Financial Statements
December 31, 2016 and 2015

Keefe Memorial Health Service District

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Independent Auditor's Report

The Board of Directors
Keefe Memorial Health Service District
dba Keefe Memorial Hospital
Cheyenne Wells, Colorado

Report on the Financial Statements

We have audited the accompanying statement of net position of Keefe Memorial Health Service District, dba Keefe Memorial Hospital (Hospital), as of December 31, 2016 and 2015, and the related statements of revenues, expenses, and changes in net position and cash flows for the year ended December 31, 2016 and period of inception, April 1, 2015 to December 31, 2015, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of Keefe Memorial Health Service District, dba Keefe Memorial Hospital as of December 31, 2016 and 2015, and the changes in its net position and its cash flows for the year ended December 31, 2016 and for the period of inception, April 1, 2015 to December 31, 2015, in accordance with accounting principles generally accepted in the United States of America.

Other Matters
Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards
In accordance with *Government Auditing Standards*, we have also issued a report dated April 28, 2017 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That reports is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hospital's internal control over financial reporting and compliance.

Eide Bailly LLP

Fargo, North Dakota
April 28, 2017

The following discussion and analysis presents the highlights of Keefe Memorial Hospital's financial activities and financial position for the year ended December 31, 2016 and the period of inception, April 1, 2015 to December 31, 2015. The analysis focuses on significant financial issues and major financial activities and the resulting changes in financial position and should be read in conjunction with the accompanying basic financial statements.

Keefe Memorial Hospital Highlights

Keefe Memorial Hospital (the Hospital) is a small rural health facility in Cheyenne Wells, Colorado. This facility provides vital health care service in an under-served area on the eastern plains of Colorado. In November 2014, the voters of Cheyenne County approved the creation of a Health Service District, and effective April 1, 2015, the net position and operations of Keefe Memorial Hospital were transferred from Cheyenne County to the newly created District.

Financial Highlights

- The Hospital's total net position increased by $473,768 during the year ended December 31, 2016 and by $1,911,795 from inception through December 31, 2015 resulting in an ending net position of $8,321,030 and $7,847,262, as of December 31, 2016 and 2015.
- Operating revenues totaled $4,551,367 for the year ended December 31, 2016 and $3,956,010 from the period of inception through December 31, 2015. This represents a 15% increase in operating revenues while the period of operation increased from 9 months to 12 months.
- Operating expenses totaled $6,504,589 for the year ended December 31, 2016 and $4,041,942 for the period of inception through December 31, 2015. This represents an increase in expenses of 61%. Employee salaries, wages, and benefits increased by $996,319 or 51% for the 2016 year over the 2015 nine month period. Professional fees and purchased services increased by $775,384 or 121% for the 2016 year over the 2015 nine month period.
- The Hospital incurred operating losses of $1,953,222 for the year ended December 31, 2016 and losses of $85,932 for the nine months ended December 31, 2015.
- Non-operating revenues totaled $1,962,530 for the year ended December 31, 2016 and $1,914,731 for the period of inception through December 31, 2015. Non-operating revenues consist primarily of property taxes which totaled $1,880,732 for the 2016 year and $1,876,892 for the 2015 nine month period.

Overview of Financial Statements

This annual report consists of three parts – Management's Discussion and Analysis, the basic financial statements, and other supplementary information. Management's Discussion and Analysis is designed to assist the reader in focusing on significant financial issues and provide an overview of the Hospital's financial activities. Notes to the basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements. Other Supplementary Information includes the Schedule of Revenue and Expenses – Budget to Actual.

Hospital Financial Statements

The Financial Statements are designed to provide readers with a broad overview of the Hospital's finances, in a manner similar to private sector business. Because the predominate source of revenues is from user fees, the financial statements are treated as an Enterprise Fund (proprietary). The statements are prepared utilizing the accrual basis of accounting, which presents the flow of economic resources. The Statement of Net Position presents information on all the Hospital's Assets, Liabilities, Deferred Inflows of Resources and Net Position and classifies them as current and non-current. It also provides the basis for evaluation of the capital structure of the Hospital and for assessing its liquidity and financial flexibility. Over time, increases and decreases in Net Position serve as a useful indicator of whether the financial position of the Hospital is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position presents information showing the results of operations, contributions and grants during the fiscal year. All changes in revenues and expenses are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Some revenues and expenses are reported in the statement that will result in cash flows in future fiscal periods (for example, uncompensated absences) or result from past cash flows (for example, prepaid insurance). This statement measures the Hospital's operations and can be used to determine whether the Hospital has been able to recover all of its operating costs from patient services and other operating revenues sources. The Statement of Cash Flows is to provide information about the Hospital's cash from operating, non-capital financing, capital and related financing and investing activities. It provides answers to questions, such as what were the Hospital's sources of cash, uses of cash, and the change in the cash balances during the reporting period. The Notes to the Financial Statements provide additional information that is essential for a full understanding of the financial statements. The notes also present certain required supplemental information such as capital asset activity and long term contracts and commitments.

Financial Reporting Entity

The Hospital is a separate Health Service District and has no component units of its own using the criteria as set forth in generally accepted accounting principles. The determination to include separate governmental entities is based on the criteria of Governmental Accounting Standards Board (GASB) Statement-14 as amended by GASB Statement-39 and GASB Statement-61.

Condensed Statement of Net Position

	2016	2015
Current Assets	$ 7,061,161	$ 7,160,696
Capital Assets, net	3,844,112	3,246,611
Total assets	$ 10,905,273	$ 10,407,307
Current Liabilities	$ 1,087,187	$ 811,380
Long-Term Debt	295,060	-
Deferred Inflows of Resources	1,201,996	1,748,665
Total liabilities and deferred inflows of resources	2,584,243	2,560,045
Net Position		
Net investment in capital assets	3,462,113	3,117,556
Unrestricted	4,858,917	4,729,706
Total net position	8,321,030	7,847,262
Total liabilities, deferred inflows of resources and net position	$ 10,905,273	$ 10,407,307

The total condensed statement of net position indicates an increase in total assets from 2015 to 2016 of $497,966 and total liabilities increased by $570,867 from 2015 to 2016. Deferred inflows of resources decreased by $546,669 from 2015 to 2016. Net position increased by $473,768 during the year ended December 31, 2016 and by $1,911,795 during the nine months ended December 31, 2015.

Condensed Statement of Changes in Revenues, Expenses, and Changes in Net Position

	2016	2015
Operating Revenues	$ 4,551,367	$ 3,956,010
Operating Expenses		
Salaries and wages	2,942,373	1,946,054
Professional fees and purchased services	1,415,210	639,826
Employee benefits	570,676	390,472
Other	1,576,330	1,065,590
	6,504,589	4,041,942
Operating Loss	(1,953,222)	(85,932)
Nonoperating Revenues, Net	1,962,530	1,914,731
Revenues in Excess of Expenses Before Capital Grants and Contributions	9,308	1,828,799
Capital Grants and Contributions	464,460	82,996
Change in Net Position	473,768	1,911,795
Net Position, Beginning of Period	7,847,262	5,935,467
Net Position, End of Year	$ 8,321,030	$ 7,847,262

Net position increased during the year ended December 31, 2016 primarily due to $1,880,732 in property tax revenue and $464,460 in capital grants and contributions offset by an operating loss of $1,953,222. Net position increased $1,911,795 during the period ended December 31, 2015 from inception primarily due to $1,876,892 in property tax revenue offset by an operating loss of $85,932. Salaries and benefits were approximately 82% of net patient revenue during the year ended December 31, 2016 and 59% of net patient revenue during the period from inception to December 31, 2015.

Capital Assets and Debt Administration

As December 31, 2016 and 2015, the Hospital's investment in capital assets net of accumulated depreciation was $3,844,112 and $3,246,611. A breakdown of capital assets is as follows:

	2016	2015
Land	$ 11,258	$ 11,258
Building and Improvements	4,576,874	4,557,751
Equipment	4,898,672	4,108,440
Total	9,486,804	8,677,449
Accumulated Depreciation	(5,642,692)	(5,430,838)
Total capital assets, net of accumulated depreciation	$ 3,844,112	$ 3,246,611

Certain equipment is financed under capital leases with net present value of lease payments due of $381,999 and $129,055 as of December 31, 2016 and 2015, respectively.

Requests for Information

The financial report is designed to provide the citizens, taxpayers, customers and investors and creditors of Keefe Memorial Hospital a general overview of the Hospital's finances and to demonstrate the Hospital's accountability. If you have questions about this report or need additional financial information, contact Keefe Memorial Health Service District, PO Box 578, Cheyenne Wells, Colorado 80810.

	2016	2015
Assets		
Current Assets		
Cash and cash equivalents	$ 3,545,531	$ 2,749,603
Short-term investments	1,205,091	1,200,000
Receivables		
Patient, net of estimated uncollectibles of $235,000 in 2016 and $262,000 in 2015	880,011	1,209,753
Property taxes	1,201,996	1,748,665
Other	1,244	9,230
Supplies	143,782	150,481
Prepaid expenses	83,506	92,964
Total current assets	7,061,161	7,160,696
Capital Assets		
Capital assets not being depreciated	11,258	11,657
Capital assets being depreciated, net	3,832,854	3,234,954
Total capital assets	3,844,112	3,246,611
Total assets	$ 10,905,273	$ 10,407,307
Liabilities, Deferred Inflows of Resources and Net Position		
Current Liabilities		
Current maturities of long-term debt	$ 86,939	129,055
Accounts payable		
Trade	144,248	135,209
Estimated third-party payor settlements	613,589	322,566
Accrued expenses		
Compensated absences	158,446	147,632
Accrued salaries and benefits	83,965	76,918
Total current liabilities	1,087,187	811,380
Long-Term Debt, Less Current Maturities	295,060	-
Deferred Inflows of Resources - Property Taxes	1,201,996	1,748,665
Total liabilities and deferred inflows of resources	2,584,243	2,560,045
Net Position		
Net investment in capital assets	3,462,113	3,117,556
Unrestricted	4,858,917	4,729,706
Total net position	8,321,030	7,847,262
Total liabilities, deferred inflows of resources, and net position	$ 10,905,273	$ 10,407,307

	2016	2015
Operating Revenues		
Net patient service revenue (net of provision for bad debts of $497,000 in 2016 and $140,000 in 2015)	$ 4,268,034	$ 3,942,976
Other revenue	283,333	13,034
Total operating revenues	4,551,367	3,956,010
Operating Expenses		
Salaries and wages	2,942,373	1,946,054
Professional fees and purchased services	1,415,210	639,826
Employee benefits	570,676	390,472
Depreciation	505,526	289,590
Supplies	360,230	257,205
Repairs and maintenance	192,406	164,603
Utilities	125,699	91,684
Rent	10,181	8,971
Other	382,288	253,537
Total operating expenses	6,504,589	4,041,942
Operating Loss	(1,953,222)	(85,932)
Nonoperating Revenues (Expenses)		
Property taxes	1,880,732	1,876,892
Investment income	18,619	4,989
Interest expense	(15,656)	(13,906)
Noncapital grants and contributions	43,727	36,849
Gain on sale of capital assets	30,000	-
Other	5,108	9,907
Net nonoperating revenues	1,962,530	1,914,731
Revenues in Excess of Expenses Before Capital Grants and Contributions	9,308	1,828,799
Capital Grants and Contributions	464,460	82,996
Change in Net Position	473,768	1,911,795
Net Position, Beginning of Period	7,847,262	5,935,467
Net Position, End of Period	$ 8,321,030	$ 7,847,262

	2016	2015
Operating Activities		
Receipts from and on behalf of patients	$ 4,888,799	$ 3,738,036
Other receipts	291,319	13,360
Payments to suppliers and other contractors	(2,460,818)	(1,374,767)
Payments to and on behalf of employees	(3,495,188)	(2,258,208)
Net Cash from (used for) Operating Activities	(775,888)	118,421
Noncapital Financing Activities		
Property taxes received	1,880,732	1,876,892
Noncapital grants and contributions	43,727	36,849
Other expenses	19,452	(3,999)
Net Cash from Noncapital Financing Activities	1,943,911	1,909,742
Capital and Capital Related Financing Activities		
Purchases of capital assets	(650,819)	(117,621)
Principal payments on long-term debt	(199,264)	(133,532)
Capital grants and contributions	464,460	82,996
Net Cash used for Capital and Related Financing Activities	(385,623)	(168,157)
Investing Activities		
Purchases of short-term investments	(5,091)	(1,200,000)
Investment income	18,619	4,989
Net Cash from (used for) Investing Activities	13,528	(1,195,011)
Net Increase in Cash and Cash Equivalents	795,928	664,995
Cash and Cash Equivalents, Beginning of Period	2,749,603	2,084,608
Cash and Cash Equivalents, End of Period	$ 3,545,531	$ 2,749,603
Reconciliation of Operating Loss to Net Cash from (used for) Operating Activities		
Net operating loss	$ (1,953,222)	$ (85,932)
Adjustments to reconcile net operating loss to net cash provided by (used for) operating activities:		
Depreciation	505,526	289,590
Changes in assets and liabilities		
Accounts receivable	337,728	(628,110)
Supplies	6,699	11,452
Prepaid expenses	9,458	(16,032)
Accounts payable	300,062	469,135
Accrued expenses	17,861	78,318
Net Cash from (used for) Operating Activities	$ (775,888)	$ 118,421
Supplemental Disclosure of Noncash Capital and Capital Related Financing Activities		
Equipment financed through capital lease arrangements	$ 452,208	$ -

Note 1 - Reporting Entity and Summary of Significant Accounting Policies

The financial statements of Keefe Memorial Health Service District, dba Keefe Memorial Hospital, (Hospital) have been prepared in accordance with generally accepted accounting principles in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the Hospital are described below.

Reporting Entity

Effective April 1, 2015, the operations and management of the Hospital were transferred from Cheyenne County to Keefe Memorial Health Service District (Note 9). The Hospital is located in Cheyenne County, Colorado, providing inpatient and outpatient services. The operations are funded through charges for services, property taxes, and community support.

For financial reporting purposes, the Hospital has evaluated all funds, organizations, agencies, boards, commissions, and authorities, none of which met the criteria for inclusion within the Hospital financial statements. The Hospital has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Hospital are such that the exclusion would cause the Hospital's financial situation to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Hospital. The Hospital does not have a component unit which meets the GASB criteria.

Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned, and expenses are recorded when the liability is incurred.

Basis of Presentation

The statement of net position displays the Hospital's assets, liabilities, and deferred inflows, with the difference reported as net position. Net position is reported in the following categories/components:

Net investment in capital assets consists of net capital assets reduced by the outstanding balances of any related debt obligations.

Restricted net position:

Expendable – Expendable net position results when constraints placed on net position use are either externally imposed or imposed through enabling legislation.

Nonexpendable – Nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Hospital.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Hospital's policy is to first apply the expense toward the most restrictive resources and then toward unrestricted resources.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, excluding internally designated or restricted cash and investments. For purposes of the statement of cash flows, the Hospital considers all cash and investments with an original maturity of three months or less as cash and cash equivalents.

Patient Receivables

Patient receivables are uncollateralized noninterest bearing patient and third-party payor obligations. Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management’s estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

Provider Fee Program

The Hospital participates in the provider fee program, approved by the Centers for Medicare and Medicaid Services (CMS), under which all hospitals in the state were assessed a fee based on bed size and payor mix. The State of Colorado uses the fees to supplement state budget funds for the Medicaid program, which brings matching federal monies into the program, enabling the State of Colorado to fund Medicaid payments to hospitals at a higher rate than would otherwise be possible. The Hospital paid approximately $48,797 and $50,026 in provider fees for the year ended December 31, 2016 and period of inception, April 1, 2015 to December 31, 2015, which were recorded in operating expenses. The Hospital received approximately $907,437 and $1,710,313 of supplemental payments for the year ended December 31, 2016 and period of inception, April 1, 2015 to December 31, 2016, which are recorded as part of net patient service revenue.

Property Tax Receivable

Property tax receivable is recognized on the lien date, which is January 1 of the tax year in Colorado. The property tax receivable represents taxes certified by the Board of Trustees to be collected in the next fiscal year. However, by statute, the tax asking becomes effective on the first day of the following year. Although the property tax receivable has been recorded, the related revenue is considered a deferred inflow of resources – unavailable revenue and will not be recognized as revenue until the year in which it is levied.

Lien date	January 1,
Levy date	January 1, succeeding year
Due dates	February 28 and June 15, succeeding year

Supplies

Supplies are stated at lower of cost (first-in, first-out) or market and are expensed when used.

Investment Income

Interest on deposits is included in nonoperating revenues when earned.

Capital Assets

Property and equipment acquisitions in excess of $1,000 are capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. The estimated useful lives of capital assets are as follows:

Buildings	30-40 years
Improvements	10-15 years
Equipment	5-20 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net position, and are excluded from revenues in excess of expenses. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted net position.

Compensated Absences

The Hospital's employees earn paid time-off days at varying rates depending on years of service. Employees may accumulate paid time-off up to a specified maximum. Employees are paid for accumulated paid time-off upon termination.

Deferred Inflows of Resources

Deferred inflows of resources represent an increase in net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until then. The deferred inflows of resources reported in the financial statements is unavailable property taxes. Property taxes will be recognized as revenue in the year they are levied.

Operating Revenues and Expenses

The Hospital's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues and expenses of the Hospital result from exchange transactions associated with providing health care services - the Hospital's principal activity, and the costs of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as nonoperating.

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity Care

The Hospital provides health care services to patients who meet certain criteria under its charity care policy without charge or at amounts less that established rates. Since the Hospital does not pursue collection of these amounts, they are not reported as patient service revenue. The estimated cost of providing these services was $21,000 for the year ended December 31, 2016 and $12,000 for the period of inception, April 1, 2015 to December 31, 2015, calculated by multiplying the ratio of cost to gross charges for the Hospital by the gross uncompensated charges associated with providing charity care to its patients.

Grants and Contributions

The Hospital may receive grants 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 that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after revenues in excess of expenses.

Electronic Health Record Incentives

The American Recovery and Reinvestment Act of 2009 (ARRA) amended the Social Security Act to establish incentive payments under the Medicare and Medicaid programs for certain hospitals and professionals that demonstrate meaningful use of certified Electronic Health Records (EHR) technology.

To qualify for the EHR incentive payments, hospitals and physicians must meet designated EHR meaningful use criteria. In addition, hospitals must attest that they have used certified EHR technology, satisfied the meaningful use objectives, and specify the EHR reporting period. This attestation is subject to audit by the federal government or its designee. The EHR incentive payment to hospitals for each payment year is calculated as a product of (1) an initial amount; (2) the Medicare share; and (3) a transition factor applicable to that payment year.

The Hospital recognizes EHR incentive payments as revenue when there is reasonable assurance that the Hospital will comply with the conditions attached to the incentive payments. EHR incentive payments are included in other operating revenue in the accompanying financial statements. The amount of EHR incentive payments recognized are based on management's best estimate and those amounts are subject to change with such changes impacting the period in which they occur.

The Hospital recognized EHR revenue of $261,709 during the year ended December 31, 2016. No EHR revenue was recognized during the period of inception, April 1, 2015 to December 31, 2015.

Note 2 - Net Patient Service Revenue

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

Medicare – Inpatient acute care and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per visit. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors. The clinic is designated as a Certified (Provider Based) Rural Health Clinic by the Medicare program. As a result, clinical services rendered to Medicare program beneficiaries are reimbursed at cost (subject to various limits). The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor (MAC). The Hospital's Medicare cost reports have been audited by the MAC through the year ended December 31, 2014.

Medicaid – Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient non-acute services, certain outpatient services, and defined capital costs related to Medicaid program beneficiaries are paid based on a cost-reimbursement methodology. The Hospital is reimbursed for cost-reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary. The Hospital's Medicaid cost reports have been settled by the Medicaid fiscal intermediary through the year ended December 31, 2013.

Blue Cross – Inpatient services rendered to Blue Cross subscribers are paid at prospectively determined rates per discharge. Outpatient services are reimbursed at outpatient payment fee screens or at charges less a prospectively determined discount. The prospectively determined discount is not subject to retroactive adjustment.

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

Concentration of gross revenues by major payor accounted for the following percentages of the Hospital's patient services revenues for the year ended December 31, 2016 and period of inception, April 1, 2015 to December 31, 2015:

	2016	2015
Medicare	37%	36%
Medicaid	23%	19%
Blue Cross	19%	15%
Other commercial and government payors	17%	23%
Self pay	4%	7%
	100%	100%

Laws and regulations governing the 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. The net patient services revenue increased by approximately $177,000 for the period of inception, April 1, 2015 to December 31, 2015, and increased approximately $91,000 for the year ended December 31, 2016 due to adjustments to amounts previously estimated.

The Centers for Medicare and Medicaid Services (CMS) has implemented a Recovery Audit Contractor (RAC) program under which claims are reviewed by contractors for validity, accuracy, and proper documentation. A demonstration project completed in several other states resulted in the identification of potential overpayments, some being significant. If selected for audit, the potential exists that the Hospital may incur a liability for a claims overpayment at a future date. The Hospital is unable to determine if it will be audited and, if so, the extent of the liability of overpayments, if any. As the outcome of such potential reviews is unknown and cannot be reasonably estimated, it is the Hospital's policy to adjust revenue for deductions from overpayment amounts or additions from underpayment amounts determined under the RAC audits at the time a change in reimbursement is agreed upon between the Hospital and CMS.

Note 3 - Deposits

The carrying amounts of deposits as of December 31, 2016 and 2015 is as follows:

	2016	2015
Carrying Amount		
Cash and deposits	$ 4,750,622	$ 2,749,603

Deposits are reported in the following statement of net position captions:

	2016	2015
Cash and cash equivalents	$ 3,545,531	$ 2,749,603
Short-term investments	1,205,091	$ 1,200,000
	$ 4,750,622	$ 3,949,603

The Hospital's short-term investments consist of a certificate of deposit that is carried at amortized cost with a maturity of less than one year.

Deposits – Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank or investment company failure, the Hospital's deposits may not be returned to it. The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government deposit cash in eligible public depositories. Eligibility is determined by state regulations. Amounts on deposit in excess of federal insurance levels must be collateralized by eligible collateral as determined by the PDPA.

PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. At December 31, 2016, the Hospital's deposits in banks were entirely covered by federal depository insurance and PDPA.

Note 4 - Capital Assets

Capital assets activity and balances for the year ended December 31, 2016 are as follows:

	December 31, 2015	Additions	Transfers and Retirements	December 31, 2016
Capital assets not being depreciated				
Land	$ 11,258	$ -	$ -	$ 11,258
Capital assets being depreciated				
Buildings and improvements	4,557,751	19,123	-	4,576,874
Equipment	4,108,440	1,083,906	(293,674)	4,898,672
Total depreciable assets	8,666,191	1,103,029	(293,674)	9,475,546
	8,677,449	$ 1,103,029	$ (293,674)	9,486,804
Less accumulated depreciation for				
Buildings and improvements	(1,885,257)	$ (107,221)	$ -	(1,992,478)
Equipment	(3,545,581)	(398,305)	293,672	(3,650,214)
Total capital assets being depreciated	(5,430,838)	$ (505,526)	$ 293,672	(5,642,692)
Total capital assets, net	$ 3,246,611			$ 3,844,112

Capital assets activity and balances for the period of inception, April 1, 2015 to December 31, 2016 are as follows:

	April 1, 2015 (Inception)	Additions	Transfers and Retirements	December 31, 2015
Capital assets not being depreciated				
Land	$ 10,175	$ 1,083	$ -	$ 11,258
Capital assets being depreciated				
Buildings and improvements	4,475,838	81,913	-	4,557,751
Equipment	4,073,815	34,625	-	4,108,440
Total depreciable assets	8,549,254	116,538	-	8,666,191
	8,559,429	$ 117,621	$ -	8,677,449.0
Less accumulated depreciation for				
Buildings and improvements	(1,805,325)	$ (79,932)	$ -	(1,885,257)
Equipment	(3,335,923)	(209,658)	-	(3,545,581)
Total capital assets being depreciated	(5,141,248)	$ (289,590)	$ -	(5,430,838)
Total capital assets, net	$ 3,519,650			$ 3,246,611

Note 5 - Lease Obligations

The Hospital leases certain equipment under noncancelable long-term lease agreements. Certain leases have been recorded as capitalized leases. The capitalized leased assets consist of:

	2016	2015
Major movable equipment	$ 1,059,336	$ 577,128
Less accumulated amortization	(665,533)	(115,426)
	$ 393,803	$ 461,702

Minimum future lease payments for the capital leases are as follows:

Years Ending December 31,	Capital Leases
2017	$ 98,219
2018	98,219
2019	98,219
2020	98,219
2021	16,370
Total minimum lease payments	$ 409,245
Less interest	(27,246)
Present value of minimum lease payments - Note 6	$ 381,999

Note 6 - Long-Term Debt

A schedule of changes in the Hospital's long-term debt for the year ended December 31, 2016 and for the period of inception to December 31, 2015 is as follows:

	2015	Additions	Payments	2016	Due Within One Year
Capital Leases (Note 5)	$ 129,055	$ 452,208	$ (199,264)	$ 381,999	$ 86,939

	2015 (Inception)	Additions	Payments	2015	Due Within One Year
Capital Leases (Note 5)	$ 262,587	$ -	$ (133,532)	$ 129,055	$ 129,055

Note 7 - Pension Plan

The Hospital has a defined contribution pension plan under which employees become participants upon reaching age 21 and completion of three months of service. The Hospital matches employee contributions up to 5% after the employees first year of service. Total pension plan expense for the year ended December 31, 2016 and the period of inception, April 1, 2015 to December 31, 2015, was $69,000 and $63,000, respectively.

Note 8 - Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at December 31, 2016 and 2015 was as follows:

	2016	2015
Medicare	25%	35%
Medicaid	36%	25%
Blue Cross	9%	6%
Other commercial and government payors	20%	21%
Self pay	10%	13%
	100%	100%

Note 9 - Net Position Transfer From Cheyenne County

Keefe Memorial Health Services District was created to provide for the continued advancement of health care services to the district residents. Effective April 1, 2015, Cheyenne County transferred the net position and operations of Keefe Memorial Hospital to Keefe Memorial Health Services District. The transfer included the following assets, liabilities, and net position.

Assets	
Current Assets	
Cash and cash equivalents	$ 2,084,608
Patient and other receivables	691,803
Other current assets	238,865
Total current assets	3,015,276
Capital Assets	3,418,580
Total assets	$ 6,433,856
Liabilities and Net Position	
Current Liabilities	
Current maturities of long-term debt	$ 182,278
Accounts payable	89,570
Accrued expenses	146,232
Total current liabilities	418,080
Long-Term Debt	80,309
Total liabilities	498,389
Net Position	5,935,467
Total liabilities and net position	$ 6,433,856

Note 10 - Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage, of assets; business interruptions; 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 other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Malpractice Insurance

The Hospital has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of $1 million per claim and an annual aggregate limit of $3 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, would be uninsured.

Colorado Hospital Association Trust - Workers' Compensation Pool

The Hospital is exposed to various risks of loss related to injuries of employees while on the job. On June 1, 1985 the Hospital joined together with other hospitals in the State of Colorado to form the Colorado Hospital Association Trust - Workers' Compensation Pool, a public entity risk pool currently operating as a carrier risk management and insurance program for member hospitals. The Hospital pays an annual contribution to the pool for workers compensation insurance coverage. The pool is financially self-sustaining through member contributions and additional assessments, if necessary, and the Pool purchases reinsurance for claims in excess of a specified self-insured retention, which is determined by the trust. There have been no significant reductions in coverage from the prior year and settled claims have not exceeded coverage in any of the past three fiscal years.

Colorado Counties Health Insurance Pool

The Hospital is exposed to various risks of loss related to health insurance coverage. In June 1988 due to the high cost of health coverage, the Hospital joined together with other counties in the State of Colorado to form the County Health Insurance Pool, a public entity risk pool operating as a common risk management and insurance program for member counties. The Hospital pays monthly premiums for health insurance coverage. The intergovernmental agreement provides that the pool will be financially self-sustaining through member contributions and additional assessments. There have been no significant reductions in coverage from the prior year and settled claims have not exceeded coverage in any of the past three fiscal years.

Litigations, Claims, and Disputes

The Hospital is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of any litigation, claims, and disputes in process will not be material to the financial position, operations, or cash flows of the Hospital.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services.

Supplementary Information
December 31, 2016 and 2015

Keefe Memorial Health Service District, dba Keefe Memorial Hospital

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Independent Auditor's Report on Supplementary Information

The Board of Directors
Keefe Memorial Health Service District
dba Keefe Memorial Hospital
Cheyenne Wells, Colorado

We have audited the financial statements of Keefe Memorial Health Service District, dba Keefe Memorial Hospital as of December 31, 2016 and for the period of inception, April 1, 2015 to December 31, 2015, and our report thereon dated April 28, 2017, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of budgeted and actual revenues and expenses shown on page 23, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. The schedule of budgeted and actual revenues and expenses has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Eide Bailly LLP

Fargo, North Dakota
April 28, 2017, 2017

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	Budgeted Amounts	Actual	Variance Favorable (Unfavorable)
Revenues			
Operating revenues			
Net patient service revenue	$ 4,141,962	$ 4,268,034	$ 126,072
Other revenue	20,421	283,333	262,912
Net operating revenues	4,162,383	4,551,367	388,984
Nonoperating revenues (expenses)			
Property tax income	1,798,772	1,880,732	81,960
Investment income	6,000	18,619	12,619
Interest expense	(34,386)	(15,656)	18,730
Grants and contributions	25,000	508,187	483,187
Other	38,459	35,108	(3,351)
Total revenues	5,996,228	6,978,357	982,129
Expenditures			
Salaries, wages and benefits	3,460,598	3,513,049	52,451
Professional fees and purchased services	940,195	1,415,210	475,015
Supplies	274,572	360,230	85,658
Repairs and maintenance	356,210	192,406	(163,804)
Utilities	164,007	125,699	(38,308)
Rent	16,243	10,181	(6,062)
Depreciation	407,143	505,526	98,383
Other	292,987	382,288	89,301
Total expenditures	5,911,955	6,504,589	592,634
Change in Net Position	$ 84,273	$ 473,768	$ 389,495

Notes to Schedule

1. Annual budgets are adopted as required by Colorado Statutes. Formal budgetary integration is employed as a management control device during the year. Budgets are adopted on a basis that is consistent with generally accepted accounting principles.

2. Appropriations are adopted by resolutions in total. For the year ended December 31, 2016, there were no additional resolutions for supplementary budget and appropriation.

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Independent Auditor's 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*

The Board of Directors
Keefe Memorial Health Service District
dba Keefe Memorial Hospital
Cheyenne Wells, Colorado

We have audited, in accordance with auditing standards generally accepted in the United State 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 Keefe Memorial Health Service District, dba Keefe Memorial Hospital (Hospital) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon April 28, 2017.

Internal Control over Financial Reporting
In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine our audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of audit findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 Hospital's financial statements will not be prevented, or detected and corrected on a timely basis. We consider deficiencies 2016-1, 2016-2, 2016-3, and 2016-4 described in the accompanying schedule of audit findings to be material weaknesses.

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Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Keefe Memorial Hospital's Response to Findings
Keefe Memorial Hospital's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Hospital's response and, accordingly, we express no opinion on it.

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Fargo, North Dakota
April 28, 2017

Material Weaknesses

Finding No. 2016-1 – Preparation of Financial Statements

Statement of Condition – The Hospital does not have an internal control system designed to provide for the preparation of financial statements being audited, including related disclosures in accordance with U.S generally accepted accounting principles (GAAP). In addition, the Hospital does not have an internal control structure to properly prevent and detect or correct misstatements to those financial statements.

Criteria – A properly designed system of internal control over financial reporting includes preparation of an entity's financial statements and accompanying notes by internal personnel of the entity. Management is responsible for establishing and maintaining internal control over financial reporting and procedures related to the fair presentation of the financial statements in accordance with GAAP.

Effect of Condition – The effect of this condition is that the internal control over financial reporting could adversely impact the ability to record, process, and report financial information consistent with management's assertions. Furthermore, it is possible that new standards may not be adopted and applied timely to the interim financial reporting. This deficiency may cause material misstatements to the financial statements which would not be detected by the hospital.

Cause – This deficiency is due to the limited resources in the financial reporting process due to budgetary constraints.

Recommendation – We recommend that management continue reviewing operating procedures in order to obtain the maximum internal control over financial reporting possible under the circumstances to enable staff to identify issues timely and make proper changes.

Response – The Hospital management team will be preparing and reviewing internal generated financial statements. Monthly account reconciliations will be performed on all major accounts.

Finding No. 2016-2 – Material Audit Adjustments

Statement of Condition – As part of our audit, we proposed material audit adjustments to the financial statements that were not detected by management.

Criteria – A good system of internal control contemplates an adequate system for recording and processing adjusting journal entries material to the financial statements.

Effect of Condition – The control deficiency resulted in a misstatement to the financial statements that was not prevented or detected, and corrected by internal personnel.

Cause – This deficiency is due to the limited resources in the financial reporting process due to budgetary constraints and lacking reconciliation procedures.

Recommendation – We recommend that management review operating procedures including month-end and year-end closing processes, to ensure that accounts are reconciled and necessary adjustments are recorded by management prior to the audit.

Response – Management agrees with the finding and will identify the necessary journal entries and develop a process to record these entries accurately and timely.

Finding No. 2016-3 – Limited Size of Office

Statement of Condition – The limited number of staff of the Hospital does not facilitate the segregation of duties necessary to achieve a low level of control risk. Areas where a lack of controls and segregation of duties were noted included the following:

- Controls over review and approval of journal entries
- Controls over revenue cut-off

Criteria – A good system of internal control includes controls noted above and adequate segregation of duties so that no one individual handles a transaction from its inception to completion.

Effect of Condition – Lacking controls and inadequate segregation of duties could adversely affect Hospital's ability to detect and correct unintentional or intentional misstatements in a timely period by employees in the normal course of performing their assigned functions

Cause – The Hospital's size and budget constraints limit the number of personnel and does not facilitate the segregation of duties necessary to adequately separate procedures.

Recommendation – We recognize your staff may not be large enough to permit complete segregation of duties in all respects for an effective system of internal control. However, the Hospital should continually review its internal control procedures, other compensating controls, and monitoring procedures to obtain the maximum internal control possible under the circumstances. Furthermore, the Hospital should periodically evaluate its procedures to identify potential areas where the benefits of further segregation of duties or addition of other compensating controls and monitoring procedures exceed the related costs. In addition, active involvement of the Board of Directors and the Board's knowledge of the operations is an effective control.

Response – The Hospital agrees with the finding and will continue to monitor the Hospital's operations and procedures very closely. In addition, the Hospital will review its internal control over its financial reporting process and implement improvements in the segregation of duties.

Finding No. 2016-4 – No Process in Place to Estimate Third Party Settlements

Statement of Condition – During 2016, the Hospital did not have processes and controls in place to estimate third party settlement amounts, including amounts due under the Provider Fee Program.

Criteria – A good system of internal control includes a process to estimate current and prior year settlements relating to open cost report years.

Effect of Condition – Not having a process in place to estimate third party settlements can result in inaccurate monthly financial statements and significant year-end adjustments. This will become even more important in when the hospital transitions to a Critical Access designation.

Cause – This deficiency is partially due to the limited resources in the financial reporting process due to budgetary constraints.

Recommendation – We recommend implementing a model and process to calculate and estimate third party settlements at least annually.

Response – The Hospital agrees with the finding and will continue to work to improve controls and processes surrounding third party estimate.