



Financial Statements
December 31, 2021 and 2020

**Keefe Memorial Health Service District,
dba Keefe Memorial Hospital**

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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 Audit of the Financial Statements

Opinion

We have audited the financial statements of Keefe Memorial Health Service district, dba Keefe Memorial Hospital (Hospital), as of and for the years then ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Hospital, as of December 31, 2021 and 2020, and the respective changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hospital's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the supplementary information on page 23 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 Matters

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 our report dated June 22, 2022 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, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.



Denver, Colorado
June 22, 2022

Keefe Memorial Hospital
 Statements of Net Position — Assets
 December 31, 2021 and 2020

	2021	2020
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,511,362	\$ 1,050,350
Restricted cash	100,000	1,876,655
Short-term investments	5,860,184	5,799,385
Receivables		
Patient, net of estimated uncollectibles of \$329,000 in 2021 and \$229,000 in 2020	822,769	721,231
Property taxes	1,190,984	1,225,302
Estimated third-party payor settlements	1,412,512	419,999
Other	10,404	2,757
Supplies	402,353	202,744
Prepaid expenses	446,167	78,274
Total current assets	11,756,735	11,376,697
Capital Assets		
Capital assets not being depreciated	11,258	2,198,741
Capital assets being depreciated, net	6,531,468	3,011,741
Total capital assets	6,542,726	5,210,482
Total assets	\$ 18,299,461	\$ 16,587,179

Keefe Memorial Hospital
 Statements of Net Position – Liabilities, Deferred Inflows of Resources and Net Position
 December 31, 2021 and 2020

	2021	2020
Liabilities, Deferred Inflows of Resources and Net Position		
Current Liabilities		
Current maturities of capital leases	\$ 17,698	\$ 32,751
Accounts payable	243,666	86,537
Accrued expenses		
Salaries, wages, and employee benefits	310,487	257,097
Retainage	-	103,726
Refundable advance - COVID-19 relief funds	100,000	1,876,655
Refundable advance- HTP funds	259,400	-
Paycheck Protection Program loan	-	541,685
Total current liabilities	931,251	2,898,451
Capital Leases, Less Current Maturities	25,705	43,415
Total liabilities	956,956	2,941,866
Deferred Inflows of Resources- Property Taxes	1,190,984	1,225,302
Total liabilities and deferred inflows of resources	2,147,940	4,167,168
Net Position		
Net investment in capital assets	6,499,323	5,134,316
Restricted		
Expendable	27,450	-
Unrestricted	9,624,748	7,285,695
Total net position	16,151,521	12,420,011
Total liabilities, deferred inflows of resources, and net position	\$ 18,299,461	\$ 16,587,179

Keefe Memorial Hospital
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating Revenues		
Net patient service revenue (net of provision for bad debts of \$206,000 in 2021 and \$281,000 in 2020)	\$ 7,511,482	\$ 6,039,402
Other revenue	123,496	89,525
Total operating revenues	<u>7,634,978</u>	<u>6,128,927</u>
Operating Expenses		
Salaries and wages	3,471,974	2,865,002
Professional fees and purchased services	2,919,228	1,500,173
Employee benefits	633,524	613,495
Depreciation	566,631	472,700
Supplies	582,945	579,825
Repairs and maintenance	221,326	235,337
Utilities	174,880	155,547
Other	523,105	436,076
Total operating expenses	<u>9,093,613</u>	<u>6,858,155</u>
Operating Loss	<u>(1,458,635)</u>	<u>(729,228)</u>
Nonoperating Revenues (Expenses)		
Property taxes	1,365,049	1,431,778
Investment income (loss)	57,307	77,575
Interest expense	(10,576)	(7,307)
Noncapital contributions and grants	512,589	510,359
Forgiveness of Paycheck Protection Program loan	541,685	-
COVID-19 Testing and Mitigation for Rural Health Clinics	198,923	-
Provider Relief Funds	1,791,666	1,261,530
Loss on disposal of capital assets	(34,944)	-
Other	38,299	142,698
Net nonoperating revenues	<u>4,459,998</u>	<u>3,416,633</u>
Revenues in Excess of Expenses and Change in Net Position Before Capital Contributions and Grants	3,001,363	2,687,405
Capital Contributions and Grants	<u>730,147</u>	<u>-</u>
Change in Net Position	3,731,510	2,687,405
Net Position, Beginning of Year	<u>12,420,011</u>	<u>9,732,606</u>
Net Position, End of Year	<u>\$ 16,151,521</u>	<u>\$ 12,420,011</u>

Keefe Memorial Hospital
Statements of Cash Flows
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 6,417,431	\$ 6,060,392
Other receipts	115,849	40,486
Payments to suppliers and other contractors	(4,831,857)	(2,915,664)
Payments to and on behalf of employees	(4,052,108)	(3,433,955)
Net Cash used for Operating Activities	<u>(2,350,685)</u>	<u>(248,741)</u>
Noncapital Financing Activities		
Property taxes received	1,365,049	1,431,778
Noncapital contributions and grants	771,989	510,359
Provider Relief Funds	13,934	3,039,262
COVID-19 Testing and Mitigation for Rural Health Clinics	200,000	98,923
Proceeds from Paycheck Protection Program loan	-	541,685
Other revenue	38,299	191,487
Net Cash from Noncapital Financing Activities	<u>2,389,271</u>	<u>5,813,494</u>
Capital and Capital Related Financing Activities		
Purchases of capital assets	(2,037,545)	(2,364,148)
Principal payments on capital leases	(32,763)	(111,263)
Capital contributions and grants	730,147	-
Interest paid	(10,576)	(7,307)
Net Cash used for Capital and Related Financing Activities	<u>(1,350,737)</u>	<u>(2,482,718)</u>
Investing Activities		
Purchases of short-term investments	(60,799)	(2,561,449)
Investment (loss) income	57,307	77,575
Net Cash used for Investing Activities	<u>(3,492)</u>	<u>(2,483,874)</u>
Net Change in Cash and Cash Equivalents	(1,315,643)	598,161
Cash and Cash Equivalents, Beginning of Year	<u>2,927,005</u>	<u>2,328,844</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,611,362</u>	<u>\$ 2,927,005</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position		
Cash and cash equivalents in current assets	\$ 1,511,362	\$ 1,050,350
Restricted cash	<u>100,000</u>	<u>1,876,655</u>
Total cash and cash equivalents	<u>\$ 1,611,362</u>	<u>\$ 2,927,005</u>

Keefe Memorial Hospital
 Statements of Cash Flows
 Years Ended December 31, 2021 and 2020

	2021	2020
Reconciliation of Operating Loss to Net Cash from (used for) Operating Activities		
Operating loss	\$ (1,458,635)	\$ (778,017)
Adjustments to reconcile operating loss to net cash from (used for) operating activities:		
Bad debt expense	206,368	280,515
Depreciation	566,631	472,700
Changes in assets and liabilities		
Accounts receivable	(1,308,066)	(259,775)
Supplies	(199,609)	-
Prepaid expenses	(367,893)	2,582
Accounts payable	157,129	(11,288)
Accrued expenses	53,390	44,542
	<u>\$ (2,350,685)</u>	<u>\$ (248,741)</u>
Net Cash used for Operating Activities	<u>\$ (2,350,685)</u>	<u>\$ (248,741)</u>

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. There is \$27,450 of expendable restricted net position during 2021 due to a grant restriction.

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, 2021 and 2020.

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 deferred grant income and unavailable property taxes. Deferred grant income will be recognized when funds have been expended and property taxes will be recognized as revenue in the year they become available.

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 \$17,000 and \$24,000 for the years ended December 31, 2021 and 2020, 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 \$114,000 and \$161,000 in CHASE fees for the years ended December 31, 2021 and 2020, which were recorded in operating expenses. The Hospital received approximately \$1,510,000 and \$1,271,000 of supplemental payments for the years ended December 31, 2021 and 2020, 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).

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on change in net position or net position.

Subsequent Events

The Hospital has evaluated subsequent events through June 22, 2022, the date which the financial statements were available to be issued.

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). 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.

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Notes to Financial Statements
December 31, 2021 and 2020

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, 2021 and 2020:

	2021	2020
Medicare	42%	38%
Medicaid	20%	19%
Blue Cross	18%	23%
Other commercial and government payors	17%	16%
Self pay	3%	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 \$117,000 and \$85,000 for the years ended December 31, 2021 and 2020 due to adjustments to amounts previously estimated.

Note 3 - Deposits

The carrying amounts of deposits as of December 31, 2021 and 2020 is as follows:

	2021	2020
Carrying Amount		
Cash and deposits	\$ 7,471,546	\$ 8,726,390

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

	2021	2020
Cash and cash equivalents	\$ 1,511,362	\$ 1,050,350
Restricted cash	100,000	1,876,655
Short-term investments	5,860,184	5,799,385
	\$ 7,471,546	\$ 8,726,390

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, 2021 and 2020, the Hospital's deposits in banks were entirely covered by federal depository insurance and PDPA.

Note 4 - Provider Relief Funds

The Hospital received \$3,039,262 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 deadlines for incurring eligible expenses and lost revenues based on the date the Hospital received the funds. Unspent funds will be expected to be repaid.

The Hospital also received \$100,000 through the Paycheck Protection Program and Health Care Enhancement Act (PPPHCEA) for its rural health clinic to conduct COVID-19 testing. This funding may only be used for conducting COVID-19 testing and related expenses, including building or construction of temporary structures, leasing of properties, and retrofitting facilities as necessary to support COVID-19 testing.

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 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.

Keefe Memorial Hospital

Notes to Financial Statements
December 31, 2021 and 2020

As of December 31, 2021 and 2020, the Hospital had refundable advance balances of \$100,000 and \$1,876,555, which were included in current liabilities on the accompanying statements of financial position, as well as restricted cash totaling \$100,000 and \$1,876,555, which are subject to restrictions imposed by HHS. During the years ended December 31, 2021 and 2020, the Hospital recognized \$1,777,732 and \$1,261,530 as revenue as conditions were fully met, which is included as nonoperating revenue on the statement of revenues, expenses, and changes in net position.

As part of the CARES Act, the PPPHCEA, and Families First Coronavirus Response Act (FFCRA), the HHS provides claims reimbursement to health care providers generally at Medicare rates for testing uninsured individuals for COVID-19 and treating uninsured individuals with a COVID-19 diagnosis. The Hospital considers amounts received under this program to be patient service revenues and has recorded \$98,923 and \$-0- as revenue for the years ended December 31, 2021 and 2020.

Note 5 - Capital Assets

Capital assets activity and balances for the year ended December 31, 2021 are as follows:

	December 31, 2020	Additions	Transfers and Retirements	December 31, 2021
Capital assets not being depreciated				
Land	\$ 11,258	\$ -	\$ -	\$ 11,258
Construction in progress	2,187,483	365,169	(2,552,652)	-
Total capital assets not being depreciated	<u>\$ 2,198,741</u>	<u>\$ 365,169</u>	<u>\$ (2,552,652)</u>	<u>\$ 11,258</u>
Capital assets being depreciated				
Buildings and improvements	\$ 4,706,087	\$ -	\$ 2,492,500	\$ 7,198,587
Equipment	5,759,734	1,568,650	(2,085,374)	5,243,010
Total capital assets being depreciated	<u>10,465,821</u>	<u>\$ 1,568,650</u>	<u>\$ 407,126</u>	<u>12,441,597</u>
Less accumulated depreciation for:				
Buildings and improvements	(2,381,997)	\$ (202,212)	\$ 60,152	(2,524,057)
Equipment	(5,072,083)	(364,419)	2,050,430	(3,386,072)
Total accumulated depreciation	<u>(7,454,080)</u>	<u>\$ (566,631)</u>	<u>\$ 2,110,582</u>	<u>(5,910,129)</u>
Net capital assets being depreciated	<u>\$ 3,011,741</u>			<u>\$ 6,531,468</u>
Capital assets, net	<u>\$ 5,210,482</u>			<u>\$ 6,542,726</u>

Keefe Memorial HospitalKeefe Memorial Hospital

Notes to Financial Statements
December 31, 2021 and 2020

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

Note 6 - Capital Leases

The Hospital leases certain equipment under noncancelable long-term lease agreements. One lease has been recorded as a capitalized lease. The capitalized leased asset consists of:

	2021	2020
Equipment	\$ 84,730	\$ 566,938
Less accumulated amortization	(25,217)	(495,898)
	\$ 59,513	\$ 71,040

Keefe Memorial HospitalKeefe Memorial Hospital

Notes to Financial Statements
December 31, 2021 and 2020

The Lease is secured by leased assets. A schedule of changes in the Hospital's capital lease liability for the years ended December 31, 2021 and 2020 is as follows:

	2020	Additions	Payments	2021	Due Within One Year
Capital Leases	\$ 76,166	\$ -	\$ (32,763)	\$ 43,403	\$ 17,698
	2019	Additions	Payments	2020	Due Within One Year
Capital Leases	\$ 187,429	\$ -	\$ (111,263)	\$ 76,166	\$ 32,751

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

Years Ending December 31,	Amount
2022	20,297
2023	20,297
2024	6,764
Total minimum lease payments	47,358
Less interest	(3,955)
Present value of minimum lease payments	\$ 43,403

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 initially recorded a note payable and subsequently recorded forgiveness when the loan obligation was legally released by the SBA. The Hospital recognized \$541,685 of loan forgiveness income for the year ended December 31, 2021.

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, 2021 and 2020 or 2019. Total pension plan expense was approximately \$50,000, \$63,000, and \$62,000 for the years ended December 31, 2021 and 2020 or 2019, 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, 2021 and 2020 was as follows:

	2021	2020
Medicare	33%	24%
Medicaid	15%	22%
Blue Cross	13%	13%
Other commercial and government payors	16%	16%
Self pay	23%	25%
	<u>100%</u>	<u>100%</u>

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 March 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, 2021 and 2020

**Keefe Memorial Health Service District,
dba Keefe Memorial Hospital**

Keefe Memorial Hospital
Schedules of Revenues and Expenses – Budget and Actual
Year Ended December 31, 2021

	Budgeted Amounts	Actual	Variance Favorable (Unfavorable)
Revenues			
Operating revenues			
Net patient service revenue	\$ 4,808,628	\$ 7,511,482	\$ 2,702,854
Other revenue	28,284	123,496	95,212
Net operating revenues	<u>4,836,912</u>	<u>7,634,978</u>	<u>2,798,066</u>
Nonoperating revenues (expenses)			
Property tax income	1,375,596	1,365,049	(10,547)
Investment (loss) income	39,120	57,307	18,187
Interest expense	(8,580)	(10,576)	(1,996)
Grants and contributions	962,820	1,242,736	279,916
Forgiveness of PPP loan	-	541,685	541,685
Provider Relief Funds	-	1,791,666	1,791,666
Loss on disposal of capital assets	-	(34,944)	(34,944)
Other	171,432	38,299	(133,133)
	<u>2,540,388</u>	<u>4,991,222</u>	<u>2,450,834</u>
Total revenues	<u>7,377,300</u>	<u>12,626,200</u>	<u>5,248,900</u>
Expenditures			
Salaries, wages and benefits	3,407,652	4,105,498	(697,846)
Professional fees and purchased services	1,507,968	2,919,228	(1,411,260)
Supplies	562,248	582,945	(20,697)
Repairs and maintenance	240,552	221,326	19,226
Utilities	165,336	174,880	(9,544)
Depreciation	479,796	566,631	(86,835)
Other	409,812	523,105	(113,293)
Total expenditures	<u>6,773,364</u>	<u>9,093,613</u>	<u>(2,320,249)</u>
Change in Net Position	<u>\$ 603,936</u>	<u>\$ 3,532,587</u>	<u>\$ 2,928,651</u>

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, 2021, 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).



**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 States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Keefe Memorial Health Service District, dba Keefe Memorial Hospital (Hospital) as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Hospital’s basic financial statements and have issued our report thereon dated June 22, 2022.

Report on 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 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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and questioned costs as items 2021-001, 2021-002, and 2021-003 to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free from 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*.

The Hospital's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital'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.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Denver, Colorado

June 22, 2022



**Independent Auditor's Report on Compliance for the Major Federal Program;
Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures
of Federal Awards Required by the Uniform Guidance**

To the Board of Directors
Keefe Memorial Hospital
Denver, Colorado

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited, Keefe Memorial Health Service District, dba Keefe Memorial Hospital (Hospital) compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on the Hospital's major federal program for the year ended December 31, 2021. The Hospital's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the Hospital complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2021.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

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

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

Report on Internal Control over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2021-004 and 2021-005 to be a material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Hospital as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements. We issued our report thereon dated June 22, 2022, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Denver, Colorado
June 22, 2022

Keefe Memorial Hospital
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2021

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing/Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
<u>Department of Health and Human Services</u>			
COVID 19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution	93.498	N/A	\$ 3,053,196
COVID 19 Testing and Mitigation for Rural Health Clinics	93.697	N/A	<u>198,923</u>
Total Federal Financial Assistance			<u><u>\$ 3,252,119</u></u>

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of Keefe Memorial Hospital (the Hospital) under programs of the federal government for the year ended December 31, 2021. The information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Hospital, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Hospital.

Note 2 – Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting, with the exception for the COVID-19 Testing for the Uninsured program, which are based on when the claim is determined eligible as evidenced by the receipt of monies from the federal agency. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. No federal financial assistance has been provided to a subrecipient.

Note 3 – Indirect Cost Rate

The Hospital has not elected to use the 10% de minimis cost rate.

Note 4 – Provider Relief Fund and American Rescue Plan Funds

The Hospital received amounts from the U.S. Department of Health and Human Services (HHS) through the Provider Relief Fund (PRF) program (Federal Financial Assistance Listing/CFDA #93.498) during the year ended December 31, 2020 totaling \$3,053,196. In accordance with the 2021 compliance supplement, the PRF expenditures were not recognized on the schedule until the expenditures were included in the reporting for period 1 and period 2 to HHS for the calendar year ended December 31, 2021, as required under the PRF program. This resulted in \$3,039,262 being recognized in the schedule for the year ended December 31, 2021.

The following summarizes the Provider Relief funds and the timing of when the amounts were recognized in the financial statements:

Federal Department/Program Title/Grant Name	Federal Financial Assistance Listing/Federal CFDA Number	Amounts Recognized in Accordance with GAAP for the Year Ended December 31, 2020	Amounts Recognized in Accordance with GAAP for the Year Ended December 31, 2021
Department of Health and Human Services Health Resources and Services Administration			
COVID-19 Provider Relief Fund and American Rescue Plan General and Targeted Distribution - Period 1 (included in 2021 Schedule)	93.498	\$ 1,261,530	\$ 1,688,413
COVID-19 Provider Relief Fund and American Rescue Plan General and Targeted Distribution - Period 2 (included in 2021 Schedule)	93.498	-	103,253
Total Department of Health and Human Services		<u>\$ 1,261,530</u>	<u>\$ 1,791,666</u>

The amount of PRF expenditures included in the schedule requires management to make estimates and assumptions that affect the reporting amounts. Accordingly, such expenditures are considered a significant estimate. Estimates and assumptions may include reducing actual expenses by amounts that have been reimbursed, or are obligated to be reimbursed by other sources, and estimating marginal increases in expenses related to Coronavirus. Actual amounts could differ from those estimates.

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	Yes
Significant deficiency identified not considered to be material weaknesses	None Reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified	Yes
Significant deficiency identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516:	Yes

Identification of major programs:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
COVID 19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution	93.498
Dollar threshold used to distinguish between Type A and Type B Programs	\$750,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

2021-001 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, including the Schedule of Expenditures of Federal Awards 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. This resulted in a material audit adjustment.

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. In 2021, there was a material adjustment related to recognition of grant revenue.

Repeat Finding from Prior Year(s): Yes, prior year finding 2020-001

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 prepares and reviews internally generated financial statements. Monthly account reconciliations are performed on all major accounts.

2021-002 Limited Size of Office and Segregation of Duties
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. We noted there were journal entries not subject to a review, other than by the preparer. 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 – Inadequate segregation of duties and incomplete controls could adversely affect the 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.

Repeat Finding from Prior Year(s): Yes, Prior year finding 2020-003

Recommendation – We recognize your staffing levels may not be sufficient 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.

**2021-003 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.

Repeat Finding from Prior Year(s): Yes, Prior year finding 2020-004

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.

Section III – Federal Award Findings and Questioned Costs

Finding 2021-004 **Department of Health and Human Services**
CFDA #93.498
COVID-19 Provider Relief Fund
Applicable Federal Award Number and Year – Period 1&2 TIN #472340447

**Activities Allowed or Unallowed and Allowable Costs/Cost Principles and Reporting
Material Weakness in Internal Control over Compliance**

Criteria: 2 CFR 200.303(a) establishes that the auditee must establish and maintain effective internal control over the federal award that provides assurance that the entity is managing the federal award in compliance with federal statutes, regulations, and conditions of the federal award.

Condition: Documentation was not retained of review and approval by a separate individual outside of the preparer of expenditures included in The Hospital’s final expenditure listing and identified as eligible and claimed under the Provider Relief Fund program.

Cause: Due to turnover in key financial reporting positions, the Hospital had multiple individuals identifying and compiling eligible costs for propriety, however, the Hospital did not have an internal control process in place to ensure consistent documentation a secondary review and approval that expenditures qualified under the terms and conditions of the program. A review and approval process was implemented during the award period, however it was not applied retrospectively to expenditures prior to implementation.

Effect: Without a secondary review and approval, there is a possibility that ineligible expenditures may be claimed under the program and the report may not be accurately completed.

Questioned Costs: None reported

Context/Sampling: Sample testing was performed over general and administrative expenses and healthcare related expenses, including payroll, utilities / operational expenses, supplies, equipment, information technology, and facilities and other healthcare identified expenses, for activities allowed and unallowed and allowable costs/cost principles. A nonstatistical sample of 60 (\$2,447,388) out of 606 expenditures (\$4,567,855) were tested for activities allowed or unallowed and allowable costs/cost principles. Of the items tested, 28 did not have documentation of review and approval of eligibility that were in accordance with the terms and conditions of the program.

Repeat Finding from Prior Year(s): No

Recommendation: We recommend the Hospital continue its control process which includes a secondary review and approval of the individual expenses or a summarized final expenditure listing used to claim the allowable costs under the federal program. When new controls are implemented, we recommend applying them to all expenditures prior to implementation within the period of performance.

Views of Responsible Officials: Management agrees with the finding.

**Finding 2021-005 Department of Health and Human Services
CFDA #93.498
COVID-19 Provider Relief Fund
Applicable Federal Award Number and Year – Period 1&2 TIN #472340447**

**Reporting
Material Weakness in Internal Control over Compliance**

Criteria: 2 CFR 200.303(a) establishes that the auditee must establish and maintain effective internal control over the federal award that provides assurance that the entity is managing the federal award in compliance with federal statutes, regulations, and conditions of the federal award.

Condition: The supporting calculations used to report the portion of expenses eligible for reimbursement from Medicare as a cost-based reimbursement Critical Access Hospital and used to report unreimbursed expenses attributable to coronavirus contained a formula error which resulted in reporting the incorrect amount in the line item for “Total Unreimbursed Expenses Attributable to Coronavirus”. Management revised its initial calculations, which resulted in no reported Provider Relief Fund expenses which would be eligible for reimbursement from other sources.

Cause: The spreadsheet used by management during the reporting process contained a formula error that was not detected during preparation or review.

Effect: The supporting documentation for the reports as filed were not mathematically accurate

Questioned Costs: None reported

Context/Sampling: Calculation of expenses eligible for reimbursement from was applied to total eligible expenses reported.

Repeat Finding from Prior Year(s): No

Recommendation: We recommend the Hospital implement a control process which includes a secondary review and approval of the reporting and the underlying calculations to ensure errors are detected and corrected during the reporting process.

Views of Responsible Officials: Management agrees with the finding.