

Kit Carson County Health Service District

Basic Financial Statements and
Independent Auditors' Reports

December 31, 2021 and 2020



DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

**Kit Carson County Health Service District
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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Directors
Kit Carson County Health Service District
Burlington, Colorado

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Kit Carson County Health Service District (the District) as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2021, and the changes in its financial position and cash flows for the year 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*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter

The financial statements of Kit Carson County Health Service District as of December 31, 2020, were audited by Stockman Kast Ryan + Company LLP whose report dated November 11, 2021, expressed an unmodified opinion on those statements.

Responsibilities of Management 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.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Management has not presented the management's discussion and analysis that 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the schedule of budget and actual revenues and expenses, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 2, 2022, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters for the year ended December 31, 2021. Stockman Kast Ryan + Company LLP issued a similar report for year ended December 31, 2020, dated November 11, 2021, which has not been included with the 2021 financial and compliance report. The purpose of those reports is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering District's internal control over financial reporting and compliance.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
August 2, 2022

Kit Carson County Health Service District
Statements of Net Position
December 31, 2021 and 2020

ASSETS	2021	2020
<i>Current assets</i>		
Cash and cash equivalents	\$ 9,946,010	\$ 5,426,669
Investments	6,084,726	9,973,618
Receivables:		
Patient accounts, net of estimated uncollectibles	2,858,687	2,158,225
Property taxes	648,494	614,339
Estimated third-party payor settlements	1,635,000	-
Cash held by trustee for debt service	494,950	761,055
Inventories	487,993	516,670
Prepaid expenses and other current assets	163,815	190,068
Total current assets	22,319,675	19,640,644
<i>Noncurrent assets</i>		
Cash and cash equivalents board designated as to use for capital acquisitions	375,724	375,657
Cash and cash equivalents held by trustee for debt service	1,088,410	1,088,388
Capital assets, net	5,498,623	6,111,729
Total noncurrent assets	6,962,757	7,575,774
Total assets	\$ 29,282,432	\$ 27,216,418

See accompanying notes to basic financial statements.

**Kit Carson County Health Service District
Statements of Net Position (Continued)
December 31, 2021 and 2020**

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	2021	2020
<i>Current liabilities</i>		
Accounts payable	\$ 806,379	\$ 737,006
Accrued compensation and related liabilities	490,141	574,779
Estimated third-party payor settlements	-	188,528
Current maturities of long-term debt	465,000	435,000
Current maturities of capital lease obligations	154,230	179,612
Medicare accelerated payments payable	3,773,603	4,582,975
Wound care liability	1,699,420	2,048,017
Interest payable	310,838	325,518
Unearned CARES Act Provider Relief Fund	670,126	2,287,190
Total current liabilities	8,369,737	11,358,625
<i>Noncurrent liabilities</i>		
Long-term debt, net of current maturities	8,745,000	9,210,000
Capital lease obligations, net of current maturities	172,201	217,323
Paycheck Protection Program loan	-	1,377,755
Total noncurrent liabilities	8,917,201	10,805,078
Total liabilities	17,286,938	22,163,703
<i>Deferred inflows of resources, property tax levy</i>	648,494	614,339
Total liabilities and deferred inflows of resources	17,935,432	22,778,042
<i>Net position</i>		
Net investment in capital assets	(4,348,646)	(4,255,724)
Unrestricted	15,200,696	7,933,045
Restricted for debt service	494,950	761,055
Total net position	11,347,000	4,438,376
Total liabilities, deferred inflows of resources, and net position	\$ 29,282,432	\$ 27,216,418

See accompanying notes to basic financial statements.

Kit Carson County Health Service District
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2021 and 2020

	2021	2020
<i>Operating revenues</i>		
Net patient service revenue	\$ 22,073,255	\$ 17,146,203
Other	160,807	278,129
Total operating revenues	22,234,062	17,424,332
<i>Operating expenses</i>		
Salaries and wages	6,293,285	7,530,394
Employee benefits	1,523,374	1,680,332
Professional fees and other purchased services	7,109,766	6,529,679
Supplies	1,865,956	1,554,447
Depreciation and amortization	1,154,910	1,073,781
Insurance	132,079	145,083
Utilities	284,665	308,086
Provider fees	567,880	443,154
Other	652,346	528,880
Total operating expenses	19,584,261	19,793,836
<i>Operating income (loss)</i>	2,649,801	(2,369,504)
<i>Nonoperating revenues (expenses)</i>		
Taxation for operations	653,659	625,492
CARES Act Provider Relief Fund	2,287,190	1,961,732
Contributions	20,647	46,867
Interest income	54,124	50,377
Interest expense	(633,294)	(685,741)
Total nonoperating revenues, net	2,382,326	1,998,727
Excess revenues over (under) expenses before capital contributions and gain on forgiveness of Paycheck Protection Program loan	5,032,127	(370,777)
<i>Capital contributions</i>	498,742	224,250
<i>Gain on forgiveness of Paycheck Protection Program loan</i>	1,377,755	-
Change in net position	6,908,624	(146,527)
Net position, beginning of year	4,438,376	4,584,903
Net position, end of year	\$ 11,347,000	\$ 4,438,376

See accompanying notes to basic financial statements.

**Kit Carson County Health Service District
Statements of Cash Flows
Years Ended December 31, 2021 and 2020**

	2021	2020
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Cash received from and on behalf of patients	\$ 19,200,668	\$ 20,538,517
Cash received from other revenue	160,807	278,129
Payments to and on behalf of employees	(7,901,297)	(9,439,927)
Payments to suppliers and contractors	(10,488,389)	(9,669,896)
Net cash provided by operating activities	971,789	1,706,823
<i>Cash flows from noncapital financing activities</i>		
Taxation for operations	619,504	625,492
Proceeds from CARES Act Provider Relief Fund	670,126	4,248,922
Proceeds from Paycheck Protection Program loan	-	1,377,755
Proceeds from donations	20,647	46,867
Proceeds from Medicare accelerated payments	-	4,582,975
Repayments of Medicare accelerated payments	(809,372)	-
Net cash provided by noncapital financing activities	500,905	10,882,011
<i>Cash flows from capital and related financing activities</i>		
Purchase of capital assets	(403,814)	(410,574)
Principal paid on capital lease obligations	(208,494)	(204,489)
Principal paid on long-term debt	(435,000)	(405,000)
Interest paid on long-term debt and capital lease obligations	(613,819)	(685,741)
Proceeds for capital grants	498,742	224,250
Net cash used in capital and related financing activities	(1,162,385)	(1,481,554)
<i>Cash flows from investing activities</i>		
Proceeds from the sale of investments	5,975,324	1,013,472
Purchase of Investments	(2,086,432)	(10,269,379)
Interest	54,124	50,377
Net cash provided by (used in) investing activities	3,943,016	(9,205,530)
Net increase in cash and cash equivalents	4,253,325	1,901,750
Cash and cash equivalents, beginning of year	7,651,769	5,750,019
Cash and cash equivalents, end of year	\$ 11,905,094	\$ 7,651,769

See accompanying notes to basic financial statements.

**Kit Carson County Health Service District
Statements of Cash Flows (Continued)
Years Ended December 31, 2021 and 2020**

	2021	2020
<i>Reconciliation of Cash and Cash Equivalents to the Statements of Net Position</i>		
Cash and cash equivalents in current assets	\$ 9,946,010	\$ 5,426,669
Cash held by trustee for debt service	494,950	761,055
Cash and cash equivalents board designated as to use for capital acquisitions	375,724	375,657
Cash held by trustee for debt service	1,088,410	1,088,388
Total cash and cash equivalents	\$ 11,905,094	\$ 7,651,769
<i>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</i>		
Operating income (loss)	\$ 2,649,801	\$ (2,369,504)
<i>Adjustments to reconcile operating income (loss) to net cash provided by operating activities:</i>		
Depreciation and amortization	1,154,910	1,073,781
Provision for bad debts	765,146	1,547,863
(Increase) decrease in assets:		
Receivables:		
Patient accounts receivable, net	(1,465,608)	(601,064)
Estimated third-party payor settlements	(1,635,000)	849,322
Inventories	28,677	(516,670)
Prepaid expenses and other current assets	26,253	441,538
Increase (decrease) in liabilities:		
Accounts payable	69,373	(85,435)
Accrued compensation and related liabilities	(84,638)	(229,201)
Wound care liability	(348,597)	1,407,665
Estimated third-party payor settlements	(188,528)	188,528
Net cash provided by operating activities	\$ 971,789	\$ 1,706,823

Noncash Capital Financing Activities

The District entered into a capital lease in the amount of \$137,990 during the year ended December 31, 2021.

See accompanying notes to basic financial statements.

**Kit Carson County Health Service District
Notes to Basic Financial Statements
Years Ended December 31, 2021 and 2020**

1. Reporting Entity and Summary of Significant Accounting Policies:

a. Reporting Entity

Kit Carson County Health Service District (the District) is a 19-bed critical access hospital located in Burlington, Colorado; rural health clinics located in Burlington and Stratton, Colorado; and a home health agency based out of Burlington, Colorado. The District provides healthcare services to Kit Carson County and surrounding areas. The District was created in 1996 as a political subdivision of the state of Colorado. As a political subdivision of the state of Colorado, the District is exempt from income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. The District is governed by a Board of Directors consisting of seven members elected by the residents of the District. The District is not a component unit of another government entity. The District does not have any material component units.

b. Summary of Significant Accounting Policies

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, deferred inflows of resources, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Enterprise fund accounting – The District’s accounting policies conform to accounting principles generally accepted in the United States of America as applicable to proprietary funds of governments. The District uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

Cash and cash equivalents – Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less.

Inventories – Inventories of medical, pharmaceuticals, and other supplies are stated at cost, determined using the first-in, first-out method.

Prepaid expenses – Prepaid expenses are expenses paid during the year relating to expenses incurred in future periods. Prepaid expenses are amortized over the expected benefit of the related expense.

Assets limited as to use – Assets limited as to use include assets held by the trustee under indenture agreement for debt reserve requirements and designated by the Board for capital asset acquisitions.

**Kit Carson County Health Service District
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2021 and 2020**

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

b. Summary of Significant Accounting Policies (continued)

Capital assets – It is the District’s policy to capitalize property and equipment over \$5,000 and a useful life of at least two years; lesser amounts are expensed. Capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Capital assets other than land are depreciated on a straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are amortized over the shorter of the lease term or their respective estimated useful lives. Amortization of assets subject to leases is reported with depreciation expense.

Estimated useful lives are as follows:

Land improvements	10 to 20 years
Buildings and improvements	5 to 40 years
Fixed equipment	3 to 25 years
Major moveable equipment	3 to 20 years

Compensated absences – The District’s policies permit most employees to earn paid time off (PTO) for vacation, holidays, and sicknesses. The expense and the related liability are recognized as vacation benefits as earned. Compensated absence liabilities are computed using the regular pay rate in effect at the statement of net position dates plus an additional amount for compensation-related payments such as Social Security and Medicare taxes computed using rates in effect at that date.

Net position – Net position of the District is classified into three components. *Net investment in capital assets* consists of capital assets net of accumulated depreciation and is reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net position* is noncapital assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the District. *Unrestricted net position* is remaining net position that does not meet the definition of *net investment in capital assets* or *restricted*.

Operating revenues and expenses – The District’s statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions, including grants for specific operating activities associated with providing healthcare services — the District’s principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services other than financing costs.

Restricted resources – When the District has both restricted and unrestricted resources available to finance a particular program, it is the District’s policy to use restricted resources before unrestricted resources.

**Kit Carson County Health Service District
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2021 and 2020**

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

b. Summary of Significant Accounting Policies (continued)

Grants and contributions – From time to time, the District receives grants from the state of Colorado and others, as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts restricted for capital acquisitions are reported after nonoperating revenues and expenses. Grants that are restricted for specific projects or purposes related to the District’s operating activities are reported as operating revenue. Grants that are used to subsidize operating deficits are reported as nonoperating revenue. Contributions, except for capital contributions, are reported as nonoperating revenue.

Upcoming accounting standard pronouncements – In June 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 87, *Leases*, which increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible asset representing the lessee’s right to use the leased asset, thereby enhancing the relevance and consistency of information about governments’ leasing activities. The new guidance is effective for the District’s year ending December 31, 2022, although earlier application is encouraged. The District has not elected to implement this statement early; however, management is still evaluating the impact, if any, of this statement in the year of adoption.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. The objectives of this statement are to (1) define a subscription based information technology arrangement (SBITA); (2) establish that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provide the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) require note disclosures regarding a SBITA. The new guidance is effective for the District’s year ending December 31, 2023. Management is currently evaluating the effect this statement will have on the financial statements and related disclosures.

Reclassifications – Certain amounts have been reclassified in the 2020 financial statements in order to be consistent with the 2021 financial statements. These reclassifications had no effect on previously reported change in net position.

Subsequent events – The District has evaluated subsequent events and transactions through August 2, 2022, the date on which the financial statements were available to be issued.

**Kit Carson County Health Service District
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2021 and 2020**

2. Deposits and Investments:

Custodial credit risk – Custodial credit risk is the risk that, in the event of a depository institution failure, the District’s deposits may not be returned.

The Colorado Public Deposit Protection Act (CPDPA) requires financial institutions to collateralize any uninsured public deposits. The bank balance at each institution is insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Any excess of deposits over the FDIC limit not insured is covered by collateral pledged by the financial institution in accordance with the CPDPA.

Investments – Colorado State statutes authorize the District to invest in U.S. Treasury bills, obligations of any other U.S. agencies, obligations of the World Bank, general obligation bonds of any state or any of their subdivisions, revenue bonds of any state or any of their subdivisions, banker’s acceptance notes, commercial paper, repurchase agreements, money market funds, and guaranteed investment contracts. All investments must be held by the District, in its name, or in custody of a third-party on behalf of the local government.

Concentration of credit risk – The inability to recover the value of deposits, investments, or collateral securities in the possession of an outside party caused by a lack of diversification (investments acquired from a single issuer). The District does not have a policy limiting the amount it may invest in any one issuer or multiple issuers.

Interest rate risk – The possibility that an interest rate change could adversely affect an investment’s fair value. The District does not have a policy specifically managing its exposure to fair value losses arising from changing interest rates.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation of inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. The District’s certificates of deposit are valued using quoted market prices (Level 2 input).

The District has the following recurring fair value measurements:

	2021			
	Total	Level 1	Level 2	Level 3
Certificates of Deposit	\$ 6,084,726	\$ -	\$ 6,084,726	\$ -
Total	\$ 6,084,726	\$ -	\$ 6,084,726	\$ -
	2020			
	Total	Level 1	Level 2	Level 3
Certificates of Deposit	\$ 9,973,618	\$ -	\$ 9,973,618	\$ -
Total	\$ 9,973,618	\$ -	\$ 9,973,618	\$ -

**Kit Carson County Health Service District
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2021 and 2020**

3. Patient Accounts Receivable:

Patient accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of patient accounts receivable, the District analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. For receivables associated with services provided to patients who have third-party coverage, the District analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which include both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the District records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted, is charged off against the allowance for uncollectible accounts.

The District's allowance for uncollectible accounts for self-pay patients decreased from the prior year due to the District becoming better at writing off old accounts in the current year. The District does not maintain a material allowance for uncollectible accounts from third-party payors, nor did it have significant write-offs from third-party payors.

Patient accounts receivable reported as current assets by the District were as follows:

	2021	2020
Receivable from patients and their insurance carriers	\$ 2,718,131	\$ 3,113,951
Receivable from Medicare	761,438	725,636
Receivable from Medicaid	79,118	141,893
Total patient accounts receivable	3,558,687	3,981,480
Less allowance for uncollectible accounts	(700,000)	(1,823,255)
Patient accounts receivable, net	\$ 2,858,687	\$ 2,158,225

**Kit Carson County Health Service District
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2021 and 2020**

4. Capital Assets:

Capital asset additions, retirements, transfers, and balances reported by the District were as follows:

	Balance December 31, 2020	Additions	Retirements	Transfers	Balance December 31, 2021
<i>Capital assets not being depreciated</i>					
Land	\$ 176,836	\$ -	\$ -	\$ -	\$ 176,836
Construction in progress	-	-	-	-	-
Total capital assets not being depreciated	176,836	-	-	-	176,836
<i>Capital assets being depreciated</i>					
Land improvements	130,175	-	(93,755)	-	36,420
Buildings and improvements	14,116,379	-	(1,827,227)	-	12,289,152
Fixed equipment	3,666,245	-	(894,406)	-	2,771,839
Major moveable equipment	6,825,467	606,737	(2,094,833)	-	5,337,371
Total capital assets being depreciated	24,738,266	606,737	(4,910,221)	-	20,434,782
<i>Less accumulated depreciation for</i>					
Land improvements	69,557	2,748	(46,846)	-	25,459
Buildings and improvements	9,906,549	567,534	(1,760,419)	-	8,713,664
Fixed equipment	2,972,263	105,550	(695,959)	-	2,381,854
Major moveable equipment	5,855,004	479,078	(2,342,064)	-	3,992,018
Total accumulated depreciation	18,803,373	1,154,910	(4,845,288)	-	15,112,995
Total capital assets being depreciated, net	5,934,893	(548,173)	(64,933)	-	5,321,787
Capital assets, net	\$ 6,111,729	\$ (548,173)	\$ (64,933)	\$ -	\$ 5,498,623

**Kit Carson County Health Service District
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2021 and 2020**

4. Capital Assets (continued):

	Balance December 31, 2019	Additions	Retirements	Transfers	Balance December 31, 2020
<i>Capital assets not being depreciated</i>					
Land	\$ 176,836	\$ -	\$ -	\$ -	\$ 176,836
Construction in progress	3,409	23,552	-	(26,961)	-
Total capital assets not being depreciated	180,245	23,552	-	(26,961)	176,836
<i>Capital assets being depreciated</i>					
Land improvements	130,175	-	-	-	130,175
Buildings and improvements	14,089,418	-	-	26,961	14,116,379
Fixed equipment	3,361,194	305,051	-	-	3,666,245
Major moveable equipment	6,743,498	81,969	-	-	6,825,467
Total capital assets being depreciated	24,324,285	387,020	-	26,961	24,738,266
<i>Less accumulated depreciation for</i>					
Land improvements	66,809	2,748	-	-	69,557
Buildings and improvements	9,338,907	567,642	-	-	9,906,549
Fixed equipment	2,877,080	95,183	-	-	2,972,263
Major moveable equipment	5,446,796	408,208	-	-	5,855,004
Total accumulated depreciation	17,729,592	1,073,781	-	-	18,803,373
<i>Total capital assets being depreciated, net</i>	6,594,693	(686,761)	-	26,961	5,934,893
Capital assets, net	\$ 6,774,938	\$ (663,209)	\$ -	\$ -	\$ 6,111,729

The District did not have any construction in progress as of December 31, 2021.

**Kit Carson County Health Service District
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2021 and 2020**

5. Long-term Debt and Capital Lease Obligations:

A schedule of changes in the District's long-term debt and capital lease obligations follows:

	Balance December 31, 2020	Additions	Reductions	Balance December 31, 2021	Amounts Due Within One Year
Bonds payable	\$ 9,645,000	\$ -	\$ (435,000)	\$ 9,210,000	\$ 465,000
Capital lease obligations	396,935	137,990	(208,494)	326,431	154,230
Total long-term debt and capital lease obligations	\$ 10,041,935	\$ 137,990	\$ (643,494)	\$ 9,536,431	\$ 619,230

	Balance December 31, 2019	Additions	Reductions	Balance December 31, 2020	Amounts Due Within One Year
Bonds payable	\$ 10,050,000	\$ -	\$ (405,000)	\$ 9,645,000	\$ 435,000
Capital lease obligations	601,424	-	(204,489)	396,935	179,612
Total long-term debt and capital lease obligations	\$ 10,651,424	\$ -	\$ (609,489)	\$ 10,041,935	\$ 614,612

The terms and due dates of the District's long-term debt and capital lease obligations are as follows:

- Health Care Facilities Revenue Bonds Series 2007 (the 2007 Bonds), in the original amount of \$12,810,000, dated November 2007. The 2007 Bonds are payable in annual principal installments ranging from \$465,000 to \$1,015,000, plus interest ranging from 6.10 percent to 6.75 percent through January 2034.

The bond resolution requires, among other things, the establishment of a Reserve Fund to be held by the issuer for the purpose of paying principal and interest on the bonds when sufficient monies are unavailable in the Senior Bond Fund into which the loan repayments are deposited in order to pay the principal and interest on the bonds. The 2007 Bonds are collateralized by net pledged revenues.

Terms of the 2007 Bonds place limits on the incurrence of additional borrowings. Also, the provisions of the indenture related to the 2007 Bonds contain covenants pertaining to reporting requirements, current ratio, debt service coverage ratio, and maintenance of days cash on hand.

- Capital lease obligations are due in monthly installments including principal and interest at varying amounts from \$3,043 to \$10,789, including interest at varying rates from 4.00 percent to 4.68 percent through 2025; collateralized by related equipment.

The capital lease obligations are reflected in the District's assets and liabilities. The assets acquired under the capital leases had a capitalized cost of \$917,129 and \$1,531,926 as of December 31, 2021 and 2020, respectively, and accumulated amortization of \$719,202 and \$1,141,195 as of December 31, 2021 and 2020, respectively. Amortization expense is included in depreciation expense on the statements of revenues, expenses, and changes in net position.

**Kit Carson County Health Service District
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2021 and 2020**

5. Long-term Debt and Capital Lease Obligations (continued):

Scheduled principal and interest repayments on long-term debt and capital lease obligations are as follows:

Years Ending December 31,	Long-term Debt		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2022	\$ 465,000	\$ 590,288	\$ 154,230	\$ 11,753
2023	495,000	556,875	130,819	4,625
2024	530,000	521,100	35,330	1,185
2025	565,000	482,963	6,052	35
2026	605,000	442,125	-	-
2027-2031	3,685,000	1,496,813	-	-
2032-2036	2,865,000	201,488	-	-
	\$ 9,210,000	\$ 4,291,652	\$ 326,431	\$ 17,598

6. Paycheck Protection Program Note Payable:

In April 2020, the District was granted a loan from High Plains Bank in the aggregate amount of \$1,377,755, pursuant to the Paycheck Protection Program (PPP) under Division A, Title I of the CARES Act, which was enacted March 27, 2020.

The PPP loan, which was in the form of a note dated April 30, 2020, bears interest at a rate of 1 percent per annum. The note may be prepaid by the District at any time prior to maturity with no prepayment penalties. Funds from the loan may only be used for payroll costs, costs used to continue group healthcare benefits, mortgage payments, rent, utilities, and interest on other debt obligations. Under the terms of the PPP, certain amounts of the loan may be forgiven if they are used for qualifying expenses as described in the CARES Act.

The District applied for PPP loan forgiveness and the loan was forgiven on April 1, 2021. The forgiveness was recorded as gain on forgiveness of Paycheck Protection Program loan on the statements of revenues, expenses and changes in net position.

7. Net Patient Service Revenue:

The District recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for charity care, the District recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the District's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the District records a significant provision for bad debts related to uninsured patients in the period the services are provided. The District's provisions for bad debts and write-offs significantly decreased between 2021 and 2020 as the District wrote off a significant number of accounts. Patient service revenue, net of contractual adjustments and discounts (but before the provision for bad debts), recognized in the period from these major payor sources is as follows:

**Kit Carson County Health Service District
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2021 and 2020**

7. Net Patient Service Revenue (continued):

	2021	2020
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	\$ 7,350,358	\$ 8,021,851
Medicaid	3,485,229	1,983,620
Other third-party payors	7,467,245	5,161,725
Patients	1,858,520	1,915,359
Supplemental payments	2,809,336	1,811,269
	22,970,688	18,893,824
Less:		
Charity care	132,287	199,758
Provision for bad debt	765,146	1,547,863
Net patient service revenue	\$ 22,073,255	\$ 17,146,203

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

- *Medicare* – The District has been designated a critical access hospital and the clinics as rural health clinics by Medicare, and are reimbursed for inpatient, outpatient, and clinic services on a cost basis as defined and limited by the Medicare program. The District is reimbursed for cost-reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare administrative contractor. Nonrural health clinic physician services and home health services are reimbursed on a fee schedule.
- *Medicaid* – Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Medicaid outpatient services are paid based on prospectively determined rates. Rural health clinic encounters are reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by Medicaid. Physician services and home health services are reimbursed on a fee schedule.
- *Other* – The District has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the District under these agreements includes prospectively determined rates per discharge, discounts from established charges, fee schedules, and prospectively determined daily rates.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue increased by approximately \$369,000 and decreased by approximately \$475,000 in the years ended December 31, 2021 and 2020, respectively, due to differences between original estimates and final settlements or revised estimates for all settlements except the Medicaid rural health clinic settlements.

**Kit Carson County Health Service District
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2021 and 2020**

7. Net Patient Service Revenue (continued):

The Colorado Department of Health Care Policy and Financing (the State) reconciles the District's Medicaid rural health care clinic rate on a retrospective basis. As of the report date, the State had reconciled the rate through 2018. Historically, the District had recognized the gain or loss related to the reconciliation as the State performed the reconciliation. Going forward, the District will estimate the reconciliation on an annual basis. This change in estimate significantly increased revenue for the year ended December 31, 2021, and resulted in third-party receivable of approximately \$916,000. The following is breakdown by year for what was recognized as of December 31, 2021:

- 2017 - \$214,017 – Final settled, payment received in 2021
- 2018 - \$230,827 – Final settled, payment received in 2022
- 2019 - \$241,000 – Estimate
- 2020 - \$303,000 – Estimate
- 2021 - \$141,000 – Estimate

Under the Colorado Health Care Affordability Act (the Act), the District pays provider fees to the state of Colorado. The provider fees are based on inpatient days and outpatient charges. The District also receives various supplemental payments from the state of Colorado under this Act.

The District provides charity care to patients who are financially unable to pay for the healthcare services they receive. The District's policy is not to pursue collection of amounts determined to qualify as charity care. Accordingly, the District does not report these amounts in net operating revenues or in the allowance for uncollectible accounts. The District determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including salaries and wages, benefits, supplies, and other operating expenses, based on data from its costing system. The costs of caring for charity care patients for the years ended December 31, 2021 and 2020, were approximately \$89,000 and \$143,000, respectively. The District received no gifts or grants to subsidize the cost of caring for charity care patients in 2021 or 2020.

8. Property Taxes:

The Kit Carson County Treasurer acts as an agent to assess and collect property taxes levied in the county for all taxing authorities. Property taxes are levied and assessed on January 1 of the prior year on property values assessed as of May 1 of the prior year. Taxes are due in two equal amounts by April 30 and February 28, or all may be paid by February 28. Taxes estimated to be collectible are recorded as revenue in the year of the levy by the District. The assessed property is subject to lien on the levy date, therefore no allowance for uncollectible taxes receivable is considered necessary at the statement of net position dates. A deferred inflow of resources and a receivable were recorded at December 31, 2021 and 2020, for taxes levied for 2022 and 2021, respectively.

For 2021, the District's regular tax levy was \$3.000 per \$1,000 on a total assessed valuation of \$216,164,574, for a total regular levy of \$648,494. For 2020, the District's regular tax levy was \$3.000 per \$1,000 on a total assessed valuation of \$204,779,567, for a total regular levy of \$614,339.

The District paid \$0 in both 2021 and 2020 to the Kit Carson County Treasurer for assessment and collection of the tax levy.

**Kit Carson County Health Service District
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2021 and 2020**

9. CARES Act Provider Relief Fund:

The District received \$670,126 and \$4,248,922 of funding from the CARES Act Provider Fund in the years ended December 31, 2021 and 2020, respectively. These funds are required to be used to reimburse the District for healthcare-related expenses or lost revenues that are attributable to coronavirus. During the years ended December 31, 2021 and 2020, the District recognized \$2,287,190 and \$1,961,732, respectively. The District had approximately \$670,000 of remaining funds as of December 31, 2021, to use for healthcare-related expense attributable to the coronavirus in the next year.

10. Defined Contribution Plan:

The District participates in the Colorado County Officials and Employee Retirement Association, a defined contribution plan, covering all employees hired subsequent to January 1, 1984 (the 457(b) Plan). The 457(b) Plan covers substantially all of the District's employees who have reached age 18. Participants may contribute a percentage of their compensation up to certain limits specified by the Internal Revenue Code. The District also has the discretion to make profit-sharing contributions as determined by the Board of Directors. Participants are immediately fully vested in their own contributions.

The District also participates in the Colorado Retirement Association Retirement Plan and Trust Agreement (the 401(a) Plan) into which the District and participating employees are required to contribute 3 percent of gross regular wages. Employees may contribute additional amounts to the 401(a) Plan up to the maximum allowed under the Internal Revenue Code. Employees vest in employer contributions and related earnings over a five-year period. Benefit provisions are contained in the Plan document and were established and can be amended by the District's Board of Directors and management. The District also has the discretion to make profit-sharing contributions as determined by the Board of Directors. The discretionary contributions are allocated to participants' accounts in the 401(a) Plan. Participants become fully vested in the District's contributions after five years of service.

The District administers and has the authority to amend both the 457(b) Plan and the 401(a) Plan.

Plan participants contributed approximately \$57,000, for the year ended December 31, 2021, to the 457(b) Plan. The District made matching contributions to the 401(a) Plan of approximately \$181,000 for the year ended December 31, 2021. For 2021, employees also contributed an additional \$23,000 to the 401(a) Plan.

**Kit Carson County Health Service District
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2021 and 2020**

11. Contingencies and Commitments:

Medical malpractice claims – The District has professional liability insurance coverage with COPIC Insurance Company. The policy provides protection on a “claims-made” basis whereby claims filed in the current year are covered by the current policy. If there are occurrences in the current year, these will only be covered in the year the claim is filed if claims-made coverage is obtained in that year, or if the District purchases insurance to cover prior acts. The current professional liability insurance provides \$1,000,000 per claim of primary coverage with an annual aggregate limit of \$3,000,000. The policy has no deductible per claim.

No liability has been accrued for future coverage for acts occurring in this or prior years. Also, it is possible that claims may exceed coverage obtained in any given year.

Industry regulations – The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of various statutes and regulations by healthcare providers. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Management believes that the District is in compliance with fraud and abuse as well as other applicable government laws and regulations. If the District is found in violation of these laws, the District could be subject to substantial monetary fines, civil and criminal penalties, and exclusion from participation in the Medicare and Medicaid programs.

Tax, spending, and debt limitations – At the November 3, 1992, general election, Colorado voters approved an amendment to the Colorado Constitution, Article X, Section 20, commonly known as the Taxpayer’s Bill of Rights (TABOR). TABOR was effective December 31, 1992, and its provisions limit government taxes, spending revenues, and debt without electoral approval.

TABOR, by its terms, applies to local governments such as special districts but excludes “enterprises,” which are defined as (1) a government owned business, (2) authorized to issue its own debt, and (3) receives less than 10 percent of its annual revenue in grants from all state and local governments. TABOR is complex and subject to judicial interpretation. The District believes it is in compliance with the requirements of TABOR. However, the District has made certain interpretations of TABOR’s language in order to determine its compliance.

Risk management – The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; 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 for any of the three preceding years.

**Kit Carson County Health Service District
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2021 and 2020**

11. Contingencies and Commitments (continued):

Federal program overpayments – During 2021, the District discovered it had been overpaid by its federal programs for its wound care and hyperbaric oxygen therapy services starting in August 2018. The District has self-reported an estimate of its overpayments. A liability has been recorded on the statement of net position as of December 31, 2020, for the estimated overpayments and related penalties through that date.

The District had an agreement with a third party to provide wound care and hyperbaric oxygen therapy services. The District terminated the agreement on June 28, 2021. The third party has filed a lawsuit alleging improper termination of the agreement. The District believes the lawsuit is without merit and intends to vigorously defend its position.

The District has accrued approximately \$1,700,000 as an estimated contingency related to these matters, though a final determination has not been made concerning the District’s ultimate obligation. The estimated liability could change materially in the near term.

12. Concentration of Credit Risk:

Patient accounts receivable – The District grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payor agreements. The following is the mix of receivables from patients and third-party payors reported by the District:

	2021	2020
Medicare	30 %	25 %
Medicaid	6	8
Other third-party payors	36	31
Patients	28	36
	100 %	100 %

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

13. Budget and Actual Revenues and Expenses:

The District overspent its approved budget by \$714,855 in 2021.

**Kit Carson County Health Service District
Notes to Basic Financial Statements (Continued)
Years Ended December 31, 2021 and 2020**

14. COVID-19 Pandemic:

The COVID-19 pandemic had created economic uncertainties which may negatively impact the District's financial position. Beginning in March 2020, the District began experiencing significant declines in revenues due to the state of Colorado temporarily suspending all elective surgeries and other elective procedures. In addition, the hospital has experienced declines in volumes of outpatient and ancillary services, such as radiology, lab, and clinic visits.

The District received government grants as described in Note 9 above as part of the federal government's response to the pandemic.

The District has also received Medicare accelerated payments of \$4,582,975 during fiscal year 2020. Such advance payments will be recouped commencing one year from issuance of the payments. Twenty-five percent of monthly Medicare payments for patient service will be withheld for the first 11 months of recoupment, 50 percent withheld monthly during the following six months, and any remaining balance due at the end of this period. Approximately \$809,000 has been recouped as of December 31, 2021.

Medicare sequestration was zero percent from May 1, 2020 through March 31, 2022, one percent from April 1, 2022 through June 30, 2022, and returning to two percent on July 1, 2022.

The District also entered into the PPP loan described in Note 6 above, also a part of the federal government's response to the pandemic.

SUPPLEMENTARY INFORMATION

**Kit Carson County Health Service District
Schedule of Budget and Actual Revenues and Expenses
Year Ended December 31, 2021**

	2021	Preliminary and Final Approved Budget	Favorable (Unfavorable) Variance
<i>Operating revenues</i>			
Net patient service revenue	\$ 22,073,255	\$ 14,828,050	\$ 7,245,205
Other	160,807	65,900	94,907
Total operating revenues	22,234,062	14,893,950	7,340,112
<i>Operating expenses</i>			
Salaries and wages	6,293,285	9,949,645	3,656,360
Employee benefits	1,523,374	-	(1,523,374)
Professional fees and other purchased services	7,109,766	4,728,037	(2,381,729)
Supplies	1,865,956	1,585,535	(280,421)
Depreciation and amortization	1,154,910	1,118,140	(36,770)
Insurance	132,079	152,800	20,721
Utilities	284,665	310,410	25,745
Provider fees	567,880	-	(567,880)
Other	652,346	992,633	340,287
Total operating expenses	19,584,261	18,837,200	(747,061)
<i>Operating income</i>	2,649,801	(3,943,250)	6,593,051
<i>Nonoperating revenues (expenses)</i>			
Taxation for operations	653,659	614,334	39,325
CARES Act Provider Relief Fund	2,287,190	-	2,287,190
Contributions	20,647	220,000	(199,353)
Interest income	54,124	80,000	(25,876)
Interest expense	(633,294)	(665,500)	32,206
Total nonoperating revenues, net	2,382,326	248,834	2,133,492
Excess revenues over (under) expenses before capital contributions and gain on forgiveness of Paycheck Protection Program loan	5,032,127	(3,694,416)	8,726,543
<i>Capital contributions</i>	498,742	100,000	398,742
<i>Gain on forgiveness of Paycheck Protection Program loan</i>	1,377,755	-	1,377,755
Change in net position	\$ 6,908,624	\$ (3,594,416)	\$ 10,503,040

See accompanying independent auditors' report.

SINGLE AUDIT

AUDITORS' SECTION



DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Kit Carson County Health Service District
Burlington, Colorado

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Kit Carson County Health Services District (the District), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents, and have issued our report thereon dated August 2, 2022.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of audit findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of audit findings and questioned costs as item 2021-001 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of audit findings and questioned costs as item 2021-002 to be a significant deficiency.

Compliance and Other Matters

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

The District's Response to Finding

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

Purpose of this Report

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

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
August 2, 2022



DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

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

Board of Directors
Kit Carson County Health Service District
Burlington, Colorado

Report on Compliance for the District's Major Federal Program

Opinion on the District's Major Federal Program

We have audited Kit Carson County Health Service District, (the District's) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended December 31, 2021. The District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of audit findings and questioned costs.

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

Basis for Opinion on the District's 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 Auditors' Responsibilities for the Audit of Compliance section of our report.

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

Responsibilities of Management for Compliance

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

Auditors' Responsibilities for the Audit of Compliance

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

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

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

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of audit findings and questioned costs as items 2021-003 and 2021-004. Our opinion on the major federal program is not modified with respect to this matter.

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

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of audit findings and questioned costs as items 2021-003 and 2021-004 to be significant deficiencies.

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

The District's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of audit findings and questioned costs. The District's response was not subjected to the 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.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
August 2, 2022

**Kit Carson County Health Service District
 Schedule of Audit Findings and Questioned Costs
 Year Ended December 31, 2021**

Section I – Summary of Auditors’ Results

Financial Statements:

Type of auditors’ report issued:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? X yes no
- Significant deficiency(ies) identified? X yes none reported

Noncompliance material to financial statements noted?

 yes X no

Federal Awards:

Internal control over major federal programs:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? X yes none reported

Type of auditors’ report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported
 in accordance with 2 CFR 200.516(a)?

 X yes no

Identification of major federal programs:

Assistance Listing Number(s)

Name of Federal Program or Cluster

93.498

Provider Relief Fund and
 American Rescue Plan (ARP)
 Rural Distribution

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee?

 yes X no

**Kit Carson County Health Service District
Schedule of Audit Findings and Questioned Costs (Continued)
Year Ended December 31, 2021**

Section II – Financial Statement Findings

2021-001 Auditor Detected Adjusting Journal Entries

<i>Criteria</i>	<input type="checkbox"/> Compliance Finding <input type="checkbox"/> Significant Deficiency <input checked="" type="checkbox"/> Material Weakness No significant or material adjusting journal entries should be detected by auditors during the audit process.
<i>Condition</i>	There were significant adjusting journal entries proposed related to capital lease obligations, estimated third-party settlements, capital assets, other revenue, and professional fees and other purchased services.
<i>Context</i>	The finding appears to be a <i>systemic</i> incident.
<i>Effect</i>	Financial reports may be inaccurate and could affect management and Board decision making.
<i>Cause</i>	Several account reconciliations were not accurately prepared at fiscal year end.
<i>Recommendation</i>	We recommend adequate account reconciliations be performed timely to ensure financial statements presented to management and the Board are accurate.
<i>Views of responsible officials and planned corrective action</i>	Kit Carson County Health Service District will continue to improve processes with the new accounting system, add additional staff to share duties with month and year end closing of the financial accounting information, and review all account reconciliations in a timely manner.

**Kit Carson County Health Service District
Schedule of Audit Findings and Questioned Costs (Continued)
Year Ended December 31, 2021**

Section II – Financial Statement Findings (continued)

2021-002 Insufficient Review of Manual Journal Entries

Criteria	[] Compliance Finding [X] Significant Deficiency [] Material Weakness Manual journal entries should be reviewed by someone that did not propose the journal entry.
Condition	Manual journal entries were not consistently reviewed during the fiscal year.
Context	The finding appears to be a <i>systemic</i> incident.
Effect	Errors in journal entries could lead to inaccurate financial reporting which could affect management and Board decision making.
Cause	Management posted journal entries without the review from someone who does not have the capability to post entries and did not retain supporting documentation for the entry.
Recommendation	We recommend adequate supporting documentation and review of journal entries be performed timely to ensure financial statements presented to management and the Board are accurate.
Views of responsible officials and planned corrective action.	Kit Carson County Health Service District will continue to improve processes with the new accounting system, add additional staff to share duties with month and year-end closing of the financial accounting information, and review all account reconciliations in a timely manner. The CFO will review and sign off on all Journal Entry reports.

**Kit Carson County Health Service District
 Schedule of Audit Findings and Questioned Costs (Continued)
 Year Ended December 31, 2021**

Section III – Federal Award Findings and Questioned Costs

2021-003	Unapproved Budgeted Revenues Included in Lost Revenue Calculation
<i>Federal Agency</i>	Department of Health and Human Services
<i>Assistance Listing Number</i>	93.498 – Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution
<i>Criteria</i>	[X] Significant Deficiency [] Material Weakness [X] Compliance Finding
	Under the terms and conditions of the award, the recipient certifies it will include only budgeted revenues approved prior to March 27, 2020, for the entire period of availability in its calculation of lost revenues.
<i>Condition</i>	The District used its 2021 budget, which was not approved prior to March 27, 2020, in its calculation of lost revenues for calendar year 2021, in its reporting of Provider Relief Fund to the Health Resource and Services Administration. The District used its 2020 budget, which was approved prior to March 27, 2020, for its calendar year 2020 lost revenues calculation; however, the 2020 budget did not cover the entire period of availability.
<i>Context</i>	This finding appears to be an isolated instance.
<i>Effect</i>	The use of the 2021 budget did not have an effect on the Provider Relief Funds the District retained based on the Period 1 reporting and will have no effect on the retention of Provider Relief Funds in future reporting periods. Lost revenue was calculated for 2021 quarters 1 and 2 but will never factor into the retention of Provider Relief Funds. The lost revenue calculated for 2020 will be sufficient for retention of all Provider Relief Funds in the current and future reporting periods.
<i>Cause</i>	The District did not have proper review of internal documentation used to report on federal awards.
<i>Recommendation</i>	We recommend the District change its lost revenue reporting method to Option 3 in the next reporting period, which allows for any reasonable method. This could include budgeted revenues approved after March 27, 2020, to be used in the lost revenue calculation for calendar year 2021 and 2022, or to only provide lost revenue data for calendar year 2020.
<i>Views of responsible officials and planned corrective action</i>	We will use the correct budget year in the future lost revenue calculations and change our lost revenue option to Option 3, “any reasonable method of estimating revenues,” during the phase four reporting period.

AUDITEE'S SECTION

**Kit Carson County Health Service District
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2021**

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Pass-through Entity Identifying Number	Additional Award Identification	Total Federal Expenditures
Department of the Treasury Pass-through Programs From:				
<i>Colorado Department of Local Affairs</i>				
Coronavirus Relief Fund	21.019	F21CVRFSD056	COVID-19	\$ 498,742
Total Department of the Treasury Pass-through Programs				498,742
U.S. Department of Health and Human Services Direct Programs:				
Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution	93.498		COVID-19	4,169,712
COVID-19 Testing and Mitigation for Rural Health Clinics	93.697		COVID-19	98,923
Total U.S. Department of Health and Human Services Direct Programs				4,268,635
U.S. Department of Health and Human Services Pass-through Programs:				
<i>Colorado Rural Health Center</i>				
Rural Health Research Centers	93.155	Not Provided	COVID-19	56,778
Small Rural Hospital Improvement Grant Program	93.301	H3HRH00038-19-00		6,161
Total U.S. Department of Health and Human Services Pass-through Programs				62,939
Total U.S. Department of Health and Human Services				4,331,574
Total expenditures of federal awards				\$ 4,830,316

See accompanying independent auditors' report. The accompanying notes are an integral part of this schedule.

Notes to Schedule of Expenditures of Federal Awards

1. Basis of Presentation:

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Kit Carson County Health Service District (the District) under programs of the federal government for the year ended December 31, 2021. Amounts reported on the Schedule of Federal Assistance Listing Number 93.498 – Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution are based upon the June 30, 2021, Provider Relief Funds reports. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the District.

2. Summary of Significant Accounting Policies:

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The District has elected not to use the 10 percent de minimis indirect cost rate allowed under Uniform Guidance.



Kit Carson County Health Service District

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**Kit Carson County Health Service District
Corrective Action Plan
Year Ended December 31, 2021**

The current year Schedule of Audit Findings and Questioned Costs reported two matters in Section II – Financial Statement Findings.

Current year audit findings:

2021-001 Auditor Detected Adjusting Journal Entries

Corrective action planned: Kit Carson County Health Service District will continue to improve processes with the new accounting system, add additional staff to share duties with month and year-end closing of the financial accounting information, and review all account reconciliations in a timely manner.

Anticipated completion date: August 1, 2023

Contact person responsible for corrective action: Heather Prideaux, Regional Controller/Interim CFO

2021-002 Insufficient Review of Manual Journal Entries

Corrective action planned: Kit Carson County Health Service District will continue to improve processes with the new accounting system, add additional staff to share duties with month and year end closing of the financial accounting information, and review all account reconciliations in a timely manner. The CFO will review and sign off on all Journal Entry reports.

Anticipated completion date: August 31, 2022

Contact person responsible for corrective action: Heather Prideaux, Regional Controller/Interim CFO



Kit Carson County Health Service District

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**Kit Carson County Health Service District
Corrective Action Plan (Continued)
Year Ended December 31, 2021**

The current year Schedule of Audit Findings and Questioned Costs reported two matters in Section III – Federal Award Findings and Questioned Costs

Current year audit findings:

2021-003 Unapproved budgeted revenues included in lost revenue calculation

Corrective action planned: We will use the correct budget year in the future lost revenue calculations and change our lost revenue option to Option 3, “any reasonable method of estimating revenues,” during the phase four reporting.

Anticipated completion date: August 1, 2023

Contact person responsible for corrective action: Heather Prideaux, Regional Controller/Interim CFO

2021-003 Provider Relief fund Reporting of Lost Revenues

Corrective action planned: The District will ensure that third party settlements and patient accounts receivable allowance adjustments are estimated and recorded timely throughout the year.

Anticipated completion date: August 1, 2023

Contact person responsible for corrective action: Heather Prideaux, Regional Controller/Interim CFO

**Kit Carson County Health Service District
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2021**

The audit for the year ended December 31, 2020, reported no audit findings, nor were there any unresolved findings from periods ended December 31, 2019, or prior. Therefore, there are no matters to report in this schedule for the year ended December 31, 2021.