</i> problem.
Cause	All significant statement of net position accounts should be reviewed in-depth on a monthly basis to ensure they are accounted for properly.
Effect	Failure to regularly review all account balances can result in errors in the financial statements, which are depended on by management, the Board of Directors, and external financial statement users, and represents a weakness in internal control over financial reporting.
Recommendation	All general ledger account reconciliations must be prepared and reviewed monthly for accuracy. Documentation of these reviews should be maintained as well.
Views of responsible officials and planned corrective actions	Management will be taking immediate action to implement changes to track and monitor all manual adjusting journal entries. They will be working with Wipfli to update processes and procedures for the finance and accounts receivable departments to comply with monthly general ledger accounts reconciliation. Management will implement changes immediately and will conduct internal audits to monitor progress.

**East Phillips County Hospital District
 doing business as Melissa Memorial Hospital
 Schedule of Audit Findings and Questioned Costs (Continued)
 Year Ended December 31, 2023**

Section III - Federal Award Findings and Questioned Costs

2023-002	Policies and Procedures for Federal Awards
Federal Agency	U.S. Department of Housing and Urban Development
Federal Assistance Listing Numbers	14.128 – Mortgage Insurance - Hospitals
Criteria	[] Compliance Finding [X] Significant Deficiency [] Material Weakness Recipients of federal awards should maintain written policies and procedures for the tracking and usage of federal awards that provide assurance that the entity is managing the federal award in compliance with federal statutes, regulations, and conditions of the federal award.
Condition	The District did not have written policies and procedures to identify federal award requirements and ensure that the District was in compliance with these requirements.
Context	This finding appears to be a <i>systemic</i> problem.
Cause	The District did not have an internal control process in place to ensure continued compliance with the federal award.
Effect	The lack of policies increases the risk that noncompliance may not be corrected in a timely manner.
Recommendation	We recommend the District implement policies and procedures for the tracking and usage of federal awards that conform to federal regulations and compliance requirements.
Views of responsible officials and planned corrective actions	Management will consult an advisory firm to assist with providing sample policies and procedures for tracking and usage of federal awards. Management will review and implement policies and procedures no later than 60 days to ensure compliance with tracking and usage of federal awards

AUDITEE'S SECTION

**East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2023**

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Pass-through Entity Identifying Number	Additional Award Identification	Total Federal Expenditures
U.S. Department of Health and Human Services Pass-through Programs From:				
<i>Colorado Rural Health Center</i> Rural Health Research Centers	93.155	Not provided	COVID-19	\$ 156,427
U.S. Department of Housing and Urban Development Direct Programs:				
Mortgage Insurance - Hospitals	14.128			8,267,853
U.S. Department of the Treasury Pass-through Programs From:				
<i>Colorado Governor's Office of Information Technology</i> Coronavirus State And Local Fiscal Recovery Funds	21.027	CTGG1 EGBA 2023*2555	COVID-19	153,506
Total expenditures of federal awards				\$ 8,577,786

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

Notes to the Schedule of Expenditures of Federal Awards:

1. Basis of Presentation:

The accompanying schedule of expenditures of federal awards (the 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, 2023. 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 assets, 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. 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 \$7,619,572 at December 31, 2023.

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

Schedule II - Current year audit findings:

2023-001 – Material Adjusting Journal Entries

Corrective action planned: Management will be taking immediate action to implement changes to track and monitor all manual adjusting journal entries. They will be working with Wipfli to update processes and procedures for the finance and accounts receivable departments to comply with monthly general ledger accounts reconciliation. Management will conduct internal audits monthly to monitor progress.

Anticipated completion date: June 30, 2024

Contact person responsible for corrective action: Angela St. John, CFO

Schedule III - Current year audit findings:

2023-002 – Policies and Procedures for Federal Awards

Corrective action planned: Management will consult an advisory firm to assist with providing sample policies and procedures for tracking and usage of federal awards. Management will review and implement policies and procedures no later than 60 days to ensure compliance with tracking and usage of federal awards.

Anticipated completion date: June 30, 2024

Contact person responsible for corrective action: Angela St. John, CFO

**East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2023**

The audit for the year ended December 31, 2022, reported no findings, nor were there any unresolved prior year audit findings from periods ended December 31, 2021, or prior. Therefore, there are no matters to report in this schedule for the year ended December 31, 2023.