

BATH COMMUNITY HOSPITAL

FINANCIAL REPORT

December 31, 2019

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Bath Community Hospital
Hot Springs, Virginia

We have audited the accompanying financial statements of Bath Community Hospital (a non-profit organization hereinafter referred to as the "Hospital") which comprise the statements of assets, liabilities, and fund balances - income tax basis as of December 31, 2019 and 2018, and the related statements of revenues, expenses, and changes in fund balances— income tax basis and cash flows - income tax basis 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 the basis of accounting the Hospital uses for income tax purposes as described in Note 2; this includes determining that the income tax basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible 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.

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. 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 entity'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 entity'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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances - income tax basis of Bath Community Hospital as of December 31, 2019 and 2018, and its revenues, expenses, and other changes in fund balances and cash flows - income tax basis for the years then ended, in accordance with the basis of accounting the Hospital uses for income tax purposes as described in Note 2.

Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the basis of accounting the Hospital uses for income tax purposes, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
April 16, 2020

BATH COMMUNITY HOSPITAL

STATEMENTS OF ASSETS, LIABILITIES, AND FUND BALANCES - INCOME TAX BASIS
December 31, 2019 and 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 390,912	\$ 720,232
Accounts receivable, net (Note 4)	3,563,801	3,089,887
Cost report settlement receivable	1,003,209	115,207
Inventory (Note 5)	503,809	460,526
Current portion of notes receivable	68,112	33,421
Current portion of prepaid expenses	45,000	45,000
	5,574,843	4,464,273
LONG-TERM INVESTMENTS	29,254	26,485
PROPERTY, PLANT, AND EQUIPMENT, NET (Note 7)	21,212,211	20,826,724
OTHER ASSETS		
Restricted cash and cash equivalents	72,996	88,223
457(b) investments (Note 8)	-	109,884
Note receivable, net of current portion and allowance	17,332	52,023
Prepaid expenses, net of current portion	280,841	282,502
	371,169	532,632
Total other assets	371,169	532,632
Total assets	\$ 27,187,477	\$ 25,850,114
LIABILITIES AND FUND BALANCES		
CURRENT LIABILITIES		
Accounts payable	\$ 1,286,303	\$ 1,547,876
Accrued expenses	1,360,971	1,284,674
	2,647,274	2,832,550
Total current liabilities	2,647,274	2,832,550
LONG-TERM DEBT, NET (Note 9)	16,013,144	15,923,330
Total liabilities	18,660,418	18,755,880
FUND BALANCES	8,527,059	7,094,234
Total liabilities and fund balances	\$ 27,187,477	\$ 25,850,114

The Notes to Financial Statements are an integral part of these statements.

BATH COMMUNITY HOSPITAL

**STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN FUND BALANCES - INCOME TAX BASIS
Years Ended December 31, 2019 and 2018**

	2019	2018
Revenues, Gains, and Other Support		
Net patient service revenue (Note 3)	\$ 15,964,719	\$ 14,119,158
Investment income (Note 6)	2,299	9,828
Contributions (Note 16)	6,416,496	5,231,007
Income from funds held in trust by others (Note 12)	5,099,621	4,913,466
Other revenues, gains, and support	2,667,022	2,406,130
Total revenues, gains, and other support	30,150,157	26,679,589
Expenses		
Salaries and benefits	13,324,078	12,188,178
Other operating	8,286,506	7,347,256
Provision for bad debts	593,800	1,291,280
Depreciation	1,413,327	1,344,863
Total expenses (Note 14)	23,617,711	22,171,577
Change in fund balances from operations	6,532,446	4,508,012
Pass through of contributions to Foundation (Note 16)	(5,099,621)	(4,913,466)
Change in fund balances	1,432,825	(405,454)
Fund balances, beginning	7,094,234	7,499,688
Fund balances, ending	\$ 8,527,059	\$ 7,094,234

The Notes to Financial Statements are an integral part of these statements.

BATH COMMUNITY HOSPITAL

STATEMENTS OF CASH FLOWS - INCOME TAX BASIS
Years Ended December 31, 2019 and 2018

	2019	2018
OPERATING ACTIVITIES		
Change in fund balances	\$ 1,432,825	\$ (405,454)
Adjustments to reconcile change in fund balances to net cash provided by (used in) operating activities:		
Depreciation	1,413,327	1,344,863
Amortization of loan issuance costs	89,814	89,814
Provision for bad debts	593,800	1,291,280
Loss on disposal of equipment	-	40,289
Forgiveness of notes receivable	-	3,469
Allowance for notes receivable	-	85,444
Changes in operating assets and liabilities		
Accounts receivable	(1,067,714)	(2,971,657)
Inventory	(43,283)	34,735
Prepaid expenses	1,661	112,252
Cost report settlement refund	(888,002)	387,741
Accounts payable	(124,115)	804,311
Accrued expenses	76,297	55,076
	1,484,610	872,163
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(1,936,272)	(668,597)
Proceeds from sale of property, plant and equipment	-	145,000
Collections on notes receivable	-	10,955
Purchase of long-term investments	(2,769)	(6,571)
Proceeds from sale of long-term investments	109,884	9,182
	(1,829,157)	(510,031)
Net cash used in investing activities		
	(1,829,157)	(510,031)
Net increase (decrease) in cash	(344,547)	362,132
CASH AND CASH EQUIVALENTS		
Beginning	808,455	446,323
Ending	\$ 463,908	\$ 808,455
Reconciliation to Statements of Assets, Liabilities, and Fund Balances - Income Tax Basis		
Cash and cash equivalents	\$ 390,912	\$ 720,232
Restricted cash and cash equivalents	72,996	88,223
Total	\$ 463,908	\$ 808,455
Supplemental Disclosure of Cash Flows Information:		
Cash paid for interest	\$ 144,298	\$ 144,298
Property, plant and equipment in accounts payable	\$ 187,046	\$ 324,504

The Notes to Financial Statements are an integral part of these statements.

BATH COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

Note 1. Organization and Nature of Business

Bath Community Hospital (the Hospital) is a Virginia not-for-profit corporation, founded in 1925, that operates a nonprofit acute care hospital at its facilities in Hot Springs, Virginia. The Hospital has a physicians group with locations in Hot Springs, Covington, and Millboro as well as a pharmacy in Hot Springs.

The Millboro Clinic was closed at the end of June 2017 and reopened in a more suitable location the fourth quarter 2018 to pursue the Rural Health Clinic designation.

Note 2. Summary of Significant Accounting Policies

Basis of accounting and financial reporting

The accompanying financial statements have been prepared on the basis of accounting used for income tax reporting. That basis differs from generally accepted accounting principles in that funds held in trust by others and all investments are carried at their tax basis rather than fair value. Additionally, the Bath Community Hospital Foundation, which issues a separate financial report, would be consolidated with the Hospital under generally accepted accounting principles. Unless there is an explicit difference required by the income tax basis of accounting, the Hospital follows accounting principles generally accepted in the United States of America.

Use of estimates

The preparation of financial statements 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

For purposes of the statements of cash flows, cash includes cash on hand and cash in banks. The Hospital maintains a significant portion of its total cash in bank deposit accounts. Accounts in the bank are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At times, deposits exceeded federally insured limits during the year. Restricted cash consists of funds set aside to pay New Market Tax Credit service fees.

Allowance for uncollectible accounts

Accounts receivable are reported at net realizable value. Balances are considered delinquent when they are outstanding for a minimum of 120 days from the first statement of patient balance, at which time they are reviewed for collectability and, if appropriate, transferred to a collection agency. The balance is then moved to the allowance for uncollectable accounts. Balances are written off after all reasonable collection efforts have been made. The allowance for uncollectible accounts is based on historical bad debt experience and management's evaluation of the accounts receivable.

(Continued)

BATH COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

Note 2. Summary of Significant Accounting Policies (Continued)

Inventory

Inventory is valued at the lower of cost, as determined on the first-in, first-out basis, or net realizable value (“NRV”). NRV is defined as the estimated selling price in the ordinary course of business less reasonably predictable selling costs.

Notes receivable

The Hospital satisfied the student loans of one physician in 2009. In 2012, this physician terminated from employment and the note was split into two parts that included loan repayment and forgiveness over ten years. As the former physician repays the first part of the note, the second part is forgiven. The portion due including loan forgiveness for the coming year is considered current. At December 31, 2019 and 2018, the first part of the note totaled approximately \$79,000 and the second part totaled approximately \$92,000. The Hospital filed a Confession of Judgement against the physician in June 2019 due to lack of payment. The Hospital recorded an allowance of approximately \$85,000 for these notes receivable as of December 31, 2019 and 2018.

Property, plant, and equipment

Property, plant, and equipment are carried at cost and depreciated over the estimated service lives of the assets using the straight line method. Depreciation is computed using various lives ranging from 3 to 20 years on major movable equipment and 10 to 40 years on buildings and improvements.

Loan issuance costs

Loan issuance costs represent the cost of debt issuance to renovate the Hospital facilities and are required to be recorded with long-term debt on the statement of assets, liabilities, and fund balances. Loan issuance costs are amortized over the life of the debt, and included as a component of interest expense.

Measure of operations

The Statements of Revenues, Expenses, and Changes in Fund Balances – Income Tax Basis include the excess of revenues, gains, and other support over expenses. Changes in unrestricted fund balances that are excluded from revenues, gains, and other support over expenses, consistent with industry practice, would consist of certain restricted contributions and investment income from restricted funds. The pass through of Lettie Pate Evans contributions to the Foundation is excluded from this performance indicator.

Charity care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue.

(Continued)

BATH COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

Note 2. Summary of Significant Accounting Policies (Continued)

Expense allocation

Directly identifiable expenses are charged to programs and supporting services. Expenses that are attributable to one or more program or supporting functions of the Organization; include depreciation, salaries and benefits, professional fees, supplies, purchased services, utilities, and other expenses. Depreciation is allocated based on the location and therefore use of the asset. Generally speaking, utilities are expensed directly to areas that are separately metered. Utilities for the Wellness Center are allocated between Physical Therapy and Fitness/Rehab based upon square footage. Salaries and benefits are allocated based on estimates of time and effort. Supplies, purchased services, and other expenses are allocated based on the benefit received.

Income taxes

The Hospital is a not-for-profit corporation as defined under 501(c)(3) of the Internal Revenue Code and is exempt from federal income tax on related income pursuant to Section 501(a) of the Internal Revenue Code.

Subsequent events

Subsequent events have been evaluated through April 16, 2020, the date the financial statements were available to be issued.

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which are likely to negatively impact the economy. Financial impact could occur though such potential impact is unknown at this time.

Note 3. Net Patient Service Revenue

Patient service revenue is reported at the amount that reflects the consideration to which the Hospital expects to be entitled in exchange for providing patient care. These amounts are due from patients, 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 Hospital bills the patients and third-party payors several days after the services are performed or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

(Continued)

BATH COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

Note 3. Net Patient Service Revenue (Continued)

Performance obligations are determined based on the nature of the services provided by the Hospital. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Hospital 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 satisfied over time relate to patients in the hospital receiving inpatient acute care services or patients receiving services in our outpatient centers or in their homes (home care). The Hospital measures the performance obligation from admission into the hospital, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to our patients and customers in a retail setting (for example, pharmaceuticals and medical equipment) and the Hospital does not believe it is required to provide additional goods or services related to that sale.

The Hospital determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Hospital's policy, and implicit price concessions provided to uninsured patients. The Hospital determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The Hospital determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

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

- Medicare - Hospital inpatient services are reimbursed on a per day rate based upon allowable costs. Outpatient services are reimbursed based upon a ratio of allowable costs to charges and the Rural Health Clinics are reimbursed based upon a per visit basis based upon allowable costs. All Medicare cost-based reimbursement rates during the year are tentative based upon the prior year's costs with final settlement determined after submission of annual cost reports for the Hospital and the Rural Health Clinics and audits thereof by the Medicare Administrative Contractor. Final Medicare settlements have been determined for all years prior to and including 2016.
- Medicaid - Hospital inpatient and outpatient services, rendered to Medicaid program beneficiaries, are paid at prospectively determined rates. The Hospital's Rural Health Clinic is reimbursed at a tentative rate per visit based upon allowable costs with final settlement determined after submission of annual cost reports by the Hospital for its Rural Health Clinics and audits thereof by the Medicaid fiscal intermediary. Final Medicaid settlements have been determined for all Cost Reports filed through 2018.

The Hospital has also entered into payment arrangements with commercial insurance carriers. The basis for payment to the Hospital under these agreements provide for discounts from established charges.

(Continued)

BATH COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

Note 3. Net Patient Service Revenue (Continued)

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Hospital's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Hospital. In addition, the contracts the Hospital has with commercial payors also provide for retroactive audit and review of claims.

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

Patients who meet the Hospital's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Hospital also provides services to uninsured patients and offers those uninsured patients a discount, either by policy or law, from standard charges. The Hospital estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, 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 service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

(Continued)

BATH COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

Note 3. Net Patient Service Revenue (Continued)

The Hospital has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors:

- Payors (for example, Medicare, Medicaid, managed care or other insurance, patient) have different reimbursement and payment methodologies
- Length of the patient's service or episode of care
- Method of reimbursement (fee for service or cost based)
- Hospital's line of business that provided the service (for example, hospital inpatient, hospital outpatient, and so on)

Patient service revenue, net of contractual allowances and discounts, recognized in the period from major payor sources, is as follows:

	Governmental Payors	Third-Party Payors	Self-Pay	Total All Payors
2019	\$ 10,972,909	\$ 4,496,338	\$ 495,472	\$ 15,964,719
2018	\$ 9,438,969	\$ 4,020,407	\$ 659,782	\$ 14,119,158

Note 4. Accounts Receivable

Accounts receivable consists of the following:

	2019	2018
Due from patients	\$ 1,936,928	\$ 2,034,571
Due from third-party payors	3,593,711	4,557,557
	5,530,639	6,592,128
Allowance for uncollectible receivables	(914,840)	(2,052,241)
Allowance for contractual adjustments	(1,051,998)	(1,450,000)
	\$ 3,563,801	\$ 3,089,887

The allowance for 2019 is substantially less than 2018 due collection efforts of the new third-party biller.

(Continued)

BATH COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

Note 4. Accounts Receivable (Continued)

Concentrations of Credit Risk

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

	<u>2019</u>	<u>2018</u>
Commercial	6%	17%
Self-pay	46%	39%
Medicare	32%	25%
Medicaid	10%	9%
Anthem	6%	10%
	<u>100%</u>	<u>100%</u>

Note 5. Inventory

Inventory consists of the following:

	<u>2019</u>	<u>2018</u>
Hospital pharmacy	\$ 190,278	\$ 197,868
Supplies and food	187,526	143,716
Hot Springs Pharmacy	126,005	118,942
	<u>\$ 503,809</u>	<u>\$ 460,526</u>

Note 6. Long-Term Investments

Long-term investments consist entirely of money market funds whose cost approximates fair value.

Investment income is comprised of the following:

	<u>2019</u>	<u>2018</u>
Interest and dividends on investments	\$ 592	\$ 6,470
Interest on operating accounts	1,894	3,497
Investment fees	(187)	(139)
	<u>\$ 2,299</u>	<u>\$ 9,828</u>

(Continued)

BATH COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

Note 7. Property, Plant, and Equipment

A summary of property, plant, and equipment follows:

	2019	2018
Land and land improvements	\$ 1,178,894	\$ 1,119,167
Buildings and fixed equipment	26,317,427	25,167,293
Major movable and minor equipment	7,381,712	6,501,650
Transportation vehicles	664,297	664,297
Construction in progress	584,690	875,799
Total cost	36,127,020	34,328,206
Less accumulated depreciation	(14,914,809)	(13,501,482)
	\$ 21,212,211	\$ 20,826,724

Note 8. Retirement Plan

The Hospital has a 403(b) defined contribution plan. The Hospital contributes 3% of gross pay for all eligible employees. In addition, the Hospital matches 50% of the first 3% that the employee contributes. The expense for the years ended December 31, 2019 and 2018 was \$350,574 and \$325,515, respectively.

The Hospital maintained a 457(b) deferred compensation plan for certain key employees. Members contributed to the plan through payroll deductions. There was an offsetting asset and liability for the year ended December 31, 2018 of \$109,884. The liability is included in accrued expenses on the statements of assets, liabilities, and fund balances. The plan closed in 2019.

Note 9. Long-term Debt

In 2014, the Hospital participated in a New Market Tax Credit (NMTC) Financing as the Qualified Active Low Income Community Business (QALICB). As a result of the Hospital's participation in the NMTC Financing, the Hospital is financing the renovation project with the proceeds of six notes totaling \$16,155,350. These notes require interest only payments, at a fixed rate of 0.89319%, through April 30, 2021 after which principal and interest payments are required through July 31, 2044. The notes are collateralized through a deed of trust on the Hospital facility. Notes payable are shown net of loan issuance costs on the statements of assets, liabilities, and fund balances.

	2019	2018
Notes payable	\$ 16,155,350	\$ 16,155,350
Loan issuance costs, net	(142,206)	(232,020)
Long-term debt, net	\$ 16,013,144	\$ 15,923,330

(Continued)

BATH COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
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Note 9. Long-term Debt (Continued)

Funding for a substantial portion of these notes originated with the Bath Community Hospital Foundation (the “Foundation Loan”) with the remaining amounts originating from equity from the NMTC investor. The holder of the six notes are three Community Development Entities (CDEs), the 99.99% owner of which is BCH Investment Fund, LLC (the “Fund”). In connection with making the Foundation Loan, the Foundation entered into an agreement with PNC New Markets Investment Partners, LLC (“PNC”), owner of the Fund. The agreement allows PNC to put its ownership interest in the Fund to the Foundation during a ninety-day period, commencing on the seventh anniversary of the financing for \$1,000 plus the value, if any, of obligations remaining outstanding and payable by Foundation to PNC. In the event PNC does not exercise its option, the Foundation has the right, and fully intends, to exercise a call option during the following six-month period, to purchase PNC’s ownership interest in the Fund at an amount equal to the fair value (as determined by an independent appraiser) of PNC’s ownership interest. Taking this action should, in effect, cancel the debt.

Note 10. Leases

The Hospital is currently obligated under several leases for facilities and equipment. Rent expense for those leases for the years ending December 31, 2019 and 2018 was \$88,441 and \$88,170, respectively. Future minimum lease payments for non-cancellable leases for the next five years are as follows:

2020	\$	43,820
2021		40,920
2022		40,920
2023		40,920
2024		40,920
		40,920
	\$	207,500

Note 11. Medical Malpractice Insurance

The Hospital, from time-to-time, may be named in a lawsuit. At year end, the Hospital was not involved in any claims. The Hospital has medical malpractice insurance coverage through MagMutual Insurance. This insurance policy is a claims made policy and does not provide for tail coverage; however, tail coverage is available.

Note 12. Funds Held in Trust by Others

Funds held in trust by others represent resources neither in the possession nor under the control of the Hospital, but held and administered by outside fiscal agents.

The Hospital receives 5% of the annual net income of the Lettie Pate Evans Foundation. Substantially all of the investments in the Lettie Pate Evans Foundation are in one large U.S. company. The Hospital receives allocation from the Foundation twice a year, in June and December. The allocation is apportioned to be an estimated 80% in December and the remaining allocation the following June. Starting in 2017, the Hospital passes the contribution to the Foundation.

(Continued)

BATH COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

Note 12. Funds Held in Trust by Others (Continued)

The estimated fair value of funds held in trust by others consists of the following:

	2019	2018
Evans Foundation	\$ 176,825,146	\$ 151,097,331
Campbell Trust	782,274	656,250
	\$ 177,607,420	\$ 151,753,581

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which are likely to negatively impact the fair value of the investments held in trust by others and related investment earnings. Other financial impact could occur though such potential impact is unknown at this time.

Note 13. Liquidity and Availability

The following table reflects the Hospital's financial assets as of December 31, 2019 and 2018, reduced for amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, assets held for others, or because the governing board has set aside the funds for a specific purpose. These board designations could be drawn upon if the board approves that action. The Hospital considers general expenditures to be all expenditures related to its ongoing activities of providing healthcare as well as the conduct of services undertaken to support those activities to be general expenditures.

The Hospital has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

	2019	2018
Financial assets:		
Cash and cash equivalents	\$ 463,908	\$ 808,455
Accounts and other receivables, net	3,563,801	3,089,887
Notes receivable, net	85,444	85,444
Investments	29,254	136,369
Total financial assets	4,142,407	4,120,155
Less those unavailable for general expenditure within one year:		
Reserved cash - NMTC	(72,996)	(88,223)
Notes receivable to be collected after one year	(17,332)	(52,023)
Investments designated for deferred compensation	-	(109,884)
Total unavailable assets	(90,328)	(250,130)
Financial assets available to meet cash needs for general expenditures within one year	\$ 4,052,079	\$ 3,870,025

(Continued)

BATH COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

Note 14. Functional Expenses

The following detail shows all expenditures according to their natural classification as well as their function for the year ended December 31, 2019.

	Nursing Services	Other Nursing Services	Other Professional Services	General Services	Total Program	General & Administrative	Total
Salaries and benefits	\$ 1,184,974	\$ 2,137,515	\$ 7,164,431	\$ 683,378	\$ 11,170,298	\$ 2,153,780	\$ 13,324,078
Professional fees	-	262,513	47,320	-	309,833	7,500	317,333
Pharmaceuticals	-	-	1,720,459	-	1,720,459	552	1,721,011
Supplies – medical and non-medical	34,040	334,413	691,280	255,023	1,314,756	44,793	1,359,549
Purchased services	40,026	346,687	683,705	95,947	1,166,365	1,540,897	2,707,262
Utilities	5,563	9,850	61,409	281,974	358,796	111,040	469,836
Interest	-	-	-	-	-	258,839	258,839
Other	46,882	36,440	734,156	130,821	948,302	504,377	1,452,679
Provision for bad debts	62,992	113,628	380,852	36,328	593,800	-	593,800
Depreciation	41,259	196,783	365,382	698,532	1,301,956	111,371	1,413,327
Total	\$ 1,415,736	\$ 3,437,829	\$ 11,848,994	\$ 2,182,003	\$ 19,884,562	\$ 4,733,149	\$ 23,617,711

The following detail shows all expenditures according to their natural classification as well as their function for the year ended December 31, 2018.

	Nursing Services	Other Nursing Services	Other Professional Services	General Services	Total Program	General & Administrative	Total
Salaries and benefits	\$ 1,223,512	\$ 1,783,714	\$ 6,441,942	\$ 693,935	\$ 10,143,103	\$ 2,045,075	\$ 12,188,178
Professional fees	-	346,736	100,160	-	446,896	7,500	454,396
Pharmaceuticals	-	-	1,363,761	-	1,363,761	2,200	1,365,961
Supplies – medical and non-medical	41,801	99,648	656,741	241,176	1,039,366	45,877	1,085,243
Purchased services	103,906	184,109	661,445	118,152	1,067,612	1,146,106	2,213,718
Utilities	4,469	9,546	56,743	244,633	315,391	128,844	444,235
Interest	-	-	-	-	-	268,016	268,016
Other	60,517	100,623	678,951	105,436	945,527	570,160	1,515,687
Provision for bad debts	155,761	227,078	820,099	88,342	1,291,280	-	1,291,280
Depreciation	25,725	126,020	408,337	656,736	1,216,818	128,045	1,344,863
Total	\$ 1,615,691	\$ 2,877,474	\$ 11,188,179	\$ 2,148,410	\$ 17,829,754	\$ 4,341,823	\$ 22,171,577

(Continued)

BATH COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

Note 15. Charity Care

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, disclosed and measured at cost. The following information measures the level of charity care provided:

	2019	2018
Cost of charity care provided at cost	\$ 267,331	\$ 501,695
Cost as a percentage of gross patient service revenue	1.05%	2.06%

Note 16. Affiliated Organizations

The Bath Community Hospital Foundation exists for the purpose of supporting the Hospital’s plans for development and community programs through philanthropy. It shares a common board with the Hospital. During 2018, \$4,076 was raised on the Hospital’s behalf. Funds were not raised during 2019. Funds of \$6,397,285 and \$5,217,285 were transferred from the Foundation to the Hospital during 2019 and 2018, respectively, and are included in contributions. Per Board approval, the Hospital transferred \$5,099,621 and \$4,913,466 of contributions in 2019 and 2018, respectively, from the Lettie Pate Evans Foundation to the Foundation. In addition, at the end of 2019 and 2018, the Hospital has accounts receivable from the Foundation of \$6,870 and \$8,143, respectively. As of December 31, 2019 and 2018, the Foundation held \$16,138,128 and \$14,913,146, respectively, for the Hospital’s benefit.

Note 17. Adoption of New Revenue Recognition Guidance

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 clarifies the principles for recognizing revenue and establishes a common revenue standard for U.S. financial reporting purposes. The new standard affects any entity that enters into contracts with customers for the transfer of goods or services. The core principle of the revenue recognition standard is that an entity should recognize revenue to depict the transfer of 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.

To achieve that core principle, an entity should apply the following steps: (1) identify the contract with the customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligation in the contract, and (5) recognize revenue when, or as, the entity satisfies the performance obligation.

The Hospital adopted ASU 2014-09 and all amendments beginning in 2019. Consistent with the modified retrospective adoption method, prior reporting period results remain unchanged and reported in accordance with ASC 605. As it relates to the Hospital’s contracts to deliver tactical and specialized equipment to customers, the guidance in ASC 606 is consistent with the guidance in ASC 605; therefore, the modified retrospective approach resulted in no cumulative catch-up to retained earnings. Furthermore, there was no significant impact to revenues recognized, and no significant changes to the Hospital’s related business processes, systems, or internal control over financial reporting because of the new guidance.

BATH COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

Note 18. New Accounting Standard

The Financial Accounting Standards Board (FASB) has issued the following statement which is not yet effective.

The FASB issued ASU 2016-02, Leases. The core principle of the new leases standard is that lessees should recognize assets and liabilities arising from all leases, except for leases with a lease term of 12 months or less. This will significantly gross-up many entities balance sheets. Nonpublic entities are required to adopt the new leases standard for reporting periods beginning after December 15, 2020. Early adoption is permitted.

Management has not determined the effects this new FASB Statement may have on prospective financial statements but will be assessing the change in 2020 with the assistance of its accountants.



INDEPENDENT AUDITOR’S REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors
Bath Community Hospital
Hot Springs, Virginia

We have audited the financial statements of Bath Community Hospital as of and for the years ended December 31, 2019 and 2018, and our report thereon dated April 16, 2020, which expresses an unmodified opinion on those financial statements, appears on page one. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The following schedules are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits 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.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
April 16, 2020

BATH COMMUNITY HOSPITAL

**SUPPLEMENTARY INFORMATION
NET PATIENT SERVICE REVENUE - INCOME TAX BASIS
Years Ended December 31, 2019 and 2018**

	<u>Inpatient</u>		<u>Outpatient</u>		<u>Total</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Daily Patient Services						
Room and board	\$ 1,882,156	\$ 2,176,116	\$ -	\$ -	\$ 1,882,156	\$ 2,176,116
Observation	-	-	118,633	105,986	118,633	105,986
	<u>1,882,156</u>	<u>2,176,116</u>	<u>118,633</u>	<u>105,986</u>	<u>2,000,789</u>	<u>2,282,102</u>
Other Nursing Services						
Operating room	3,902	221	1,400,072	521,683	1,403,974	521,904
Central services and supply	228,293	257,016	380,514	220,223	608,807	477,239
Emergency room	172,795	191,790	4,049,368	3,356,503	4,222,163	3,548,293
	<u>404,990</u>	<u>449,027</u>	<u>5,829,954</u>	<u>4,098,409</u>	<u>6,234,944</u>	<u>4,547,436</u>
Other Professional Services						
Laboratory	375,447	374,244	2,971,178	2,393,355	3,346,625	2,767,599
Echocardiology	1,775	38,778	-	133,752	1,775	172,530
Electrocardiology	10,497	14,118	194,603	126,142	205,100	140,260
Cardiac rehabilitation	-	-	10,726	14,039	10,726	14,039
Vascular lab	7,455	14,066	93,304	72,397	100,759	86,463
Home oxygen	-	-	267,562	344,298	267,562	344,298
Radiology	92,685	92,013	1,016,857	921,709	1,109,542	1,013,722
Medical transport	2,452	3,805	320,219	359,741	322,671	363,546
CT scan	157,231	133,973	2,137,632	2,166,616	2,294,863	2,300,589
MRI	-	-	258,840	196,172	258,840	196,172
Pharmacy	1,101,238	1,334,129	753,153	559,204	1,854,391	1,893,333
Hospitalist	589,515	640,603	252,025	130,347	841,540	770,950
Anesthesiology	1,623	-	204,680	58,454	206,303	58,454
Respiratory therapy	504,977	609,168	112,876	101,882	617,853	711,050
Physical therapy	318,806	416,396	537,204	541,733	856,010	958,129
Occupational therapy	246,906	247,550	100,072	75,701	346,978	323,251
Sleep study	-	-	287,091	124,907	287,091	124,907
Physician Clinics	-	-	3,909,766	2,875,503	3,909,766	2,875,503
Other	13,979	10,250	32,987	73,028	46,966	83,278
	<u>3,424,586</u>	<u>3,929,093</u>	<u>13,460,775</u>	<u>11,268,980</u>	<u>16,885,361</u>	<u>15,198,073</u>
Gross Patient Service Revenue	<u>\$ 5,711,732</u>	<u>\$ 6,554,236</u>	<u>\$ 19,409,362</u>	<u>\$ 15,473,375</u>	25,121,094	22,027,611
Reductions of Revenue (Page 21)					(8,858,757)	(7,416,702)
Charity Care, at Gross Charge					<u>(297,618)</u>	<u>(491,751)</u>
Net Patient Service Revenue					<u>\$ 15,964,719</u>	<u>\$ 14,119,158</u>

BATH COMMUNITY HOSPITAL

**SUPPLEMENTARY INFORMATION
REDUCTIONS OF REVENUE - INCOME TAX BASIS
Years Ended December 31, 2019 and 2018**

	<u>Gross Revenue</u>	<u>Reductions of Revenue</u>	<u>Net Revenue*</u>
December 31, 2019			
Anthem	\$ 4,420,828	\$ 2,025,557	\$ 2,395,271
Other commercial	3,544,757	1,633,182	1,911,575
Medicare	13,229,412	4,061,480	9,167,932
Medicaid	2,431,977	507,549	1,924,428
Private Pay	1,494,121	928,608	565,513
	<u>\$ 25,121,095</u>	<u>\$ 9,156,376</u>	<u>\$ 15,964,719</u>
December 31, 2018			
Anthem	\$ 4,812,016	\$ 1,443,605	\$ 3,368,411
Other commercial	1,574,579	488,119	1,086,460
Medicare	12,829,092	3,979,640	8,849,452
Medicaid	1,178,485	920,666	257,819
Private Pay	1,633,439	1,076,423	557,016
	<u>\$ 22,027,611</u>	<u>\$ 7,908,453</u>	<u>\$ 14,119,158</u>

* Net Revenue based upon historical average collections

BATH COMMUNITY HOSPITAL
SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENSES - INCOME TAX BASIS
Years Ended December 31, 2019 and 2018

	Salaries		Other Operating Expenses		Total	
	2019	2018	2019	2018	2019	2018
Nursing Services						
Nursing administration	\$ 210,509	\$ 216,270	\$ 6,435	\$ 8,097	\$ 216,944	\$ 224,367
Nursing services	974,465	1,007,242	120,076	202,596	1,094,541	1,209,838
	1,184,974	1,223,512	126,511	210,693	1,311,485	1,434,205
Other Nursing Services						
Operating and recovery room	260,486	137,616	362,127	176,870	622,613	314,486
Central supply	-	-	176,493	62,612	176,493	62,612
Emergency room	1,877,029	1,646,098	451,283	501,180	2,328,312	2,147,278
	2,137,515	1,783,714	989,903	740,662	3,127,418	2,524,376
Other Professional Services						
Laboratory	558,910	500,248	458,464	477,278	1,017,374	977,526
Echocardiology	-	-	-	12,670	-	12,670
Electrocardiology	-	-	5,800	7,322	5,800	7,322
Cardiac rehabilitation	2,516	4,653	12,634	9,153	15,150	13,806
Vascular lab	-	-	-	-	-	-
Pulmonary rehabilitation	905	4,152	-	-	905	4,152
Home oxygen	52,373	63,677	120,437	120,431	172,810	184,108
Radiology	552,273	520,701	335,352	337,425	887,625	858,126
CT scan	-	-	62,560	75,590	62,560	75,590
Speech therapy	1,058	-	2,100	3,070	3,158	3,070
Pharmacy	436,976	433,747	332,480	404,111	769,456	837,858
Hospitalist	245,927	136,109	-	-	245,927	136,109
Fitness and rehab	42,292	39,286	27,659	37,345	69,951	76,631
Anesthesiology	-	18,737	81,271	20,370	81,271	39,107
Respiratory therapy	170,431	205,071	51,327	60,450	221,758	265,521
Physical therapy	494,456	524,608	60,750	65,150	555,206	589,758
Occupational therapy	150,536	142,653	3,998	2,249	154,534	144,902
Senior center	-	-	10,478	8,724	10,478	8,724
Supervised exercise	191,611	162,628	-	-	191,611	162,628
Contract physician	301,182	279,351	5,659	10,100	306,841	289,451
Ambulance	327,619	241,106	29,669	43,801	357,288	284,907
Medical records	117,248	156,700	369,314	58,011	486,562	214,711
Hospice	-	-	2,891	-	2,891	-
Time share clinic	5,870	5,299	67	2,144	5,937	7,443
Wellness clinic	-	-	21,696	18,609	21,696	18,609
Sleep study	70,656	24,050	46,389	27,276	117,045	51,326
Behavioral health	155,381	176,669	21,625	17,843	177,006	194,512
Quality	173,016	170,758	17,128	18,140	190,144	188,898
Hot Springs Pharmacy	276,078	244,235	1,320,650	1,247,624	1,596,728	1,491,859
Physician practice	2,837,117	2,387,504	537,931	432,915	3,375,048	2,820,419
	7,164,431	6,441,942	3,938,329	3,517,801	11,102,760	9,959,743

BATH COMMUNITY HOSPITAL

**SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENSES - INCOME TAX BASIS (CONTINUED)
Years Ended December 31, 2019 and 2018**

	Salaries		Other Operating Expenses		Total	
	2019	2018	2019	2018	2019	2018
General Services						
Dietary	\$ 261,488	\$ 269,334	\$ 197,966	\$ 189,216	\$ 459,454	\$ 458,550
Operation of plant	222,790	231,986	506,129	444,015	728,919	676,001
Housekeeping	199,100	192,615	59,670	76,166	258,770	268,781
	<u>683,378</u>	<u>693,935</u>	<u>763,765</u>	<u>709,397</u>	<u>1,447,143</u>	<u>1,403,332</u>
Administrative Services						
Business office	309,092	310,141	677,610	467,772	986,702	777,913
Social services	73,773	74,753	1,996	1,648	75,769	76,401
Purchasing	106,788	93,164	3,331	2,696	110,119	95,860
Medical information systems	126,375	124,605	217,987	131,005	344,362	255,610
Administration	762,994	996,043	410,361	533,439	1,173,355	1,529,482
Human resources	144,529	141,126	84,767	64,901	229,296	206,027
Public relations	91,467	87,915	76,630	98,857	168,097	186,772
Security	218,523	215,570	2,880	3,467	221,403	219,037
Finance	320,239	1,758	12,421	3,882	332,660	5,640
Property fees	-	-	25,747	13,254	25,747	13,254
Professional fees	-	-	314,444	209,550	314,444	209,550
Telephone	-	-	25,393	15,969	25,393	15,969
Insurance	-	-	296,468	270,411	296,468	270,411
Interest	-	-	234,112	234,112	234,112	234,112
Miscellaneous	-	-	83,851	117,740	83,851	117,740
	<u>2,153,780</u>	<u>2,045,075</u>	<u>2,467,998</u>	<u>2,168,703</u>	<u>4,621,778</u>	<u>4,213,778</u>
Benefits						
Payroll taxes	-	-	747,754	670,009	747,754	670,009
Group life insurance	-	-	(1,036)	3,054	(1,036)	3,054
Long term disability	-	-	59,757	49,452	59,757	49,452
Hospitalization insurance	-	-	1,047,556	1,049,423	1,047,556	1,049,423
Pension plan	-	-	351,774	327,115	351,774	327,115
Workmen's compensation	-	-	57,673	82,594	57,673	82,594
Other employee benefits	-	-	4,236	4,071	4,236	4,071
Employee physicals	-	-	2,579	20,879	2,579	20,879
HSA contributions	-	-	-	-	-	-
Benefit allocation	-	-	(2,270,293)	(2,206,597)	(2,270,293)	(2,206,597)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other Expenses						
Provision for bad debts	-	-	593,800	1,291,280	593,800	1,291,280
Depreciation	-	-	1,413,327	1,344,863	1,413,327	1,344,863
	<u>-</u>	<u>-</u>	<u>2,007,127</u>	<u>2,636,143</u>	<u>2,007,127</u>	<u>2,636,143</u>
Total Expenses	<u>\$ 13,324,078</u>	<u>\$ 12,188,178</u>	<u>\$ 10,293,633</u>	<u>\$ 9,983,399</u>	<u>\$ 23,617,711</u>	<u>\$ 22,171,577</u>