



Financial Statements
December 31, 2023 and 2022

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

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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Keefe Memorial Health Service District, dba Keefe Memorial Hospital (Hospital), as of and for the years then ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Hospital, as of December 31, 2023 and 2022, and the respective changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Adoption of New Accounting Standard

As discussed in Notes 1 and 11 to the financial statements, the Hospital has adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements*, for the years ended December 31, 2023 and 2022. In accordance with GASB Statement No. 96, the 2022 financial statements have been restated to reflect this change. 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 the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedules of Revenue and Expenses— Budget and Actual on page 24 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Matters

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2024 on our consideration of the Hospital’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital’s internal control over financial reporting and compliance.



Denver, Colorado
June 26, 2024

Keefe Memorial Hospital
Statements of Net Position - Assets
December 31, 2023 and 2022

	2023	2022 (Restated)
Assets		
Current Assets		
Cash and cash equivalents	\$ 449,762	\$ 2,446,097
Restricted cash	-	253,881
Short-term investments	5,998,059	5,906,255
Receivables		
Patient, net of estimated uncollectibles of \$739,000 in 2023 and \$498,000 in 2022	1,211,685	942,746
Property taxes	1,517,302	1,424,905
Estimated third-party payor settlements	172,131	-
Supplies	415,464	520,963
Prepaid expenses and other current assets	351,852	359,420
	10,116,255	11,854,267
Capital Assets		
Capital assets not being depreciated	15,677	15,652
Capital assets being depreciated, net	6,385,062	6,077,106
Right to use leased assets, net	23,200	35,304
Right to use subscription IT assets, net	458,640	488,155
	6,882,579	6,616,217
	\$ 16,998,834	\$ 18,470,484

Keefe Memorial Hospital
Statements of Net Position - Liabilities, Deferred Inflows of Resources and Net Position
December 31, 2023 and 2022

	2023	2022 (Restated)
Liabilities, Deferred Inflows of Resources and Net Position		
Current Liabilities		
Current maturities of leases	\$ 6,663	\$ 20,297
Current maturities of subscription IT liabilities	120,797	111,523
Accounts payable	316,118	238,725
Accrued salaries and benefits	332,959	471,720
Estimated third-party payor settlements	-	196,067
Refundable advance - COVID-19 relief funds	-	253,881
	776,537	1,292,213
Noncurrent Liabilities		
Leases, less current maturities	-	5,408
Subscription IT liabilities, less current maturities	350,805	384,320
	350,805	389,728
Total liabilities	1,127,342	1,681,941
Deferred Inflows of Resources- Property Taxes	1,517,302	1,424,905
	2,644,644	3,106,846
Net Position		
Net investment in capital assets	6,404,314	6,094,669
Restricted, expendable	-	59,512
Unrestricted	7,949,876	9,209,457
	14,354,190	15,363,638
Total liabilities, deferred inflows of resources, and net position	\$ 16,998,834	\$ 18,470,484

Keefe Memorial Hospital
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2023 and 2022

	2023	2022 (Restated)
Operating Revenues		
Net patient service revenue (net of provision for bad debts of \$239,000 in 2023 and \$238,000 in 2022)	\$ 9,866,537	\$ 8,266,571
Other revenue	55,559	63,899
Total operating revenues	9,922,096	8,330,470
Operating Expenses		
Salaries and wages	4,807,669	4,557,706
Professional fees and purchased services	3,710,956	3,724,505
Employee benefits	954,399	711,894
Depreciation and amortization	887,317	754,407
Supplies and pharmaceuticals	1,388,810	1,020,151
Repairs and maintenance	465,635	264,501
Utilities	207,254	179,306
Laboratory	634,913	84,043
Other	537,929	604,186
Total operating expenses	13,594,882	11,900,699
Operating Loss	(3,672,786)	(3,570,229)
Nonoperating Revenues (Expenses)		
Property taxes	1,562,421	1,338,039
Investment income	122,100	57,445
Interest expense	(13,691)	(6,933)
Noncapital contributions and grants	584,435	1,114,409
COVID-19 Testing and Mitigation for Rural Health Clinics	-	100,000
Provider Relief Funds	253,881	-
Other	154,192	179,386
Net nonoperating revenues	2,663,338	2,782,346
Revenues Less Than Expenses and Change in Net Position	(1,009,448)	(787,883)
Net Position, Beginning of Year (Restated)	15,363,638	16,151,521
Net Position, End of Year	\$ 14,354,190	\$ 15,363,638

Keefe Memorial Hospital
Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	2023	2022 (Restated)
Operating Activities		
Receipts from and on behalf of patients	\$ 9,229,400	\$ 9,755,173
Other receipts	55,559	62,184
Payments to suppliers and other contractors	(6,755,037)	(5,901,377)
Payments to and on behalf of employees	(5,900,829)	(5,108,367)
Net Cash used for Operating Activities	(3,370,907)	(1,192,387)
Noncapital Financing Activities		
Property taxes received	1,562,421	1,338,039
Noncapital contributions and grants	584,435	855,009
Provider Relief Funds	-	253,881
Other revenue	154,192	179,386
Net Cash from Noncapital Financing Activities	2,301,048	2,626,315
Capital and Capital Related Financing Activities		
Purchases of capital assets	(1,061,769)	(285,400)
Principal payments on leases	(19,042)	(17,697)
Interest paid on leases	(1,587)	(2,704)
Principal payments on subscription based IT arrangements	(116,151)	(46,656)
Interest paid on subscription based IT arrangements	(12,104)	(4,229)
Net Cash used for Capital and Related Financing Activities	(1,210,653)	(356,686)
Investing Activities		
Purchases of short-term investments	(91,804)	(46,071)
Investment income	122,100	57,445
Net Cash from Investing Activities	30,296	11,374
Net Change in Cash and Cash Equivalents	(2,250,216)	1,088,616
Cash and Cash Equivalents, Beginning of Year	2,699,978	1,611,362
Cash and Cash Equivalents, End of Year	\$ 449,762	\$ 2,699,978
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position		
Cash and cash equivalents in current assets	\$ 449,762	\$ 2,446,097
Restricted cash	-	253,881
Total cash and cash equivalents	\$ 449,762	\$ 2,699,978

Keefe Memorial Hospital
Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	2023	2022 (Restated)
Reconciliation of Operating Loss to Net Cash from (used for) Operating Activities		
Operating loss	\$ (3,672,786)	\$ (3,570,229)
Adjustments to reconcile operating loss to net cash from (used for) operating activities:		
Bad debt expense	239,039	238,138
Depreciation and amortization	887,317	754,407
Changes in assets and liabilities		
Accounts receivable	(507,978)	(359,830)
Supplies	105,499	(118,610)
Prepaid expenses	7,568	98,866
Estimated third-party payor settlements	(368,198)	1,608,579
Accounts payable	77,393	(4,941)
Accrued expenses	(138,761)	161,233
Net Cash used for Operating Activities	\$ (3,370,907)	\$ (1,192,387)
Supplemental Disclosure of Noncash Capital and Capital Related Financing Activities		
Subscription IT liability for right to use subscription IT assets	\$ 91,910	\$ 542,499

Note 1 - Reporting Entity and Summary of Significant Accounting Policies

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

Reporting Entity

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

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

Measurement Focus and Basis of Accounting

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

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

Basis of Presentation

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

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

Restricted Net Position:

Expendable – Expendable net position results when constraints placed on net position use are either externally imposed or imposed through enabling legislation. There is \$0 and \$59,512 of expendable restricted net position during 2023 and 2022, respectively, due to grant restrictions.

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

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

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

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, excluding internally designated or restricted cash and investments.

Restricted Cash

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

Short-Term Investments

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

Patient Receivables

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

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

Property Tax Receivable

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

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

Supplies

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

Investment Income

Interest on deposits is included in nonoperating revenues when earned.

Capital Assets

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

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

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

Right to use Subscription IT Assets

Right to use subscription IT assets are recognized at the subscription commencement date and represent the Hospital’s right to use the underlying IT asset for the subscription term. Right to use subscription IT assets are measured at the initial value of the subscription liability plus any payments made to the vendor at the commencement of the subscription term, less any subscription incentives received from the vendor at or before the commencement of the subscription term, plus any capitalizable initial implementation costs necessary to place the subscription asset into service. Right to use subscription IT assets are amortized over the shorter of the subscription term or useful life of the underlying asset using the straight-line method. The amortization period varies from 2 to 5 years.

Subscription Liabilities

Subscription Liabilities represent the Hospital’s obligation to make subscription payments arising from the subscription contract. Subscription liabilities are recognized at the subscription commencement date based on the present value of future subscription payments expected to be made during the subscription term. The present value of subscription payments are discounted based on a borrowing rate determined by the Hospital.

Right to use Leased Assets

Right to use leased assets are recognized at the lease commencement date and represent the Hospital’s right to use an underlying asset for the lease term. Right to use leased assets are measured at the initial value of the lease liability plus any payments made to the lessor before commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term, plus any initial direct costs necessary to place the lease asset into service. Right to use leased assets are amortized over the shorter of the lease term or useful life of the underlying asset using the straight-line method. The amortization period is 4 years.

Impairment of Long-Lived Assets

The Hospital considers whether indicators of impairment are present and performs the necessary analysis to determine if the carrying values of assets are appropriate. No impairment was identified for the years ended December 31, 2023 and 2022.

Compensated Absences

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

Deferred Inflows of Resources

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

Operating Revenues and Expenses

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

Net Patient Service Revenue

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

Charity Care

The Hospital provides health care services to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Since the Hospital does not pursue collection of these amounts, they are not reported as patient service revenue. The estimated cost of providing these services was \$93,000 and \$66,000 for the years ended December 31, 2023 and 2022, calculated by multiplying the ratio of cost to gross charges for the Hospital by the gross uncompensated charges associated with providing charity care to its patients.

Colorado Healthcare Affordability and Sustainability Enterprise

The Hospital participates in the Colorado Healthcare Affordability and Sustainability Enterprise (CHASE) program, approved by the Centers for Medicare and Medicaid Services (CMS), under which all hospitals in the state were assessed a fee based on bed size and payor mix. The State of Colorado uses the fees to supplement state budget funds for the Medicaid program, which brings matching federal monies into the program, enabling the State of Colorado to fund Medicaid payments to hospitals at a higher rate than would otherwise be possible. The Hospital paid approximately \$104,000 and \$120,000 in CHASE fees for the years ended December 31, 2023 and 2022, which were recorded in operating expenses. The Hospital received approximately \$1,379,000 and \$1,345,000 of supplemental payments for the years ended December 31, 2023 and 2022, which are recorded in net patient service revenue.

Grants and Contributions

The Hospital may receive grants as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported in nonoperating revenues (expenses).

Budgets

The Medical Center adopts an annual budget in accordance with Colorado Statutes. The budgeted revenue and expenditures are used by management as a control device during the year. Budgets are adopted on a basis that is consistent with generally accepted accounting principles.

Implementation of GASB Statement No. 96

As of January 1, 2022, the Medical Center adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*. The implementation of this standard establishes that a SBITA results in a right-to-use subscription IT asset – an intangible asset – and a corresponding liability. The standard provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA. The Statement requires recognition of certain SBITA assets and liabilities for SBITAs that previously were recognized as outflows of resources based on the payment provisions of the contract. The effect of the implementation of this standard on beginning net position is disclosed in Note 11 and the additional disclosures required by this standard is included in Note 6.

Note 2 - Net Patient Service Revenue

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

Medicare – The Hospital is licensed as a Critical Access Hospital (CAH). The Hospital is reimbursed for most acute care services under a cost reimbursement methodology with final settlement determined after submission of annual cost reports by the Hospital and are subject to audits thereof by the Medicare intermediary. Prior to obtaining CAH status, inpatient acute care and outpatient services rendered to Medicare program beneficiaries were paid at prospectively determined rates per visit. These rates varied according to a patient classification system based on clinical, diagnostic, and other factors. The Hospital’s Medicare cost reports have been settled by the Medicare intermediary through the year ended December 31, 2020.

Medicaid – Inpatient services and outpatient 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.

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

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

Concentration of gross revenues by major payor accounted for the following percentages of the Hospital’s patient service revenues for the years ended December 31, 2023 and 2022:

	2023	2022
Medicare	37%	42%
Medicaid	16%	20%
Blue Cross	18%	15%
Other commercial and government payors	26%	20%
Self pay	3%	3%
	100%	100%

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient service revenues decreased by approximately \$50,000 and \$88,000 for the years ended December 31, 2023 and 2022, respectively due to adjustments to amounts previously estimated.

Note 3 - Deposits

The carrying amounts of deposits as of December 31, 2023 and 2022 is as follows:

	2023	2022
Carrying Amount		
Cash and deposits	\$ 6,447,821	\$ 8,606,233

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

	2023	2022
Cash and cash equivalents	\$ 449,762	\$ 2,446,097
Restricted cash	-	253,881
Short-term investments	5,998,059	5,906,255
	\$ 6,447,821	\$ 8,606,233

The Hospital's short-term investments consist of certificates of deposit that are carried at cost plus accrued interest with a maturity of less than one year.

Deposits – Custodial Credit Risk

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

PDPA allows the financial institution to create a single collateral pool for all public funds held. The pool is to be maintained by another institution, or held in trust for all the uninsured public deposits as a group. The market value of the collateral must be at least equal to 102% of the uninsured deposits. At December 31, 2023 and 2022, the Hospital's deposits in banks were entirely covered by federal depository insurance and PDPA.

Note 4 - Provider Relief Funds

For the years ended December 31, 2023 and 2022, the Hospital received approximately \$0 and \$254,000, respectively, of Coronavirus Aid, Relief, and Economic Security (CARES) Act Provider Relief Funds administered by the Department of Health and Human Services (HHS). The funds are subject to terms and conditions imposed by HHS. Among the terms and conditions is a provision that payments will only be used to prevent, prepare for, and respond to coronavirus and shall reimburse the recipient only for healthcare-related expenses or lost revenues that are attributable to coronavirus.

Recipients may not use the payments to reimburse expenses or losses that have been reimbursed from other sources or that other sources are obligated to reimburse. HHS currently has a deadline for incurring eligible expenses and lost revenues based on the date the Hospital received the funds. Unspent funds will be expected to be repaid.

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

As of December 31, 2023 and 2022, the Hospital had refundable advance balances of approximately \$0 and \$254,000, which were included in current liabilities on the accompanying statements of financial position, as well as restricted cash totaling approximately \$0 and \$254,000, which are subject to restrictions imposed by HHS. During the years ended December 31, 2023 and 2022, the Hospital recognized approximately \$254,000 and \$100,000 as revenue as conditions were fully met, which is included as nonoperating revenue on the statement of revenues, expenses, and changes in net position.

Note 5 - Capital Assets

Capital assets activity and balances for the year ended December 31, 2023 are as follows:

	December 31, 2022	Additions	Transfers and Retirements	December 31, 2023
Capital assets not being depreciated				
Land	\$ 11,258	\$ -	\$ -	\$ 11,258
Construction in progress	4,394	750,952	(750,927)	4,419
Total capital assets not being depreciated	<u>\$ 15,652</u>	<u>\$ 750,952</u>	<u>\$ (750,927)</u>	<u>\$ 15,677</u>
Capital assets being depreciated				
Buildings and improvements	\$ 7,198,587	\$ -	\$ 750,926	\$ 7,949,513
Equipment	5,439,286	310,817	-	5,750,103
Total capital assets being depreciated	<u>\$ 12,637,873</u>	<u>\$ 310,817</u>	<u>\$ 750,926</u>	<u>\$ 13,699,616</u>
Less accumulated depreciation for:				
Buildings and improvements	(2,782,151)	\$ (283,205)	\$ -	(3,065,356)
Equipment	(3,778,615)	(470,583)	-	(4,249,198)
Total accumulated depreciation	<u>(6,560,766)</u>	<u>\$ (753,788)</u>	<u>\$ -</u>	<u>(7,314,554)</u>
Net capital assets being depreciated	<u>\$ 6,077,106</u>			<u>\$ 6,385,062</u>
Capital assets, net	<u>\$ 6,092,758</u>			<u>\$ 6,400,739</u>

Capital assets activity and balances for the year ended December 31, 2022, are as follows:

	December 31, 2021	Additions	Transfers and Retirements	December 31, 2022
Capital assets not being depreciated				
Land	\$ 11,258	\$ -	\$ -	\$ 11,258
Construction in progress	-	4,394	-	4,394
Total capital assets not being depreciated	<u>\$ 11,258</u>	<u>\$ 4,394</u>	<u>\$ -</u>	<u>\$ 15,652</u>
Capital assets being depreciated				
Buildings and improvements	\$ 7,198,587	\$ -	\$ -	\$ 7,198,587
Equipment	5,158,280	281,006	-	5,439,286
Total capital assets being depreciated	<u>12,356,867</u>	<u>281,006</u>	<u>-</u>	<u>12,637,873</u>
Less accumulated depreciation for:				
Buildings and improvements	(2,524,057)	\$ (258,094)	\$ -	(2,782,151)
Equipment	(3,348,750)	(429,865)	-	(3,778,615)
Total accumulated depreciation	<u>(5,872,807)</u>	<u>(687,959)</u>	<u>-</u>	<u>(6,560,766)</u>
Net capital assets being depreciated	<u>\$ 6,484,060</u>			<u>\$ 6,077,106</u>
Capital assets, net	<u>\$ 6,495,318</u>			<u>\$ 6,092,758</u>

Projects in progress at December 31, 2023 and 2022, primarily represents ongoing building improvements.

Note 6 - Lease and Subscription IT Arrangement Obligations

Lessee Activities

The Hospital entered into an agreement for medical equipment. The lease terminates in 2024. Under the terms of the lease agreement, the Hospital pays monthly principal and interest payments of \$1,691. The lease liability was valued using a discount rate of 7.3% based on the Hospital's incremental borrowing rate at the inception of the lease.

Subscription-Based Information Technology Arrangements (SBITAs)

The Hospital entered into numerous SBITA contracts for access to various software. The Hospital is required to make principal and interest payments through August 2028. The Hospital used a discount rate based off of a risk-free rate of when each the contract commenced.

Right to use lease and subscription IT asset activity for the year ended December 31, 2023, are as follows:

	December 31, 2022 (restated)	Additions	Transfers and Retirements	December 31, 2023
Right-to-use leased assets being amortized				
Equipment	\$ 84,730	\$ -	\$ -	\$ 84,730
Total right-of-use leased assets	84,730	-	-	84,730
Less accumulated amortization for:				
Equipment	(49,426)	(12,104)	-	(61,530)
Total accumulated amortization	(49,426)	\$ (12,104)	\$ -	(61,530)
Net right-of-use leased assets	<u>\$ 35,304</u>			<u>\$ 23,200</u>
Right-of-use subscription IT assets	\$ 542,499	\$ 91,910	\$ -	\$ 634,409
Less accumulated amortization	(54,344)	(121,425)	-	(175,769)
Net right to use subscription	<u>\$ 488,155</u>			<u>\$ 458,640</u>

Right to use lease and subscription IT asset activity for the year ended December 31, 2022, are as follows:

	December 31, 2021	Additions	Transfers and Retirements	December 31, 2022 (restated)
Right-to-use leased assets being amortized				
Equipment	\$ 84,730	\$ -	\$ -	\$ 84,730
Total right-of-use leased assets being amortized	84,730	-	-	84,730
Less accumulated amortization for:				
Equipment	(37,322)	(12,104)	-	(49,426)
Total accumulated amortization	(37,322)	\$ (12,104)	\$ -	(49,426)
Net right-of-use leased assets	<u>\$ 47,408</u>			<u>\$ 35,304</u>
Right-of-use subscription IT assets	\$ 139,703	\$ 402,796	\$ -	\$ 542,499
Less accumulated amortization	-	(54,344)	-	(54,344)
Net right to use subscription	<u>\$ 139,703</u>			<u>\$ 488,155</u>

Changes in lease and subscription IT liabilities during the years ended December 31, 2023 and 2022, are as follows:

	Balance December 31, 2022 (restated)	Additions	Payments	Balance December 31, 2023	Due Within One Year
Lease liabilities	\$ 25,705	\$ -	\$ (19,042)	\$ 6,663	\$ 6,663
Subscription IT liabilities	\$ 495,843	\$ 91,910	\$ (116,151)	\$ 471,602	\$ 120,797
	Balance December 31, 2021	Additions	Payments	Balance December 31, 2022 (restated)	Due Within One Year
Lease liabilities	\$ 47,408	\$ -	\$ (21,703)	\$ 25,705	\$ 20,297
Subscription IT liabilities	\$ 139,703	\$ 402,796	\$ (46,656)	\$ 495,843	\$ 111,523

Remaining principal and interest payments on leases and subscription IT liabilities at December 31, 2023, are as follows:

Years Ending December 31,	Leases		SBITAs	
	Principal	Interest	Principal	Interest
2024	\$ 6,663	\$ 102	\$ 120,797	\$ 11,814
2025	-	-	123,985	8,525
2026	-	-	127,375	5,136
2027	-	-	84,965	1,844
2028	-	-	14,480	262
	<u>\$ 6,663</u>	<u>\$ 102</u>	<u>\$ 471,602</u>	<u>\$ 27,581</u>

Note 7 - Pension Plan

The Hospital participates in the Keefe Memorial Hospital Employees' Retirement Plan, a defined contribution pension plan sponsored by the Hospital under which employees become eligible upon reaching age 21 and completion of three months of service. The plan is administered by One America. The Hospital matches employee contributions up to 5% after the employees first year of service. Employees vest at a rate of 20% annually over five years and are 100% vested at the end of five years. The Hospital has the authority to change the terms of the plan. There were no forfeitures or employee liabilities for the years ended December 31, 2023, 2022 and 2021. Total pension plan expense was approximately \$60,000, \$49,000, and \$50,000 for the years ended December 31, 2023, 2022 and 2021, respectively.

Note 8 - Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at December 31, 2023 and 2022 was as follows:

	2023	2022
Medicare	26%	33%
Medicaid	11%	12%
Blue Cross	10%	10%
Other commercial and government payors	23%	16%
Self pay	30%	29%
	100%	100%

Note 9 - Contingencies

Risk Management

The Hospital is exposed to various risks of loss from torts; theft or damage of assets; business interruptions; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Malpractice Insurance

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

Colorado Hospital Association Trust - Workers' Compensation Pool

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

Colorado Counties Health Insurance Pool

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

Litigation, Claims, and Disputes

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

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

Note 10 - Related Parties

During the years ended December 31, 2023 and 2022, the Hospital had consulting expenses of approximately \$675,000 and \$332,000 respectively and a payable of approximately \$37,000 and \$17,000 as of December 31, 2023 and 2022, respectively to a Company owned by a member of management

Note 11 - Adoption of New Accounting Standard

As of July 1, 2021, the Hospital adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*. The implementation of this standard establishes that a SBITA results in a right to use subscription IT asset – an intangible asset – and a corresponding liability. The standard provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA. The Statement requires recognition of certain SBITA assets and liabilities for SBITAs that previously were recognized as outflows of resources based on the payment provisions of the contract.

The impact of adoption of the standard to net position at January 1, 2022 was insignificant. In addition, the adoption of the standard impacted the Hospital's statement of revenues, expenses, and changes in net position for the year ended December 31, 2022 as follows:

	As Previously Reported	Adjustment	As Restated
Statement of Net Position			
Capital Assets			
Right to use subscription IT assets, net	\$ -	\$ 488,155	\$ 488,155
Current Liabilities			
Current maturities of subscription IT liabilities	-	111,523	111,523
Noncurrent Liabilities			
Subscription IT liabilities, less current maturities	-	384,320	384,320
Net Position			
Net investment in capital assets	6,102,357	(7,688)	6,094,669
Statement of Revenues, Expenses, and Changes in Net Position			
Operating Expenses			
Professional fees and purchased services	3,739,991	(15,486)	3,724,505
Depreciation and amortization	700,063	54,344	754,407
Supplies and pharmaceuticals	1,026,571	(6,420)	1,020,151
Repairs and maintenance	277,473	(12,972)	264,501
Other	620,193	(16,007)	604,186
Nonoperating Revenues (Expenses)			
Interest expense	(2,704)	(4,229)	(6,933)
Net Position, End of Year	15,371,326	(7,688)	15,363,638
Statement of Cash Flows			
Operating Activities			
Payments to suppliers and other contractors	(5,952,262)	50,885	(5,901,377)
Capital and Capital Related Financing Activities			
Principal payments on subscription based IT arrangements	-	(46,656)	(46,656)
Interest paid on subscription based IT arrangements	-	(4,229)	(4,229)

Note 12 - Subsequent Events

The Hospital has evaluated subsequent events through June 26, 2024, the date which the financial statements were available to be issued.

Subsequent to year-end, Change Healthcare experienced a material data breach which has caused significant disruption in the ability of healthcare providers across the United States to bill and collect outstanding claims, as well as other operational impacts. The Hospital continues to monitor the developments associated with the breach and is currently assessing the impact of this incident on its operations. Given the inherent uncertainty surrounding such events, the ultimate impact on the Hospital's financial statements cannot be reasonably estimated at this time.



Supplementary Information
December 31, 2023

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

Keefe Memorial Hospital
Schedules of Revenues and Expenses – Budget and Actual
Year Ended December 31, 2023

	Budgeted Amounts	Actual	Variance Favorable (Unfavorable)
Revenues			
Operating revenues			
Net patient service revenue	\$ 10,209,585	\$ 9,866,537	\$ (343,048)
Other revenue	45,494	55,559	10,065
Net operating revenues	<u>10,255,079</u>	<u>9,922,096</u>	<u>(332,983)</u>
Nonoperating revenues			
Property tax income	1,564,031	1,562,421	(1,610)
Investment income	57,842	122,100	64,258
Interest expense	(1,097)	(13,691)	(12,594)
Noncapital contributions and grants	595,788	584,435	(11,353)
Provider Relief Funds	-	253,881	253,881
Other	100,783	154,192	53,409
	<u>2,317,347</u>	<u>2,663,338</u>	<u>345,991</u>
Total revenues	<u>12,572,426</u>	<u>12,585,434</u>	<u>13,008</u>
Expenditures			
Salaries, wages and benefits	5,793,263	5,762,068	31,195
Professional fees and purchased services	3,064,710	3,710,956	(646,246)
Supplies and pharmaceuticals	1,647,717	1,388,810	258,907
Repairs and maintenance	313,356	465,635	(152,279)
Utilities	188,148	207,254	(19,106)
Depreciation	732,803	887,317	(154,514)
Laboratory and other	647,399	1,172,842	(525,443)
Total expenditures	<u>12,387,396</u>	<u>13,594,882</u>	<u>(1,207,486)</u>
Change in Net Position	<u>\$ 185,030</u>	<u>\$ (1,009,448)</u>	<u>\$ (1,194,478)</u>

Notes to Schedule

1. Annual budgets are adopted as required by Colorado Statutes. Formal budgetary integration is employed as a management control device during the year. Budgets are adopted on a basis that is consistent with generally accepted accounting principles.
2. Appropriations are adopted by resolutions in total. For the year ended December 31, 2023, there were no additional resolutions for supplementary budget and appropriation.
3. Management believes that the Hospital is compliant with the rules of Colorado's Taxpayer's Bill of Rights (TABOR).



**Independent Auditor’s Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

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

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of Keefe Memorial Health Service District, dba Keefe Memorial Hospital (Hospital) as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Hospital’s basic financial statements and have issued our report thereon dated June 26, 2024.

Report on Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2023-001 and 2023-002 to be material weaknesses.

Report on Compliance and Other Matters

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

The Hospital's Response to Findings

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

Purpose of this Report

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



Denver, Colorado

June 26, 2024

Financial Statement Findings

**2023-001 Preparation of Financial Statements and Material Audit Adjustments
Material Weakness in Internal Control Over Financial Reporting**

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

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

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

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

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

Views of Responsible Officials – The Hospital management team prepares and reviews internally generated financial statements. Monthly account reconciliations are performed on all major accounts.

**2023-002 Limited Size of Office and Segregation of Duties
Material Weakness in Internal Control Over Financial Reporting**

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

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

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

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

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

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