Financial Statements
December 31, 2020 and 2019

Keefe Memorial Health Service District, dba Keefe Memorial Hospital

EideBailly

CPAs & BUSINESS ADVISORS

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 financial statements of Keefe Memorial Health Service District, dba Keefe Memorial Hospital (Hospital), which comprise the statements of net position as of December 31, 2020 and 2019, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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.

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, 2020 and 2019 and the changes in its financial position and cash flows for the years then ended in conformity 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 required supplementary information on page 18 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.

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

Other Reporting Required by Government Auditing Standards
In accordance with *Government Auditing Standards*, we have also issued a report dated August 17, 2021 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 report 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

Denver, Colorado
August 17, 2021

Keefe Memorial Hospital
Statements of Net Position - Assets
December 31, 2020 and 2019

	2020	2019
Assets		
Current Assets		
Cash and cash equivalents	$ 1,050,350	$ 2,328,844
Restricted cash	1,876,655	-
Short-term investments	5,799,385	3,237,936
Receivables		
Patient, net of estimated uncollectibles of $229,000 in 2020 and $257,000 in 2019	721,231	843,762
Property taxes	1,225,302	1,293,076
Estimated third-party payor settlements	419,999	318,458
Other	2,757	2,507
Supplies	202,744	202,744
Prepaid expenses	78,274	80,856
Total current assets	11,376,697	8,308,183
Capital Assets		
Capital assets not being depreciated	2,198,741	14,258
Capital assets being depreciated, net	3,011,741	3,201,050
Total capital assets	5,210,482	3,215,308
Total assets	$ 16,587,179	$ 11,523,491

	2020	2019
Liabilities, Deferred Inflows of Resources and Net Position		
Current Liabilities		
Current maturities of capital leases	$ 32,751	$ 111,247
Accounts payable	86,537	97,825
Accrued expenses		
Salaries, wages, and employee benefits	257,097	212,555
Retainage	103,726	-
Refundable advance - Provider Relief Fund	1,876,655	-
Paycheck Protection Program loan	541,685	-
Total current liabilities	2,898,451	421,627
Capital Leases, Less Current Maturities	43,415	76,182
Total liabilities	2,941,866	497,809
Deferred Inflows of Resources - Property Taxes	1,225,302	1,293,076
Total liabilities and deferred inflows of resources	4,167,168	1,790,885
Net Position		
Net investment in capital assets	5,134,316	3,027,879
Unrestricted	7,285,695	6,704,727
Total net position	12,420,011	9,732,606
Total liabilities, deferred inflows of resources, and net position	$ 16,587,179	$ 11,523,491

Keefe Memorial Hospital

Statements of Revenues, Expenses and Changes in Net Position

Years Ended December 31, 2020 and 2019

	2020	2019
Operating Revenues		
Net patient service revenue (net of provision for bad debts of $281,000 in 2020 and $261,000 in 2019)	$ 6,039,402	$ 6,163,010
Other revenue	40,736	43,126
Total operating revenues	6,080,138	6,206,136
Operating Expenses		
Salaries and wages	2,865,002	2,585,228
Professional fees and purchased services	1,500,173	1,587,907
Employee benefits	613,495	611,316
Depreciation	472,700	488,971
Supplies	579,825	447,905
Repairs and maintenance	235,337	249,676
Utilities	155,547	156,271
Other	436,076	410,689
Total operating expenses	6,858,155	6,537,963
Operating Loss	(778,017)	(331,827)
Nonoperating Revenues (Expenses)		
Property taxes	1,431,778	1,348,951
Investment income	77,575	45,111
Interest expense	(7,307)	(9,316)
Noncapital grants and contributions	510,359	39,248
Provider Relief Funds	1,261,530	-
Other	191,487	21,064
Net nonoperating revenues	3,465,422	1,445,058
Revenues in Excess of Expenses and Change in Net Position	2,687,405	1,113,231
Net Position, Beginning of Year	9,732,606	8,619,375
Net Position, End of Year	$ 12,420,011	$ 9,732,606

	2020	2019
Operating Activities		
Receipts from and on behalf of patients	$ 6,060,392	$ 6,227,068
Other receipts	40,486	43,126
Payments to suppliers and other contractors	(2,915,664)	(2,914,632)
Payments to and on behalf of employees	(3,433,955)	(3,248,178)
Net Cash from (used for) Operating Activities	(248,741)	107,384
Noncapital Financing Activities		
Property taxes received	1,431,778	1,348,951
Noncapital grants and contributions	510,359	39,248
Provider Relief Funds	3,138,185	-
Proceeds from Paycheck Protection Program loan	541,685	-
Other revenue	191,487	21,064
Net Cash from Noncapital Financing Activities	5,813,494	1,409,263
Capital and Capital Related Financing Activities		
Purchases of capital assets	(2,364,148)	(80,295)
Principal payments on capital leases	(111,263)	(102,438)
Interest paid	(7,307)	(9,316)
Net Cash used for Capital and Related Financing Activities	(2,482,718)	(192,049)
Investing Activities		
Purchases of short-term investments	(2,561,449)	(1,516,776)
Investment income	77,575	45,111
Net Cash used for Investing Activities	(2,483,874)	(1,471,665)
Net Change in Cash and Cash Equivalents	598,161	(147,067)
Cash and Cash Equivalents, Beginning of Year	2,328,844	2,475,911
Cash and Cash Equivalents, End of Year	$ 2,927,005	$ 2,328,844
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position		
Cash and cash equivalents in current assets	$ 1,050,350	$ 2,328,844
Restricted cash	1,876,655	-
Total cash and cash equivalents	$ 2,927,005	$ 2,328,844

	2020	2019
Reconciliation of Operating Loss to Net Cash from (used for) Operating Activities		
Operating loss	$ (778,017)	$ (331,827)
Adjustments to reconcile operating loss to net cash from (used for) operating activities:		
Bad debt expense	280,515	261,433
Depreciation	472,700	488,971
Changes in assets and liabilities		
Accounts receivable	(259,775)	(197,375)
Supplies	-	(25,628)
Prepaid expenses	2,582	7,426
Accounts payable	(11,288)	(43,982)
Accrued expenses	44,542	(51,634)
Net Cash from (used for) Operating Activities	$ (248,741)	$ 107,384

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

The Hospital is an 11-bed acute care hospital located in Cheyenne Wells, Colorado. The Hospital is organized as a political subdivision of the state of Colorado and has been recognized by the Internal Revenue Service as exempt from federal income taxes under Internal Revenue Code Section 501(a). The Hospital is governed by the Board of Directors, which is publicly elected. The Board of Directors exercises governing oversight responsibility for the Hospital which includes such duties as budget review, care of patients, and management of the facilities as set forth by the ordinance of Cheyenne Wells.

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 of resources, 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.

Restricted Cash

Cash that has restrictions which change the nature or normal understanding of availability of the asset is reported separately on the statements of net position. Restricted cash available for obligations classified as current liabilities are reported as current assets.

Short-Term Investments

Short-term investments include certificates of deposits with an original maturity of three to twelve months, excluding internally designated or restricted cash and investments.

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.

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.

The Hospital considers whether indicators of impairment are present and performs the necessary analysis to determine if the carrying values of assets are appropriate. No impairment was identified for the years ended December 31, 2020 and 2019.

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 are unavailable property taxes.

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 than 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 $24,000 and $35,000 for the years ended December 31, 2020 and 2019, 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.

Colorado Healthcare Affordability and Sustainability Enterprise

The Hospital participates in the Colorado Healthcare Affordability and Sustainability Enterprise (CHASE) 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 $174,488 and $106,212 in CHASE fees for the years ended December 31, 2020 and 2019, which were recorded in operating expenses. The Hospital received approximately $1,270,810 and $1,361,024 of supplemental payments for the years ended December 31, 2020 and 2019, which are recorded in net patient service revenue.

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 nonoperating revenues. Amounts restricted to capital acquisitions are reported in nonoperating revenues (expenses).

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 – Effective in August 2017, the Hospital became licensed as a Critical Access Hospital (CAH). Under CAH status, the Hospital is reimbursed for most acute care services under a cost reimbursement methodology with final settlement determined after submission of annual cost reports by the Hospital and are subject to audits thereof by the Medicare intermediary. Prior to obtaining CAH status, inpatient acute care and outpatient services rendered to Medicare program beneficiaries were paid at prospectively determined rates per visit. These rates varied according to a patient classification system based on clinical, diagnostic, and other factors. The Hospital's Medicare cost reports have been audited by the Medicare intermediary through the year ended December 31, 2016.

Medicaid – Inpatient services and outpatient services after November 1, 2016 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. Outpatient services prior to November 1, 2016 relating to Medicaid beneficiaries are paid at interim rates based on Medicaid cost-to-charge ratios. Retrospective settlements based on audited cost-to-charge ratios are made periodically. The Hospital's Medicaid cost reports have been settled by the Medicaid fiscal intermediary through the year ended December 31, 2015.

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 service revenues for the years ended December 31, 2020 and 2019:

	2020	2019
Medicare	38%	41%
Medicaid	19%	17%
Blue Cross	23%	22%
Other commercial and government payors	16%	16%
Self pay	4%	4%
	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. Net patient service revenues increased by approximately $85,000 and decreased approximately $96,000 for the years ended December 31, 2020 and 2019 due to adjustments to amounts previously estimated.

Note 3 - Deposits

The carrying amounts of deposits as of December 31, 2020 and 2019 is as follows:

	2020	2019
Carrying Amount		
Cash and deposits	$ 8,726,390	$ 5,566,780

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

	2020	2019
Cash and cash equivalents	$ 1,050,350	$ 2,328,844
Restricted cash	1,876,655	-
Short-term investments	5,799,385	3,237,936
	$ 8,726,390	$ 5,566,780

The Hospital's short-term investments consist of certificates of deposit that are carried at cost plus accrued interest 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, 2020 and 2019, the Hospital's deposits in banks were entirely covered by federal depository insurance and PDPA.

Note 4 - Provider Relief Funds

The Hospital received approximately $3,138,185 of Coronavirus Aid, Relief, and Economic Security (CARES) Act Provider Relief Funds administered by the Department of Health and Human Services (HHS). The funds are subject to terms and conditions imposed by HHS. Among the terms and conditions is a provision that payments will only be used to prevent, prepare for, and respond to coronavirus and shall reimburse the recipient only for healthcare-related expenses or lost revenues that are attributable to coronavirus. Recipients may not use the payments to reimburse expenses or losses that have been reimbursed from other sources or that other sources are obligated to reimburse. HHS currently has a deadline to incur eligible expenses based on when the funds were received. Unspent funds will be expected to be repaid.

These funds are considered subsidies and recorded as a liability when received and will be recognized as revenues when all terms and conditions are considered met. As these funds are considered subsidies, they are considered nonoperating activities. The terms and conditions are subject to interpretation, changes and future clarification, the most recent of which have been considered through the date that the financial statements were available to be issued. In addition, this program may be subject to oversight, monitoring and audit. Failure by a provider that received a payment from the Provider Relief Fund to comply with any term or condition can subject the provider to recoupment of some or all of the payment. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. During the year ended December 31, 2020, the Hospital recognized $1,261,530 as revenue as conditions were fully met, included as nonoperating revenue on the statement of revenues, expenses, and changes in net position.

Note 5 - Capital Assets

Capital assets activity and balances for the year ended December 31, 2020 are as follows:

	December 31, 2019	Additions	Transfers and Retirements	December 31, 2020
Capital assets not being depreciated				
Land	$ 11,258	$ -	$ -	$ 11,258
Construction in progress	3,000	2,184,483	-	2,187,483
Total capital assets not being depreciated	$ 14,258	$ 2,184,483	$ -	$ 2,198,741
Capital assets being depreciated				
Buildings and improvements	$ 4,607,089	$ 98,998	$ -	$ 4,706,087
Equipment	5,606,805	152,929	-	5,759,734
Total capital assets being depreciated	10,213,894	$ 251,927	$ -	10,465,821
Less accumulated depreciation for:				
Buildings and improvements	(2,286,531)	$ (88,633)	$ -	(2,375,164)
Equipment	(4,726,313)	(384,067)	31,464	(5,078,916)
Total accumulated depreciation	(7,012,844)	$ (472,700)	$ 31,464	(7,454,080)
Net capital assets being depreciated	$ 3,201,050			$ 3,011,741
Capital assets, net	$ 3,215,308			$ 5,210,482

Construction in progress consists of a roof and HVAC upgrade project. At December 31, 2020, future construction commitments for this project are $478,439.

Capital assets activity and balances for the year ended December 31, 2019 are as follows:

	December 31, 2018	Additions	Transfers and Retirements	December 31, 2019
Capital assets not being depreciated				
Land	$ 11,258	$ -	$ -	$ 11,258
Construction in progress	-	3,000	-	3,000
Total capital assets not being depreciated	$ 11,258	$ 3,000	$ -	$ 14,258
Capital assets being depreciated				
Buildings and improvements	$ 4,607,089	$ -	$ -	$ 4,607,089
Equipment	5,529,510	77,295	-	5,606,805
Total capital assets being depreciated	10,136,599	$ 77,295	$ -	10,213,894
Less accumulated depreciation for:				
Buildings and improvements	(2,192,647)	$ (93,884)	$ -	(2,286,531)
Equipment	(4,331,226)	(395,087)	-	(4,726,313)
Total accumulated depreciation	(6,523,873)	$ (488,971)	$ -	(7,012,844)
Net capital assets being depreciated	$ 3,612,726			$ 3,201,050
Capital assets, net	$ 3,616,313			$ 3,215,308

Note 6 - Capital Leases

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:

	2020	2019
Equipment	$ 566,938	$ 566,938
Less accumulated amortization	(495,898)	(384,635)
	$ 71,040	$ 182,303

Leases are secured by leased assets. A schedule of changes in the Hospital's capital leases for the years ended December 31, 2020 and 2019 is as follows:

	2019	Additions	Payments	2020	Due Within One Year
Capital Leases	$ 187,429	$ -	$ (111,263)	$ 76,166	$ 32,751

	2018	Additions	Payments	2019	Due Within One Year
Capital Leases	$ 289,867	$ -	$ (102,438)	$ 187,429	$ 111,247

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

Years Ending December 31,	Amount
2021	$ 36,667
2022	20,297
2023	20,297
2024	6,749
Total minimum lease payments	84,010
Less interest	(7,844)
Present value of minimum lease payments	$ 76,166

Note 7 - Paycheck Protection Program

The Hospital was granted a $541,685 loan under the Paycheck Protection Program (PPP) administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. The Hospital is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The Hospital has recorded a note payable and will record the forgiveness upon being legally released from the loan obligation by the SBA and lender. No forgiveness income has been recorded for the year ended December 31, 2020. The Hospital intends to apply for forgiveness of the PPP loan in 2021. The Hospital will be required to repay any remaining balance, plus interest accrued at 1%, in monthly payments commencing immediately after receiving notice of partial forgiveness or unforgiveness, principal and interest payments will be required through the maturity date April 20, 2022.

Note 8 - Pension Plan

The Hospital participates in the Keefe Memorial Hospital Employees' Retirement Plan, a defined contribution pension plan sponsored by the Hospital under which employees become eligible upon reaching age 21 and completion of three months of service. The plan is administered by One America. The Hospital matches employee contributions up to 5% after the employees first year of service. Employees vest at a rate of 20% annually over five years and are 100% vested at the end of five years. The Hospital has the authority to change the terms of the plan. There were no forfeitures or employee liabilities for the years ended December 31, 2020 and 2019 or 2018. Total pension plan expense was approximately $63,000, $62,000, and $68,000 for the years ended December 31, 2020 and 2019 or 2018, respectively.

Note 9 - 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, 2020 and 2019 was as follows:

	2020	2019
Medicare	24%	20%
Medicaid	22%	22%
Blue Cross	13%	14%
Other commercial and government payors	16%	16%
Self pay	25%	28%
	100%	100%

Note 10 - Contingencies

Risk Management

The Hospital is exposed to various risks of loss from torts; theft or 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. 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.

Litigation, 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.

COVID-19 Pandemic

During 2020, the world-wide coronavirus pandemic impacted national and global economies. The Hospital is closely monitoring its operations, liquidity and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the current and future full impact to the Hospital is not known.

Supplementary Information
December 31, 2020 and 2019

Keefe Memorial Health Service District, dba Keefe Memorial Hospital

	Budgeted Amounts	Actual	Variance Favorable (Unfavorable)
Revenues			
Operating revenues			
Net patient service revenue	$ 4,631,568	$ 6,039,402	$ 1,407,834
Other revenue	23,136	40,736	17,600
Net operating revenues	4,654,704	6,080,138	1,425,434
Nonoperating revenues (expenses)			
Property tax income	1,394,424	1,431,778	37,354
Investment income	42,240	77,575	35,335
Interest expense	(8,424)	(7,307)	1,117
Grants and contributions	996,456	510,359	(486,097)
Other	180,648	191,487	10,839
	2,605,344	2,203,892	(401,452)
Total revenues	7,260,048	8,284,030	1,023,982
Expenditures			
Salaries, wages and benefits	3,587,736	3,478,497	109,239
Professional fees and purchased services	1,500,720	1,500,173	547
Supplies	493,980	579,825	(85,845)
Repairs and maintenance	277,104	235,337	41,767
Utilities	171,000	155,547	15,453
Depreciation	506,520	472,700	33,820
Other	391,464	436,076	(44,612)
Total expenditures	6,928,524	6,858,155	70,369
Change in Net Position	$ 331,524	$ 1,425,875	$ 1,094,351

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, 2020, there were no additional resolutions for supplementary budget and appropriation.

3. Management believes that the Hospital is compliant with the rules of Colorado's Taxpayer's Bill of Rights (TABOR).

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CPAs & BUSINESS ADVISORS

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, 2020, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon August 17, 2021.

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) as a basis for designing our 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 Hospital's internal control. 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 findings and responses, we identified certain deficiencies in internal control 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 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying *schedule of findings and responses* as items 2020-01, 2020-02, 2020-03, 2020-04, and 2020-05 that we consider to be material weaknesses.

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 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*.

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. The Hospital's responses were not subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Denver, Colorado
August 17, 2021

Financial Statement Findings

2020-001 Preparation of Financial Statements
Material Weakness in Internal Control Over Financial Reporting

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.

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.

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

Effect –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.

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.

Views of Responsible Officials – The Hospital management team will be preparing and reviewing internally generated financial statements. Monthly account reconciliations will be performed on all major accounts.

2020-002 Material Audit Adjustments
Material Weakness in Internal Control over Financial Reporting

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

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

Cause – This deficiency is due to the limited resources in the financial reporting process due to budgetary constraints, turnover of personnel during the close process and lacking consistent reconciliation procedures which would detect and allow for the correction of these errors.

Effect– The control deficiency resulted in a misstatement to the financial statements that was not prevented or detected, and corrected by internal personnel. We also recognize turnover of personnel in the financial reporting function subsequent to year end also inhibited the Hospitals ability to fully reconcile accounts and post adjustments to the Hospital's financial records prior to the commencement of the audit.

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

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

2020-003 Limited Size of Office
Material Weakness in Internal Control over Financial Reporting

Criteria – An effective system of internal control depends on an adequate segregation of duties with respect to the execution and recording of transactions, as well as the custody of the Hospital's assets. Accordingly, an effective system of internal control will be designed such that these functions are performed by different employees, so that no one individual handles a transaction from its inception to its completion

Condition – The limited number of employees in the financial reporting function at the Hospital prevents a proper segregation of accounting functions necessary to ensure effective internal control. This is not unusual in an organization of your size; however the lack of segregation of duties increases the risk of fraud related to misappropriation of assets, financial statement misstatement, or both.

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.

Effect– 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.

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.

Views of Responsible Officials – 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.

2020-004 Lack of Methodology for Estimated Third-Party Payor Settlements
Material Weakness in Internal Control over Financial Reporting

Criteria – A good system of internal control contemplates an adequate methodology to estimate third party payor settlements throughout the year to ensure reasonableness in the financial statements.

Condition – Currently, management does not have a methodology to estimate the year-end third-party payor settlement amount. As part of our audit process, the Medicare cost report is relied on to determine the current year estimate.

Cause – A process to estimate the settlement for the open cost reports and current year settlement amount for the Hospital would allow management to better understand payables due or receivables from the third parties.

Effect – Without a methodology to estimate the third-party payor settlement throughout the year, management may not have the most accurate financial statements to use in making important decisions relating to the operations of the Hospital. These decisions could affect cash and overall operations of the Hospital.

Recommendation – We recommend that management determine a reasonable methodology to estimate third-party payor settlements throughout the year in order to present the most accurate financial statements.

Views of Responsible Officials – Management agrees with the finding and will review current procedures to determine the best option for the Hospital to estimate third-party payor settlements throughout the year.

2020-005 Lack of Complete Reconciliation of General Ledger Accounts
Material Weakness in Internal Control over Financial Reporting

Criteria – A good system of internal control involves timely and complete reconciliation of all general ledger accounts.

Condition – The main operating bank account was not fully reconciled prior to our audit procedures. Additionally, inventory, accrued expenses, and third-party settlements were not fully reconciled.

Cause – This deficiency is due to the limited resources in the financial reporting process due to budgetary constraints, turnover of personnel during the close process and lacking consistent reconciliation procedures which would detect and allow for the correction of these errors.

Effect – Without completed monthly reconciliations of all general ledger accounts throughout the year, management may not have the most accurate financial statements to use in making important decisions relating to the operations of the Hospital. These decisions could affect the overall operations of the Hospital.

Recommendation – We recommend that management to continue to develop monthly and year-end closing processes which include full reconciliation of all accounts to present the most accurate financial statements.

Views of Responsible Officials – Management agrees with the finding and will review current procedures to determine the best option for the Hospital to reconcile all accounts on a timely basis throughout the year.