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RUSSELL A. OLSON
AUDITOR GENERAL

Date: September 21, 2023

To: SD Department of Health
SD State Board of Internal Control

Re: Audit Report on – Freeman Regional Health Services
As of and for the year ended December 31, 2022
By: Eide Bailly, LLP, CPAs

We have accepted the final report on the audit of the above-named entity conducted under the requirements of OMB Uniform Guidance.

OMB Uniform Guidance requires the State of South Dakota, as a direct recipient of federal assistance who provides federal awards to a subrecipient, to:

1. Ensure that subrecipients expending \$750,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Uniform Guidance for that fiscal year.
2. Ensure that the subrecipient takes timely and appropriate corrective action when the audit report discloses instances of noncompliance with federal laws and regulations.
3. Consider whether this subrecipient audit necessitates adjustment of your program records.

The accompanying audit report is submitted to you to help fulfill these requirements.

The report does identify audit findings and/or questioned costs pertaining to federal award programs administered by your agency/department that are required to be reported in accordance with OMB Uniform Guidance, §200.516(a). See page 11 of the federal grant section of the audit report for reference to the findings.

Please contact us if you have any questions.

Sincerely,

Russell Olson
Auditor General

RAO:sld

Enclosure



Financial Statements
December 31, 2022 and 2021
Freeman Regional Health Services

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Independent Auditor's Report

The Board of Trustees
Freeman Regional Health Services
Freeman, South Dakota

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Freeman Regional Health Services, which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Freeman Regional Health Services as of December 31, 2022 and 2021, and the results of its operations 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 with 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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Freeman Regional Health Services 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.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Company has adopted the provisions of FASB Accounting Standards Codification Topic 842, *Leases*, as of January 1, 2022, using the modified retrospective approach resulting in an adjustment at the beginning of the adoption period. 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 Freeman Regional Health Services' ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

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 Freeman Regional Health Services' 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 Freeman Regional Health Services' 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 22, 2023 on our consideration of Freeman Regional Health Services' 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 Freeman Regional Health Services' 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 Freeman Regional Health Services' internal control over financial reporting and compliance.

Eide Bailly LLP

Sioux Falls, South Dakota
August 22, 2023

Freeman Regional Health Services

Balance Sheets

Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 4,934,871	\$ 5,114,684
Receivables		
Patient and resident	1,931,553	2,744,667
Estimated third-party payor settlements	170,000	291,000
Other	585,351	163,556
Insurance recoveries	293,904	293,904
Supplies	158,770	166,272
Prepaid expenses	85,017	75,115
Total current assets	<u>8,159,466</u>	<u>8,849,198</u>
Assets Limited as to Use		
By Board for capital improvements and debt redemption	5,320,808	5,447,565
Under indenture agreements	132,322	131,752
Interest in net assets of foundation	101,274	19,516
By Board for scholarships	6,790	6,662
Total assets limited as to use	<u>5,561,194</u>	<u>5,605,495</u>
Property and Equipment, net	<u>5,808,160</u>	<u>5,505,875</u>
Operating Lease Right of Use Asset	<u>163,500</u>	<u>-</u>
Amounts Receivable Under Collaborative Arrangements	<u>672,023</u>	<u>494,793</u>
Total assets	<u>\$ 20,364,343</u>	<u>\$ 20,455,361</u>

Freeman Regional Health Services

Balance Sheets

Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt	\$ 94,674	\$ 408,317
Current portion of operating lease liability	47,000	-
Accounts payable	301,338	419,877
Accrued expenses		
Salaries and wages	112,991	98,188
Vacation	279,996	259,361
Payroll taxes and other	51,781	66,397
Claims reserves	293,904	293,904
Refundable advance	-	365,385
Total current liabilities	<u>1,181,684</u>	<u>1,911,429</u>
Long-term Liabilities		
Long-term debt, net of current portion	154,472	247,935
Operating lease liability, net of current portion	117,169	-
Apartment deposits	<u>406,350</u>	<u>411,250</u>
Total liabilities	<u>1,859,675</u>	<u>2,570,614</u>
Net Assets		
Without donor restrictions	<u>18,504,668</u>	<u>17,884,747</u>
Total liabilities and net assets	<u>\$ 20,364,343</u>	<u>\$ 20,455,361</u>

Freeman Regional Health Services
Statements of Operations and Changes in Net Assets
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Revenues, Gains, and Other Support Without Donor Restrictions		
Patient and resident service revenue	\$ 13,199,369	\$ 13,218,300
Other revenue	689,388	657,927
Provider Relief Funds and COVID-19 government grants	623,761	4,107,497
	<u>14,512,518</u>	<u>17,983,724</u>
Expenses		
Salaries and wages	6,189,483	5,748,010
Employee benefits	1,510,341	1,267,095
Purchased services	3,581,879	3,292,878
Supplies and other expenses	2,246,508	2,445,497
Repairs and maintenance	237,886	249,337
Insurance	96,516	89,293
Interest	15,763	29,199
Depreciation and amortization	522,788	442,360
Impairment of property and equipment	-	636,223
	<u>14,401,164</u>	<u>14,199,892</u>
Operating Income	<u>111,354</u>	<u>3,783,832</u>
Other Income (Expense)		
Investment return	66,409	133,335
Unrealized (loss) gain on investments	(256,143)	29,505
Unrestricted contributions	125,828	84,745
Income from collaborative arrangements	572,473	368,770
	<u>508,567</u>	<u>616,355</u>
Revenues in Excess of Expenses and Change in Net Assets Without Donor Restrictions	619,921	4,400,187
Net Assets, Beginning of Year	<u>17,884,747</u>	<u>13,484,560</u>
Net Assets, End of Year	<u>\$ 18,504,668</u>	<u>\$ 17,884,747</u>

Freeman Regional Health Services
Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
Operating Activities		
Change in net assets	\$ 619,921	\$ 4,400,187
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	522,788	442,360
Amortization of apartment deposits	(3,750)	(29,318)
Net unrealized (gains) losses on investments	256,143	(29,505)
Income from collaborative arrangement	(572,473)	(368,770)
Loss on impairment of property and equipment	-	636,223
Changes in assets and liabilities		
Receivables	512,319	(416,208)
Supplies	7,502	(32,454)
Prepaid expenses	(9,902)	(33,390)
Operating lease assets and liabilities	669	-
Accounts payable	(118,539)	14,918
Accrued expenses	20,822	19,859
Refundable advance	(365,385)	(3,407,253)
Net Cash from Operating Activities	870,115	1,196,649
Investing Activities		
Purchase of property and equipment	(825,073)	(868,588)
Purchase of assets limited as to use	(433,394)	(460,303)
Proceeds from sales and maturities of assets limited as to use	253,671	2,054,508
Net Cash from (used for) Investing Activities	(1,004,796)	725,617
Financing Activities		
Principal payments on long-term debt	(407,106)	(410,546)
Apartment deposits received	2,600	5,000
Apartment deposits refunded	(3,750)	(63,750)
Receipts from collaborative arrangements	395,243	-
Net Cash used for Financing Activities	(13,013)	(469,296)
Net Change in Cash, Cash Equivalents and Restricted Cash	(147,694)	1,452,970
Cash, Cash Equivalents and Restricted Cash, Beginning of Year	8,463,649	7,010,679
Cash, Cash Equivalents and Restricted Cash, End of Year	\$ 8,315,955	\$ 8,463,649

Freeman Regional Health Services
Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash and Cash Equivalents	\$ 4,934,871	\$ 5,114,684
Cash Included in Assets Limited as to Use	<u>3,381,084</u>	<u>3,348,965</u>
Total cash, cash equivalents and restricted cash	<u>\$ 8,315,955</u>	<u>\$ 8,463,649</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	\$ 15,763	\$ 29,199

Note 1 - Organization and Significant Accounting Policies**Organization**

Freeman Regional Health Services (the Facility) operates a 25-bed acute care hospital, a 49-bed nursing home and physician clinics located in Freeman, SD and the surrounding area. The Facility is organized as a South Dakota nonprofit corporation and is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue code.

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.

Patient and Resident Receivables

Patient and resident receivables are uncollateralized patient, resident and third-party payor obligations. The Facility reserves the right to assess interest on unpaid patient and resident receivables, excluding amounts due from third-party payors. Payments of patient and resident receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

Patient and resident accounts receivable are stated net of any explicit and implicit price concessions and then further reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Facility analyzes accounts for adverse changes in a patient's or third-party payor's ability to pay that may have occurred subsequent to recognition. Management regularly reviews specific data about receivable balances and its past history with similar cases to estimate explicit and implicit price concessions and any allowances for uncollectible accounts.

The Facility's January 1, 2021 patient and resident, estimated third-party settlements, and other receivables balances were \$2,036,466, \$540,000, and \$169,049.

Insurance Recoveries and Claims Reserves

The Facility has workers' compensation insurance coverage to provide protection for workers' compensation claims losses. The Facility has accrued workers' compensation insurance reserves of approximately \$290,000 for the years ended December 31, 2022 and 2021. As of December 31, 2022 and 2021, receivables of approximately \$290,000 have been recorded for expected insurance recoveries related to the workers' compensation insurance claims.

Supplies

Supplies are stated at lower of cost (first-in, first-out) or net realizable value.

Investments and Investment Income

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheets. Investments in certificates of deposit that are not publicly traded are recorded at cost plus accrued interest. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in revenues in excess of expenses unless the income or loss is restricted by donor or law.

Assets Limited as to Use

Assets limited as to use include restricted cash and assets set aside by the Board of Trustees for future capital improvements, debt redemption, and scholarships, over which the Board retains control and may at its discretion subsequently use for other purposes; and assets restricted under indenture agreements.

Interest in Net Assets of Foundation

Avera Health Foundation (Foundation), an affiliate of the Facility, solicits contributions and holds funds on behalf of the Facility. The Facility's interest in these funds is recorded as assets limited as to use in the accompanying financial statements as net assets with donor restrictions if donors have placed restrictions on the use of the funds. Changes in the funds held by the Foundation are recorded as changes in net assets of foundation in the accompanying financial statements.

Collaborative Arrangements

The Facility operates provider-based clinics under joint operating agreements with Avera McKennan, which falls under the scope of Accounting Standard Codification 808, Collaborative Arrangements. The Facility has classified Avera McKennan's economic interest in these provider-based clinics as an asset or liability, as appropriate. The terms of the joint venture agreement provide for the equal allocation of profits and losses amongst the participants. The Facility's statements of operations include the revenues and expenses of the provider-based clinics as it is considered the principal in the operating activity. The income or loss resulting from these joint operating agreements is included in other income the accompanying statements of operations and changes in net assets. Receipts and contributions from these joint operating agreements are included in financing activities in the accompanying statements of cash flows.

Property and Equipment

Property and equipment acquisitions in excess of \$3,000 are capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under finance 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. Amortization is included in depreciation and amortization in the financial statements.

The estimated useful lives of property and equipment are as follows:

Land improvements	7 - 20 years
Buildings	5 - 50 years
Major moveable equipment	3 - 20 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to net assets without donor restrictions and are excluded from revenues in excess of expenses, unless explicit donor stipulations specify how the donated assets must be used. 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 net assets with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when donated or acquired long-lived assets are placed in service.

The Facility considers whether indicators of impairment are present and performs the necessary analysis to determine if the carrying values of assets are appropriate. See Note 13 for disclosure surrounding impairment identified for the year ended December 31, 2021. No impairment was identified for the year ended December 31, 2022.

Net Assets with Donor Restrictions

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. At December 31, 2022 and 2021, the Facility did not have any net assets with donor restrictions.

Performance Indicator

Revenues in excess of expenses is the performance indicator and excludes transfers of assets to and from related parties for other than goods and services, and contributions of long-lived assets, including assets acquired using contributions which were restricted by donors.

Donor-Restricted Gifts

The Facility reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends, or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of operations and changes in net assets as net assets released from restrictions.

Patient and Resident Service Revenue

Patient and resident service revenue is reported at the amount that reflects the consideration to which the Facility expects to be entitled in exchange for providing patient and resident care. These amounts are due from patients or residents, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations. Generally, the Facility bills the patients or residents and third-party payors several days after the services are performed and/or the patient or resident is discharged from the facilities. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Facility. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Facility believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations related to patient and resident services are satisfied over time as the patients or residents receive inpatient acute, outpatient, clinic, or nursing care services. The Facility measures the performance obligation associated with inpatient acute services from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. The Facility measures the performance obligation for outpatient and medical clinic services over the patient encounter, which is generally short in duration. The Facility measures the performance obligation associated with residents receiving skilled nursing services from the beginning of the performance period generally admission or the beginning of the month, to the sooner of completion of services to that resident, discharge or the end of the month. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided, and the Facility does not believe it is required to provide additional goods or services to the patient or resident.

The Facility determines the transaction price based on standard charges for goods and services provided, reduced by contractual price concessions provided to third-party payors, discounts provided to uninsured patients and residents in accordance with the Facility's policy, and/or implicit price concessions provided to uninsured patients and residents. The Facility determines its estimates of contractual price concessions and discounts based on contractual agreements, its discount policies and historical experience applied to a portfolio of accounts. The Facility determines its estimate of implicit price concessions based on its historical collection experience with the respective class of patients and residents.

Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Facility's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews and investigations.

Consistent with the Facility's mission, care is provided to patients and residents regardless of their ability to pay. Therefore, the Facility has determined it has provided implicit price concessions to uninsured patients and residents and patients and residents with other uninsured balances (for example, co-pays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and residents and the amounts the Facility expects to collect based on its collection history with those patients and residents.

The Facility provides health care services to patients and residents who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Since the Facility does not pursue collection of these amounts, they are not reported as patient or resident service revenue. The estimated cost of providing these services was \$4,000 and \$37,000 for the years ended December 31, 2022 and 2021, calculated by multiplying the ratio of cost to gross charges for the Facility by the gross uncompensated charges associated with providing charity care to patients or residents.

Other Revenue

The Facility participates in the 340B Drug Pricing Program (340B Program) enabling the Facility to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases and enter into certain contracts with unrelated pharmacies who provide certain prescription drugs to Facility patients who receive rural health clinic and outpatient services. This program is overseen by the Health Resources and Services Administration (HRSA) and Office of Pharmacy Affairs (OPA). HRSA conducts routine audits of these programs at health care organizations and monitors program compliance. Laws and regulations governing the 340B Program are complex and subject to interpretation and changes. During the years ended December 31, 2022 and 2021, the Facility recognized \$291,233 and \$292,757 of other revenue from operations related to its 340B Program contract with an unrelated pharmacy. Other revenue also includes income from independent living rentals, cafeteria and meals sales, operating grants and other operating transactions.

Other revenue is recognized when obligations under the terms of each contract are satisfied. Revenues from these services are measured as the amount of consideration the Facility expects to receive in exchange for those services.

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred. The Facility incurred \$30,866 and \$42,395 for advertising costs for the years ended December 31, 2022 and 2021.

Income Taxes

The Facility is organized as a South Dakota nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). The Facility is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Facility is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. The Facility has determined it is not subject to unrelated business income tax and has not filed an exempt organization business income tax return (Form 990T) with the IRS.

The Facility believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Facility would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in Note 14, which presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, such as depreciation and amortization, interest and other occupancy costs are allocated to a function based on a square-footage or units-of-service basis. Allocated healthcare services costs not allocated on a units-of-service basis are otherwise allocated based on revenue.

Change in Accounting Policy

Effective January 1, 2022, the Facility adopted the new lease accounting guidance in Accounting Standards Update No. 2016-02, *Leases* (ASC 842). The Facility elected to apply the guidance as of January 1, 2022, the beginning of the adoption period. The comparative financial information and disclosures presented are in accordance with the legacy standard, ASC 840. The standard requires the recognition of right-of-use assets and lease liabilities for lease contracts with terms greater than 12 months. Operating lease costs are recognized in the statements of operations and changes in net assets as a single lease cost and finance lease costs are recognized in two components, interest expense and amortization expense. The Facility has elected the package of practical expedients permitted in ASC 842. Accordingly, the Facility accounted for its existing leases as either finance or operating lease under the new guidance, without reassessing (a) whether the contract contains a lease under ASC 842, (b) whether classification of the operating lease would be different in accordance with ASC 842, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in ASC 842 at lease commencement.

As a result of the adoption of the new lease accounting guidance, the Facility recognized on January 1, 2022, the beginning of the adoption period, no cumulative effect adjustment to net assets, an operating lease liability of \$210,538, and an operating right of use asset of \$210,538. The adoption of the new standard did not materially impact the Facility's statements of operations and changes in net assets or cash flows. See Note 8 for further disclosure of the Facility's lease contracts.

Reclassifications

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

Note 2 - Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, are comprised of the following:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 4,934,871	\$ 5,114,684
Assets limited as to use by Board	5,327,598	5,454,227
Receivables	<u>2,686,904</u>	<u>3,199,223</u>
	<u>\$ 8,014,502</u>	<u>\$ 8,653,450</u>

Assets limited as to use that are considered available for general expenditure consist of amounts designated by the Board for future capital improvements, debt redemption and scholarships. Although the Facility does not intend to use these funds for general expenditures, these amounts could be made available if necessary.

Cash and cash equivalents include funds received through the Coronavirus Aid, Relief, and Economic Security (CARES) Act Provider Relief Funds administered by the Department of Health and Human Services (HHS). These funds are subject to terms and conditions imposed by HHS, further discussed in Note 4.

Note 3 - Patient and Resident Service Revenue

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

Medicare – Hospital and Clinics: The Facility is licensed as a Critical Access Hospital (CAH). The Facility is reimbursed for most acute care services under a cost-based reimbursement methodology with final settlement determined after submission of annual cost reports by the Facility and are subject to audits thereof by the Medicare Administrative Contractor (MAC). The Facility’s Medicare cost reports have been audited by the MAC through the year ended December 31, 2019. Clinical services are paid on a fixed fee schedule or on a cost related basis for rural health clinic services.

Medicaid – Hospital and Clinics: Inpatient acute care services rendered to Medicaid program beneficiaries are paid based on a percentage of charge basis. Outpatient services rendered to Medicaid program beneficiaries are reimbursed under a percentage of charge or fee schedule methodology. Clinical services are paid on a fixed fee schedule for rural health services.

Blue Cross: Inpatient service rendered to Blue Cross subscribers are paid based on a prospectively determined rate per discharge. Outpatient services rendered to Blue Cross subscribers are paid at prospectively determined rates per ambulatory encounter or visit.

Medicaid and Medicare - Nursing Home: Routine services rendered to nursing home residents, who are beneficiaries of the Medicaid program are paid according to a schedule of prospectively determined daily rates determined by the South Dakota Medicaid program. A rate is assigned to each nursing home resident based on the residents' ability to perform certain activities of daily living and on certain other clinical factors. Payments are made for each case-mix category. The Facility also participates in the Medicare program for which payment for services is made on a prospectively determined per diem rate that varies based on a case-mix resident classification system.

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

Revenue from Medicare, Medicaid, and from Blue Cross accounted for approximately 46%, 9% and 14% of the Facility's patient service revenue for the year ended December 31, 2022 and 44%, 8% and 14% for the year ended December 31, 2021. Laws and regulations governing 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. Laws and regulations governing Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. In addition, the ability to estimate the collectability of uninsured and other self-pay patients and residents is contingent on the patient's or resident's ability or willingness to pay for the services provided. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Patient and resident service revenue for the years ended December 31, 2022 and 2021 increased by approximately \$3,000 and \$41,000 due to removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer likely subject to audits, reviews, investigations and changes in estimated settlements. In addition, patient and resident service revenue for the year ended December 31, 2022 increased by approximately \$83,000 as a result of a onetime payment increase approved by the South Dakota Joint Committee on Appropriations, during 2022, for Medicaid nursing home services provided in South Dakota, from July 1, 2021 through December 31, 2021.

Generally, patients and certain residents who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Facility also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The Facility estimates the transaction price for patients and residents with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual price concessions, discounts and implicit price concessions based on historical collection experience. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient and resident service revenue in the period of the change. The ability to estimate the collectability of uninsured and other self-pay patients or residents is contingent on the patient's or resident's ability or willingness to pay for the services provided. Subsequent changes that are determined to be the result of an adverse change in the patient's and resident's ability to pay are recorded as bad debt expense. Bad debt expense for the years ended December 31, 2022 and 2021 was not significant.

The nature, amount, timing and uncertainty of revenue and cash flows are affected by several factors that the Facility considers in its recognition of revenue. Following are some of the factors considered:

- Payors (for example, Medicare, Medicaid, managed care or other insurance, patient and resident) have different reimbursement/payment methodologies
- Length of the patient's and resident's service/episode of care
- Geography of the service location
- Organization's line of businesses that provided the service (for example, hospital, physician services, etc.)

Note 4 - Provider Relief Funds and COVID-19 Government Grants

Provider Relief Funds

The Facility received \$-0- and \$628,244 of Coronavirus Aid, Relief, and Economic Security (CARES) Act Provider Relief Funds administered by the Department of Health and Human Services (HHS) in the years ended December 31, 2022 and 2021. 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 varying deadlines to incur eligible expenses, based on the date the funds were received. Unspent funds will be expected to be repaid.

These funds are recorded as a refundable advance when received and are recognized as revenues in the accompanying statements of operations and changes in net assets as all terms and conditions are considered met. The terms and conditions are subject to interpretation, changes and future clarification, the most recent of which have been considered through the date that the financial statements were available to be issued. In addition, this program may be subject to oversight, monitoring and audit. Failure by a provider that received a payment from the Provider Relief Fund or other COVID-19 government grantors 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, 2022 and 2021, the Facility had total refundable advance balances of \$-0- and \$365,385, which are included in current liabilities on the accompanying balance sheets. During the years ended December 31, 2022 and 2021, the Facility recognized \$365,385 and \$4,035,497 as Provider Relief Funds and COVID-19 government grants revenue, included as operating revenues on the statements of operations and changes in net assets.

COVID-19 & Other Government Grants

The Facility also received \$258,376 and \$72,000 for the years ended December 31, 2022 and 2021, from the Small Rural Hospital Improvement Program (SHIP) and the South Dakota Bureau of Finance and Management. These funds are subject to terms and conditions imposed by the grantor. The Facility recognized Provider Relief Funds and COVID-19 government grants revenue from these funds of \$258,376 and \$72,000 during the years ended December 31, 2022 and 2021, and reported refundable advances of \$-0- on the balance sheets as of December 31, 2022 and 2021.

Note 5 - Investments

Assets Limited as to Use

The composition of assets limited as to use at December 31, 2022 and 2021, is shown in the following table.

	2022	2021
By Board for capital improvements and debt redemption		
Cash and cash equivalents	\$ 3,374,294	\$ 3,342,303
Certificates of deposit	596,982	593,844
Bond mutual funds	642,733	678,185
Equity mutual funds	706,799	833,233
	\$ 5,320,808	\$ 5,447,565
Under indenture agreements		
Certificates of deposit	\$ 132,322	\$ 131,752
By Board for scholarships		
Cash and cash equivalents	\$ 6,790	\$ 6,662

Note 6 - Fair Value of Assets

The Facility has determined the fair value of certain assets in accordance with generally accepted accounting principles, which provides a framework for measuring fair value.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques should maximize the use of observable inputs and minimize the use of unobservable inputs.

A fair value hierarchy has been established, which prioritizes the valuation inputs into three broad levels. Level 1 inputs consist of quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related asset or liability. Level 3 inputs are unobservable inputs related to the asset or liability.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to the entire measurement requires judgment, taking into account factors specific to the asset or liability.

Freeman Regional Health Services

Notes to Financial Statements

December 31, 2022 and 2021

Assets and liabilities measured at fair value on a recurring basis and the related fair values of these assets and liabilities at December 31, 2022 and 2021, are as follows:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
<u>December 31, 2022</u>			
Bond mutual funds	\$ 642,733	\$ -	\$ -
Equity mutual funds	706,799	-	-
	<u>\$ 1,349,532</u>	<u>\$ -</u>	<u>\$ -</u>
<u>December 31, 2021</u>			
Bond mutual funds	\$ 678,185	\$ -	\$ -
Equity mutual funds	833,233	-	-
	<u>\$ 1,511,418</u>	<u>\$ -</u>	<u>\$ -</u>

The fair value of these securities is determined by reference to quoted market prices.

Note 7 - Property and Equipment

A summary of property and equipment at December 31, 2022 and 2021 is as follows:

	<u>2022</u>		<u>2021</u>	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land	\$ 898,820	\$ -	\$ 848,840	\$ -
Land improvements	363,108	280,506	342,464	292,016
Buildings	8,921,480	5,802,388	8,994,713	5,935,234
Major moveable equipment	4,651,199	3,075,208	5,725,514	4,525,641
Construction in progress	131,655	-	347,235	-
	<u>\$ 14,966,262</u>	<u>\$ 9,158,102</u>	<u>\$ 16,258,766</u>	<u>\$ 10,752,891</u>
Net property and equipment		<u>\$ 5,808,160</u>		<u>\$ 5,505,875</u>

Construction in progress represents expenditures incurred for building improvements that had not yet been installed and placed in service as of year-end, and architectural costs incurred for a prospective building project. There were no significant outstanding contractual commitments relating to these assets at year-end.

Note 8 - Leases

The Facility leases equipment under various operating leases. The weighted-average discount rate is based on the discount rate implicit in the lease, or if the implicit rate is not readily determinable from the lease, then the Facility has elected the option to use the risk-free rate determined using a period comparable to the lease term as the discount rate.

The Facility has elected the short-term lease exemption for all leases with a term of 12 months or less for both existing and ongoing operating leases to not recognize the asset and liability for these leases. Lease payments for short-term leases are recognized on a straight-line basis.

Total lease costs for the year ended December 31, 2022 were as follows:

Operating lease cost	\$	49,419
Short-term lease cost		35,920

Total lease expense under noncancelable leases was \$34,745 for the year ended December 31, 2021.

The following table summarizes the supplemental cash flow information for the year ended December 31, 2022:

Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flow from operating leases	\$	48,900

The following summarizes the weighted-average remaining lease term and weighted-average discount rate at December 31, 2022:

Weighted-average remaining lease term		
Operating leases		3.42 years
Weighted-average discount rate		
Operating leases		1.37%

The future minimum lease payments under noncancelable operating leases with terms greater than one year are listed below as of December 31, 2022:

2023	\$	48,900
2024		48,900
2025		48,900
2026		21,305
		<hr/>
Total lease payments		168,005
Less interest		(3,836)
		<hr/>
Present value of lease liabilities	\$	<u>164,169</u>

Future minimum payments determined under the guidance in ASC 840 are listed below as of December 31, 2021:

2022	\$ 62,077
2023	48,900
2024	48,900
2025	48,900
2026	<u>21,306</u>
Total lease payments	<u>\$ 230,083</u>

Note 9 - Long-Term Debt

Long-term debt consists of the following:

	<u>2022</u>	<u>2021</u>
5.00% Note payable, payments due in monthly installments of \$8,310 including interest through May 2023, secured by the real estate	\$ 44,929	\$ 139,816
4.75% Note payable, payments due in monthly installments of \$4,865 including interest, through October 2026 secured by the real estate	204,217	251,671
2.50% Contract for deed, payments due in annual installments of \$217,384, paid in full during 2022	-	264,765
	<u>249,146</u>	<u>656,252</u>
Less current maturities	<u>94,674</u>	<u>408,317</u>
Long-term debt, less current maturities	<u>\$ 154,472</u>	<u>\$ 247,935</u>

Long-term debt principal maturities are as follows:

<u>Years Ending December 31,</u>	
2023	\$ 94,674
2024	52,166
2025	54,699
2026	<u>47,607</u>
	<u>\$ 249,146</u>

Under the terms of certain notes payable the Facility is required to maintain certain deposits on hand. Such deposits are included with assets limited as to use in the accompanying financial statements.

Note 10 - Pension Plan

The Facility has a defined contribution pension plan under which employees may become participants upon reaching age 21 and completion of one year of service. The Facility will match contributions up to 5% of annual compensation (increased from 4% in 2021) with the plan trustee who invests the plan assets. Total pension plan expense for the years ended December 31, 2022 and 2021 was \$215,199 and \$151,853.

Note 11 - Related Party Transactions

During the years ended December 31, 2022 and 2021, the Facility purchased \$60,802 and \$41,908 of supplies and services from a business owned by a Board member.

Note 12 - Concentration of Credit Risk

The Facility grants credit, without collateral, to its patients and residents, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors, patients and residents at December 31, 2022 and 2021 was as follows:

	<u>2022</u>	<u>2021</u>
Medicare	48%	45%
Blue Cross	14%	12%
Commercial and other third-party payors	25%	30%
Medicaid	6%	6%
Private pay	<u>7%</u>	<u>7%</u>
	<u>100%</u>	<u>100%</u>

The Facility had cash balances in excess of the Federal Deposit Insurance Corporation (FDIC) limits as of December 31, 2022 and 2021, and at certain points throughout those years. The Facility has not experienced losses on these accounts and management believes the Facility is not exposed to significant risks on such accounts. The total exposure on these cash balances as of December 31, 2022 and 2021 was \$7,758,821 and \$8,973,394.

Note 13 - Impairment of Property and Equipment

During the year ended December 31, 2021, it was determined that certain elements capitalized into construction in progress in prior years had a carrying value that exceeded its fair value. These assets had been capitalized as part of a development that is no longer expected to occur. In recognition of the assets deteriorated value, the Facility incurred an impairment loss of \$636,223 which is recorded as an operating expense in the accompanying statements of operations and changes in net assets.

Note 14 - Functional Expenses

The Facility provides health care services to patients and residents within its geographic location. Expenses related to providing these services by nature and functional class for the year ended December 31, 2022, are as follows:

	Health Care Services		General and Administrative	Total
	Patient Services	Nursing Home Services		
Salaries and wages	\$ 3,056,064	\$ 2,557,998	\$ 575,421	\$ 6,189,483
Employee benefits	794,133	594,205	122,003	1,510,341
Purchased services	3,041,194	120,413	420,272	3,581,879
Supplies and other expenses	1,271,789	739,029	235,690	2,246,508
Repairs and maintenance	185,543	33,603	18,740	237,886
Insurance	42,403	49,347	4,766	96,516
Interest	3,638	11,688	437	15,763
Depreciation and amortization	327,031	170,275	25,482	522,788
	<u>\$ 8,721,795</u>	<u>\$ 4,276,558</u>	<u>\$ 1,402,811</u>	<u>\$ 14,401,164</u>

Expenses related to providing these services by nature and functional class for the year ended December 31, 2021 are as follows:

	Health Care Services		General and Administrative	Total
	Patient Services	Nursing Home Services		
Salaries and wages	\$ 2,958,829	\$ 1,966,696	\$ 822,485	\$ 5,748,010
Employee benefits	750,234	347,162	169,699	1,267,095
Purchased services	3,061,188	68,996	162,694	3,292,878
Supplies and other expenses	1,698,022	350,792	396,683	2,445,497
Repairs and maintenance	208,874	22,547	17,916	249,337
Insurance	58,990	22,902	7,401	89,293
Interest	16,526	10,944	1,729	29,199
Depreciation and amortization	263,709	154,278	24,373	442,360
Impairment of property and equipment	-	-	636,223	636,223
	<u>\$ 9,016,372</u>	<u>\$ 2,944,317</u>	<u>\$ 2,239,203</u>	<u>\$ 14,199,892</u>

Note 15 - Apartment Deposits

Apartment deposits represent deposits received from residents of the Facility's apartment complexes. These deposits will be refunded at a reduced amount as indicated in the resident's rental agreement.

Note 16 - Commitments and Contingencies

Malpractice Insurance

The Facility 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. The Facility is also insured under an excess umbrella liability claims-made policy with a limit of \$40 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.

Litigations, Claims, and Disputes

The Facility 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 litigations, claims, and disputes in process will not be material to the financial position of the Facility.

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 and resident services. Management believes that the Facility is in substantial compliance with current laws and regulation.

COVID-19

The ongoing COVID-19 pandemic has caused an economic downturn on a global scale, disrupted global supply chains and created significant uncertainty, volatility and disruption across economies and financial markets. The Facility is closely monitoring its operations, liquidity and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the current and future full impact to the Facility is not known.

Note 17 - Subsequent Events

Salem Mennonite Home for the Aged (Salem Mennonite Home) operates a senior assisted living facility, independent living facility, and owns bare ground in Freeman, South Dakota. On January 1, 2023, Salem Mennonite Home and the Facility entered into an asset and real estate donative transfer agreement through which Salem Mennonite Home contributed all of its assets, certain contracts and other liabilities, and the land to the Facility.

Subsequent to year-end, the Facility entered into a contract for the purchase of computerized tomography equipment and construction costs related to it totaling approximately \$783,000. The equipment and related construction costs are expected to be received and placed in service during 2023.

The Facility has evaluated subsequent events through August 22, 2023, the date which the financial statements were available to be issued.



Federal Awards Reports in Accordance
with the Uniform Guidance
December 31, 2022

Freeman Regional Health Services

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* 1

Independent Auditor’s Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance 3

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**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 Trustees
Freeman Regional Health Services
Freeman, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Freeman Regional Health Services, which comprise the balance sheet as of December 31, 2022, and the related statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 22, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Freeman Regional Health Services' 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 Freeman Regional Health Services' internal control. Accordingly, we do not express an opinion on the effectiveness of Freeman Regional Health Services' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

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 Freeman Regional Health Services' financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2022-001 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2022-002 to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Freeman Regional Health Services' 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*.

Freeman Regional Health Services' Responses to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Freeman Regional Health Services' responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Freeman Regional Health Services' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP".

Sioux Falls, South Dakota
August 22, 2023



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

The Board of Trustees
Freeman Regional Health Services
Freeman, South Dakota

Report on Compliance for Each Major Federal Program

Qualified and Unmodified Opinions

We have audited Freeman Regional Health Services’ 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 each of Freeman Regional Health Services’ major federal programs for the year ended December 31, 2022. Freeman Regional Health Services’ major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Qualified Opinion on COVID-19 Testing and Mitigation for Rural Health Clinics

In our opinion, except for the noncompliance described in the Basis for Qualified and Unmodified Opinions section of our report, Freeman Regional Health Services complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on COVID-19 Testing and Mitigation for Rural Health Clinics for the year ended December 31, 2022

Unmodified Opinion on the Other Major Federal Program

In our opinion, Freeman Regional Health Services complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its other major federal program identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs for the year ended December 31, 2022.

Basis for Qualified and Unmodified Opinions

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

We are required to be independent of Freeman Regional Health Services 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 qualified and unmodified opinions on compliance for each major federal program. Our audit does not provide a legal determination of Freeman Regional Health Services' compliance with the compliance requirements referred to above.

Matter Giving Rise to Qualified Opinion on COVID-19 Testing and Mitigation for Rural Health Clinics

As described in the accompanying schedule of findings and questioned costs, Freeman Regional Health Services did not comply with requirements regarding Federal Financial Assistance Listing No. 93.697 COVID-19 Testing and Mitigation for Rural Health Clinics as described in finding 2022-005 for Procurement, Suspension, and Debarment. Compliance with such requirement is necessary, in our opinion, for Freeman Regional Health Services to comply with the requirement applicable to that program.

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 Freeman Regional Health Services' federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Freeman Regional Health Services' 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 Freeman Regional Health Services' compliance with the requirements of each 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 Freeman Regional Health Services' compliance with the compliance requirements referred to above and such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Freeman Regional Health Services' 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 Freeman Regional Health Services' internal control over compliance. Accordingly, no such opinion is expressed.

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

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2022-004. Our opinion on each major federal program is not modified with respect to this matter.

Government Auditing Standards requires the auditor to perform limited procedures on Freeman Regional Health Services' responses to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. Freeman Regional Health Services' responses were not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance as described in the accompanying schedule of findings and questioned costs as findings 2022-003 and 2022-005 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as finding 2022-004 to be a significant deficiency.

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

Government Auditing Standards requires the auditor to perform limited procedures on Freeman Regional Health Services' responses to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. Freeman Regional Health Services' responses were not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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

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

We have audited the financial statements of Freeman Regional Health Services as of and for the year ended December 31, 2022, and have issued our report thereon dated August 22, 2023, which contained an unmodified opinion on those financial statements. 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 is presented for purposes of additional analysis as required by the Uniform Guidance and is 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 schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Eide Sallee LLP

Sioux Falls, South Dakota
August 22, 2023

Freeman Regional Health Services
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2022

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing	Pass-through Entity Identifying Number	Expenditures
Department of Agriculture			
Community Facilities Loans and Grants Cluster Community Facilities Loans and Grants	10.766		\$ 139,816
Passed through South Dakota Department of Health Division of Family and Community Health Special Supplemental Nutrition Programs for Women, Infants, and Children	10.557	22SC091017 23SC091214	<u>4,934</u>
Total Department of Agriculture			<u>144,750</u>
Department of Health and Human Services			
COVID-19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution	93.498		328,978
COVID-19 Testing and Mitigation for Rural Health Clinics	93.697		300,000
COVID-19 HRSA Claims Reimbursement for Uninsured Program and the COVID-19 Coverage Assistance Fund	93.461		23,977
Passed through South Dakota Department of Health Division of Healthcare Access and Quality and Health Protection COVID-19 Rural Health Research Centers	93.155	22SC093209	258,376
Passed through South Dakota Department of Health Division of Health Systems Dev. and Regulation Small Rural Hospital Improvement Program	93.301	22SC093609	<u>12,836</u>
Total Department of Health and Human Services			<u>924,167</u>
Total Federal Financial Assistance			<u>\$ 1,068,917</u>

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of Freeman Regional Health Services (the Facility) under programs of the federal government for the year ended December 31, 2022. The information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Facility, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Facility.

Note 2 - Summary of Significant Accounting Policies

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

Note 3 - Indirect Cost Rate

The Facility does not draw for indirect administrative expenses and has not elected to use the 10% de minimis cost rate.

Note 4- Community Facilities Loan Program

Expenditures reported in this schedule under the Rural Development Program Community Facilities Loans and Grants consist of the beginning of the year outstanding loan balance plus advances during the year. There were no advances during 2022. The outstanding balance at December 31, 2022 was \$44,929

Note 4 - Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution

The Facility received amounts from the U.S. Department of Health and Human Services (HHS) through the Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution (PRF) program (Federal Financial Assistance Listing #93.498) in the amount of \$4,337,827 as of December 31, 2021. The PRF expenditures are not recognized on the schedule until the expenditures are included in the reporting to HHS as required under the PRF program. In accordance with the 2022 compliance supplement, the PRF expenditures recognized on the schedule are based on reporting to HHS for Periods 3 and 4, defined as payments received between January 1, 2021 and December 31, 2021.

Freeman Regional Health Services
Notes to Schedule of Expenditures of Federal Awards
Year Ended December 31, 2022

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

Federal Department/Program Title/ Grant Name	Federal Financial Assistance Listing	Amounts Recognized in Accordance with GAAP for the Year Ended 12/31/2020	Amounts Recognized in Accordance with GAAP for the Year Ended 12/31/2021	Amounts Recognized in Accordance with GAAP for the Year Ended 12/31/2022
Department of Health and Human Services Health Resources and Services Administration				
COVID-19 Provider Relief Fund and American Rescue Plan General and Targeted Distribution - Period 1 including \$13,518 of interest (not included in 2022 Schedule)	93.498	\$ 385,329	\$ 3,383,889	\$ -
COVID-19 Provider Relief Fund and American Rescue Plan General and Targeted Distribution - Period 2 including \$560 of interest (not included in 2022 Schedule)	93.498	-	254,443	-
COVID-19 Provider Relief Fund and American Rescue Plan General and Targeted Distribution - Period 3 including \$153 of interest (included in 2022 Schedule)	93.498	-	-	65,538
COVID-19 Provider Relief Fund and American Rescue Plan General and Targeted Distribution - Period 4 including \$581 of interest (included in 2022 Schedule)	93.498	-	263,440	-
Total COVID-19 Provider Relief Fund and American Rescue Plan		<u>\$ 385,329</u>	<u>\$ 3,901,772</u>	<u>\$ 65,538</u>

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	Yes
Significant deficiency identified not considered to be material weaknesses	Yes
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified	Yes
Significant deficiency identified not considered to be material weaknesses	Yes
Type of auditor's report issued on compliance for major programs	(A)

(A) Qualified for COVID-19 Testing and Mitigation for Rural Health Clinics and Unmodified for COVID-19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516(a):	Yes
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Identification of major programs:

<u>Name of Federal Program</u>	<u>Federal Financial Assistance Listing</u>
COVID-19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution	93.498
COVID-19 Testing and Mitigation for Rural Health Clinics	93.697
Dollar threshold used to distinguish between Type A and Type B Programs	\$750,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

**2022-001 Preparation of Financial Statements, Preparation of Schedule of Expenditures of
Federal Awards and Financial Statement Adjustments
Material Weakness**

Criteria: Proper controls over financial reporting include the ability to prepare financial statements and accompanying notes to the financial statements and schedule of expenditures of federal awards (the schedule) that are materially correct and include all required disclosures.

Condition: The Facility does not have an internal control system designed to provide for the preparation of the full financial statements and schedule of expenditures of federal awards being audited. As auditors, we proposed material audit adjustments relating to patient and resident receivables, estimated third-party payor settlements, noncurrent assets, patient and resident service revenues and other income that would not have been identified as a result of the Facility's existing internal controls, and therefore could have resulted in a material misstatement to the financial statements. We were also requested to draft the financial statements, accompanying notes to the financial statements and the schedule.

Cause: The Facility has limited staff to prepare full disclosure financial statements and the schedule. They cannot justify incurring the costs necessary for preparing the financial statements and the schedule with accompanying footnotes to the financial statements.

Effect: There is a reasonable possibility that the Facility would not be able to draft the financial statements and accompanying notes to the financial statements and the schedule that are correct without the assistance of the auditors.

Recommendation: While we recognize that this condition is not unusual for an organization with limited staffing, it is important that the Facility is aware of this condition for financial reporting purposes. Management and the board of directors should continually be aware of the financial accounting and reporting of the Facility and changes in the accounting and reporting requirements.

Views of Responsible Officials: Management agrees with the finding.

**2022-002 Segregation of Duties
Significant Deficiency**

Criteria: The functions of executing transactions, recording transactions, and maintaining accountability for the records should be performed by different employees or be maintained under dual control.

Condition: The Facility has a limited number of office personnel performing the record keeping functions of the organization.

Cause: The Facility has limited staff and cannot justify staffing the number of positions necessary to have proper segregation of duties across all areas.

Effect: Inadequate segregation of duties could adversely affect the Facility's ability to detect and correct misstatements that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Recommendation: While we recognize that the Facility's office staff may not be large enough to assure optimal internal controls, it is important that the Facility is aware of this condition. Under this condition, the Board and management's close supervision and review of accounting information is the best means of preventing and detecting errors and irregularities.

Views of Responsible Officials: Management agrees with the finding.

Section III – Federal Award Findings and Questioned Costs

**2022-003 Department of Health and Human Services
Federal Financial Assistance Listing #93.697
COVID-19 Testing and Mitigation for Rural Health Clinics**

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

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

Condition: The Facility's expense tracking spreadsheet which identified the expenses claimed under the federal program as allowable costs included three expenses which related to a future period. The Facility also claimed the cost of eleven chairs which had been returned to the third-party vendor during November 2022. A formula error was also identified within the calculation of clinic salaries and fringe benefits claimed under the federal program which was based upon a prorated basis of COVID related clinic visits as a percentage of total clinic visits. The Facility had multiple individuals identifying and compiling eligible expenses; however, the Facility's review and approval process over the Facility's expense tracking spreadsheet was not formally documented.

Cause: The Facility's review and approval process over the Facility's expense tracking spreadsheet did not identify the future period expenses, the cost of the returned chairs, or the formula error.

Effect: The Facility's expense tracking spreadsheet which identified the expenses claimed under the federal program as allowable costs had more expenses identified than funds received; therefore, the expenses relating to a future period and the cost of the eleven chairs had no effect on the amount of federal expenditures included in the schedule of expenditures of federal awards for the year ending December 31, 2022 as excess expenses had been identified by the Facility on their expense tracking spreadsheet. Additional clinic salaries and fringe benefits could have been claimed under the federal program due to the formula error identified. Additionally, it is hard to determine if a review and approval process occurred as no documentation was retained to support the process.

Questioned Costs: No questioned costs to report as the Facility's expense tracking spreadsheet which identified the expenses claimed under the federal program as allowable costs included excess expenses over the amount of funds received.

Context: Summary level testing was performed over clinic salaries and fringe benefits claimed under the federal program. In addition, a nonstatistical sample of 24 (\$110,187) from a population of 127 nonpayroll items (\$142,733) were tested.

Repeat Finding from Prior Years: No

Recommendation: We recommend the Facility implement a control process which includes an independent review and approval of the expense tracking spreadsheet which identifies the expenses claimed under the federal program as allowable costs and retain documentation of the review process.

Views of Responsible Officials: Management agrees with the finding.

**2022-004 Department of Health and Human Services
Federal Financial Assistance Listing #93.697
COVID-19 Testing and Mitigation for Rural Health Clinics**

**Equipment and Real Property Management
Significant Deficiency in Internal Control over Compliance and Noncompliance**

Criteria: 2 CFR 200.303(a) establishes that the auditee must establish and maintain effective internal control over federal awards that provides reasonable assurance that the Facility is managing the federal award in compliance with federal statutes, regulations and terms and conditions of the federal award. The non-Federal entity must conform with equipment and real property management procedures identified in 2 CFR 200.313 (c) through (e).

Condition: Federal-funded equipment and real property is not distinguished separately from non-federal-funded equipment and real property within the Facility's fixed asset listing.

Cause: The Facility has not implemented controls over equipment and real property management to comply with federal requirements.

Effect: Without established internal controls over equipment and real property management, there is an increased risk that equipment and real property could be misappropriated or the federal agency would not be notified or reimbursed if the federal funded equipment and real property was disposed.

Questioned Costs: None reported.

Context: A nonstatistical sample of 3 (\$52,061) from a population of 13 capitalized assets (\$88,913) were tested.

Repeat Finding from Prior Years: No

Recommendation: We recommend the Facility implement control processes to conform with the Uniform Guidance equipment and real property management requirements noted above.

Views of Responsible Officials: Management agrees with the finding.

**2022-005 Department of Health and Human Services
Federal Financial Assistance Listing #93.697
COVID-19 Testing and Mitigation for Rural Health Clinics**

**Procurement, Suspension, and Debarment
Material Weakness in Internal Control over Compliance and Material Noncompliance**

Criteria: 2 CFR 200.303(a) establishes that the auditee must establish and maintain effective internal control over federal awards that provides reasonable assurance that the Facility is managing the federal award in compliance with federal statutes, regulations and terms and conditions of the federal award. The non-Federal entity's documented procurement procedures must conform to the procurement standards identified in 2 CFR 200.318 through 200.327 which also requires documentation to be retained to detail the history of procurements. In addition, as outlined in 2 CFR 180, recipients must not utilize any vendor which is suspended or debarred or is otherwise excluded from the central contractor registry.

Condition: The Facility did not obtain quotes from multiple vendors as it relates to the procurement and purchasing of flooring which was over the micro-purchase threshold. In addition, the vendor was not verified against the central contractor registry prior to transaction inception or on a periodic basis to ensure the vendor was not suspended or debarred.

Cause: The Facility did not follow their procurement policies currently in place.

Effect: Without obtaining multiple quotes and performing a vendor check for suspension and debarment, demonstrating that the Facility complies with laws, regulations, and other compliance requirements is difficult.

Questioned Costs: Covered transactions entered into by the Facility over the micro-purchase threshold totaled \$73,531. Questioned costs are unable to be identified as multiple quotes were not received by the Facility to ensure the price paid was reasonable.

Context: Sampling was not used as only one vendor was utilized by the Facility for flooring purchases.

Repeat Finding from Prior Years: No

Recommendation: We recommend the Facility review their procurement policies in place, implement internal control processes to ensure compliance with their procurement policies, and retain documentation to support procurement, suspension and debarment procedures performed.

Views of Responsible Officials: Management agrees with the finding.

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**Management's Response to Auditor's Findings:
Summary Schedule of Prior Audit Findings and
Corrective Action Plan
December 31, 2022**

Prepared by Management of
Freeman Regional Health Services

Summary Schedule of Prior Audit Findings

Financial Statement Findings

Finding 2021-001

Initial Fiscal Year Finding Occurred: 2021

Finding Summary: Eide Bailly LLP prepared our draft financial statements and accompanying notes to the financial statements and schedule of expenditures of federal awards. They also proposed material audit adjustments that would not have been identified because our existing controls and, therefore, could have resulted in a material misstatement of our financial statements.

Status: Ongoing. Due to cost considerations, we will continue to have Eide Bailly LLP prepare our draft financial statements and accompanying notes to the financial statements and schedule of expenditures of federal awards. See similar finding reported as 2022-001.

Finding 2021-002

Initial Fiscal Year Finding Occurred: 2021

Finding Summary: The Facility has a limited number of office personnel performing the record keeping functions of the organization.

Status: Ongoing: Due to the cost considerations and size of our facility, we cannot justify additional personnel to remedy the segregation of duties matter. See similar finding reported as 2022-002.

Single Audit Findings

Finding 2021-003

Federal Agency Name: Department of Health and Human Services

Program Name: COVID-19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution

FFAL #93.498

Initial Fiscal Year Finding Occurred: 2021

Compliance Requirements: Activities Allowed or Unallowed and Allowable Costs/Cost Principles and Reporting

Finding Summary: Three errors were discovered. First in reporting period 1 rental expenses of \$10,290 included in this report that were also reported under the Paycheck Protection Program. Second, we understated our benefits by \$380,898 in reporting period 1. Lastly, we reported \$129,693 of salary expense in reporting period 2 that were reported as reporting period 1. A formal review and approval process was not in place for reporting periods 1 and 2.

Status: Resolved.

Corrective Action Plan

Financial Statement Findings

Finding 2022-001

Finding Summary: The Facility does not have an internal control system designed to provide for the preparation of the full financial statements and schedule of expenditures of federal awards being audited. As auditors, we proposed material audit adjustments relating to patient and resident receivables, estimated third-party payor settlements, noncurrent assets, patient and resident service revenues and other income that would not have been identified as a result of the Facility's existing internal controls, and therefore could have resulted in a material misstatement to the financial statements. We were also requested to draft the financial statements, accompanying notes to the financial statements and the schedule.

Responsible Individuals: Phillip Husher, CFO, Freeman Regional Health Services

Corrective Action Plan: It is not cost effective to have an internal control system designed to provide for the preparation of the full financial statements and schedule of expenditures of federal awards. We requested that our auditors, Eide Bailly LLP, prepared the financial statements, the schedule and the accompanying notes to the financial statements and schedule as a part of their annual audit. We have designated a member of management to review the drafted financial statements and accompanying notes, and we have reviewed and agree with the material adjustments proposed during the audit.

Anticipated Completion Date: Ongoing

Finding 2022-002

Finding Summary: The Facility has a limited number of office personnel performing the record keeping functions of the organization.

Responsible Individuals: Phillip Husher, CFO, Freeman Regional Health Services

Corrective Action Plan: Based on the size of our facility, we cannot justify additional personnel to remedy this finding.

Anticipated Completion Date: Ongoing

Single Audit Findings

Finding 2022-003

Federal Agency Name: Department of Health and Human Services
Program Name: COVID-19 Testing and Mitigation for Rural Health Clinics
FFAL #93.697

Compliance Requirements: Activities Allowed or Unallowed and Allowable Costs/Cost Principles and Period of Performance

Finding Summary: The Facility's expense tracking spreadsheet which identified the expenses claimed under the federal program as allowable costs included three expenses which related to a future period. The Facility also claimed the cost of eleven chairs which had been returned to the third-party vendor during November 2022. A formula error was also identified within the calculation of clinic salaries and fringe benefits claimed under the federal program which was based upon a prorated basis of COVID related clinic visits as a percentage of total clinic visits. The Facility had multiple individuals identifying and compiling eligible expenses; however, the Facility's review and approval process over the Facility's expense tracking spreadsheet was not formally documented.

Responsible Individuals: Phillip Husher, CFO, Freeman Regional Health Services

Corrective Action Plan: We understand that future expenses and expenses for the chairs returned cannot be claimed under FFAL #93.697. We feel this will not require us to return funds to the Department of Health and Human Services as other eligible expenses qualifying under the COVID-19 Testing and Mitigation for Rural Health Clinics Program FFAL #93.697 were available. We know and understand the importance of reporting accurate information. We will have a formal review and approval process documented for future submissions. We agree with findings reported above.

Anticipated Completion Date: December 31, 2023

Finding 2022-004

Federal Agency Name: Department of Health and Human Services
Program Name: COVID-19 Testing and Mitigation for Rural Health Clinics
FFAL #93.697

Compliance Requirements: Equipment and Real Property Management

Finding Summary: Federal-funded equipment and real property is not distinguished separately from non-federal-funded equipment and real property within the Facility's fixed asset listing.

Responsible Individuals: Phillip Husher, CFO, Freeman Regional Health Services

Corrective Action Plan: Freeman Regional Health Services will review our fixed asset policies and procedures in order to identify expenditures for Federal-Funded equipment.. We will update our current fixed asset listing to identify federally funded equipment.

Anticipated Completion Date: December 31st, 2023.

Finding 2022-005

Federal Agency Name: Department of Health and Human Services

Program Name: COVID-19 Testing and Mitigation for Rural Health Clinics

FFAL #93.697

Compliance Requirements: Procurement, Suspension, and Debarment

Finding Summary: The Facility did not obtain quotes from multiple vendors as it relates to the procurement and purchasing of flooring which was over the micro-purchase threshold. In addition, the vendor was not verified against the central contractor registry prior to transaction inception or on a periodic basis to ensure the vendor was not suspended or debarred.

Responsible Individuals: Phillip Husher, CFO, Freeman Regional Health Services

Corrective Action Plan: Going forward Freeman Regional Health Services will obtain and retain quotes from multiple vendors based on our procurement policies. Documentation will be retained to support the decision of the vendor selected. . Also, we will review the Central Contractor Registry to ensure vendors are not suspended or debarred before entering into covered transactions.

Anticipated Completion Date: September 30th, 2023