East Phillips County Hospital District
doing business as
Melissa Memorial Hospital

Combined Basic Financial Statements and
Independent Auditors' Reports

December 31, 2025 and 2024

DZA
ACCOUNTANTS | ADVISORS

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 Financial Statements

Opinion

We have audited the accompanying 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, 2025 and 2024, and the related notes to the financial statements, which collectively comprise the District's combined basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2025 and 2024, 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 (GAAP).

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 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.

Responsibilities of Management for the Financial Statements

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

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

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Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 GAAP requires to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the 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 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 17, 2026, 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. 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.

DZA PLLC

Spokane Valley, Washington
June 17, 2026

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Statements of Net Position
December 31, 2025 and 2024

ASSETS	2025	2024
Current assets		
Cash and cash equivalents	**$ 6,146,999**	$ 5,204,417
Certificates of deposit	**6,065,782**	5,957,758
Receivables:		
Patient accounts, net	**4,470,732**	5,501,752
Taxes	**1,060,001**	990,463
Other	**235,026**	188,254
Estimated third-party payor settlements	**575,000**	1,638,000
Inventories	**1,123,277**	1,024,450
Prepaid expenses	**320,817**	255,467
Total current assets	**19,997,634**	20,760,561
Noncurrent assets		
Cash and cash equivalents restricted by debt agreement	**1,732,808**	1,709,472
Depreciable capital assets, net	**9,806,902**	10,598,377
Nondepreciable capital assets	**325,039**	374,892
Total noncurrent assets	**11,864,749**	12,682,741
Total assets	**$ 31,862,383**	$ 33,443,302

See accompanying notes to financial statements.

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Statements of Net Position (Continued)
December 31, 2025 and 2024

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	2025	2024
Current liabilities		
Accounts payable	**$ 1,123,235**	$ 3,927,226
Accrued compensation and related liabilities	**1,452,533**	915,138
Estimated third-party payor settlements	**2,335,000**	-
Current portion of long-term debt and other noncurrent liabilities	**804,281**	787,845
Total current liabilities	**5,715,049**	5,630,209
Noncurrent liabilities		
Long-term debt and other noncurrent liabilities, net of current portion	**5,772,741**	6,610,765
Total liabilities	**11,487,790**	12,240,974
Deferred inflows of resources, property taxes	**1,051,564**	990,463
Net position		
Net investment in capital assets	**3,554,919**	3,574,659
Restricted by debt agreement reserve	**1,732,808**	1,709,472
Unrestricted	**14,035,302**	14,927,734
Total net position	**19,323,029**	20,211,865
Total liabilities, deferred inflows of resources, and net position	**$ 31,862,383**	$ 33,443,302

See accompanying notes to financial statements.

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2025 and 2024

	2025	2024
Operating revenues		
Net patient service revenue	**$ 25,622,473**	$ 28,408,218
Grants	**132,565**	440,406
Other	**815,036**	308,765
Total operating revenues	**26,570,074**	29,157,389
Operating expenses		
Salaries and wages	**10,192,494**	9,223,041
Employee benefits	**2,641,602**	2,020,039
Insurance	**215,688**	227,291
Professional fees	**2,036,318**	1,657,852
Purchased services	**4,729,988**	4,287,037
Provider tax fees	**673,415**	588,082
Supplies	**4,967,419**	7,355,282
Utilities	**573,371**	543,721
Repairs and maintenance	**171,961**	214,993
Rentals and leases	**182,943**	147,637
Depreciation and amortization	**1,516,263**	1,891,236
Other	**903,586**	820,154
Total operating expenses	**28,805,048**	28,976,365
Operating income (loss)	**(2,234,974)**	181,024
Nonoperating revenues (expenses)		
Taxation for maintenance and operations	**1,118,332**	1,202,900
Investment income	**446,365**	482,075
Interest expense	**(285,068)**	(298,176)
Total nonoperating revenues (expenses), net	**1,279,629**	1,386,799
Change in net position before capital grants and contributions	**(955,345)**	1,567,823
Capital grants and contributions	**66,509**	918,591
Change in net position	**(888,836)**	2,486,414
Net position, beginning of year	**20,211,865**	17,725,451
Net position, end of year	**$ 19,323,029**	$ 20,211,865

See accompanying notes to financial statements.

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Statements of Cash Flows
Years Ended December 31, 2025 and 2024

	2025	2024
Change in Cash and Cash Equivalents		
Cash flows from operating activities		
Cash received from and on behalf of patients	**$ 29,993,273**	$ 24,510,345
Cash received from other revenue	**806,599**	308,765
Cash received from grants	**132,565**	440,406
Cash paid to and on behalf of employees	**(12,296,701)**	(11,391,511)
Cash paid to suppliers and contractors	**(17,411,409)**	(12,731,909)
Net cash from operating activities	**1,224,327**	1,136,096
Cash flows from noncapital financing activities		
Cash received from taxation for maintenance and operations	**1,118,332**	1,202,900
Cash flows from capital and related financing activities		
Principal payments on long-term debt and other noncurrent liabilities	**(787,844)**	(980,083)
Interest paid on long-term debt	**(318,812)**	(332,891)
Purchase of capital assets	**(674,935)**	(1,061,354)
Cash received from capital grants and contributions	**66,509**	996,091
Net cash from capital and related financing activities	**(1,715,082)**	(1,378,237)
Cash flows from investing activities		
Investment interest received	**446,365**	482,075
Proceeds from maturities of investments	**7,262,881**	775,768
Purchase of investments	**(7,370,905)**	(5,926,993)
Net cash from investing activities	**338,341**	(4,669,150)
Net change in cash and cash equivalents	**965,918**	(3,708,391)
Cash and cash equivalents, beginning of year	**6,913,889**	10,622,280
Cash and cash equivalents, end of year	**$ 7,879,807**	$ 6,913,889

See accompanying notes to financial statements.

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Statements of Cash Flows (Continued)
Years Ended December 31, 2025 and 2024

		2025		2024
Reconciliation of Cash and Cash Equivalents to the Combined Statements of Net Position				
Cash and cash equivalents	**$**	**6,146,999**	$	5,204,417
Cash and cash equivalents restricted by debt agreement		**1,732,808**		1,709,472
Total cash and cash equivalents	**$**	**7,879,807**	$	6,913,889
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities				
Operating income (loss)	**$**	**(2,234,974)**	$	181,024
Adjustments to reconcile operating income (loss) to net cash from operating activities				
Depreciation and amortization		**1,516,263**		1,891,236
Provision for bad debts		**3,239,534**		984,837
(Increase) decrease in assets:				
Receivables:				
Estimated third-party payor settlements		**1,063,000**		(650,000)
Patient accounts, net		**(2,219,962)**		(4,357,277)
Other		**(55,209)**		124,567
Inventories		**(98,827)**		105,360
Prepaid expenses		**(65,350)**		48,191
Increase (decrease) in liabilities:				
Accounts payable		**(2,792,543)**		2,956,589
Accrued compensation and related liabilities		**537,395**		(148,431)
Estimated third-party payor settlements		**2,335,000**		-
Net cash from operating activities	**$**	**1,224,327**	$	1,136,096

See accompanying notes to financial statements.

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 (CAH) and a rural health clinic (RHC). 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 (GAAP), the 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 (IRC) 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 IRC Section 501(c)(3). MMHC is annually required to file a Form 990, *Return of Organization Exempt from Income Tax* 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 financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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 GAAP 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.

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 (PTO) up to a maximum range of 240 to 400 hours, depending on their years of service. The District recognizes an expense for PTO 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 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.

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

b. Summary of Significant Accounting Policies (continued)

Reclassifications – Certain reclassifications have been made to the 2024 financial statements to conform to the classifications used in the 2025 financial statements, with no effect on previously reported change in net position.

Subsequent events – Subsequent events have been reviewed through June 17, 2026, 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.

3. Investments:

The District had the following investments:

	2025			
		Investment Maturities (in Years)		
	Fair Value	Less than One	One to Five	More than Five
Certificates of Deposit	$ 6,065,782	$ 6,065,782	$ -	$ -
Total	**$ 6,065,782**	**$ 6,065,782**	**$ -**	**$ -**

	2024			
		Investment Maturities (in Years)		
	Fair Value	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**	**$ -**	**$ -**

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, 2025 and 2024.

- **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, 2025 and 2024.

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.

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:

	2025	2024
Receivables from patients and their insurance carriers	**$ 3,315,309**	$ 3,262,648
Receivables from Medicare	**2,475,758**	3,567,325
Receivables from Medicaid	**238,055**	198,829
Total patient accounts receivable	**6,029,122**	7,028,802
Less allowance for uncollectible accounts	**1,558,390**	1,527,050
Patient accounts receivable, net	**$ 4,470,732**	$ 5,501,752

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, 2025 and 2024, respectively, for taxes levied for 2025 and 2024.

In 2025, the District's regular tax levy was $13.70 per $1,000 on a total assessed valuation of $76,756,490, for a total regular levy of $1,051,564. 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.

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	5 to 25 years
Buildings and improvements	5 to 40 years
Fixed equipment	3 to 20 years
Major movable equipment	3 to 25 years
Lease right-of-use major movable equipment	5 years

6. Capital Assets (continued):

A schedule of changes in capital asset balances follows:

	Balance December 31, 2024	Additions	Retirements	Transfers	Balance December 31, 2025
Nondepreciable capital assets					
Land	$ 266,021	$ -	$ -	$ -	**$ 266,021**
Construction in progress	108,871	432,112	-	(481,965)	**59,018**
Total nondepreciable capital assets	374,892	432,112	-	(481,965)	**325,039**
Capital assets being depreciated					
Land improvements	1,122,519	-	-	-	**1,122,519**
Buildings and improvements	17,841,143	-	-	49,025	**17,890,168**
Fixed equipment	1,163,182	-	-	46,637	**1,209,819**
Major movable equipment	11,545,096	242,823	-	386,303	**12,174,222**
Lease right-of-use assets					
Major movable equipment	676,941	-	-	-	**676,941**
Total capital assets being depreciated	32,348,881	242,823	-	481,965	**33,073,669**
Less accumulated depreciation for					
Land improvements	(1,071,586)	(8,631)	-	-	**(1,080,217)**
Buildings and improvements	(10,139,308)	(677,915)	-	-	**(10,817,223)**
Fixed equipment	(1,064,352)	(22,810)	-	-	**(1,087,162)**
Major movable equipment	(8,806,463)	(798,761)	-	-	**(9,605,224)**
Lease right-of-use assets					
Major movable equipment	(668,795)	(8,146)	-	-	**(676,941)**
Total accumulated depreciation	(21,750,504)	(1,516,263)	-	-	**(23,266,767)**
Total capital assets being depreciated, net	10,598,377	(1,273,440)	-	481,965	**9,806,902**
Capital assets, net	**$ 10,973,269**	**$ (841,328)**	**$ -**	**$ -**	**$ 10,131,941**

As of December 31, 2025, construction in progress consisted primarily of minor projects. None represent major capital investments, and estimated costs to complete these projects are not significant.

6. Capital Assets (continued):

	Balance December 31, 2023	Additions	Retirements	Transfers	Balance December 31, 2024
Nondepreciable capital assets					
Land	$ 266,021	$ -	$ -	$ -	**$ 266,021**
Construction in progress	16,592	949,199	-	(856,920)	**108,871**
Total nondepreciable capital assets	282,613	949,199	-	(856,920)	**374,892**
Capital assets being depreciated					
Land improvements	1,122,519	-	-	-	**1,122,519**
Buildings and improvements	17,831,246	-	-	9,897	**17,841,143**
Fixed equipment	1,163,182	-	-	-	**1,163,182**
Major movable equipment	10,585,918	112,155	-	847,023	**11,545,096**
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**
Less accumulated depreciation for					
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	(7,653,159)	(1,153,304)	-	-	**(8,806,463)**
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	(19,945,985)	(1,891,236)	86,717	-	**(21,750,504)**
Total capital assets being depreciated, net	11,668,869	(1,779,081)	(148,331)	856,920	**10,598,377**
Capital assets, net	**$ 11,951,482**	**$ (829,882)**	**$ (148,331)**	**$ -**	**$ 10,973,269**

7. Long-term Debt and Noncurrent Liabilities:

A schedule of changes in the District's long-term debt and other noncurrent liabilities follows:

	Balance December 31, 2024	Additions	Reductions	Balance December 31, 2025	Amount Due Within One Year
Noncurrent Liabilities					
Red Capital Mortgage	$ 6,945,467	$ -	$ (703,610)	$ 6,241,857	$ 733,518
Original issue premium	292,062	-	(33,744)	258,318	-
Note payable - MRI unit	17,417	-	(17,417)	-	-
Lease liability - CT Scanner	143,664	-	(66,817)	76,847	70,763
Total noncurrent liabilities	**$ 7,398,610**	**$ -**	**$ (821,588)**	**$ 6,577,022**	**$ 804,281**

	Balance December 31, 2023	Additions	Reductions	Balance December 31, 2024	Amount Due Within One Year
Noncurrent Liabilities					
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 noncurrent liabilities	**$ 8,561,739**	**$ -**	**$ (1,163,129)**	**$ 7,398,610**	**$ 787,845**

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 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 2025 and will require a plan of action describing measures being taken to improve financial operations.

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

Note payable – MRI unit – The note was originally issued for $1,063,498, with monthly principal and interest payments of $17,500 at an interest rate of 5.75 percent through January 2025, at which time the note was fully paid off.

Subscription liability – 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
2026	$ 733,518	$ 276,362	$ 1,009,880	$ 70,763	$ 2,573	$ 73,336
2027	764,696	246,371	1,011,067	6,084	29	6,113
2028	797,201	215,192	1,012,393	-	-	-
2029	831,087	182,688	1,013,775	-	-	-
2030	866,413	148,802	1,015,215	-	-	-
2031-2033	2,248,942	232,598	2,481,540	-	-	-
	6,241,857	1,302,013	7,543,870			
Original issue premium	258,318	-	258,318			
Total	**$ 6,500,175**	**$ 1,302,013**	**$ 7,802,188**	**$ 76,847**	**$ 2,602**	**$ 79,449**

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.

8. Net Patient Service Revenue (continued):

The District has not changed its charity care or uninsured discount policies during 2025 or 2024. 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:

	2025	2024
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	**$ 15,392,756**	$ 14,759,486
Medicaid	**2,047,614**	1,404,940
Other third-party payors	**5,635,100**	7,228,341
Patients	**638,338**	451,014
Retail pharmacy	**2,522,678**	2,225,445
Supplemental payments	**3,199,918**	3,755,406
	29,436,404	29,824,632
Less:		
Charity care	**574,397**	431,577
Provision for bad debts	**3,239,534**	984,837
Net patient service revenue	**$ 25,622,473**	$ 28,408,218

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 CAH by Medicare and is reimbursed for inpatient and outpatient services and RHC visits on a cost basis, as defined and limited by the Medicare program. Physician services outside the RHC 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. RHC visits are reimbursed on a cost basis. Physician services outside the RHC 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.

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 increased by approximately $330,000 and decreased by approximately $88,000 in 2025 and 2024, 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, 2025 and 2024, were approximately $384,000 and $334,000, respectively. The District did not receive any gifts or grants to subsidize charity services during 2025 and 2024.

9. Retirement Plan:

The District has a deferred compensation plan (the Plan) created in accordance with IRC 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 $378,000 and $201,000 for 2025 and 2024, respectively. Employee contributions to the Plan were approximately $491,000 and $439,000 for 2025 and 2024, 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.

10. Risk Management and Contingencies (continued):

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, 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:

	2025	**2024**
Medicare	**45 %**	55 %
Medicaid	**5**	5
Other third-party payors	**30**	28
Patients	**20**	12
	100 %	100 %

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

12. Budget to Actual Revenues and Expenses:

The District overspent its approved budget by $866,722 in 2025.

13. Blended Component Unit:

The combining statement of net position is as follows:

	2025			
	Melissa Memorial Hospital	Melissa Memorial Hospital Corporation	Eliminations	Totals
ASSETS				
Current assets				
Cash and cash equivalents	$ 6,090,383	$ 56,616	$ -	$ **6,146,999**
Certificates of deposit	6,065,782	-	-	**6,065,782**
Receivables:				
Patient accounts, net	4,470,732	-	-	**4,470,732**
Taxes	1,060,001	-	-	**1,060,001**
Other	233,446	1,580	-	**235,026**
Estimated third-party payor settlements	575,000	-	-	**575,000**
Due from the District	-	6,241,858	(6,241,858)	**-**
Inventories	1,123,277	-	-	**1,123,277**
Prepaid expenses	319,614	1,203	-	**320,817**
Total current assets	19,938,235	6,301,257	(6,241,858)	**19,997,634**
Noncurrent assets				
Cash and cash equivalents restricted by debt agreement	1,665,036	67,772	-	**1,732,808**
Depreciable capital assets, net	9,806,902	-	-	**9,806,902**
Nondepreciable capital assets	325,039	-	-	**325,039**
Total noncurrent assets	11,796,977	67,772	-	**11,864,749**
Total assets	**$ 31,735,212**	**$ 6,369,029**	**$ (6,241,858)**	**$ 31,862,383**
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION				
Current liabilities				
Accounts payable	$ 1,061,740	$ 61,495	$ -	$ **1,123,235**
Accrued compensation and related liabilities	1,452,533	-	-	**1,452,533**
Estimated third-party payor settlements	2,335,000			**2,335,000**
Current portion of long-term and other noncurrent liabilities	65,873	738,408	-	**804,281**
Due to Melissa Memorial Hospital Corporation	6,241,858	-	(6,241,858)	**-**
Total current liabilities	11,157,004	799,903	(6,241,858)	**5,715,049**
Noncurrent liabilities				
Long-term debt and other noncurrent liabilities, net of current portion	10,565	5,762,176	-	**5,772,741**
Total liabilities	11,167,569	6,562,079	(6,241,858)	**11,487,790**
Deferred inflows of resources, property taxes	1,051,564	-	-	**1,051,564**
Net position				
Net investment in capital assets	10,055,503	(6,500,584)	-	**3,554,919**
Restricted for debt agreement reserve	1,665,036	67,772	-	**1,732,808**
Unrestricted	7,795,540	6,239,762	-	**14,035,302**
Total net position	19,516,079	(193,050)	-	**19,323,029**
Total liabilities, deferred inflows of resources, and net position	**$ 31,735,212**	**$ 6,369,029**	**$ (6,241,858)**	**$ 31,862,383**

13. Blended Component Unit (continued):

The combining statement of revenues, expenses, and changes in net position is as follows:

	2025			
	Melissa Memorial Hospital	Melissa Memorial Hospital Corporation	Eliminations	Totals
Operating revenues				
Net patient service revenue	$ 25,622,473	$ -	$ -	**$ 25,622,473**
Grants	132,565	-	-	**132,565**
Other	815,036	138,902	(138,902)	**815,036**
Total operating revenues	26,570,074	138,902	(138,902)	**26,570,074**
Operating expenses				
Salaries and wages	10,192,494	-	-	**10,192,494**
Employee benefits	2,641,602	-	-	**2,641,602**
Insurance	253,084	101,506	(138,902)	**215,688**
Professional fees	2,036,318	-	-	**2,036,318**
Purchased services	4,729,988	-	-	**4,729,988**
Provider tax fees	673,415	-	-	**673,415**
Supplies	4,967,419	-	-	**4,967,419**
Utilities	573,371	-	-	**573,371**
Repairs and maintenance	171,961	-	-	**171,961**
Rentals and leases	182,943	-	-	**182,943**
Depreciation and amortization	1,516,263	-	-	**1,516,263**
Other	903,586	-	-	**903,586**
Total operating expenses	28,842,444	101,506	(138,902)	**28,805,048**
Operating income (loss)	(2,272,370)	37,396	-	**(2,234,974)**
Nonoperating revenues (expenses)				
Taxation for maintenance and operations	1,118,332	-	-	**1,118,332**
Investment income	446,365	370,796	(370,796)	**446,365**
Interest expense	(282,881)	(372,983)	370,796	**(285,068)**
Total nonoperating revenues (expenses), net	1,281,816	(2,187)	-	**1,279,629**
Change in net position before capital grants and contributions	(990,554)	35,209	-	**(955,345)**
Capital grants and contributions	66,509	-	-	**66,509**
Change in net position	(924,045)	35,209	-	**(888,836)**
Net position, beginning of year	20,440,124	(228,259)	-	**20,211,865**
Net position, end of year	**$ 19,516,079**	**$ (193,050)**	**$ -**	**$ 19,323,029**

13. Blended Component Unit (continued):

The combining statement of cash flows is as follows:

	2025			
	Melissa Memorial Hospital	Melissa Memorial Hospital Corporation	Eliminations	Totals
Change in Cash and Cash Equivalents				
Cash flows from operating activities				
Cash received from and on behalf of patients	$ 29,993,273	$ -	$ -	**$ 29,993,273**
Cash received from other revenue	806,599	138,902	(138,902)	**806,599**
Cash received from grants	132,565	-	-	**132,565**
Cash paid to and on behalf of employees	(12,296,701)	-	-	**(12,296,701)**
Cash paid to suppliers and contractors	(18,160,658)	610,347	138,902	**(17,411,409)**
Net cash from operating activities	475,078	749,249	-	**1,224,327**
Cash flows from noncapital financing activities				
Cash received from taxation for maintenance and operations	1,118,332	-	-	**1,118,332**
Cash flows from capital and related financing activities				
Principal payments on long-term debt and other noncurrent liabilities	(84,235)	(703,609)	-	**(787,844)**
Interest paid on long-term debt	(282,881)	(406,727)	370,796	**(318,812)**
Purchase of capital assets	(674,935)	-	-	**(674,935)**
Cash received from capital grants and contributions	66,509	-	-	**66,509**
Net cash from capital and related financing activities	(975,542)	(1,110,336)	370,796	**(1,715,082)**
Cash flows from investing activities				
Investment interest received	446,365	370,796	(370,796)	**446,365**
Proceeds from maturities of investments	7,262,881	-	-	**7,262,881**
Purchase of investments	(7,370,905)	-	-	**(7,370,905)**
Net cash from investing activities	338,341	370,796	(370,796)	**338,341**
Net increase in cash and cash equivalents	956,209	9,709	-	**965,918**
Cash and cash equivalents, beginning of year	6,799,210	114,679	-	**6,913,889**
Cash and cash equivalents, end of year	$ 7,755,419	$ 124,388	$ -	**$ 7,879,807**
Reconciliation of Cash and Cash Equivalents to the Combining Statements of Net Position				
Cash and cash equivalents	$ 6,090,383	$ 56,616	$ -	**$ 6,146,999**
Cash and cash equivalents restricted by debt agreement	1,665,036	67,772	-	**1,732,808**
Total cash and cash equivalents	$ 7,755,419	$ 124,388	$ -	**$ 7,879,807**
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities				
Operating income (loss)	$ (2,272,370)	$ 37,396	$ -	**$ (2,234,974)**
Adjustments to reconcile operating income (loss) to net cash from operating activities				
Depreciation and amortization	1,516,263	-	-	**1,516,263**
Provision for bad debts	3,239,534	-	-	**3,239,534**
(Increase) decrease in assets:				
Receivables:				
Estimated third-party payor settlements	1,063,000	-	-	**1,063,000**
Patient accounts, net	(2,219,962)	-	-	**(2,219,962)**
Other	(55,209)	-	-	**(55,209)**
Inventories	(98,827)	-	-	**(98,827)**
Prepaid expenses	(65,348)	(2)	-	**(65,350)**
Due from the District	-	703,609	(703,609)	**-**
Increase (decrease) in liabilities:				
Accounts payable	(2,800,789)	8,246	-	**(2,792,543)**
Accrued compensation and related liabilities	537,395	-	-	**537,395**
Estimated third-party payor settlements	2,335,000	-	-	**2,335,000**
Due to Melissa Memorial Hospital Corporation	(703,609)	-	703,609	**-**
Net cash from operating activities	**$ 475,078**	**$ 749,249**	**$ -**	**$ 1,224,327**

13. Blended Component Unit (continued):

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

	2024			
	Melissa Memorial Hospital	Melissa Memorial Hospital Corporation	Eliminations	Totals
ASSETS				
Current assets				
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	5,501,752	-	-	**5,501,752**
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	20,703,093	7,002,935	(6,945,467)	**20,760,561**
Noncurrent assets				
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	**$ 33,325,842**	**$ 7,062,927**	**$ (6,945,467)**	**$ 33,443,302**
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION				
Current liabilities				
Accounts payable	$ 3,873,977	$ 53,249	$ -	$ **3,927,226**
Accrued compensation and related liabilities	915,138	-	-	**915,138**
Current maturities 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	11,816,372	759,304	(6,945,467)	**5,630,209**
Noncurrent liabilities				
Long-term debt and other noncurrent liabilities net of current portion	78,883	6,531,882	-	**6,610,765**
Total liabilities	11,895,255	7,291,186	(6,945,467)	**12,240,974**
Deferred inflows of resources, *property taxes*	990,463	-	-	**990,463**
Net position				
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	**$ 33,325,842**	**$ 7,062,927**	**$ (6,945,467)**	**$ 33,443,302**

13. Blended Component Unit (continued):

The combining statement of revenues, expenses, and changes in net position is as follows:

	2024			
	Melissa Memorial Hospital	Melissa Memorial Hospital Corporation	Eliminations	Totals
Operating revenues				
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**
Operating expenses				
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**
Operating income (loss)	181,024	-	-	**181,024**
Nonoperating revenues (expenses)				
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**
Capital grants and contributions	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**

13. Blended Component Unit (continued):

The combining statement of cash flows is as follows:

	2024			
	Melissa Memorial Hospital	Melissa Memorial Hospital Corporation	Eliminations	Totals
Change in Cash and Cash Equivalents				
Cash flows from operating activities				
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**
Cash flows from noncapital financing activities				
Cash received from taxation for maintenance and operations	1,202,900	-	-	**1,202,900**
Cash flows from capital and related financing activities				
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)**
Cash flows from investing activities				
Investment interest received	482,075	572,757	(572,757)	**482,075**
Proceeds from maturities of investments	775,768	-	-	**775,768**
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**
Reconciliation of Cash and Cash Equivalents to the Combining Statements of Net Position				
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**
Reconciliation of Operating Income to Net Cash from Operating Activities				
Operating income	$ 181,024	$ -	$ -	**$ 181,024**
Adjustments to reconcile operating income to net cash from operating activities				
Depreciation and amortization	1,891,236	-	-	**1,891,236**
Provision for bad debts	984,837	-	-	**984,837**
(Increase) decrease in assets:				
Receivables:				
Estimated third-party payor settlements	(650,000)	-	-	**(650,000)**
Patient accounts, net	(4,357,277)	-	-	**(4,357,277)**
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**
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**

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, 2025

	Budgeted	Actual	Variance Favorable (Unfavorable)
Operating revenues			
Net patient service revenue	$ 23,957,240	**$ 25,622,473**	$ 1,665,233
Other	3,313,382	**947,601**	(2,365,781)
Total operating revenues	27,270,622	**26,570,074**	(700,548)
Operating expenses			
Salaries, wages, and employee benefits	13,200,130	**12,834,096**	366,034
Other	14,738,196	**15,970,952**	(1,232,756)
Total operating expenses	27,938,326	**28,805,048**	(866,722)
Operating loss	(667,704)	**(2,234,974)**	(1,567,270)
Nonoperating revenues	672,863	**1,279,629**	606,766
Capital grants and contributions	-	**66,509**	66,509
Change in net position	**$ 5,159**	**$ (888,836)**	**$ (893,995)**

See accompanying independent auditors' report.

SINGLE AUDIT

AUDITORS' SECTION

ACCOUNTANTS | ADVISORS

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 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, 2025, and the related notes to the 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 17, 2026.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the 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. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's 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*.

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.

DZA PLLC

Spokane Valley, Washington
June 17, 2026

ACCOUNTANTS | ADVISORS

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

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

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited East Phillips County Hospital District doing business as Melissa Memorial Hospital's (the District) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended December 31, 2025. The District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of audit findings and questioned costs.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each its major federal program for the year ended December 31, 2025.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); 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.

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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 GAAS, *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 the major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the 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. Given these limitations, during our audit, we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as identified above. However, material weakness or significant deficiencies in internal control over compliance may exist that were not identified.

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.

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.

DZA PLLC

Spokane Valley, Washington
June 17, 2026

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Schedule of Audit Findings and Questioned Costs
Year Ended December 31, 2025

Section I - Summary of Auditors' Results

Financial Statements:

Type of auditors' report issued:	***Unmodified***		
Internal control over financial reporting:			
• Material weakness(es) identified?	____ yes	X no	
• Significant deficiency(ies) identified?	____ 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?	____ yes	X 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)?	____ yes	X no	

Assistance Listing Number	*Name of Federal Program or Cluster*
14.128	Mortgage Insurance - Hospitals

Dollar threshold used to distinguish between type A and type B programs: $1,000,000

Auditee qualified as low-risk auditee? ____ yes X no

Section II – Financial Statement Findings

There are no matters reported for 2025.

Section III - Federal Award Findings and Questioned Costs

There are no matters reported for 2025.

AUDITEE'S SECTION

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2025

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			$ 6,945,467
U.S. Department of the Treasury Pass-through Programs From:				
State of Colorado Department of Health Care Policy				
Coronavirus State And Local Fiscal Recovery Funds	21.027	G24-186012	COVID-19	55,868
Colorado Community College System				
Coronavirus State And Local Fiscal Recovery Funds	21.027	MMWRP01	COVID-19	39,000
Total U.S. Department of the Treasury Pass-through Programs				94,868
U.S. Department of Health and Human Services Pass-through Programs From:				
Colorado Rural Health Center				
Small Rural Hospital Improvement Grant Program	93.301	5 H3HRH00038-23-00	COVID-19	7,797
Total expenditures of federal awards				**$ 7,048,132**

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, 2025. 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 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 $6,241,857 at December 31, 2025.

East Phillips County Hospital District
doing business as Melissa Memorial Hospital
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2025

2024-001 Preparation of the Schedule of Expenditures of Federal Awards

Status: Corrected

2024-002 Inadequate Policies and Procedures

Status: Corrected

2024-003 Procurement

Status: Corrected