Audited Financial Statements

December 31, 2019

Keystone Rural Health Center d/b/a Keystone Health

CONTENTS

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Keystone Rural Health Center
d/b/a Keystone Health
Chambersburg, Pennsylvania

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Keystone Rural Health Center, d/b/a Keystone Health (the Center) (a nonprofit organization), which comprise the balance sheets as of December 31, 2019 and 2018, 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.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Center's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Keystone Rural Health Center, d/b/a Keystone Health as of December 31, 2019 and 2018, and the results of its operations, changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Effect of Adopting New Accounting Standards

As discussed in Note 1 to the financial statements, the Center adopted new accounting guidance issued by the Financial Accounting Standards Board (FASB) related to revenue from contracts with customers. The Center also adopted new accounting guidance issued by the FASB related to the treatment of goodwill for not-for-profit entities.

Our opinion is not modified with respect to these matters.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis 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 information is fairly stated, in all material respects, in relation to the financial statements as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2020, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Center's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

Smith Elliott Kearns & Company, LLC.

Chambersburg, Pennsylvania
March 20, 2020

	2019	2018
Assets		
Current assets		
Cash and cash equivalents	**$ 8,671,078**	$ 13,242,421
Investments	**11,706,791**	9,847,851
Accounts receivable - Patients (net of allowance for doubtful accounts of $ 1,265,503 for 2019 and $ 482,418 for 2018)	**3,002,034**	2,346,364
Grants receivable	**284,254**	287,159
Accounts receivable - retail and 340B program	**1,065,462**	625,992
Other receivables	**197,493**	488,082
Inventory	**496,244**	390,758
Prepaid expenses	**1,112,199**	252,471
Total current assets	**26,535,555**	27,481,098
Assets limited as to use		
Investments - Board designated for operations	**832,049**	697,776
Investments - Board designated for future building projects	**7,607,789**	7,461,503
Total assets limited as to use	**8,439,838**	8,159,279
Property and equipment, net	**31,864,378**	22,286,112
Other assets		
Other investments	**172,805**	152,269
Goodwill (net of accumulated amortization of $ 12,500 for 2019)	**237,500**	-
Total other assets	**410,305**	152,269
Total assets	**$ 67,250,076**	$ 58,078,758

	2019	2018
Liabilities and net assets		
Current liabilities		
Accounts payable - trade	**$ 632,274**	650,328
Accounts payable - construction	**357,575**	2,170,805
Accrued payroll and taxes	**1,820,902**	1,456,880
Accrued compensated absences	**989,425**	1,000,505
Deferred compensation	**652,107**	490,578
Deferred revenue	**7,938**	127,524
Estimated payable under third-party agreements	**2,028,065**	2,028,065
Other liabilities	**67,690**	29,702
Total current liabilities	**6,555,976**	7,954,387
Total liabilities	**6,555,976**	7,954,387
Net assets		
Without donor restrictions:		
Board designated	**8,439,838**	8,159,279
Undesignated	**52,254,262**	41,965,092
Total net assets	**60,694,100**	50,124,371
Total liabilities and net assets	**$ 67,250,076**	$ 58,078,758

KEYSTONE RURAL HEALTH CENTER
d/b/a Keystone Health
Statements of Operations and Changes in Net Assets
Years Ended December 31, 2019 and 2018

	2019	2018
Revenue, gains, and other support		
Net patient service revenue	$ 43,753,696	$ 37,245,760
Provision for bad debts	(1,664,710)	(643,473)
Net patient service revenue less provision for bad debts	42,088,986	36,602,287
Quality initiatives revenue	1,059,667	1,072,055
Other service revenue	10,435,920	9,051,519
Grant revenue:		
Federal grants and support	5,591,308	5,177,614
State grants and support	449,710	246,479
Local grants and other support	26,372	35,502
Total revenue, gains, and other support	59,651,963	52,185,456
Expenses		
Salaries and wages	31,166,018	27,908,826
Fringe benefits	7,708,281	6,805,140
Contracted services	1,314,660	1,814,092
Medical - Other	61,552	72,487
Pharmaceuticals	6,697,852	6,145,943
Materials, supplies, other	4,006,958	3,102,606
Rent - Facilities	487,866	448,046
Utilities	421,731	408,560
Insurance	104,101	96,693
Depreciation	1,124,270	963,593
Total expenses	53,093,289	47,765,986
Operating income	6,558,674	4,419,470
Other income and expense		
Contributions	10,786	9,705
Other revenue	64,458	45,967
Investment income, net	562,663	879,413
Community Benefit Grant - affiliate	1,721,529	1,613,471
Electronic Health Records' incentive	-	144,500
Total other income	2,359,436	2,693,056
Excess of revenues over expenses	8,918,110	7,112,526
Unrealized gain (loss) on investments	1,651,619	(1,237,686)
Increase in net assets without donor restrictions	$ 10,569,729	$ 5,874,840
Net assets, **beginning**	50,124,371	44,249,531
Net assets, **ending**	$ 60,694,100	$ 50,124,371

KEYSTONE RURAL HEALTH CENTER
d/b/a Keystone Health
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	**$ 10,569,729**	$ 5,874,840
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**1,124,270**	963,593
Provision for bad debts	**1,664,710**	643,473
Unrealized (gains) losses on investments	**(1,651,619)**	1,237,686
Realized (gains) on sales of investments	**(38,508)**	(423,275)
(Increase) decrease in:		
Accounts receivable - Patients	**(2,320,380)**	(693,556)
Grants receivable	**2,905**	101,840
Accounts receivable - 340B program	**(439,470)**	(93,760)
Other receivables	**290,589**	(147,784)
Inventory	**(105,486)**	19,460
Prepaid expenses	**(859,728)**	272,434
Increase (decrease) in:		
Accounts payable	**(18,054)**	(68,136)
Accrued payroll and taxes	**364,022**	224,172
Accrued compensated absences	**(11,080)**	85,480
Deferred compensation	**161,529**	15,379
Deferred revenue	**(119,586)**	122,274
Estimated payable under third-party agreements	**-**	(1,314,093)
Other liabilities	**37,988**	5,619
Net cash provided by operating activities	**8,651,831**	6,825,646
Cash flows from investing activities:		
Purchase of investments	**(991,141)**	(1,240,193)
Proceeds from sale of investments	**521,233**	790,095
Purchase of goodwill	**(250,000)**	-
Purchase of property and equipment	**(12,503,266)**	(4,116,900)
Net cash used by investing activities	**(13,223,174)**	(4,566,998)
Net increase (decrease) in cash and cash equivalents	**(4,571,343)**	2,258,648
Cash and cash equivalents, beginning	**13,242,421**	10,983,773
Cash and cash equivalents, ending	**$ 8,671,078**	$ 13,242,421
Non-cash Investing and Financing		
Construction in progress	$ -	$ 2,134,520
Construction accounts payable	-	2,134,520

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Keystone Rural Health Center (the Center) is a nonprofit, Federally Qualified Health Center formed for the purpose of providing, coordinating, and delivering health and human care services to individuals presenting themselves to the Center. The Center provides a broad range of services, which includes primary care, dental, obstetrics and gynecology, pediatrics, occupational therapy, speech therapy, audiology, mental health, chiropractic, and podiatry. The Center also provides medical services to the local agricultural worker population. The service area encompasses South-Central Pennsylvania. The Center grants credit without collateral to patients not covered by Medicare, Medical Assistance, or other commercial payors.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive management estimates affecting the financial statements were the allowance for doubtful accounts and amounts receivable or payable under third-party contractual agreements, which are based on historical collection rates, analysis of specific third-party receivables, prior cost report settlement information, and management judgment. Consequently, these estimates may change in the near term. The amount of the change that is reasonably possible cannot be determined.

Accounting Method

The Center presents its financial statements on the accrual basis of accounting, with income recognized when earned and expenses recognized when incurred.

Cash and Cash Equivalents

For purposes of the statements of cash flows, cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheets. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are included in the change in net assets but are excluded from the excess of revenues over expenses unless the investments are trading securities. Other investments are accounted for using the cost method.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets Limited as to Use

Assets limited as to use represent assets held by the Center and set aside by the board of directors for future development. These assets consist of cash and cash equivalents, for which the cost approximates fair value, and mutual funds, which are recorded at fair value.

Accounts Receivable – Patients

Accounts receivable – Patients are based on the outstanding balance after any contractual reimbursements are applied and are generally due 30 days after billed. Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, management analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Center analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Center records a provision for bad debts in the period of service on the basis of its past experience, which indicates that some patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

An allowance for doubtful accounts is carried for patient accounts that may become uncollectible in future periods based on a sliding scale of estimated uncollectible percentages of 5% to 100%, applied against aging balance categories with higher percentages applied to older account balance categories to recognize the elevated level of collectability risk for these receivable balances. The estimated allocations are based on management's judgment of uncollectible accounts, historical trends of charge-offs, and other information. Patient receivables are charged against the allowance when, in the judgment of management, it is unlikely they will be collected. The Center periodically reviews it charity care program and uninsured discount policy. The Center does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write-offs from third-party payors.

Estimated Receivables and Payables Under Third-Party Agreements

Estimated payables under third-party agreements consist of Medical Assistance estimated wrap settlements at December 31, 2019 and 2018.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Inventories, consisting of pharmaceutical drugs and vaccines, are stated at the lower of cost (average cost) or market, using the first-in first-out (FIFO) method of accounting for inventories.

Property and Equipment

Property and equipment is stated at cost. The Center capitalizes fixed assets in excess of $ 5,000. Depreciation is provided on a straight-line basis based upon the estimated useful lives of the assets as follows:

Buildings	10 - 40 years
Leasehold improvements	5 - 20 years
Computer hardware and software	3 - 7 years
Vehicles	4 - 5 years
Furniture and fixtures	3 - 20 years
Medical and dental equipment	3 - 20 years

Net Assets

The Center reports information regarding its financial position and activities in two classes of net assets according to the existence or absence of donor-imposed restrictions: net assets with and without donor restrictions. Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are generally reported as decreases in net assets without donor restrictions. Expirations of donor-imposed restrictions that simultaneously increase one class of net assets and decrease another are reported as reclassifications between the applicable classes of net assets. Included in the net assets without donor restrictions are the assets limited to use, which are assets designated by the Board of Directors for future building projects and for operations. These limitations and use of these assets may be changed to be designated for other purposes at the Board's discretion. The Center had no net assets with donor restrictions at December 31, 2019 and 2018.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amount from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in the future periods as final settlements are determined.

Laws and regulations governing Medicare, Medicaid, and other third-party programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change in the near term.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Charity Care

The Center has a policy of providing charity care to patients who are unable to pay. The following describes the Center's calculation for estimating the annual cost of providing charity care.

- The Center calculates a cost per encounter.
- The cost per encounter over the reimbursement rate per encounter for Medicare and Medicaid is multiplied by the allocated encounters for each respective payor to determine a portion of charity care costs.
- The Center records the total cost of operating the migrant program and providing care to the migrant population as a component of charity care costs.

The Center's estimated annual cost of providing charity care for the years ending December 31, 2019 and 2018 was $ 543,095 and $ 1,727,151, respectively. Grant income recognized to offset the cost of charity care and subsidize operations for the years ending December 31, 2019 and 2018 was $ 5,174,973 and $ 4,572,502 respectively.

The amount of charges for services and supplies furnished under the community service criteria calculations as defined in the Institutions of Purely Public Charity Act aggregated approximately $ 4,814,727 and $ 4,551,013 for the years ended December 31, 2019 and 2018, respectively.

Quality Initiatives Revenue

The Center has agreements with various third-party payors to provide pay-for-performance incentives for certain clinical services. Under these agreements, the Center receives payments based on the achievement of the clinical objectives.

Malpractice Insurance

The Center has an occurrence policy, which covers malpractice claims reported to the insurance carrier during and after the policy term. This coverage is provided under the Federal Tort Claims Act.

The Center also maintains a claims-made policy for retail pharmacy operations. Management is not aware of any incurred but not reported claims requiring accrual in the financial statements as of December 31, 2019 and 2018.

Deferred Compensation

Deferred compensation represents physician incentive payments earned but not yet paid.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Center is a not-for-profit corporation organized under the provisions of the non-profit laws of the Commonwealth of Pennsylvania. The Center has received a ruling from the Internal Revenue Service that it is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and files a Form 990, "Return of Organization Exempt from Income Tax". The Form 990 is generally subject to examination for a period of three years after the returns are filed. The Center is classified as a public charity.

Advertising

The Center follows the policy of charging the costs of advertising to expense as incurred. Advertising expense was $ 118,934 and $ 75,604 for the years ended December 31, 2019 and 2018, respectively.

Change in Accounting Principles

In May 2014, the FASB issued Accounting Standards Codification ("ASC") Update 2014-09, "Revenue from Contracts with Customers (ASC 606). The standard update established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle prescribed by this standards update is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The five-step model defined by ASU 2014-09 requires the Center to identify the contracts with the customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when each performance obligation is satisfied. The standard applies to all contracts with customers, except those that are within the scope of other topics in the FASB ASC. ASU 2014-09 also requires enhanced disclosure of revenue arrangements and may be applied retrospectively to each prior period (full retrospectively) or retrospectively with the cumulative effect recognized as of the date of initial application (modified retrospective). The Center adopted the new standard under the modified retrospective approach with the guidance applied to the most current period presented and recognizing the cumulative effect of the adoption change as an adjustment to the beginning net assets. The adoption of ASU 2014-09 did not require an adjustment to net assets as of January 1, 2019 and did not cause any significant changes in the measurement or timing of revenue recognition as a result of this guidance.

In May 2019, the FASB issued ASC 2019-06, "Intangibles – Goodwill and Other (Topic 350), Business Combinations (Topic 805), and Not-for-Profit Entities (Topic 958), Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities". Under the amendments to the accounting alternatives in Topic 350, a not-for-profit entity should amortize goodwill on a straight-line basis over 10 years or less if a shorter useful life is more appropriate. A not-for-profit that elects this treatment is required to test goodwill for impairment at the entity level or the reporting unit method when a triggering event occurs that indicates the fair value may be below the carrying value. The amendments were effective upon issuance and are to be applied prospectively. The Center adopted the provision to amortize goodwill during the year ended December 31, 2019.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill

Goodwill results from the excess of the amount paid for a medical practice over the value assigned to the practice. Goodwill is amortized to expense over a useful life of ten years or shorter based on management's judgment of the useful life of the intangible assets purchased. The carrying value of goodwill is required to be evaluated for impairment if a triggering event occurs that indicates the fair value of the entity may be lower than the carrying amount.

NOTE 2 REVENUE RECOGNITION

As previously disclosed, the Center implemented ASU 2014-09 during the year ended December 31, 2019. The sources of revenue for the Center are patient service revenues, quality initiatives revenue, grant revenue, contributions, investment income, community benefit grant, electronic health records incentive, and other revenues. Revenue is recognized as earned based on contractual terms, as transactions occur, or as services are provided. All revenues determined to be in the scope of ASC 606 are presented within the Statements of Operations and Changes in Net Assets and are recognized as performance obligations to patients are met.

Grant revenues, contributions, investment income, and community benefit grant revenues are recognized on the accrual basis, but these revenues are outside the scope of ASC 606.

Following is further detail of the various types of revenue the Center earns and when it is recognized under ASC 606:

Net patient service revenue: Net patient service revenues are earned based on patient transaction-based services for medical care and are recorded net of any management's estimates of any allowances for uncollectible accounts and contractual adjustments. The net revenues are recognized in income at the time of service as the Center's performance obligation is satisfied.

Quality initiatives revenue and electronic health records incentive: Quality and health records initiatives revenues are incentives earned by the Center based on meeting certain quality and other initiatives. The revenues are recognized as received as the performance obligation is satisfied when the criteria for payment is met.

Other service revenue: Other service revenues consist primarily of pharmacy related revenues earned based on patient transaction-based services as prescriptions are purchased. The amount recognized is the fee charged for the prescription and the revenues are recognized in income at the time of purchase as the performance obligation is satisfied.

Other revenue: Other revenues consist of miscellaneous other services provided to patients by the Center and are earned based on patient transaction-based services for medical care. The amount recognized is the fee charged for the service and the revenues are recognized in income at the time of service as the performance obligation is satisfied.

NOTE 3 AVAILABILITY AND LIQUIDITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following at December 31, 2019 and 2018:

Financial assets at year end:	**2019**	2018
Cash and cash equivalents	**$ 8,671,078**	$ 13,242,421
Investments	**11,706,791**	9,847,851
Accounts receivable - patients	**3,002,034**	2,346,364
Grants receivable	**284,254**	287,159
Accounts receivable - 340B program	**1,065,462**	625,992
Other receivables	**197,493**	488,082
Investments - Board-designated for operations	**832,049**	697,776
Financial assets available to meet general expenditures over the next twelve months	**$ 25,759,161**	$ 27,535,645

The Center regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Center has various sources of liquidity at its disposal, including cash and cash equivalents, and marketable debt and equity securities.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Center considers all expenditures related to its ongoing activities of patient care as well as the conduct of services undertaken to support those activities to be general expenditures. The Center's goal is generally to maintain financial assets to meet 90 days of operating expenses.

In addition to financial assets available to meet general expenditures over the next 12 months, the Center operates with a Board approved budget and anticipates collecting sufficient revenue to cover general expenditures not covered by federal awards. In the event of an unanticipated liquidity need, the Center could draw upon its board designated investments.

The board-designated investments of $ 7,607,789 and $ 7,461,503 at December 31, 2019 and 2018, respectively are designated for future building projects.

NOTE 4 NET PATIENT SERVICE REVENUE

The Center has agreements with third-party payors that provide for payments to the Center at amounts different from its established rates. Payment arrangements include prospective payments, discounted charges and payments under capitation contracts. Medicare payments for FQHC services are based on a prospective payment system and all other services are based on a fee for service system. Payment from the Commonwealth of Pennsylvania Department of Public Welfare for Medical and Dental Services are based on a prospective payment system. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments became known or as years are no longer subject to such audits, reviews and investigations. As a result of settlements, net patient service revenue increased by $ 2,775,289 and $ 1,975,478 for the years ended December 31, 2019 and 2018, respectively.

NOTE 4 NET PATIENT SERVICE REVENUE (CONTINUED)

A summary of net patient service revenue before the provision for bad debts for the years ended December 31 is as follows:

	2019	2018
Patient service revenue	**$ 49,320,172**	$ 42,085,836
Deductions from revenue	**(5,566,476)**	(4,840,076)
Net patient service revenue	**$ 43,753,696**	$ 37,245,760

The Center's major payor sources consist of the Medicare, Medicaid, commercial insurance programs, and private pay individuals. Net patient service revenue, net of contractual and charity care allowances provided (but before the provision for bad debts), recognized in the statements of operations and changes in net assets for the years ended December 31 from these major payor sources is as follows:

	2019	2018
Medicare	**$ 4,437,771**	$ 3,686,222
Medicaid	**25,738,164**	21,928,598
Commercial	**9,698,601**	10,855,695
Self-pay	**3,879,160**	775,245
	$ 43,753,696	$ 37,245,760

The Center's net patient service revenue concentrations and utilization of third-party payor agreements for the years ended December 31 are as follows:

	Patients		Gross Patient Service Revenue		Net Patient Service Revenue	
	2019	2018	**2019**	2018	**2019**	2018
Medicare	**11.8%**	11.0%	**10.5%**	9.4%	**10.2%**	10.1%
Medicaid	**30.6%**	32.2%	**41.6%**	43.7%	**58.9%**	58.0%
Commercial	**42.9%**	43.4%	**37.2%**	41.8%	**22.2%**	29.7%
Self-pay	**14.7%**	13.4%	**10.7%**	5.1%	**8.7%**	2.2%
	100.0%	100.0%	**100.0%**	100.0%	**100.0%**	100.0%

NOTE 4 NET PATIENT SERVICE REVENUE (CONTINUED)

The change in the allowance for doubtful accounts for the years ended December 31, 2019 and 2018 is as follows:

	2019	2018
Allowance for doubtful accounts at January 1	$ **482,418**	605,777
Provision for bad debts	**1,664,710**	643,473
Write off of receivables deemed uncollectible	**(881,625)**	(766,832)
Allowance for doubtful accounts at December 31	$ **1,265,503**	$ 482,418

NOTE 5 GRANT REVENUE

Grant revenue for the years ended December 31, 2019 and 2018 is comprised of the following:

	2019	2018
Federal grants and support:		
Operating grants		
Community Health Centers:		
Health center grants	$ **5,174,973**	$ 4,572,502
Outpatient Services with Respect to HIV Diseases	**254,215**	245,897
Oral Health Workforce	**-**	20,921
Family Planning Services	**90,400**	129,513
HIV Care Formula Grant	**-**	134,980
Healthy Woman	**52,473**	52,667
Crisis Intervention	**13,498**	13,274
Drug and alcohol	**5,749**	-
Pediatric Epilepsy Telemedicine	**-**	7,860
	$ **5,591,308**	$ **5,177,614**
State grants and support:		
Breast Cancer Screening	$ **10,705**	$ 8,536
Family Planning Services	**9,687**	8,262
AIDS	**273,174**	126,228
Drug and alcohol	**9,673**	13,625
Co-Responder	**146,471**	89,828
	$ **449,710**	$ 246,479

NOTE 5 GRANT REVENUE (CONTINUED)

	2019	2018
Local grants and other support:		
Dental Grants	**$ 12,000**	$ 12,000
United Way	**155**	368
American Cancer Society	**7,899**	10,792
Aetna Wellness	**83**	12,342
American Lung Association	**6,000**	-
Other Miscellaneous Grants	**235**	-
	$ 26,372	$ 35,502

NOTE 6 INVESTMENTS/ASSETS LIMITED AS TO USE

The composition of investments (including board designated investments) at December 31 is as follows:

	Cost	Fair Value	Cost	Fair Value
	2019		2018	
Cash and cash equivalents	**$ 7,669,621**	**$ 7,669,621**	$ 7,532,779	$ 7,532,779
Fixed income mutual funds	**4,554,190**	**4,772,774**	4,568,365	4,579,608
Equity mutual funds	**5,442,673**	**7,704,234**	5,077,462	5,894,743
	$ 17,666,484	**$ 20,146,629**	$ 17,178,606	$ 18,007,130

Other investments on the balance sheet (not included above) consist of an investment in Central Pennsylvania's Physicians Risk Retention Group, Inc. (CPPRRG) and an investment in Value Drug. These investments were made to obtain malpractice insurance (CPPRRG) for the Center's retail pharmacy operations and to support purchases at Keystone Pharmacy (Value Drug). These investments are accounted for using the cost method since market value is not readily available. The total carrying value of these investments was $ 172,805 and $ 152,269 at December 31, 2019 and 2018, respectively.

The Center's Board of Directors has designated investments included in assets limited as to use for the following purposes as of December 31:

	2019	2018
Operations reserve	**$ 832,049**	$ 697,776
Future building projects	**7,607,789**	7,461,503
Total	**$ 8,439,838**	$ 8,159,279

The Board retains control over these funds and may at its discretion subsequently use these for other purposes.

The Center's investments are exposed to various risks, such as interest rate, market, currency, and credit risks. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment values reported in the financial statements.

NOTE 6 INVESTMENTS/ASSETS LIMITED AS TO USE (CONTINUED)

In addition, recent economic uncertainty and market events as a result of the COVID-19 pandemic and other market forces have led to unprecedented volatility in currency, commodity, credit and equity markets. These recent events underscore the level of investment risk associated with the current economic environment, and accordingly the level of risk in investments.

NOTE 7 PROPERTY AND EQUIPMENT

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

	2019	2018
Land	**$ 4,034,671**	$ 3,526,066
Building	**29,392,146**	16,996,421
Leasehold improvements	**374,768**	374,768
Computer hardware	**933,596**	1,006,726
Computer software	**1,681,930**	1,601,021
Vehicles	**39,270**	39,270
Furniture and fixtures	**1,118,740**	683,766
Dental equipment	**1,517,254**	1,265,939
Medical equipment	**1,893,070**	1,485,845
Construction in progress	**100,620**	3,783,420
	41,086,065	30,763,242
Less accumulated depreciation	**(9,221,687)**	(8,477,130)
	$ 31,864,378	$ 22,286,112

NOTE 8 RETIREMENT PLAN

The Center offers a 403(b) employee retirement plan to eligible employees. Employees are eligible to participate in the plan after they complete 1,000 hours of service during the plan year based on the first anniversary of the employee's start date. The Center will match a contribution equal to 100% of the participant's elective deferrals up to 3% of the participant's compensation, plus 50% of each participant's elective deferrals exceeding 3%, but not in excess of 5%, of the participant's compensation. Total retirement expense was $ 961,600 and $ 850,429 for the years ended December 31, 2019 and 2018, respectively.

NOTE 9 CONCENTRATION OF CREDIT RISK

The Center maintains its funds at several financial institutions. During the course of the year, these funds may periodically exceed limits insured by the Federal Deposit Insurance Corporation. Management considers this to be a normal business risk.

The Center received 10% of its total revenues, gains and other support from various programs administered by federal, state and local governmental and private sources for the years ended December 31, 2019 and 2018. Any significant reductions in these funding sources could have a significant negative financial impact on the Center.

NOTE 10 COMMITMENTS AND CONTINGENCIES

Litigation

The Center is subject to legal proceedings and claims arising in the ordinary course of its business. Based on information presently available and advice received from legal counsel, management is not aware of any claims or litigation that would have a material effect on operations of the Center.

Laws and Regulations

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments.

Operating Leases

Leases that do not meet the criteria for capitalization are classified as operating leases with rent expense charged to operations as incurred. The Center has various operating leases for office space at several locations and a parking lot. Total rental expense for the years ended December 31, 2019 and 2018 was $ 487,866 and $ 448,046, respectively.

Minimum rentals on long-term leases are as follows at December 31, 2019:

2020	$	170,401
2021		104,779
2022		37,075
2023		37,817
2024		38,573
Total	$	388,645

Purchase Commitments

The Center has a contractual commitment for new patient management software. The total commitment for this project is $ 467,758, of which $ 0 had been paid at December 31, 2019.

NOTE 11 AFFILIATED ORGANIZATION

WellSpan Summit Health had previously awarded a Community Benefit Grant to the Center. Operationally, the Community Benefit Grant is to support the otherwise uncompensated costs in providing services, to maintain the existing level of physician and health care services, and patient access thereto. In addition, the Community Benefit Grant enhances the financial stability of the Center with a goal of meeting the suggested Federally Qualified Health Center guideline requirement for cash on hand and other purposes WellSpan Summit Health and the Center mutually agree. Under the terms of the agreement and subsequent amendments, WellSpan Summit Health will award the Center up to a specified amount per grant year through

NOTE 11 AFFILIATED ORGANIZATION (CONTINUED)

December 31, 2020 to cover anticipated operating deficits. The grant has various conditions covering the availability of these funds to the Center. For each grant year, the Community Benefit Grant funds will be distributed to the Center in four equal payments. The funding during the years ended December 31, 2019 and 2018 was $ 1,600,000 and $ 1,735,000, respectively. The terms of the agreement provide for a grant amount of $ 1,600,000 to be received in 2020.

In May 2019, the Center entered into an agreement with WellSpan Health for the implementation of new patient software as noted under "purchase commitments" in Note 10 of these financial statements. Under the terms of the agreement, WellSpan will donate 90% of the cost of a portion of the software to the Center, which is estimated at $1 million and expected to be recorded during the year ended December 31, 2020.

NOTE 12 FUNCTIONAL EXPENSES

The Center provides general healthcare services to residents within its geographic location. Expenses are allocated between health care and general and administrative on the basis of time and effort by departments within the Center. The Center has no expenses allocated to fundraising for the years ended December 31, 2019 and 2018.

The following details the functional classification of expenses for the years ended December 31, 2019 and 2018:

	2019		
	Program	Management and General	Total Expenses
Salaries and wages	$ 27,122,475	$ 4,043,543	$ 31,166,018
Fringe benefits	6,582,012	1,126,269	7,708,281
Contracted services	959,564	355,096	1,314,660
Medical - Other	61,532	20	61,552
Pharmaceuticals	6,697,852	-	6,697,852
Materials, supplies, other	2,985,264	1,021,694	4,006,958
Rent - Facilities	306,554	181,312	487,866
Utilities	311,110	110,621	421,731
Insurance	17,455	86,646	104,101
Depreciation	1,025,261	99,009	1,124,270
Total expenses	$ 46,069,079	$ 7,024,210	$ 53,093,289

NOTE 12 FUNCTIONAL EXPENSES (CONTINUED)

	2018		
	Program	Management and General	Total Expenses
Salaries and wages	$ 24,181,007	$ 3,727,819	$ 27,908,826
Fringe benefits	5,785,464	1,019,676	6,805,140
Contracted services	1,521,156	292,936	1,814,092
Medical - Other	71,553	934	72,487
Pharmaceuticals	6,145,943	-	6,145,943
Materials, supplies, other	2,292,909	809,697	3,102,606
Rent - Facilities	256,847	191,199	448,046
Utilities	303,980	104,580	408,560
Insurance	18,870	77,823	96,693
Depreciation	891,580	72,013	963,593
Total expenses	$ 41,469,309	$ 6,296,677	$ 47,765,986

NOTE 13 FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are quoted prices (unadjusted) in active markets for identical assets or liabilities that the organization can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, such as:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Inputs that are unobservable inputs for the asset or liability.

NOTE 13 FAIR VALUE MEASUREMENTS (CONTINUED)

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis.

Money Market Funds and Mutual Funds

Money Market Funds and Mutual Funds are valued at the daily closing price as reported by the fund. Mutual funds held are open-end mutual funds that are registered with the U.S. Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held are deemed to be actively traded.

There were no liabilities measured on a recurring basis and no nonrecurring assets or liabilities measured at fair value at December 31, 2019 and 2018. Fair values of assets measured on a recurring basis at December 31 are as follows:

2019	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	$ 7,669,621	$ -	$ 7,669,621	$ -
Fixed income mutual funds:				
Intermediate term bond fund	2,164,799	2,164,799	-	-
Long term bond fund	399,219	399,219	-	-
Short term bond fund	879,411	879,411	-	-
International bond fund	1,329,345	1,329,345	-	-
Equity mutual funds:				
Large blend domestic fund	4,582,515	4,582,515	-	-
Large blend foreign fund	2,957,919	2,957,919	-	-
Mid cap fund	89,828	89,828	-	-
Small cap fund	73,972	73,972	-	-
	$ 20,146,629	$ 12,477,008	$ 7,669,621	$ -

2018	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	$ 7,532,779	$ -	$ 7,532,779	$ -
Fixed income mutual funds:				
Intermediate term bond fund	2,455,867	2,455,867	-	-
Short term bond fund	823,654	823,654	-	-
International bond fund	1,300,087	1,300,087	-	-
Equity mutual funds:				
Large blend domestic fund	3,469,632	3,469,632	-	-
Large blend foreign fund	2,298,835	2,298,835	-	-
Mid cap fund	67,549	67,549	-	-
Small cap fund	58,726	58,726	-	-
	$ 18,007,130	$ 10,474,351	$ 7,532,779	$ -

NOTE 14 GOODWILL

During the year ended December 31, 2019, the Center purchased two medical practices that resulted in the recording of goodwill as an asset of the Center. The goodwill from these practices is being amortized over ten years. Amortization expense for the year ended December 31, 2019 was $ 12,500, which is included in depreciation expense on the Statements of Operations and Changes in Net Assets. Following is a summary of the goodwill recorded during 2019 and at December 31, 2019:

	Goodwill Purchase	Goodwill Purchase	Total Goodwill
Goodwill purchased	$ 100,000	$ 150,000	$ 250,000
Amortization (10 years)	(5,000)	(7,500)	(12,500)
Net goodwill	$ 95,000	$ 142,500	$ 237,500

NOTE 15 SUBSEQUENT EVENTS

The Center has evaluated events and transactions subsequent to December 31, 2019 through March 20, 2020, the date these financial statements were available to be issued. Based on the definitions and requirements of generally accepted accounting principles, management has identified the following event that requires disclosure in the financial statements:

Recent economic and government reactions to the COVID-19 pandemic have caused temporary reductions or ceasing of operations for many businesses and have caused a decrease in the number of patients seen recently by the Center. These events may impact the levels of net patient service revenues and the ability of individuals to pay for medical services that could result in decreased revenues and increased patient bad debts. The extent and duration of these events and the ultimate impact on the Center's financial statements cannot be determined at this time.

KEYSTONE RURAL HEALTH CENTER
d/b/a Keystone Health
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2019

Federal Grantor/Pass-Through Grantor/Program Title	Source Code	Federal CFDA Number	Agency or Pass-Through Number	Program Period	Total Received for the Year	Receivable (Payable) January 1, 2019	Revenues	Expenses	Receivable (Payable) December 31, 2019	Total Passed-Through to Subrecipients
U.S. Department of Health and Human Services										
Health Center Cluster:										
Community Health Centers	D	93.224	H80CS00076	January 1, 2019 - December 31, 2019	$ 4,599,057	$ 74,247	$ 4,623,933	**$ 4,623,933**	$ 99,123	**$** -
Health Center Quality Improvement	D	93.527	H80CS00076	January 1, 2019 - December 31, 2019	115,364	7,098	121,423	**121,423**	13,157	-
Integrated Behavioral Health Services (IBHS)	D	93.527	H80CS00076	January 1, 2019 - December 31, 2019	14,260	-	25,370	**25,370**	11,110	-
Access Increases in Mental Health and Substance Abuse Services (AIMS)	D	93.527	H80CS00076	January 1, 2019 - December 31, 2019	76,500	55,102	21,398	**21,398**	-	-
Substance Use Disorder and Mental Health Services (SUD-MH)	D	93.527	H80CS00076	January 1, 2019 - December 31, 2019	381,792	17,637	382,849	**382,849**	18,694	-
Subtotal - Health Center Cluster					5,186,973	154,084	5,174,973	**5,174,973**	142,084	-
Ryan White HIV/AIDS: Early Intervention Services	D	93.918	H76HA00668	January 1, 2019 - December 31, 2019	273,499	48,412	254,215	**254,215**	29,128	-
Passed through the Family Health Council of Central Pennsylvania:										
Title X Family Planning Services	I	93.217	6 FPHPA006431-01-01	January 1, 2019 - December 31, 2019	74,889	9,779	75,291	**75,291**	10,181	-
Title XX Family Planning Services	I	93.667	SAP 4100078155	January 1, 2019 - December 31, 2019	15,221	2,590	15,109	**15,109**	2,478	-
Healthy Woman	I	93.898	SAP 4100066441	January 1, 2019 - December 31, 2019	52,473	-	52,473	**52,473**	-	-
Passed through Franklin County:										
DDAP	I	93.788		January 1, 2019 - December 31, 2019	6,169	420	5,749	**5,749**	-	-
Passed through Franklin/Fulton MH/MR:										
Crisis Intervention	I	93.958		January 1, 2019 - December 31, 2019	12,909	1,027	13,498	**13,498**	1,616	-
Subtotal - U.S. Department of Health and Human Services					5,622,133	216,312	5,591,308	**5,591,308**	185,487	-
Total					$ 5,622,133	$ 216,312	$ 5,591,308	**$ 5,591,308**	$ 185,487	**$** -

Notes to Schedule of Expenditures of Federal Awards

Note 1. Basis of Presentation

The schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Keystone Rural Health Center under programs of the federal government for the year ended December 31, 2019. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Keystone Rural Health Center, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Keystone Rural Health Center. Pass-through entity identifying numbers are presented where available.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Keystone Rural Health Center is currently using an internally developed method to allocate indirect costs as allowed under the Uniform Guidance and does not use the 10% de Minimis indirect cost rate.

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*

Board of Directors
Keystone Rural Health Center
d/b/a Keystone Health
Chambersburg, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Keystone Rural Health Center, d/b/a Keystone Health (the Center) (a nonprofit organization), which comprise the balance sheet as of December 31, 2019, 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 March 20, 2020.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

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

PURPOSE OF THIS REPORT

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

Smith Elliott Kearns & Company, LLC.

Chambersburg, Pennsylvania
March 20, 2020

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

Board of Directors
Keystone Rural Health Center
d/b/a Keystone Health
Chambersburg, Pennsylvania

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited Keystone Rural Health Center's, d/b/a Keystone Health (the Center) (a nonprofit organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Center's major federal programs for the year ended December 31, 2019. The Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Center's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Center's compliance.

Opinion on Each Major Federal Program

In our opinion, the Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2019.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

Smith Elliott Kearns & Company, LLC.

Chambersburg, Pennsylvania
March 20, 2020

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	☐ Yes ☒ No
• Significant deficiencies identified?	☐ Yes ☒ None reported
Noncompliance material to financial statements noted?	☐ Yes ☒ No

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	☐ Yes ☒ No
• Significant deficiencies identified?	☐ Yes ☒ None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
• Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516	☐ Yes ☒ No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
93.224	Community Health Centers Cluster Health Centers Program

Dollar threshold used to distinguish between Type A and Type B programs:	$ 750,000
Auditee qualified as low-risk auditee?	☒ Yes ☐ No

Keystone Health

2018-001 Lack of Segregation of Duties in the Payroll Process

Conditions/Context: The Payroll Specialist processes payroll and any changes to employees' payroll information such as pay rate changes and making any employee changes. However, there is no second party review to verify the payroll information and the accuracy and appropriateness of any changes made.

Status: The Payroll Specialist continues to process changes to the employee's payroll information. Before payroll is processed for each pay period, the Assistant Controller verifies all changes completed by the Payroll Specialist. If the Assistance Controller is not available, the Controller will complete the verification process.

When the Payroll Specialist processes a change, the Payroll Specialist stamps the document with the pay period end and the Assistant Controller initials the document after review.

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