EVANS MEMORIAL HOSPITAL, INC.
CLAXTON, GEORGIA

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COMBINED FINANCIAL STATEMENTS

for the years ended September 30, 2019 and 2018

C O N T E N T S

Draffin Tucker

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Evans Memorial Hospital, Inc.
Claxton, Georgia

We have audited the accompanying combined financial statements of Evans Memorial Hospital, Inc., which comprise the combined balance sheets as of September 30, 2019 and 2018, and the related combined statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital's preparation and fair presentation of the combined 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 Hospital'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 combined financial statements.

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

Continued

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Evans Memorial Hospital, Inc. as of September 30, 2019 and 2018, and the results of its operations and changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Substantial Doubt about the Hospital's Ability to Continue as a Going Concern

The accompanying combined financial statements have been prepared assuming the Hospital will continue as a going concern. As discussed in Note 17 to the combined financial statements, the Hospital has suffered recurring losses from operations and resulting cash flow difficulties. These issues indicate that substantial doubt exists about the Hospital's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding those matters are also described in Note 17. The combined financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

Change in Accounting Principles

As discussed in Note 1 to the combined financial statements, the Hospital adopted new accounting guidance, Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Our opinion is not modified with respect to that matter.

As discussed in Note 1 to the combined financial statements, the Hospital adopted new accounting guidance, FASB ASC ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

Draffin & Tucker, LLP

Albany, Georgia
April 28, 2020

EVANS MEMORIAL HOSPITAL, INC.

COMBINED BALANCE SHEETS
September 30, 2019 and 2018

	2019	2018
ASSETS		
Current assets:		
Cash	$ 662,310	$ 812,248
Assets limited as to use for current obligations	412,511	365,061
Patient accounts receivable, net	1,214,250	1,291,216
Supplies	79,673	78,021
Estimated third-party payor settlements	-	150,202
Other current assets	91,571	133,753
Total current assets	2,460,315	2,830,501
Assets limited as to use:		
Internally designated for employee benefits	82,783	108,005
Under indenture agreement - held by trustee	743,808	496,796
By donor:		
Dorothy Blocker Scholarship	52,589	27,486
	879,180	632,287
Less amount required to meet current obligations	412,511	365,061
Noncurrent assets limited as to use	466,669	267,226
Property and equipment, net	4,589,456	4,232,393
Other assets	837	96,684
Total assets	$ 7,517,277	$ 7,426,804

Continued

	2019	2018
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt and capital lease obligations	$ 525,133	$ 518,230
Accounts payable	1,398,370	552,987
Accrued expenses	1,061,431	705,667
Estimated third-party payor settlements	218,287	134,362
Total current liabilities	3,203,221	1,911,246
Long-term debt and capital lease obligations, net of current portion	4,844,234	5,357,926
Deferred compensation payable	127,439	137,410
Total liabilities	8,174,894	7,406,582
Net assets:		
Without donor restrictions:		
Undesignated	(710,205)	(7,264)
With donor restrictions:		
Purpose restrictions	42,588	17,486
Perpetual in nature	10,000	10,000
Total net assets (deficit)	(657,617)	20,222
Total liabilities and net assets	$ 7,517,277	$ 7,426,804

See accompanying notes to financial statements.

EVANS MEMORIAL HOSPITAL, INC.

COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
for the years ended September 30, 2019 and 2018

	2019	2018
Revenues, gains and other support:		
Net patient service revenue	$ 10,312,481	$ 10,645,501
Other revenue	962,185	194,680
Total revenues, gains and other support	11,274,666	10,840,181
Operating expenses:		
Salaries and wages	6,073,566	5,796,475
Employee health and welfare	1,239,443	863,233
Supplies and other	2,126,210	2,140,756
Purchased services	2,902,605	2,689,762
Interest	274,976	248,707
Depreciation	730,301	781,085
Total operating expenses	13,347,101	12,520,018
Operating loss	(2,072,435)	(1,679,837)
Other income:		
Interest income	17,487	22,730
Contributions from Evans County for Revenue Certificate interest	261,972	210,000
Rural hospital tax credit	192,427	816,097
Other contributions	617,608	171,399
Excess expenses	(982,941)	(459,611)
Net assets without donor restrictions:		
Contribution from Evans County for Revenue Certificate principal	280,000	270,000
Decrease in net assets without donor restrictions	(702,941)	(189,611)

Continued

EVANS MEMORIAL HOSPITAL, INC.

COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS, Continued
for the years ended September 30, 2019 and 2018

	2019	2018
Net assets with donor restrictions:		
Investment income	$ 102	$ 38
Dorothy Blocker Scholarship	25,000	-
Increase in net assets with donor restrictions	25,102	38
Decrease in net assets	(677,839)	(189,573)
Net assets, beginning of year	20,222	209,795
Net assets (deficit), end of year	$ (657,617)	$ 20,222

See accompanying notes to financial statements.

EVANS MEMORIAL HOSPITAL, INC.

COMBINED STATEMENTS OF CASH FLOWS
for the years ended September 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Decrease in net assets	$ (677,839)	$ (189,573)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contribution from Evans County for Revenue Certificate principal	(280,000)	(270,000)
Depreciation and amortization	751,662	802,496
Changes in:		
Patient accounts receivable	76,966	206,948
Supplies	(1,652)	8,704
Other current assets	138,029	5,620
Accounts payable	845,382	(664,838)
Accrued expenses	345,794	137,502
Estimated third-party payor settlements	234,127	51,103
Net cash provided by operating activities	1,432,469	87,962
Cash flows from investing activities:		
Purchase of property and equipment	(1,087,364)	(132,024)
Sale (purchase) of assets limited as to use, net	(246,893)	653,659
Net cash provided (used) by investing activities	(1,334,257)	521,635

Continued

EVANS MEMORIAL HOSPITAL, INC.

COMBINED STATEMENTS OF CASH FLOWS, Continued
for the years ended September 30, 2019 and 2018

	2019	2018
Cash flows from financing activities:		
Contribution from Evans County for Revenue Certificate principal	$ 280,000	$ 270,000
Proceeds from long-term debt	-	134,918
Payments on long-term debt	(325,683)	(308,069)
Payments on capital lease obligations	(202,467)	(183,457)
Net cash used by financing activities	(248,150)	(86,608)
Net increase (decrease) in cash	(149,938)	522,989
Cash, beginning of year	812,248	289,259
Cash, end of year	$ 662,310	$ 812,248
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	$ 211,398	$ 239,749

The Hospital entered into capital lease obligations in the amount of $286,882 for new equipment in 2018.

See accompanying notes to financial statements.

1. Summary of Significant Accounting Policies

Organization

On October 1, 1996, the Hospital Authority of Evans County (Authority) implemented a reorganization plan whereby all assets, liabilities, and management of the Authority were transferred to Evans Memorial Hospital, Inc. (Hospital) under a 40-year lease.

Evans Memorial Hospital, Inc. manages and operates Evans Memorial Hospital, a 49-bed acute care not-for-profit hospital. Beginning October 1, 2017, Evans Memorial Hospital opened a 10-bed inpatient behavioral health unit.

Evans Memorial Foundation, Inc. (Foundation) was established to raise funds of any kind or character to be used exclusively for charitable, medical education, and scientific purposes at or in connection with Evans Memorial Hospital, Inc.

Basis of Presentation

The accompanying financial statements have been prepared by combining the financial statements of Evans Memorial Hospital, Inc. and Evans Memorial Foundation, Inc. All material interfacility transactions have been eliminated in the combined financial statements.

Use of Estimates

The preparation of the combined financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets 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.

Deferred Financing Cost

Costs related to the issuance of long-term debt were deferred and are being amortized over the life of the related debt. These costs are reported on the combined balance sheets as a direct deduction from the carrying amount of the related debt liability.

Supplies

Supplies are stated at the lower of cost and net realizable value, using the first-in, first-out method.

Continued

1. Summary of Significant Accounting Policies, Continued

Assets Limited as To Use

Assets limited as to use primarily include assets held by trustees under indenture agreements, assets restricted by donor, and assets set aside for employee benefits over which the Board retains control and may at its discretion subsequently use for other purposes. Amounts required to meet current liabilities of the Hospital have been reclassified in the combined balance sheets at September 30, 2019 and 2018.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed on the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the combined financial statements. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

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

Impairment of Long-Lived Assets

The Hospital evaluates on an ongoing basis the recoverability of its assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is required to be recognized if the carrying value of the asset exceeds the undiscounted future net cash flows associated with that asset. The impairment loss to be recognized is the amount by which the carrying value of the long-lived asset exceeds the asset's fair value. In most instances, the fair value is determined by discounted estimated future cash flows using an appropriate interest rate. The Hospital has not recorded any impairment charges in the accompanying combined statement of operations and changes in net assets for the years ended September 30, 2019 and 2018.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Continued

1. Summary of Significant Accounting Policies, Continued

Net Assets, Continued

Net assets without donor restrictions – net assets available for use in general operations and not subject to donor imposed restrictions. The Board has discretionary control over these resources. Designated amounts represent those net assets that the Board has set aside for a particular purpose. All revenue not restricted by donors and donor restricted contributions whose restrictions are met in the same period in which they are received are accounted for in net assets without donor restrictions.

Net assets with donor restrictions – net assets subject to donor imposed restrictions. Some donor imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. All revenues restricted by donors as to either timing or purpose of the related expenditures or required to be maintained in perpetuity as a source of investment income are accounted for in net assets with donor restrictions. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Excess Expenses

The combined statement of operations and changes in net assets includes excess expenses. Changes in net assets without donor restrictions which are excluded from excess expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net 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, and others and include variable consideration for retroactive revenue adjustments under reimbursement arrangements with third-party payors. Retroactive adjustments are included in the determination of the estimated transaction price and adjusted in future periods as final settlements are determined.

Continued

1. Summary of Significant Accounting Policies, Continued

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 revenue.

Donor Restricted Gifts

Unconditional promises to give cash and other assets to the Hospital are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as increases in the appropriate categories of net assets in accordance with donor restrictions. Operating grant funding, whose restrictions were met in the same period as received, are included in other revenue on the combined statements of operations and changes in net assets.

Estimated Malpractice and Other Self-Insurance Costs

The provisions for estimated medical malpractice claims and other claims under self-insurance plans include estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Income Taxes

The Hospital and Foundation are not-for-profit corporations that have been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code.

The Hospital and Foundation apply accounting policies that prescribe when to recognize and how to measure the financial statement effects of income tax positions taken or expected to be taken on its income tax returns. These rules require management to evaluate the likelihood that, upon examination by the relevant taxing jurisdictions, those income tax positions would be sustained. Based on that evaluation, the Hospital and Foundation only recognize the maximum benefit of each income tax position that is more than 50% likely of being sustained. To the extent that all or a portion of the benefits of an income tax position are not recognized, a liability would be recognized for the unrecognized benefits, along with any interest and penalties that would result from disallowance of the position. Should any such penalties and interest be incurred, they would be recognized as operating expenses.

Continued

1. Summary of Significant Accounting Policies, Continued

Income Taxes, Continued

Based on the results of management's evaluation, no liability is recognized in the accompanying combined balance sheets for unrecognized income tax positions. Further, no interest or penalties have been accrued or charged to expense as of September 30, 2019 and 2018 or for the years then ended. The Hospital's and Foundation's tax returns are subject to possible examination by the taxing authorities. For federal income tax purposes, the tax returns essentially remain open for possible examination for a period of three years after the respective filing deadlines of those returns.

Fair Value Measurements

FASB ASC 820, *Fair Value Measurement and Disclosures* defines fair value as the amount that would be received for an asset or paid to transfer a liability (i.e., an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC 820 also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

FASB ASC 820 describes the following three levels of inputs that may be used:

- *Level 1:* Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets and liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

- *Level 2:* Observable prices that are based on inputs not quoted on active markets but corroborated by market data.

- *Level 3:* Unobservable inputs when there is little or no market data available, thereby requiring an entity to develop its own assumptions. The fair value hierarchy gives the lowest priority to Level 3 inputs.

Recently Adopted Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which is a new comprehensive revenue recognition standard. The core principle of the revenue model 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 Hospital adopted ASU No. 2014-09 on October 1, 2018 using the full retrospective method of transition with practical expedients in FASB ASC 606-10-65-1(f) with no significant impact. The Hospital performed an analysis of revenue streams and transactions under ASU No. 2014-09. In particular, for net patient service revenue, the Hospital performed an analysis into the application of the portfolio approach as a practical expedient to group patient contracts with similar characteristics, such

Continued

1. Summary of Significant Accounting Policies, Continued

Recently Adopted Accounting Pronouncements, Continued

that revenue for a given portfolio would not be materially different than if it were evaluated on a contract-by-contract basis. Upon adoption, the majority of what was previously classified as provision for bad debts (representing approximately $3.7 million for the year ended September 30, 2018) and presented as a reduction to net patient service revenue on the combined statements of operations and changes in net assets is now treated as a price concession that reduces the transaction price, which is reported as net patient service revenue. Changes in credit issues not assessed at the date of service, are recognized as bad debt expense and included as a component of operating expenses on the combined statements of operations and changes in net assets. The new standard also requires enhanced disclosures related to the disaggregation of revenue and significant judgments made in measurement and recognition. The adoption of this guidance did not materially impact total operating revenues, excess expenses, or net assets.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This comprehensive standard provides guidance on net asset classification and required disclosures on liquidity and availability of resources, requires expanded disclosure about expense and investment returns, and eliminates the requirement to present or disclose the indirect method reconciliation if using the direct method when presenting cash flows. The standard is effective for annual periods beginning after December 15, 2017. The Hospital has adjusted the presentation of these combined financial statements for all periods presented, except for the disclosures around liquidity and availability of resources and analysis of expenses by nature and function. Those disclosures have been presented for 2019 only, as allowed by ASU No. 2016-14.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958) Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The update assists entities in determining when a transaction should be accounted for as a contribution or as an exchange transaction and provides additional guidance about how to determine whether a contribution is conditional. The Hospital adopted the new guidance for the year ending September 30, 2019 and adoption did not have a material impact on the combined financial statements.

Accounting Pronouncement Not Yet Adopted

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows – Restricted Cash*, which requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The provisions of ASU 2016-18 are effective for annual periods beginning after December 15, 2018. The Hospital is continuing to evaluate the impact the guidance will have on the combined financial statements.

Continued

1. Summary of Significant Accounting Policies, Continued

Prior Year Reclassifications

Certain reclassifications have been made to the fiscal year 2018 combined financial statements to conform to the fiscal year 2019 presentation. These reclassifications had no impact on the change in net assets in the accompanying combined financial statements.

Subsequent Event

In preparing these combined financial statements, the Hospital has evaluated events and transactions for potential recognition or disclosure through April 28, 2020, the date the combined financial statements were issued. As a result of the spread of COVID-19 coronavirus, economic uncertainties have arisen. The outbreak is likely to put an unprecedented strain on the U.S. economy, disrupt or delay production and delivery of materials and products in the supply chain, and cause staffing shortages. The extent of the impact of COVID-19 on the Hospital's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on the Hospital's patients, employees, and vendors all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the Hospital's financial position or results of operations is uncertain.

On March 27, 2020, the President signed the *Coronavirus Aid, Relief and Economic Security Act* (CARES Act). Certain provisions of the CARES Act provide relief funds to hospitals and other healthcare providers. The funding will be used to support healthcare related expenses or lost revenue attributable to COVID-19. The U.S. Department of Health and Human Services began distributing funds on April 10, 2020 to eligible providers in an effort to provide relief to both providers in areas heavily impacted by COVID-19 and those providers who are struggling to keep their doors open due to healthy patients delaying care and canceling elective services. The total amount of support the Hospital is eligible to receive is uncertain at this time.

2. Net Patient Service Revenue

Net 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 and/or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Continued

2. 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 receiving inpatient acute care and outpatient services. The Hospital measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. These services are considered to be a single performance obligation and have a duration of less than one year. Revenue for performance obligations satisfied at a point in time is recognized when services are provided and the Hospital does not believe it is required to provide additional services to the patient.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Hospital has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

The Hospital is utilizing the portfolio approach practical expedient in ASC 606 for contracts related to net patient service revenue. The Hospital accounts for the contracts within each portfolio as a collective group, rather than individual contracts, based on the payment pattern expected in each portfolio category and the similar nature and characteristics of the patients within each portfolio. As a result, the Hospital has concluded that revenue for a given portfolio would not be materially different than if accounting for revenue on a contract by contract basis.

The Hospital has arrangements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates, subject to certain discounts and implicit price concessions as determined by the Hospital. The Hospital determines the transaction price based on standard charges for 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. Implicit price concessions represent the difference between amounts billed and the estimated consideration the Hospital expects to receive from patients, which are determined based on historical collection experience, current market conditions, and other factors. The Hospital determines its estimates of contractual adjustments and discounts based on contractual agreements, discount policies, and historical experience.

Continued

2. Net Patient Service Revenue, Continued

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

- Medicare

  Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

  The Hospital is reimbursed for certain reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor (MAC). The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital. The Hospital's Medicare cost reports have been audited by the MAC through September 30, 2014. The Medicare cost report for fiscal year 2010 was reopened during 2019 resulting in recognized income in 2019 of approximately $30,000.

- Medicaid

  Inpatient acute care services rendered to Medicaid program beneficiaries are paid at a prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services rendered to the Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary. The Hospital's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through September 30, 2015.

  The Hospital also contracts with certain managed care organizations to receive reimbursement for providing services to selected enrolled Medicaid beneficiaries. Payment arrangements with these managed care organizations consist primarily of prospectively determined rates per discharge, discounts from established charges, or prospectively determined per diems.

  The Hospital participates in the Georgia Indigent Care Trust Fund (ICTF) Program. The Hospital receives ICTF payments for treating a disproportionate number of Medicaid and other indigent patients. ICTF payments are based on the Hospital's estimated uncompensated cost of services to Medicaid and uninsured patients. The amount of ICTF payments recognized in net patient service revenue was approximately $196,000 and $353,000 for the years ended September 30, 2019 and 2018, respectively.

Continued

2. Net Patient Service Revenue, Continued

- Medicaid, Continued

  The Medicare, Medicaid and SCHIP Benefits Improvement and Protection Act of 2000 (BIPA) provides for payment adjustments to certain facilities based on the Medicaid Upper Payment Limit (UPL). The UPL payment adjustments are based on a measure of the difference between Medicaid payments and the amount that could be paid based on Medicare payment principles. The net amount of UPL payment adjustments recognized in net patient service revenue was approximately $47,000 and $74,000 for the years ended September 30, 2019 and 2018, respectively.

  During 2010, the state of Georgia enacted legislation known as the Provider Payment Agreement Act (Act) whereby hospitals in the state of Georgia are assessed a "provider payment" in the amount of 1.45% of their net patient service revenue. The Act became effective July 1, 2010, the beginning of state fiscal year 2011. The provider payments are due on a quarterly basis to the Department of Community Health. The payments are to be used for the sole purpose of obtaining federal financial participation for medical assistance payments to providers on behalf of Medicaid recipients. The provider payment will result in an increase in hospital payments on Medicaid services of approximately 11.88%. Approximately $154,000 and $192,000 relating to the Act is included in supplies and other in the accompanying combined statements of operations and changes in net assets for the years ended September 30, 2019 and 2018, respectively.

- Uninsured Patients

  The Hospital has a Financial Assistance Policy (FAP) in accordance with Internal Revenue Code Section 501(r). Based on the FAP, following a determination of financial assistance eligibility, an individual will not be charged more than the Amounts Generally Billed (AGB) for emergency or other medical care provided to individuals with insurance covering that care. AGB is calculated by reviewing the claims that have been paid in full (including deductibles and coinsurance paid by the patient) to the Hospital for medically necessary care by Medicare and private health insurers during a 12-month look-back period.

- Other Agreements

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

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.

Continued

2. Net Patient Service Revenue, Continued

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 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. Adjustments arising from a change in the transaction price, were not significant in 2019 or 2018.

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 and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Adjustments arising from a change in the transaction price were not significant for the year ending September 30, 2019 and 2018. 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. Bad debt expense for the years ended September 30, 2019 and 2018 was not significant.

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).

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.

Continued

2. Net Patient Service Revenue, Continued

Net patient service revenue for hospital services transferred over time by major payor source for the years ended September 30, 2019 and 2018 is as follows:

	Net Patient Service Revenue				
	Medicare	Medicaid	Third-Party Payors	Self-Pay	Total All Payors
2019	$ 3,264,356	$ 1,466,382	$ 5,415,260	$ 166,483	$ 10,312,481
2018	$ 3,798,025	$ 1,404,344	$ 5,280,783	$ 162,349	$ 10,645,501

Hospital net patient service revenue includes a variety of services mainly covering inpatient acute care services requiring overnight stays, outpatient procedures that require anesthesia or use of the Hospital's diagnostic and surgical equipment, and emergency care services. Performance obligations for hospital patient services are satisfied over time as the patient simultaneously receives and consumes the benefits the Hospital performs. Requirements to recognize revenue for inpatient services are generally satisfied over periods that average approximately five days and for outpatient services are generally satisfied over a period of less than one day.

The Hospital has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the Hospital's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, the Hospital does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

The Hospital has applied the practical expedient provided by FASB ASC 340-40-25-4 and all incremental customer contract acquisition costs are expensed as they are incurred as the amortization period of the asset that the Hospital otherwise would have recognized is one year or less in duration.

Continued

3. Uncompensated Services

The Hospital was compensated for services at amounts less than its established rates.

The cost of charity and indigent care services provided during 2019 and 2018 was $136,899 and $67,449, respectively, computed by applying a total cost factor to the charges forgone.

The following is a summary of uncompensated services and a reconciliation of gross patient charges to net patient service revenue for 2019 and 2018:

	2019	2018
Gross patient charges	$ 52,784,750	$ 51,811,856
Uncompensated services:		
Charity and indigent care	541,405	278,865
Medicare	13,263,832	13,757,562
Medicaid	5,153,816	4,090,567
Other third-party payors	21,523,051	19,385,930
Price concessions	1,990,165	3,653,431
Total uncompensated care	42,472,269	41,166,355
Net patient service revenue	$ 10,312,481	$ 10,645,501

4. Assets Limited as to Use

The composition of assets limited as to use at September 30, 2019 and 2018 is set forth in the following table. Assets limited as to use consist of cash and are stated at fair value.

The Hospital has designated cash listed below for employee benefits:

	2019	2018
Internally designated for employee benefits:		
Cash	$ 82,783	$ 108,005

Continued

4. Assets Limited as to Use, Continued

In accordance with the Bond Indenture for the 2006 Series, the Hospital has set aside the following fund:

	2019	2018
Under indenture agreement - held by trustee		
Cash	$ 743,808	$ 496,796

In accordance with donor restrictions, the Hospital has set aside the following fund:

	2019	2018
By donor:		
Dorothy Blocker Scholarship - Cash	$ 52,589	$ 27,486

5. Property and Equipment

A summary of property and equipment at September 30, 2019 and 2018 follows:

	2019	2018
Land	$ 190,328	$ 190,328
Land improvements	77,297	59,160
Buildings and improvements	11,097,405	10,777,737
Equipment	8,401,952	7,630,752
Equipment under capital lease obligations	2,731,370	2,731,370
Construction in progress	-	21,641
	22,498,352	21,410,988
Less accumulated depreciation and amortization	17,908,896	17,178,595
Property and equipment, net	$ 4,589,456	$ 4,232,393

Depreciation expense for the years ended September 30, 2019 and 2018 amounted to approximately $730,000 and $781,000, respectively. Accumulated amortization for equipment under capital lease obligations was approximately $2,419,000 and $2,229,000 at September 30, 2019 and 2018, respectively.

Continued

6. Long-Term Debt and Capital Leases

A summary of long-term debt and capital leases at September 30, 2019 and 2018 follows:

	2019	2018
2006 Series Revenue Certificates, payable in varying annual amounts from $270,000 in 2018 to $465,000 in 2032, with an interest rate of 4%.	$ 4,835,000	$ 5,115,000
Note payable, with an interest rate of 3.00%, due November 2022 in 60 equal monthly payments.	127,248	172,931
Capital lease obligations, at imputed interest rate of 3.750%, collateralized by leased equipment.	98,916	176,771
Capital lease obligations, at imputed interest rate of 6%, collateralized by leased equipment.	427,710	552,322
	5,488,874	6,017,024
Less unamortized debt issue costs	119,507	140,868
Less current portion	525,133	518,230
Total	$ 4,844,234	$ 5,357,926

In December 2006, the Authority issued Refunding and Improvement Revenue Anticipation Certificates, Series 2006. In accordance with the lease and transfer agreement noted in Note 1, Evans Memorial Hospital, Inc. assumed the responsibility of paying this debt. The Certificates were issued to finance various capital improvements of Evans Memorial Hospital and related facilities and to advance refund the Series 1996 Revenue Certificates. The 1996 Certificates were called and paid in full in February 2007.

The terms of the bond agreement require the Hospital to maintain certain deposits with a trustee. Such deposits are included with assets limited as to use in the combined financial statements. The agreement also places limits on the incurrence of additional borrowings by Evans Memorial Hospital.

The bonds are collateralized by the assets and the revenues of the Hospital.

Continued

6. Long-Term Debt and Capital Leases, Continued

Scheduled sinking fund requirements and payments on capital lease obligations for the next five years are as follows:

	Sinking Fund Requirements	Obligations Under Capital Leases
2020	$ 519,733	$ 217,821
2021	519,214	166,640
2022	523,235	149,762
2023	477,460	40,134
2024	477,400	-
Thereafter	3,814,100	-
	6,331,142	574,357
Less amount representing interest on requirements and obligations under capital leases	1,368,894	47,731
Total	$ 4,962,248	$ 526,626

7. Defined Contribution Plan

The Hospital has a defined contribution retirement plan for its employees. All employees who are at least 21 years of age, have been employed for at least one year, and have worked 1,000 or more hours during the prior service year are eligible to participate in the plan. Each employee may contribute up to 100% of their total wages each pay period. At its discretion, the Hospital may make additional employer contributions to the plan. The Hospital made no contributions to the retirement plan for 2019 or 2018.

Continued

8. Concentrations of Credit Risk

The Hospital has operations in Claxton, Georgia and other nearby communities and grants credit without collateral to 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:

	2019	2018
Medicare	23%	26%
Medicaid	12%	7%
Blue Cross	7%	8%
Other third-party payors	53%	48%
Patients	5%	11%
Total	100%	100%

There has been increasing pressure on Congress and some state legislatures to control and reduce the cost of healthcare on the national or at the state level. Legislation has been passed that includes cost controls on hospitals, insurance market reforms, delivery system reforms and various individual and business mandates among other provisions. The costs of certain provisions will be funded in part by reductions in payments by government programs, including Medicare and Medicaid. There can be no assurance that these changes will not adversely affect the Hospital.

9. Bank Deposits

At September 30, 2019, the Hospital had deposits at major financial institutions which exceeded Federal Depository Insurance limits. These institutions have strong credit ratings and management believes the credit risks related to these deposits are minimal.

10. Malpractice Insurance and Contingencies

The Hospital is covered by a general and professional liability insurance policy with a specified deductible per incident and excess coverage on a claims-made basis. Liability limits related to this policy in 2019 and 2018 are $1 million per occurrence and $3 million in aggregate. The Hospital uses a third-party administrator to review and analyze incidents that may result in a claim against the Hospital. In conjunction with the third-party administrator, incidents are assigned reserve amounts for the ultimate liability that may result from an asserted claim.

Continued

10. Malpractice Insurance and Contingencies, Continued

The Hospital is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Hospital's future financial position or results from operations.

11. Employee Health Insurance

The Hospital is self-insured for employee health insurance under which a third-party administrator processes and pays claims. The Hospital reimburses the third-party administrator for claims incurred and paid and has purchased stop-loss insurance coverage for claims in excess of $100,000 for each individual employee. Total expenses relative to this plan were approximately $722,000 and $509,000 for 2019 and 2018, respectively.

12. Fair Values of Financial Instruments

The following methods and assumptions were used by the Hospital in estimating the fair value of its financial instruments:

- *Cash, assets limited as to use, accounts payable, accrued expenses, and estimated third-party payor settlements*: The carrying amount reported in the combined balance sheets approximates its fair value due to the short-term nature of these instruments.

- *Deferred compensation payable*: The carrying amount reported in the combined balance sheets for deferred compensation payable approximates its fair value.

- *Long-term debt*: The fair value of the Hospital's fixed rate long-term debt is estimated using discounted cash flow analyses, based on the Hospital's current incremental borrowing rates for similar types of borrowing arrangements. Based on inputs used in determining the estimated fair value, the Hospital's long-term debt would be classified as Level 2 in the fair value hierarchy.

The carrying amounts and fair value of the Hospital's long-term debt at September 30, 2019 and 2018 are as follows:

	2019		2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	$ 4,962,248	$ 5,004,922	$ 5,287,931	$ 5,524,786

Continued

13. Functional Expenses

The Hospital provides general health care services to residents within its geographic location. Expenses related to providing these services for 2019 are as follows:

	Health Care Services	General and Administrative	Total
Salaries and wages	$ 4,861,309	$ 1,212,257	$ 6,073,566
Employee health and welfare	992,056	247,387	1,239,443
Supplies and other	1,574,106	552,104	2,126,210
Purchased services	2,307,845	594,760	2,902,605
Interest	253,768	21,208	274,976
Depreciation	673,975	56,326	730,301
	$ 10,663,059	$ 2,684,042	$ 13,347,101

For 2018, the Hospital had $10,447,960 of health care services and $2,072,058 in general and administrative expenses.

The combined financial statements report certain expense categories that are attributable to more than one health care service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation and amortization, interest expense, and other occupancy costs are allocated to a function based on a square footage basis. Benefit expense is allocated consistent with salaries.

14. Compliance Plan

The healthcare industry has recently been subjected to increased scrutiny from governmental agencies at both the national and state level with respect to compliance with regulations. Areas of noncompliance identified at the national level include Medicare and Medicaid, Internal Revenue Service, and other regulations governing the healthcare industry. The Hospital has developed a compliance plan focusing on such issues. There can be no assurance that the Hospital will not be subjected to future investigations with accompanying monetary damages.

Continued

15. Rural Hospital Tax Credit Contributions

The State of Georgia (State) passed legislation which allows individuals or corporations to receive a State tax credit for making a contribution to certain qualified rural hospital organizations. The Hospital submitted the necessary documentation and was approved by the State to participate in the rural hospital tax credit program for calendar year 2018 and 2019. Contributions received under the program approximated $192,000 and $816,000 during the Hospital's fiscal years 2019 and 2018, respectively.

16. Liquidity and Availability

Financial assets available for general expenditure within one year of the balance sheet date, consists of the following at September 30, 2019:

Cash and cash equivalents	$ 662,310
Patient accounts receivable, net	1,214,250
Other receivables	68,532
Assets limited as to use:	
Internally designated for employee benefits	82,783
Total financial assets available	$ 2,027,875

None of the financial assets available are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. The Hospital estimates that approximately 100% of the Board designated funds for employee benefits is available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the quantitative information above. The Hospital has other assets whose use is limited for other purposes. These assets whose use is limited are not available for general expenditure within the next year and are not reflected in the amounts above. However, certain board designated funds could be made available, if necessary. The Hospital has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

Continued

17. Going Concern

As indicated in the accompanying combined financial statements, the Hospital has experienced financial difficulties due to recurring operating losses, decreasing cash reserves, and increasing accounts payable over recent years. Management has evaluated whether there are conditions or events that raise substantial doubt about the Hospital's ability to continue as a going concern. Ultimately, management believes they will be unable to meet its obligations as they become due for a period of one year from the date the combined financial statements are issued and conclude substantial doubt is raised. Management has adopted a plan focused on improving short-term financial performance as follows:

- *Evans County Support*

  Evans County has contributed significant funds to support operations and for the repayment of the 2006 Series Revenue Certificates to the Hospital over the past several years. In addition to the support historically provided to the Hospital, the County has agreed to provide an additional $300,000 in monthly installments of $50,000 during the six-month period ending August 2020. These monthly contributions will also be matched by a local foundation during the six-month period ending August 2020 for an additional $300,000.

- *Request for Proposal*

  Subsequent to the date of the combined financial statements, management sent a request for proposal welcoming any type of affiliation, partnership, joint venture, purchase, or other arrangement for interested parties to facilitate or expand health care services in the community. At the time of preparing the combined financial statements, the outcome of this action is uncertain.