

East Phillips County Hospital District doing business as Melissa Memorial Hospital

Combined Basic Financial Statements and
Independent Auditors' Reports

December 31, 2024 and 2023



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 Basic Financial Statements

Opinion

We have audited the accompanying combined basic 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, 2024 and 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.

In our opinion, the combined basic financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2024 and 2023, 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 Basic 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 combined financial statements, in 2024, the District adopted a new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences*. 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 basic financial statements in accordance with GAAS, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the combined basic financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the combined basic 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 combined basic 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 basic 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 basic 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 basic 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 basic 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 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the combined basic 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 combined 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 combined 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 combined financial statements. The 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 information is 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 June 13, 2025, 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, 2024. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

D3A PLLC

Spokane Valley, Washington
June 13, 2025

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Combined Statements of Net Position
December 31, 2024 and 2023

ASSETS	2024	2023
<i>Current assets</i>		
Cash and cash equivalents	\$ 5,204,417	\$ 8,555,452
Certificates of deposit	5,957,758	806,533
Receivables:		
Patient accounts, net	5,490,304	2,117,864
Taxes	990,463	1,021,491
Other	188,254	390,321
Estimated third-party payor settlements	1,638,000	988,000
Inventories	1,024,450	1,129,810
Prepaid expenses	255,467	303,658
Total current assets	20,749,113	15,313,129
<i>Noncurrent assets</i>		
Cash and cash equivalents restricted by debt agreement	1,709,472	2,066,828
Depreciable capital assets, net	10,598,377	11,668,869
Nondepreciable capital assets	374,892	282,613
Total noncurrent assets	12,682,741	14,018,310
Total assets	\$ 33,431,854	\$ 29,331,439

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, 2024 and 2023

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	2024	2023
<i>Current liabilities</i>		
Accounts payable	\$ 3,889,297	\$ 932,708
Accrued compensation and related liabilities	915,138	1,063,569
Accrued interest	26,481	26,481
Current portion of long-term debt and other noncurrent liabilities	787,845	989,277
Total current liabilities	5,618,761	3,012,035
<i>Noncurrent liabilities</i>		
Long-term debt and other noncurrent liabilities, net of current portion	6,610,765	7,572,462
Total liabilities	12,229,526	10,584,497
<i>Deferred inflows of resources, property taxes</i>	990,463	1,021,491
<i>Net position</i>		
Net investment in capital assets	3,574,659	3,389,743
Restricted by debt agreement	1,709,472	2,066,828
Unrestricted, restated	14,927,734	12,268,880
Total net position, restated	20,211,865	17,725,451
Total liabilities, deferred inflows of resources, and net position	\$ 33,431,854	\$ 29,331,439

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, 2024 and 2023

	2024	2023
<i>Operating revenues</i>		
Net patient service revenue	\$ 28,408,218	\$ 22,948,430
Grants	440,406	142,639
Other	308,765	318,979
Total operating revenues	29,157,389	23,410,048
<i>Operating expenses</i>		
Salaries and wages	9,223,041	8,160,359
Employee benefits	2,020,039	1,737,674
Insurance	227,291	167,624
Professional fees	1,657,852	1,659,340
Purchased services	4,287,037	4,519,243
Provider tax fees	588,082	613,198
Supplies	7,355,282	4,363,934
Utilities	543,721	477,379
Repairs and maintenance	214,993	205,089
Rentals and leases	147,637	138,834
Depreciation and amortization	1,891,236	1,832,879
Other	820,154	796,785
Total operating expenses	28,976,365	24,672,338
<i>Operating income (loss)</i>	181,024	(1,262,290)
<i>Nonoperating revenues (expenses)</i>		
Taxation for maintenance and operations	1,202,900	1,089,098
Investment income	482,075	90,610
Interest expense	(298,176)	(367,872)
Contributions	-	7,299
Loss on asset impairment	-	(223,008)
Total nonoperating revenues (expenses), net	1,386,799	596,127
Change in net position before capital grants and contributions	1,567,823	(666,163)
<i>Capital grants and contributions</i>	918,591	230,292
Change in net position	2,486,414	(435,871)
Net position, beginning of year, as restated	17,725,451	18,161,322
Net position, end of year, as restated	\$ 20,211,865	\$ 17,725,451

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, 2024 and 2023

	2024	2023
<i>Change in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Cash received from and on behalf of patients	\$ 24,510,345	\$ 24,824,443
Cash received from other revenue	308,765	318,979
Cash received from grants	440,406	142,639
Cash paid to and on behalf of employees	(11,391,511)	(9,809,602)
Cash paid to suppliers and contractors	(12,731,909)	(13,483,842)
Net cash from operating activities	1,136,096	1,992,617
<i>Cash flows from noncapital financing activities</i>		
Cash received from taxation for maintenance and operations	1,202,900	1,089,098
Cash received from contributions and donations	-	7,299
Net cash from noncapital financing activities	1,202,900	1,096,397
<i>Cash flows from capital and related financing activities</i>		
Principal payments on long-term debt and other noncurrent liabilities	(980,083)	(967,005)
Interest paid on long-term debt	(332,891)	(413,194)
Purchase of capital assets	(1,061,354)	(386,920)
Cash received from capital grants and contributions	996,091	155,756
Net cash from capital and related financing activities	(1,378,237)	(1,611,363)
<i>Cash flows from investing activities</i>		
Investment interest received	482,075	90,610
Proceeds from maturities of investments	775,768	-
Purchase of investments	(5,926,993)	(752,703)
Net cash from investing activities	(4,669,150)	(662,093)
Net change in cash and cash equivalents	(3,708,391)	815,558
Cash and cash equivalents, beginning of year	10,622,280	9,806,722
Cash and cash equivalents, end of year	\$ 6,913,889	\$ 10,622,280

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, 2024 and 2023

	2024	2023
<i>Reconciliation of Cash and Cash Equivalents</i>		
<i>to the Combined Statements of Net Position</i>		
Cash and cash equivalents	\$ 5,204,417	\$ 8,555,452
Cash and cash equivalents restricted by debt agreement	1,709,472	2,066,828
Total cash and cash equivalents	\$ 6,913,889	\$ 10,622,280
<i>Reconciliation of Operating Income (Loss) to Net Cash</i>		
<i>from Operating Activities</i>		
Operating income (loss)	\$ 181,024	\$ (1,262,290)
<i>Adjustments to reconcile operating income (loss) to net cash</i>		
<i>from operating activities</i>		
Depreciation and amortization	1,891,236	1,832,879
Provision for bad debts	1,015,618	568,211
(Increase) decrease in assets:		
Receivables:		
Estimated third-party payor settlements	(650,000)	1,147,000
Patient accounts, net	(4,388,058)	212,029
Other	124,567	(51,227)
Inventories	105,360	(86,673)
Prepaid expenses	48,191	(39,382)
Increase (decrease) in liabilities:		
Accounts payable	2,956,589	(416,361)
Accrued compensation and related liabilities	(148,431)	88,431
Net cash from operating activities	\$ 1,136,096	\$ 1,992,617

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.

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, 2024 and 2023**

1. Reporting Entity and Summary of Significant Accounting Policies:

a. Reporting Entity

East Phillips County Hospital District doing business as Melissa Memorial Hospital (the District), 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 District 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 District. The financial statements include only the financial activity of the District and MMHC, (collectively, 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 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, as well as 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, 2024 and 2023**

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 compensation and related liabilities – The District’s policy is to permit employees to accumulate earned but unused paid time off up to a maximum range of 240 to 400 hours, depending on their years of service. The District recognizes an expense for paid time off when it is earned. The District also permits employees to accumulate paid safe and sick time (PSST) at a rate of .077 per hour worked. All employees are eligible and the maximum PSST that can be accrued is up to 160 per year. PSST hours are not vested and are estimated based on the amount of the accrued hours expected to be used by the employees. All accruals for compensated absences and payroll expenses (such as employer payroll taxes and retirement contributions) that relate to the compensated absences are also estimated and accrued.

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, 2024 and 2023

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

b. Summary of Significant Accounting Policies (continued)

Change in accounting principle – In June 2022, the Governmental Accounting Standards Board (GASB) issued Statement No. 101, *Compensated Absences*. The objective of this statement is to update the recognition and measurement guidance for compensated absences. The District adopted Statement No. 101 during the year ended December 31, 2024. See Notes 1b for additional information on the compensated absences recorded by the District. This change in accounting principle resulted in additional accrued paid time off of \$233,000 being recognized at December 31, 2024, 2023, and 2022. Net position as of December 31, 2022, decreased by \$233,000. The change in accounting principle had no impact on change in net position in 2024 or 2023.

Reclassifications – Certain reclassifications have been made to the 2023 financial statements to conform to the classifications used in the 2024 financial statements, with no effect on previously reported change in net position.

Subsequent events – Subsequent events have been reviewed through June 13, 2025, 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.

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.

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2024 and 2023

3. Investments:

The District had the following investments:

	2024			
	Fair Value	Investment Maturities (in Years)		
		Less than One	One to Five	More than Five
Certificates of Deposit	\$ 5,957,758	\$ 5,957,758	\$ -	\$ -
Total	\$ 5,957,758	\$ 5,957,758	\$ -	\$ -

	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 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, 2024 and 2023.
- **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, 2024 and 2023.

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, 2024 and 2023

4. Patient Accounts Receivable:

Patient accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectability 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:

	2024	2023
Receivables from patients and their insurance carriers	\$ 3,251,200	\$ 2,261,491
Receivables from Medicare	3,567,325	723,161
Receivables from Medicaid	198,829	124,498
Total patient accounts receivable	7,017,354	3,109,150
Less allowance for uncollectible accounts	1,527,050	991,286
Patient accounts receivable, net	\$ 5,490,304	\$ 2,117,864

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2024 and 2023

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, 2024 and 2023, for taxes levied for 2024 and 2023, respectively.

In 2024, the District’s regular tax levy was \$13.70 per \$1,000 on a total assessed valuation of \$72,296,590, for a total regular levy of \$990,463. In 2023, the District’s regular tax levy was \$13.70 per \$1,000 on a total assessed valuation of \$74,696,300, for a total regular levy of \$1,021,491.

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 and amortization 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 or software agreement 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 major movable equipment	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, 2024 and 2023

6. Capital Assets (continued):

A schedule of changes in capital asset balances follows:

	Balance December 31, 2023	Additions	Retirements	Transfers	Balance December 31, 2024
<i>Nondepreciable capital assets</i>					
Land	\$ 266,021	\$ -	\$ -	\$ -	\$ 266,021
Construction in progress	16,592	949,200	-	(856,920)	108,872
Total nondepreciable capital assets	282,613	949,200	-	(856,920)	374,893
<i>Capital assets being depreciated</i>					
Land improvements	1,122,519	-	-	-	1,122,519
Buildings and improvements	17,831,246	-	-	9,897	17,841,143
Fixed equipment	284,548	-	-	-	284,548
Major movable equipment	11,464,552	112,155	-	847,023	12,423,730
Subscription assets	235,048	-	(235,048)	-	-
Lease right-of-use assets					
Major movable equipment	676,941	-	-	-	676,941
Total capital assets being depreciated	31,614,854	112,155	(235,048)	856,920	32,348,881
<i>Less accumulated depreciation for</i>					
Land improvements	(1,062,521)	(9,065)	-	-	(1,071,586)
Buildings and improvements	(9,568,466)	(570,842)	-	-	(10,139,308)
Fixed equipment	(1,043,785)	(20,567)	-	-	(1,064,352)
Major movable equipment	(7,653,160)	(1,153,304)	-	-	(8,806,464)
Subscription assets	(47,010)	(39,707)	86,717	-	-
Lease right-of-use assets					
Major movable equipment	(571,044)	(97,751)	-	-	(668,795)
Total accumulated depreciation	(19,945,986)	(1,891,236)	86,717	-	(21,750,505)
<i>Total capital assets being depreciated, net</i>					
	11,668,868	(1,779,081)	(148,331)	856,920	10,598,376
Capital assets, net	\$ 11,951,481	\$ (829,881)	\$ (148,331)	\$ -	\$ 10,973,269

As of December 31, 2024, construction in progress consisted primarily of minor projects. None represent major capital investments, and estimated costs to complete these projects are not significant.

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Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2024 and 2023

6. Capital Assets (continued):

	Balance December 31, 2022		Additions	Retirements	Transfers	Balance December 31, 2023	
<i>Nondepreciable capital assets</i>							
Land	\$	266,021	\$ -	\$ -	\$ -	\$	266,021
Construction in progress		359,395	8,378	(223,214)	(127,966)		16,593
Total nondepreciable capital assets		625,416	8,378	(223,214)	(127,966)		282,614
<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)	(55,685)	-	-		(1,043,785)
Major movable equipment		(6,650,591)	(1,002,569)	-	-		(7,653,160)
Subscription assets		-	(47,010)	-	-		(47,010)
Lease right-of-use assets							
Major movable equipment		(516,764)	(54,280)	-	-		(571,044)
		(18,113,107)	(1,832,879)	-	-		(19,945,986)
Total capital assets being depreciated, net		12,759,985	(1,219,083)	-	127,966		11,668,868
Capital assets, net	\$	13,385,401	\$ (1,210,705)	\$ (223,214)	\$ -	\$	11,951,482

East Phillips County Hospital District
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Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2024 and 2023

7. Long-term Debt and Noncurrent Liabilities:

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

	Balance December 31, 2023			Balance December 31, 2024			Amount Due Within One Year
		Additions	Reductions				
<i>Long-term debt</i>							
Red Capital Mortgage	\$ 7,619,572	\$ -	\$ (674,105)	\$ 6,945,467	\$ -	\$ 703,610	
Original issue premium	326,777	-	(34,715)	292,062	-	-	
Note payable - MRI unit	220,049	-	(202,632)	17,417	-	17,417	
Lease liability - CT Scanner	206,757	-	(63,093)	143,664	-	66,818	
Subscription liabilities	188,584	-	(188,584)	-	-	-	
Total long-term debt, lease liabilities, and subscription liabilities	\$ 8,561,739	\$ -	\$ (1,163,129)	\$ 7,398,610	\$ -	\$ 787,845	

	Balance December 31, 2022			Balance December 31, 2023			Amount Due Within One Year
		Additions	Reductions				
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	
Subscription liabilities	-	235,048	(46,464)	188,584	-	48,631	
Total long-term debt	\$ 9,325,938	\$ 235,048	\$ (999,247)	\$ 8,561,739	\$ -	\$ 989,277	

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.

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 Agreement 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 2024 and will require a plan of action describing measures being taken to improve financial operations.

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Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2024 and 2023

7. Long-term Debt and Noncurrent Liabilities (continued):

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. The agreement was terminated during fiscal year 2024.

Lease liability – The District has recognized a lease liability related to medical equipment. The lease requires monthly payments of \$6,111 and carries an interest rate of 5.75 percent.

The District’s lease agreement does not contain any material residual value guarantees or material restrictive covenants. The lease is reflected in the District’s assets and liabilities.

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

Years Ending December 31,	Long-term Debt			Lease Liability		
	Principal	Interest	Total	Principal	Interest	Total
2025	\$ 721,027	\$ 276,362	\$ 997,389	\$ 66,818	\$ 6,518	\$ 73,336
2026	733,517	246,371	979,888	70,763	2,573	73,336
2027	764,697	215,192	979,889	6,083	29	6,112
2028	797,201	182,688	979,889	-	-	-
2029	831,087	148,802	979,889	-	-	-
2030-2033	3,115,355	232,598	3,347,953	-	-	-
	6,962,884					
Original issue premium	292,062	-	292,062			
Total	\$ 7,254,946	\$ 1,302,013	\$ 8,556,959	\$ 143,664	\$ 9,120	\$ 152,784

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.

East Phillips County Hospital District
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Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2024 and 2023

8. Net Patient Service Revenue (continued):

The District has not changed its charity care or uninsured discount policies during 2024 or 2023. 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:

	2024	2023
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	\$ 14,759,482	\$ 11,589,337
Medicaid	1,404,940	1,864,745
Other third-party payors	7,259,126	4,796,833
Patients	451,014	270,481
Retail pharmacy	2,225,445	2,274,671
Supplemental payments	3,755,406	2,863,831
	29,855,413	23,659,898
Less:		
Charity care	431,577	143,257
Provision for bad debts	1,015,618	568,211
	28,408,218	22,948,430
Net patient service revenue	\$ 28,408,218	\$ 22,948,430

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.

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2024 and 2023

8. Net Patient Service Revenue (continued):

Laws and regulations governing Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue decreased by approximately \$88,000 and increased by approximately \$52,000 in 2024 and 2023, 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, 2024 and 2023, were approximately \$334,000 and \$121,000, respectively. The District did not receive any gifts or grants to subsidize charity services during 2024 and 2023.

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 they are 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 \$201,000 and \$187,000 for 2024 and 2023, respectively. Employee contributions to the plan were approximately \$439,000 and \$312,000 for 2024 and 2023, respectively. Forfeitures were not material in 2024 and 2023. 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.

East Phillips County Hospital District
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Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2024 and 2023

10. Risk Management and Contingencies:

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.

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:

	2024	2023
Medicare	55 %	27 %
Medicaid	5	6
Other third-party payors	28	39
Patients	12	28
	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.

East Phillips County Hospital District
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Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2024 and 2023

12. Budget to Actual Revenues and Expenses:

The District overspent its approved budget by \$2,721,979 in 2024.

13. Blended Component Unit:

The combining statement of net position as of December 31, 2024, is as follows:

	Melissa Memorial Hospital	Melissa Memorial Hospital Corporation	Eliminations	Totals
ASSETS				
<i>Current assets</i>				
Cash and cash equivalents	\$ 5,149,730	\$ 54,687	\$ -	\$ 5,204,417
Certificates of deposit	5,957,758	-	-	5,957,758
Receivables:				
Patient accounts, net	5,490,304	-	-	5,490,304
Taxes	990,463	-	-	990,463
Other	186,674	1,580	-	188,254
Estimated third-party payor settlements	1,638,000	-	-	1,638,000
Due from the District	-	6,945,467	(6,945,467)	-
Inventories	1,024,450	-	-	1,024,450
Prepaid expenses	254,266	1,201	-	255,467
Total current assets	20,691,645	7,002,935	(6,945,467)	20,749,113
<i>Noncurrent assets</i>				
Cash and cash equivalents restricted by debt agreement	1,649,480	59,992	-	1,709,472
Depreciable capital assets, net	10,598,377	-	-	10,598,377
Nondepreciable capital assets	374,892	-	-	374,892
Total noncurrent assets	12,622,749	59,992	-	12,682,741
Total assets	\$ 33,314,394	\$ 7,062,927	\$ (6,945,467)	\$ 33,431,854
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION				
<i>Current liabilities</i>				
Accounts payable	\$ 3,836,048	\$ 53,249	\$ -	\$ 3,889,297
Accrued compensation and related liabilities	915,138	-	-	915,138
Accrued interest	26,481	-	-	26,481
Current portion of long-term and other noncurrent liabilities	81,790	706,055	-	787,845
Due to Melissa Memorial Hospital Corporation	6,945,467	-	(6,945,467)	-
Total current liabilities	11,804,924	759,304	(6,945,467)	5,618,761
<i>Noncurrent liabilities</i>				
Long-term debt and other noncurrent liabilities, net of current portion	78,883	6,531,882	-	6,610,765
Total liabilities	11,883,807	7,291,186	(6,945,467)	12,229,526
<i>Deferred inflows of resources, property taxes</i>	990,463	-	-	990,463
<i>Net position</i>				
Net investment in capital assets	10,812,596	(7,237,937)	-	3,574,659
Restricted for debt agreement reserve	1,649,480	59,992	-	1,709,472
Unrestricted	7,978,048	6,949,686	-	14,927,734
Total net position	20,440,124	(228,259)	-	20,211,865
Total liabilities, deferred inflows of resources, and net position	\$ 33,314,394	\$ 7,062,927	\$ (6,945,467)	\$ 33,431,854

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Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2024 and 2023

13. Blended Component Unit (continued):

The combining statement of revenues, expenses, and changes in net position for the year ended December 31, 2024, is as follows:

	Melissa Memorial Hospital	Melissa Memorial Hospital Corporation	Eliminations	Totals
<i>Operating revenues</i>				
Net patient service revenue	\$ 28,408,218	\$ -	\$ -	\$ 28,408,218
Grants	440,406	-	-	440,406
Other	308,765	125,255	(125,255)	308,765
Total operating revenues	29,157,389	125,255	(125,255)	29,157,389
<i>Operating expenses</i>				
Salaries and wages	9,223,041	-	-	9,223,041
Employee benefits	2,020,039	-	-	2,020,039
Insurance	227,291	125,255	(125,255)	227,291
Professional fees	1,657,852	-	-	1,657,852
Purchased services	4,287,037	-	-	4,287,037
Provider tax fees	588,082	-	-	588,082
Supplies	7,355,282	-	-	7,355,282
Utilities	543,721	-	-	543,721
Repairs and maintenance	214,993	-	-	214,993
Rentals and leases	147,637	-	-	147,637
Depreciation and amortization	1,891,236	-	-	1,891,236
Other	820,154	-	-	820,154
Total operating expenses	28,976,365	125,255	(125,255)	28,976,365
<i>Operating income</i>	181,024	-	-	181,024
<i>Nonoperating revenues (expenses)</i>				
Taxation for maintenance and operations	1,202,900	-	-	1,202,900
Investment income	482,075	572,757	(572,757)	482,075
Interest expense	(333,535)	(537,398)	572,757	(298,176)
Total nonoperating revenues (expenses), net	1,351,440	35,359	-	1,386,799
Change in net position before capital grants and contributions	1,532,464	35,359	-	1,567,823
<i>Capital grants and contributions</i>	918,591	-	-	918,591
Change in net position	2,451,055	35,359	-	2,486,414
Net position, beginning of year	17,989,069	(263,618)	-	17,725,451
Net position, end of year	\$ 20,440,124	\$ (228,259)	\$ -	\$ 20,211,865

East Phillips County Hospital District
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Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2024 and 2023

13. Blended Component Unit (continued):

The combining statement of cash flows for the year ended December 31, 2024, is as follows:

	Melissa Memorial Hospital	Melissa Memorial Hospital Corporation	Eliminations	Totals
Change in Cash and Cash Equivalents				
<i>Cash flows from operating activities</i>				
Cash received from and on behalf of patients	\$ 24,510,345	\$ -	\$ -	\$ 24,510,345
Cash received from other revenue	308,765	125,255	(125,255)	308,765
Cash received from grants	440,406	-	-	440,406
Cash paid to and on behalf of employees	(11,391,511)	-	-	(11,391,511)
Cash paid to suppliers and contractors	(13,400,656)	543,492	125,255	(12,731,909)
Net cash from operating activities	467,349	668,747	-	1,136,096
<i>Cash flows from noncapital financing activities</i>				
Cash received from taxation for maintenance and operations	1,202,900	-	-	1,202,900
Net cash from noncapital financing activities	1,202,900	-	-	1,202,900
<i>Cash flows from capital and related financing activities</i>				
Principal payments on long-term debt and other noncurrent liabilities	(306,386)	(673,697)	-	(980,083)
Interest paid on long-term debt	(333,535)	(572,113)	572,757	(332,891)
Purchase of capital assets	(1,061,354)	-	-	(1,061,354)
Cash received from capital grants and contributions	996,091	-	-	996,091
Net cash from capital and related financing activities	(705,184)	(1,245,810)	572,757	(1,378,237)
<i>Cash flows from investing activities</i>				
Proceeds from maturities of investments	775,768	-	-	775,768
Investment interest received	482,075	572,757	(572,757)	482,075
Purchase of investments	(5,926,993)	-	-	(5,926,993)
Net cash from investing activities	(4,669,150)	572,757	(572,757)	(4,669,150)
Net decrease in cash and cash equivalents	(3,704,085)	(4,306)	-	(3,708,391)
Cash and cash equivalents, beginning of year	10,503,295	118,985	-	10,622,280
Cash and cash equivalents, end of year	\$ 6,799,210	\$ 114,679	\$ -	\$ 6,913,889
<i>Reconciliation of Cash and Cash Equivalents to the Combining Statements of Net Position</i>				
Cash and cash equivalents	\$ 5,149,730	\$ 54,687	\$ -	\$ 5,204,417
Cash and cash equivalents restricted by debt agreement	1,649,480	59,992	-	1,709,472
Total cash and cash equivalents	\$ 6,799,210	\$ 114,679	\$ -	\$ 6,913,889
<i>Reconciliation of Operating Income to Net Cash from Operating Activities</i>				
Operating income	\$ 181,024	\$ -	\$ -	\$ 181,024
<i>Adjustments to reconcile operating income to net cash from operating activities</i>				
Depreciation and amortization	1,891,236	-	-	1,891,236
Provision for bad debts	1,015,618	-	-	1,015,618
(Increase) decrease in assets:				
Receivables:				
Patient accounts, net	(4,388,058)	-	-	(4,388,058)
Estimated third-party payor settlements	(650,000)	-	-	(650,000)
Other	124,567	-	-	124,567
Inventories	105,360	-	-	105,360
Prepaid expenses	49,392	(1,201)	-	48,191
Due from the District	-	674,922	(674,922)	-
Increase (decrease) in liabilities:				
Accounts payable	2,961,563	(4,974)	-	2,956,589
Third-party payor settlements payable	-	-	-	-
Accrued compensation and related liabilities	(148,431)	-	-	(148,431)
Due to Melissa Memorial Hospital Corporation	(674,922)	-	674,922	-
Net cash from operating activities	\$ 467,349	\$ 668,747	\$ -	\$ 1,136,096

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Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2024 and 2023

13. Blended Component Unit (continued):

The combining statement of net position as of 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
Due from the District	-	7,620,389	(7,620,389)	-
Other	388,741	1,580	-	390,321
Estimated third-party payor settlements	988,000	-	-	988,000
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>				
Accounts payable	\$ 874,485	\$ 58,223	\$ -	\$ 932,708
Accrued compensation and related liabilities	1,063,569	-	-	1,063,569
Accrued interest	26,481	-	-	26,481
Current maturities of long-term and other noncurrent liabilities	314,356	674,921	-	989,277
Due to Melissa Memorial Hospital Corporation	7,620,389	-	(7,620,389)	-
Total current liabilities	9,899,280	733,144	(7,620,389)	3,012,035
<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	10,200,314	8,004,572	(7,620,389)	10,584,497
<i>Deferred inflows of resources, property taxes</i>	1,021,491	-	-	1,021,491
<i>Net position</i>				
Net investment in capital assets	11,336,092	(7,946,349)	-	3,389,743
Restricted for debt agreement reserve	2,001,174	65,654	-	2,066,828
Unrestricted	4,651,803	7,617,077	-	12,268,880
Total net position	17,989,069	(263,618)	-	17,725,451
Total liabilities, deferred inflows of resources, and net position	\$ 29,210,874	\$ 7,740,954	\$ (7,620,389)	\$ 29,331,439

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2024 and 2023

13. 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	318,979	144,300	(144,300)	318,979
Total operating revenues	23,410,048	144,300	(144,300)	23,410,048
<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>	<i>(1,295,412)</i>	<i>33,122</i>	<i>-</i>	<i>(1,262,290)</i>
<i>Nonoperating revenues (expenses)</i>				
Taxation for maintenance and operations	1,089,098	-	-	1,089,098
Contributions	7,299	-	-	7,299
Investment income	90,610	340,794	(340,794)	90,610
Interest expense	(367,872)	(340,794)	340,794	(367,872)
Loss on asset impairment	(223,008)	-	-	(223,008)
Total nonoperating revenues (expenses), net	596,127	-	-	596,127
Change in net position before capital grants and contributions	(699,285)	33,122	-	(666,163)
<i>Capital grants and contributions</i>	<i>230,292</i>	<i>-</i>	<i>-</i>	<i>230,292</i>
Change in net position	(468,993)	33,122	-	(435,871)
Net position, beginning of year	18,458,062	(296,740)	-	18,161,322
Net position, end of year	\$ 17,989,069	\$ (263,618)	\$ -	\$ 17,725,451

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Notes to Combined Basic Financial Statements (Continued)
Years Ended December 31, 2024 and 2023

13. 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	318,979	144,300	(144,300)	318,979
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	(14,199,656)	571,514	144,300	(13,483,842)
Net cash from operating activities	1,276,803	715,814	-	1,992,617
<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)	(648,281)	-	(967,005)
Interest paid on long-term debt	(380,952)	(373,036)	340,794	(413,194)
Purchase of capital assets	(386,920)	-	-	(386,920)
Cash Received from capital grants and contributions	155,756	-	-	155,756
Net cash from capital and related financing activities	(930,840)	(1,021,317)	340,794	(1,611,363)
<i>Cash flows from investing activities</i>				
Sale of investments	-	-	-	-
Investment interest received	90,610	340,794	(340,794)	90,610
Purchase of investments	(752,703)	-	-	(752,703)
Net cash from investing activities	(662,093)	340,794	(340,794)	(662,093)
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)	\$ (1,295,412)	\$ 33,122	\$ -	\$ (1,262,290)
<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:				
Estimated third-party payor settlements	-	-	-	-
Accounts payable	(451,651)	35,290	-	(416,361)
Accrued compensation and related liabilities	88,431	-	-	88,431
Due to Melissa Memorial Hospital Corporation	(647,402)	-	647,402	-
Net cash from operating activities	\$ 1,276,803	\$ 715,814	\$ -	\$ 1,992,617

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, 2024

	Budgeted	Actual	Variance Favorable (Unfavorable)
<i>Operating revenues</i>			
Net patient service revenue	\$ 22,931,673	\$ 28,408,218	\$ 5,476,545
Other	2,769,468	749,171	(2,020,297)
Total operating revenues	25,701,141	29,157,389	3,456,248
<i>Operating expenses</i>			
Salaries, wages, and employee benefits	11,571,418	11,243,080	328,338
Other	14,682,968	17,733,285	(3,050,317)
Total operating expenses	26,254,386	28,976,365	(2,721,979)
<i>Operating income (loss)</i>	(553,245)	181,024	734,269
<i>Nonoperating revenues (expenses)</i>	664,086	1,386,799	722,713
<i>Capital grants and contributions</i>	-	918,591	918,591
Change in net position	\$ 110,841	\$ 2,486,414	\$ 2,375,573

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, 2024, 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 June 13, 2025.

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. 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 2024-001, 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
June 13, 2025



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 Each Major Federal Program

Opinion on Each 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 programs for the year ended December 31, 2024. The District's major federal programs are 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 each its major federal program for the year ended December 31, 2024.

Basis for Opinion on Each 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; 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.

Other Matters

The results of our auditing procedures disclosed two instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance, and which are described in the accompanying schedule of audit findings and questioned costs as items 2024-002 and 2024-003. Our opinion on each major program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the noncompliance findings identified in our 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.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's 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. Therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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 deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2024-002 and 2024-003 to be material weaknesses.

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 that was identified in our compliance audit. This is 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.

D3A PLLC

Spokane Valley, Washington
June 13, 2025

**East Phillips County Hospital District
 doing business as Melissa Memorial Hospital
 Schedule of Audit Findings and Questioned Costs
 Year Ended December 31, 2024**

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 programs:

- Material weakness(es) identified? X yes no
- Significant deficiency(ies) identified? yes X 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)?

 X yes no

Assistance Listing Numbers

Name of Federal Programs or Cluster

14.128

Mortgage Insurance - Hospitals

21.027

Coronavirus State and Local Fiscal Recovery Funds

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, 2024**

Section II – Financial Statement Findings

2024-001 Preparation of the Schedule of Expenditures of Federal Awards (SEFA)

Criteria [] Compliance Finding [] Significant Deficiency [X] Material Weakness

As a component of the audited financial statements, supplementary information such as the SEFA must be complete, accurate, and clearly presented to align with the underlying accounting records and reflect the entity’s federal award activity.

Condition The SEFA, presented as supplementary information in the financial statements, was not properly prepared. The SEFA omitted certain federal programs active during the reporting period, included incorrect or incomplete program identification numbers, did not indicate whether rewards were direct or passed through another entity, and reported inaccurate expenditure amounts for several programs. This issue appears to be systemic and impacted multiple federal programs.

Cause The errors in the SEFA resulted from a lack of detailed reconciliation procedures between grant accounting records and the amounts reported, as well as insufficient review of the final schedule prior to submission.

Effect Users of the financial statements may be misled by the inaccurate presentation of federal award activity. In addition, errors in the SEFA can hinder audit planning and the identification of programs subject to testing.

Recommendation We recommend management implement a more thorough review process over the preparation of the SEFA, including reconciliation to the general ledger and grant documentation, to ensure the schedule is prepared accurately and completely. Staff involved in this process should be trained to understand the appropriate classification and presentation of federal awards.

Views of responsible officials and planned corrective actions Department managers and others involved in grants will be educated on the importance of understanding the types of grants they are requesting or receiving, including any reporting requirements. Accounting staff will assist with the matching of grant revenues and expenses to verify that they are appropriate and in the correct accounting period. A procedure will be implemented to ensure that at year end, all grant revenues and expenses are double-checked to verify they are posted in the correct period.

**East Phillips County Hospital District
 doing business as Melissa Memorial Hospital
 Schedule of Audit Findings and Questioned Costs (Continued)
 Year Ended December 31, 2024**

Section III - Federal Award Findings and Questioned Costs (Continued)

2024-002 Inadequate Policies and Procedures

Federal Agency U.S. Department of the Treasury

Federal Assistance Listing Numbers 21.027 – Coronavirus State and Local Fiscal Recovery Funds

Criteria [X] Compliance Finding [] Significant Deficiency [X] Material Weakness

Uniform Guidance (§200.302, §200.303) requires entities to maintain written policies and procedures to ensure proper tracking and compliance with federal award requirements.

Condition The District lacks comprehensive, documented policies and procedures governing the administration of federal awards and the tracking of related expenditures. Specifically, there is no formalized guidance to ensure compliance with federal requirements related to allowable costs, procurement, financial reporting, or other Uniform Guidance compliance areas. This finding appears to be a *systemic* problem

Cause The District has not developed or implemented a standardized set of policies and procedures addressing all aspects of federal award compliance. Additionally, staff responsible for managing federal funds have not received regular training on Uniform Guidance requirements.

Effect Inadequate oversight and tracking of federal expenditures increase the risk of misreporting federal expenditures, failing to comply with grant terms and conditions, and potentially having to return federal funds due to noncompliance.

Context The District did not have fully developed policies aligned with Uniform Guidance. The lack of training contributed in gaps in documented procedures and compliance oversight.

Recommendation Management should develop, implement and disseminate comprehensive written policies and procedures that conform with Uniform Guidance requirements. There should be clear protocols for all relevant compliance requirements, and all personnel involved in federal awards administration need to be trained.

Views of responsible officials and planned corrective actions Department managers and others involved in grants will be educated on the importance of understanding the types of grants they are requesting or receiving, including any reporting requirements. Accounting staff will assist with the matching of grant revenues and expenses to verify that they are appropriate and in the correct accounting period. A procedure will be implemented to ensure that at year-end, all grant revenues and expenses are double-checked to verify they are posted in the correct period.

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Schedule of Audit Findings and Questioned Costs (Continued)
Year Ended December 31, 2024

Section III - Federal Award Findings and Questioned Costs

2024-003	Procurement
Federal Agency	U.S. Department of the Treasury
Federal Assistance Listing Numbers	21.027 – Coronavirus State and Local Fiscal Recovery Funds
Criteria	<p>[X] Compliance Finding [] Significant Deficiency [X] Material Weakness</p> <p>Entities receiving federal awards must have and follow documented procurement policies. Title 2 CFR 200.320 outlines acceptable methods of procurement and establishes applicable threshold requirements.</p>
Condition	<p>During our review of federally funded purchases, we noted several instances where procurement transactions were not conducted in accordance with these federal guidelines.</p> <p>For purchases falling between the micro-purchase threshold and the simplified acquisition threshold, the District did not retain documentation to demonstrate that price quotations were obtained from an adequate number of qualified sources. Additionally, for purchases exceeding the simplified acquisition threshold, the District was unable to provide documentation showing that the required number of bids were solicited. In one instance, a sole source acquisition was made without sufficient written justification, as required by 2 CFR 200.320(c), which permits noncompetitive procurement only under specific and well-documented circumstances.</p> <p>Furthermore, the District could not provide documentation verifying that vendors were screened against the federal System for Award Management (SAM.gov) to confirm that they were not suspended or debarred from participating in federal programs.</p> <p>Lastly, the District could not demonstrate that it performed conflict of interest checks to ensure that employees or officers participated in the selection, award, or administration of a contract where conflicts of interest exist. This finding appears to be a <i>systemic</i> problem</p>
Cause	The District’s procurement policy was not compared to federal regulations when it was developed. Management did not follow its established procurement policy, and documentation was not maintained evidencing its compliance with the policy.
Effect	Noncompliance with federal procurement requirements increases the risk of unallowable costs, noncompetitive vendor selection, and potential questioned costs. This could result in financial penalties or the need to return federal funds. The absence of conflict of interest checks also exposes the District to the risk of biased procurement decisions and compromised integrity.

**East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Schedule of Audit Findings and Questioned Costs (Continued)
Year Ended December 31, 2024**

<i>Context</i>	Limited prior experience with federal grants and sufficient staff training contributed to missing documentation and noncompliance with federal procurement standards. The deficiencies identified were not isolated incidents but rather reflect a broader lack of internal control over federal procurement activities.
<i>Recommendation</i>	The District should update and enforce procurement policies and procedures to fully comply with 2 CFR 200.318–200.327. These procedures must include documented competitive procurement processes, appropriate documentation retention, sole source justification protocols, and mandatory screening of vendors through SAM.gov. Written standards of conduct should be maintained and enforced to prevent conflicts of interest. Additionally, all staff involved in procurement should receive comprehensive training on federal procurement requirements and internal control responsibilities. The District should also implement a monitoring process to ensure ongoing compliance with these requirements.
<i>Views of responsible officials and planned corrective actions</i>	Two new policies will be implemented; a board policy to cover board approvals for the bidding of large projects, and an internal policy and procedure which spells out additional requirements, like requiring three written bids for large purchases. In addition, all members of the Board of Directors and senior leadership team will sign Conflict of Interest statements on an annual basis to confirm that they do not have any potential conflicts that could impact purchasing decisions.

AUDITEE'S SECTION

**East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2024**

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 Housing and Urban Development Direct Programs:				
Mortgage Insurance - Hospitals	14.128			\$ 7,619,572
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	66,611
<i>State of Colorado Department of Health Care Policy</i> Coronavirus State And Local Fiscal Recovery Funds	21.027	G24-186012	COVID-19	97,595
<i>State of Colorado Department of Health Care Policy</i> Coronavirus State And Local Fiscal Recovery Funds	21.027	G24-187613	COVID-19	650,000
Total expenditures of federal awards				\$ 8,433,778

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, 2024. 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 \$6,945,467 at December 31, 2024.

**East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Corrective Action Plan
Year Ended December 31, 2024**



1001 E. Johnson Street
Holyoke, CO 80734
970-854-2241

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:

2024-001 –Preparation of Schedule of Federal Awards

Corrective action planned:

Department managers and others involved in grants will be educated on the importance of understanding the types of grants they are requesting or receiving, including any reporting requirements. Accounting staff will assist with the matching of grant revenues and expenses to verify that they are appropriate and in the correct accounting period. A procedure will be implemented to ensure that at year end, all grant revenues and expenses are double-checked to verify they are posted in the correct period.

Anticipated completion date:

July 31, 2025

Contact person responsible for corrective action:

Steve Lindemann, Interim CFO

Schedule III - Current year audit findings:

2024-002 – Inadequate Policies and Procedures

***Corrective action
planned:***

Department managers and others involved in grants will be educated on the importance of understanding the types of grants they are requesting or receiving, including any reporting requirements. Accounting staff will assist with the matching of grant revenues and expenses to verify that they are appropriate and in the correct accounting period. A procedure will be implemented to ensure that at year-end, all grant revenues and expenses are double-checked to verify they are posted in the correct period.

***Anticipated completion
date:***

July 31, 2025

***Contact person
responsible for corrective
action:***

Steve Lindemann, Interim CFO

2024-003 – Procurement

***Corrective action
planned:***

Two new policies will be implemented; a board policy to cover board approvals for the bidding of large projects, and an internal policy and procedure, which spells out additional requirements like requiring three written bids for large purchases. In addition, all members of the Board of Directors and senior leadership team will sign Conflict of Interest statements on an annual basis to confirm that they do not have any potential conflicts that could impact purchasing decisions.

***Anticipated completion
date:***

July 31, 2025

***Contact person
responsible for corrective
action:***

Steve Lindemann, Interim CFO

**East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2024**

2023-001 Material Adjusting Journal Entries

Status: Corrected

2023-002 Policies and Procedures for Federal Awards

Status: Not corrected, repeated as 2024-001

*Fiscal year of initial
occurrence:* 2023

*Planned corrective
action:* See corrective action plan, anticipated completion date, and contact person for corrective action on finding 2024-001 above.