

# **Kit Carson County Health Service District**

Basic Financial Statements and  
Independent Auditors' Reports

December 31, 2022 and 2021



**DINGUS | ZARECOR & ASSOCIATES** PLLC  
Certified Public Accountants

**Kit Carson County Health Service District  
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## 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 years ended December 31, 2022 and 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, 2022 and 2021, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

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

#### ***Emphasis of Matter***

As discussed in Note 1 to the financial statements, in 2022 the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

### ***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, 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 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 June 7, 2023, 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, 2022. We issued a similar report for year ended December 31, 2021, dated August 2, 2022, which has not been included with the 2021 financial 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 the District's internal control over financial reporting and compliance.

***Dingus, Zarecor & Associates PLLC***

Spokane Valley, Washington

June 7, 2023

**Kit Carson County Health Service District**  
**Statements of Net Position**  
**December 31, 2022 and 2021**

<b>ASSETS</b>	<b>2022</b>	<b>2021</b>
<i>Current assets</i>		
Cash and cash equivalents	\$ 8,709,538	\$ 9,946,010
Investments	5,929,034	6,084,726
Receivables:		
Patient accounts	3,022,713	2,858,687
Property taxes	633,993	648,494
Estimated third-party payor settlements	1,026,000	1,635,000
Cash held by trustee for debt service	525,477	494,950
Inventories	477,087	487,993
Prepaid expenses and other current assets	389,815	163,815
Total current assets	20,713,657	22,319,675
<i>Noncurrent assets</i>		
Cash and cash equivalents board designated as to use for capital acquisitions	375,870	375,724
Cash and cash equivalents for debt service	1,086,988	1,088,410
Capital assets, net	4,988,718	5,498,623
Total noncurrent assets	6,451,576	6,962,757
<b>Total assets</b>	<b>\$ 27,165,233</b>	<b>\$ 29,282,432</b>

*See accompanying notes to basic financial statements.*

**Kit Carson County Health Service District  
Statements of Net Position (Continued)  
December 31, 2022 and 2021**

<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	<b>2022</b>	<b>2021</b>
<i>Current liabilities</i>		
Accounts payable	\$ 740,307	\$ 806,379
Accrued compensation and related liabilities	529,763	490,141
Current maturities of long-term debt	495,000	465,000
Current maturities of lease liabilities	176,983	154,230
Medicare accelerated payments payable	2,060,821	3,773,603
Wound care liability	2,635,000	1,699,420
Interest payable	295,144	310,838
Unearned CARES Act Provider Relief Fund	-	670,126
Total current liabilities	<b>6,933,018</b>	<b>8,369,737</b>
<i>Noncurrent liabilities</i>		
Long-term debt, net of current maturities	8,250,000	8,745,000
Lease liabilities, net of current maturities	243,718	172,201
Total noncurrent liabilities	<b>8,493,718</b>	<b>8,917,201</b>
Total liabilities	<b>15,426,736</b>	<b>17,286,938</b>
<i>Deferred inflows of resources, property tax levy</i>	633,993	648,494
Total liabilities and deferred inflows of resources	<b>16,060,729</b>	<b>17,935,432</b>
<i>Net position</i>		
Net investment in capital assets	(4,472,127)	(4,348,646)
Unrestricted	15,051,154	15,200,696
Restricted for debt service	525,477	494,950
Total net position	<b>11,104,504</b>	<b>11,347,000</b>
<b>Total liabilities, deferred inflows of resources, and net position</b>	<b>\$ 27,165,233</b>	<b>\$ 29,282,432</b>

*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, 2022 and 2021**

	2022	2021
<i>Operating revenues</i>		
Net patient service revenue	\$ 20,155,541	\$ 22,073,880
Other	271,675	160,182
<b>Total operating revenues</b>	<b>20,427,216</b>	<b>22,234,062</b>
<i>Operating expenses</i>		
Salaries and wages	5,822,524	6,293,285
Employee benefits	1,220,040	1,523,374
Professional fees and other purchased services	9,327,240	7,458,363
Supplies	1,562,800	1,865,956
Depreciation and amortization	1,101,311	1,154,910
Insurance	155,466	132,079
Utilities	290,153	284,665
Provider fees	564,753	567,880
Other	554,357	652,346
<b>Total operating expenses</b>	<b>20,598,644</b>	<b>19,932,858</b>
<i>Operating income (loss)</i>	<b>(171,428)</b>	<b>2,301,204</b>
<i>Nonoperating revenues (expenses)</i>		
Taxation for operations	680,519	653,659
CARES Act Provider Relief Fund	670,126	2,287,190
Wound care payback	(935,580)	348,597
Contributions	26,730	20,647
Interest income	110,611	54,124
Interest expense	(623,474)	(633,294)
<b>Total nonoperating revenues, net</b>	<b>(71,068)</b>	<b>2,730,923</b>
Excess revenues over expenses before capital contributions and gain on forgiveness of Paycheck Protection Program loan	<b>(242,496)</b>	<b>5,032,127</b>
<i>Capital contributions</i>	-	498,742
<i>Gain on forgiveness of Paycheck Protection Program loan</i>	-	1,377,755
Change in net position	<b>(242,496)</b>	<b>6,908,624</b>
Net position, beginning of year	<b>11,347,000</b>	<b>4,438,376</b>
<b>Net position, end of year</b>	<b>\$ 11,104,504</b>	<b>\$ 11,347,000</b>

See accompanying notes to basic financial statements.

**Kit Carson County Health Service District  
Statements of Cash Flows  
Years Ended December 31, 2022 and 2021**

	2022	2021
<i>Change in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Cash received from and on behalf of patients	\$ 20,600,515	\$ 19,549,890
Cash received from other revenue	271,675	160,182
Payments to and on behalf of employees	(7,002,942)	(7,901,297)
Payments to suppliers and contractors	(12,735,935)	(10,836,986)
Net cash from operating activities	1,133,313	971,789
<i>Cash flows from noncapital financing activities</i>		
Taxation for operations	57,045	20,365
Proceeds from CARES Act Provider Relief Fund	-	670,126
Proceeds from contributions	26,730	20,647
Repayments of Medicare accelerated payments	(1,712,782)	(809,372)
Net cash from noncapital financing activities	(1,629,007)	(98,234)
<i>Cash flows from capital and related financing activities</i>		
Purchase of capital assets	(292,770)	(403,814)
Principal paid on lease liabilities	(204,366)	(208,494)
Principal paid on long-term debt	(465,000)	(435,000)
Interest paid on long-term debt and lease liabilities	(15,694)	(14,680)
Proceeds for capital grants	-	498,742
Net cash from capital and related financing activities	(977,830)	(563,246)
<i>Cash flows from investing activities</i>		
Proceeds from the sale of investments	2,242,124	14,158,271
Purchase of investments	(2,086,432)	(10,269,379)
Interest	110,611	54,124
Net cash from investing activities	266,303	3,943,016
Net change in cash and cash equivalents	(1,207,221)	4,253,325
Cash and cash equivalents, beginning of year	11,905,094	7,651,769
<b>Cash and cash equivalents, end of year</b>	<b>\$ 10,697,873</b>	<b>\$ 11,905,094</b>

See accompanying notes to basic financial statements.

**Kit Carson County Health Service District  
Statements of Cash Flows (Continued)  
Years Ended December 31, 2022 and 2021**

	2022	2021
<b><i>Reconciliation of Cash and Cash Equivalents to the Statements of Net Position</i></b>		
Cash and cash equivalents in current assets	\$ 8,709,538	\$ 9,946,010
Cash held by trustee for debt service	525,477	494,950
Cash and cash equivalents board designated as to use for capital acquisitions	375,870	375,724
Cash held by trustee for debt service	<b>1,086,988</b>	1,088,410
<b>Total cash and cash equivalents</b>	<b>\$ 10,697,873</b>	<b>\$ 11,905,094</b>
<b><i>Reconciliation of Operating Income (Loss) to Net Cash From Operating Activities</i></b>		
Operating income (loss)	\$ (171,428)	\$ 2,301,204
<i>Adjustments to reconcile operating income (loss) to net cash from operating activities:</i>		
Depreciation and amortization	<b>1,101,311</b>	1,154,910
Provision for bad debts	<b>2,729,033</b>	765,146
(Increase) decrease in assets:		
Receivables:		
Patient accounts receivable, net	<b>(2,893,059)</b>	(1,465,608)
Estimated third-party payor settlements	<b>609,000</b>	(1,635,000)
Inventories	<b>10,906</b>	28,677
Prepaid expenses and other current assets	<b>(226,000)</b>	26,253
Increase (decrease) in liabilities:		
Accounts payable	<b>(66,072)</b>	69,373
Accrued compensation and related liabilities	<b>39,622</b>	(84,638)
Estimated third-party payor settlements	-	(188,528)
<b>Net cash from operating activities</b>	<b>\$ 1,133,313</b>	<b>\$ 971,789</b>

**Noncash Capital Financing Activities**

During the year ended December 31, 2022, the District implemented Governmental Accounting Standards Board Statement No. 87, *Leases*. The District entered into three new lease agreements during the year totaling \$298,636.

During the year ended December 31, 2021, the District entered into one new lease agreement for \$137,990.

The estimated wound care payback increased by \$935,580 in the year ended December 31, 2022, and decreased by \$348,597 in 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, 2022 and 2021**

**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 and rural health clinics located in Burlington and Stratton, 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, 2022 and 2021**

**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 lease liabilities 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 movable equipment	3 to 20 years
Lease right-of-use – major movable equipment	4 to 6 years

Lease agreements do not contain material residual value guarantees or material restrictive covenants.

**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, 2022 and 2021**

**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.

**Reclassifications** – Certain amounts have been reclassified in the 2021 financial statements in order to be consistent with the 2022 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 June 7, 2023, the date on which the financial statements were available to be issued.

**Upcoming accounting standards pronouncements** – In May 2020, the Governmental Accounting Standards Board (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-of-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.

**Change in accounting principles** – In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this statement is to increase the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases previously classified as operating leases. 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 District adopted Statement No. 87 during the year ended December 31, 2022. See Notes 4 and 5 for additional information on the leases and related right-of-use assets recorded by the District.

The District did not restate the financial statements for the year ended December 31, 2021, for GASB No. 87 due to insufficient resources available to do so and due to management’s determination that the restatement would not provide significant benefit to the financial statement users.

**Kit Carson County Health Service District  
Notes to Basic Financial Statements (Continued)  
Years Ended December 31, 2022 and 2021**

**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:

	<b>2022</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Certificates of Deposit	\$ 5,929,034	\$ -	\$ 5,929,034	\$ -
<b>Total</b>	<b>\$ 5,929,034</b>	<b>\$ -</b>	<b>\$ 5,929,034</b>	<b>\$ -</b>

  

	<b>2021</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Certificates of Deposit	\$ 6,084,726	\$ -	\$ 6,084,726	\$ -
<b>Total</b>	<b>\$ 6,084,726</b>	<b>\$ -</b>	<b>\$ 6,084,726</b>	<b>\$ -</b>

**Kit Carson County Health Service District  
Notes to Basic Financial Statements (Continued)  
Years Ended December 31, 2022 and 2021**

**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 increased from the prior year due to an increase in more aged patient account balances in the current year. The District does not maintain a material allowance for uncollectible accounts from third-party payors, nor did it have significant writeoffs from third-party payors.

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

	<b>2022</b>	<b>2021</b>
Receivable from patients and their insurance carriers	\$ 3,553,218	\$ 2,718,131
Receivable from Medicare	774,946	761,438
Receivable from Medicaid	93,550	79,118
Total patient accounts receivable	<b>4,421,714</b>	3,558,687
Less allowance for uncollectible accounts	<b>(1,399,001)</b>	(700,000)
<b>Patient accounts receivable, net</b>	<b>\$ 3,022,713</b>	<b>\$ 2,858,687</b>

**Kit Carson County Health Service District  
Notes to Basic Financial Statements (Continued)  
Years Ended December 31, 2022 and 2021**

**4. Capital and Lease Right-of-Use Assets:**

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

	Balance December 31, 2021	Additions	Retirements	Transfers	Balance December 31, 2022
<i>Capital assets not being depreciated</i>					
Land	\$ 176,836	\$ -	\$ -	\$ -	\$ 176,836
Construction in progress	-	246,729	-	-	246,729
Total capital assets not being depreciated	176,836	246,729	-	-	423,565
<i>Capital assets being depreciated</i>					
Land improvements	36,420	-	-	-	36,420
Buildings and improvements	12,289,152	12,637	-	-	12,301,789
Fixed equipment	2,771,839	-	-	-	2,771,839
Major movable equipment	5,337,371	33,392	-	(613,013)	4,757,750
Lease right-of-use assets					
Major movable equipment	-	298,648	-	613,013	911,661
Total capital assets being depreciated	20,434,782	344,677	-	-	20,779,459
<i>Less accumulated depreciation for</i>					
Land improvements	25,459	1,918	-	-	27,377
Buildings and improvements	8,713,664	566,312	-	-	9,279,976
Fixed equipment	2,381,854	70,644	-	-	2,452,498
Major movable equipment	3,992,018	263,961	-	(310,214)	3,945,765
Lease right-of-use assets					
Major movable equipment	-	198,476	-	310,214	508,690
Total accumulated depreciation	15,112,995	1,101,311	-	-	16,214,306
<i>Total capital assets being depreciated, net</i>	5,321,787	(756,634)	-	-	4,565,153
<b>Capital assets, net</b>	<b>\$ 5,498,623</b>	<b>\$ (509,905)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 4,988,718</b>

**Kit Carson County Health Service District  
Notes to Basic Financial Statements (Continued)  
Years Ended December 31, 2022 and 2021**

**4. Capital and Lease Right-of-Use Assets (continued):**

	Balance December 31, 2020	Additions	Retirements	Transfers	Balance December 31, 2021
<i>Capital assets not being depreciated or amortized</i>					
Land	\$ 176,836	\$ -	\$ -	\$ -	\$ 176,836
Total capital assets not being depreciated or amortized	176,836	-	-	-	176,836
<i>Capital assets being depreciated or amortized</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 movable equipment	6,825,467	606,737	(2,094,833)	-	5,337,371
Total capital assets being depreciated or amortized	24,738,266	606,737	(4,910,221)	-	20,434,782
<i>Less accumulated depreciation or amortization 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 movable 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
<i>Total capital assets being depreciated or amortized, net</i>	5,934,893	(548,173)	(64,933)	-	5,321,787
<b>Capital assets, net</b>	<b>\$ 6,111,729</b>	<b>\$ (548,173)</b>	<b>\$ (64,933)</b>	<b>\$ -</b>	<b>\$ 5,498,623</b>

Construction in progress at December 31, 2022, consisted primarily of costs associated with clinic flooring and painting and the installation of a hematology analyzer, with no significant remaining costs to complete. All projects were put into place by June 2023.

**Kit Carson County Health Service District  
Notes to Basic Financial Statements (Continued)  
Years Ended December 31, 2022 and 2021**

**5. Long-term Debt and Lease Liabilities:**

A schedule of changes in the District’s long-term debt and lease liabilities follows:

	Balance December 31, 2021	Additions	Reductions	Balance December 31, 2022	Amounts Due Within One Year
Bonds payable	\$ 9,210,000	\$ -	\$ (465,000)	\$ 8,745,000	\$ 495,000
Lease liabilities	326,431	298,636	(204,366)	420,701	176,983
<b>Total long-term debt and lease liabilities</b>	<b>\$ 9,536,431</b>	<b>\$ 298,636</b>	<b>\$ (669,366)</b>	<b>\$ 9,165,701</b>	<b>\$ 671,983</b>

  

	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
Lease liabilities	396,935	137,990	(208,494)	326,431	154,230
<b>Total long-term debt and lease liabilities</b>	<b>\$ 10,041,935</b>	<b>\$ 137,990</b>	<b>\$ (643,494)</b>	<b>\$ 9,536,431</b>	<b>\$ 619,230</b>

The terms and due dates of the District’s long-term debt and lease liabilities 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 \$495,000 to \$1,015,000, plus interest of 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.

- Lease liabilities 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.

**Kit Carson County Health Service District  
Notes to Basic Financial Statements (Continued)  
Years Ended December 31, 2022 and 2021**

**5. Long-term Debt and Lease Liabilities (continued):**

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

Years Ending December 31,	Long-term Debt		Lease Liabilities	
	Principal	Interest	Principal	Interest
2023	\$ 495,000	\$ 556,875	\$ 176,983	\$ 12,485
2024	530,000	521,100	90,074	7,098
2025	565,000	482,963	59,571	4,290
2026	605,000	442,125	58,115	2,543
2027	645,000	398,588	22,938	982
2028-2032	3,935,000	1,231,200	13,020	225
2033-2034	1,970,000	68,513	-	-
	<b>\$ 8,745,000</b>	<b>\$ 3,701,364</b>	<b>\$ 420,701</b>	<b>\$ 27,623</b>

**6. 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 wrote off several accounts during the year noted as an increase to provision for bad debts. The District has not changed its charity care or uninsured discount policies during the years ended December 31, 2022 or 2021. 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, 2022 and 2021**

**6. Net Patient Service Revenue (continued):**

	<b>2022</b>	<b>2021</b>
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	\$ 8,716,073	\$ 7,350,358
Medicaid	2,638,586	3,485,229
Other third-party payors	6,458,619	7,467,870
Patients	1,661,091	1,858,520
Supplemental payments	3,533,317	2,809,336
	<b>23,007,686</b>	<b>22,971,313</b>
Less:		
Charity care	123,112	132,287
Provision for bad debt	2,729,033	765,146
<b>Net patient service revenue</b>	<b>\$ 20,155,541</b>	<b>\$ 22,073,880</b>

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 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 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.

**Kit Carson County Health Service District  
Notes to Basic Financial Statements (Continued)  
Years Ended December 31, 2022 and 2021**

**6. Net Patient Service Revenue (continued):**

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 decreased by approximately \$289,000 and increased by approximately \$369,000 in the years ended December 31, 2022 and 2021, respectively, due to differences between original estimates and final settlements or revised estimates for all settlements except the Medicaid rural health clinic settlements. In 2021, the District estimated balance for Medicaid rural health clinic balances back to 2019.

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 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 by approximately \$989,000 for the year ended December 31, 2021, and resulted in third-party receivable of approximately \$916,000.

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, 2022 and 2021, were approximately \$92,000 and \$90,000, respectively. The District received no gifts or grants to subsidize the cost of caring for charity care patients in 2022 or 2021.

**7. 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, 2022 and 2021, for taxes levied for 2023 and 2022, respectively.

For 2022, the District's regular tax levy was \$3.000 per \$1,000 on a total assessed valuation of \$211,331,161, for a total regular levy of \$633,993. 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.

The District paid \$19,000 and \$18,000 in 2022 and 2021, respectively, 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, 2022 and 2021**

**8. CARES Act Provider Relief Fund:**

The District received \$-0- and \$670,126 of funding from the CARES Act Provider Relief Fund for the years ended December 31, 2022 and 2021, respectively. These funds are required to be used to reimburse the District for healthcare-related expenses or lost revenues that are attributable to coronavirus. The District has recorded these funds as unearned grant revenue until eligible expenses or lost revenues are recognized. As of December 31, 2022, the District recognized all of the funding as revenue.

**9. 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 \$54,000 and \$57,000, for the years ended December 31, 2022 and 2021, respectively, to the 457(b) Plan. The District made matching contributions to the 401(a) Plan of approximately \$110,000 and \$181,000 for the years ended December 31, 2022 and 2021, respectively. For 2022 and 2021, employees also contributed \$120,000 and \$188,000, respectively, to the 401(a) Plan.

**Kit Carson County Health Service District  
Notes to Basic Financial Statements (Continued)  
Years Ended December 31, 2022 and 2021**

**10. 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, 2022 and 2021**

**10. Contingencies and Commitments (continued):**

*Federal program overpayments* – During 2021, the District discovered it had been overpaid by federal programs for its wound care and hyperbaric oxygen therapy services dating back to August 2018. The District self-reported an estimate of its overpayments.

This issue was settled with the Office of Inspector General for approximately \$3,094,000, of which approximately \$459,000 was previously refunded. The remaining amount of approximately \$2,635,000 was paid in full in May 2023.

**11. 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:

	2022	2021
Medicare	22 %	30 %
Medicaid	5	6
Other third-party payors	29	36
Patients	44	28
	<b>100 %</b>	<b>100 %</b>

*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.

**12. Budget and Actual Revenues and Expenses:**

The District overspent its approved budget by \$3,206,568 in 2022.

**SUPPLEMENTARY INFORMATION**

**Kit Carson County Health Service District  
Schedule of Budget and Actual Revenues and Expenses  
Year Ended December 31, 2022**

	2022	Preliminary and Final Approved Budget	Favorable (Unfavorable) Variance
<i>Operating revenues</i>			
Net patient service revenue	\$ 20,155,541	\$ 16,544,047	\$ 3,611,494
Other	271,675	65,900	205,775
<b>Total operating revenues</b>	<b>20,427,216</b>	<b>16,609,947</b>	<b>3,817,269</b>
<i>Operating expenses</i>			
Salary and benefits	7,042,564	9,260,696	2,218,132
Professional fees and other purchased services	9,891,993	3,841,546	(6,050,447)
Supplies	1,562,800	1,668,818	106,018
Depreciation and amortization	1,101,311	1,114,282	12,971
Insurance	155,466	132,078	(23,388)
Utilities	290,153	286,042	(4,111)
Other	554,357	1,067,618	513,261
<b>Total operating expenses</b>	<b>20,598,644</b>	<b>17,371,080</b>	<b>(3,227,564)</b>
<i>Operating income (loss)</i>	<b>(171,428)</b>	<b>(761,133)</b>	<b>589,705</b>
<i>Nonoperating revenues (expenses)</i>			
Taxation for operations	680,519	614,338	66,181
CARES Act Provider Relief Fund	670,126	-	670,126
Wound care payback	(935,580)	-	935,580
Contributions	26,730	497,418	(470,688)
Interest income	110,611	42,568	68,043
Interest expense	(623,474)	(644,470)	20,996
<b>Total nonoperating revenues, net</b>	<b>(71,068)</b>	<b>509,854</b>	<b>1,290,238</b>
Excess revenues over (under) expenses before capital contributions	<b>(242,496)</b>	<b>(251,279)</b>	<b>8,783</b>
<i>Capital contributions</i>	-	100,000	(100,000)
<b>Change in net position</b>	<b>\$ (242,496)</b>	<b>\$ (151,279)</b>	<b>\$ (91,217)</b>

*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, 2022, 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 June 7, 2023.

**Report on Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of audit findings and questioned costs as item 2022-001, that we consider to be a material weakness.

## **Report on Compliance and Other Matters**

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

### **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  
June 7, 2023



**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, 2022. 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, 2022.

***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; 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.

### **Report on Internal Control Over Compliance**

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

Our consideration of internal control over compliance was for the limited purpose described in the 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, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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

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

**Purpose of this Report**

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  
June 7, 2023

**Kit Carson County Health Service District  
 Schedule of Audit Findings and Questioned Costs  
 Year Ended December 31, 2022**

**Section I – Summary of Auditors’ Results**

**Financial Statements:**

Type of auditors’ report issued:

*Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified?
- Significant deficiency(ies) identified?

  X   yes         no  
     yes      X   none reported

Noncompliance material to financial statements noted?

     yes      X   no

**Federal Awards:**

Internal control over major federal program:

- Material weakness(es) identified?
- Significant deficiency(ies) identified?

     yes      X   no  
     yes      X   none reported

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

*Unmodified*

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

     yes      X   no

**Identification of major federal program:**

*Assistance Listing Number*

*Name of Federal Program or Cluster*

93.498

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

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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, 2022**

**Section II – Financial Statement Findings**

**2022-001 Auditor Detected Adjusting Journal Entries**

<b>Criteria</b>	<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.
<b>Condition</b>	There were significant adjusting journal entries proposed related to capital assets, interest income, accounts payable, and accrued payroll.
<b>Context</b>	The finding appears to be a <i>systemic</i> incident.
<b>Effect</b>	Financial reports may be inaccurate and could affect management and Board decision making.
<b>Cause</b>	Several account reconciliations were not accurately prepared at fiscal year end.
<b>Recommendation</b>	We recommend adequate account reconciliations be performed timely to ensure financial statements presented to management and the Board are accurate.
<b>Views of responsible officials and planned corrective action</b>	The 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.

**AUDITEE'S SECTION**

**Kit Carson County Health Service District  
Schedule of Expenditures of Federal Awards  
Year Ended December 31, 2022**

<b>Federal Grantor/Pass-through Grantor/Program or Cluster Title</b>	<b>Federal Assistance Listing Number</b>	<b>Pass-through Entity Identifying Number</b>	<b>Additional Award Identification</b>	<b>Total Federal Expenditures</b>
<b>U.S. Department of Health and Human Services Direct Programs:</b>				
Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution	93.498		COVID-19	\$ 470,126
COVID-19 Testing and Mitigation for Rural Health Clinics	93.697		COVID-19	200,000
Total U.S. Department of Health and Human Services Direct Programs				670,126
<b>U.S. Department of Health and Human Services Pass-through Programs:</b>				
<i>Colorado Rural Health Center</i>				
Rural Health Research Centers	93.155	H3LRH42218-01-00	COVID-19	167,896
Small Rural Hospital Improvement Grant Program	93.301	H3HRH00038-19-00		7,529
Total U.S. Department of Health and Human Services Pass-through Programs				175,425
Total U.S. Department of Health and Human Services				845,551
<b>Total expenditures of federal awards</b>				<b>\$ 845,551</b>

*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, 2022. 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 December 31, 2022, Provider Relief Funds report. 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

*Rooted in excellence. Growing in trust.*

**Kit Carson County Health Service District  
Corrective Action Plan  
Year Ended December 31, 2022**

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

**Current year audit findings:**

**2022-002 Auditor Detected Adjusting Journal Entries**

***Corrective action planned:*** The District will continue to improve processes within the 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:*** June 7, 2023

***Contact person responsible for corrective action:*** Heather Prideaux, CFO

**Kit Carson County Health Service District  
Summary Schedule of Prior Audit Findings  
Year Ended December 31, 2022**

**2021-001 Auditor Detected Journal Entries**

*Status* Repeated as 2022-001

**2021-002 Insufficient Review of Manual Journal Entries**

*Status* Corrected

**2021-003 Unapproved Budgeted Revenues Included on Lost Revenue Calculation**

*Status* Corrected

**2021-004 Provider Relief Fund Reporting of Lost Revenues**

*Status* Corrected