

EVANS MEMORIAL HOSPITAL, INC.
CLAXTON, GEORGIA

COMBINED FINANCIAL STATEMENTS

for the years ended September 30, 2020 and 2019



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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying combined financial statements of Evans Memorial Hospital, Inc., which comprise the combined balance sheets as of September 30, 2020 and 2019, 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. For the year ended September 30, 2020, we also conducted our audit in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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.

Continued

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

Opinion

In our opinion, the 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, 2020 and 2019, 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.

Emphasis of Matter

The Hospital has reported recurring operating losses and, as discussed in Note 19 to the combined financial statements, has an economic dependency on Evans County. Management's evaluation of the events and conditions and management's plan to mitigate these matters are described in Note 20. Our opinion is not modified with respect to that matter.

Change in Accounting Principle

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. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, in 2020 and fiscal year 2019 was recast to conform to the new presentation. Our opinion is not modified with respect to that matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2021, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

Draffin & Tucker, LLP

Albany, Georgia
April 27, 2021

EVANS MEMORIAL HOSPITAL, INC.

COMBINED BALANCE SHEETS
September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Current assets:		
Cash	\$ 4,146,603	\$ 662,310
Assets limited as to use for current obligations	354,979	412,511
Patient accounts receivable, net	1,480,696	1,214,250
Supplies	81,933	79,673
Other current assets	<u>211,681</u>	<u>91,571</u>
Total current assets	<u>6,275,892</u>	<u>2,460,315</u>
Assets limited as to use:		
Internally designated for employee benefits	60,173	82,783
Under indenture agreement - held by trustee	742,448	743,808
By donor:		
Dorothy Blocker Scholarship	<u>52,662</u>	<u>52,589</u>
	855,283	879,180
Less amount required to meet current obligations	<u>354,979</u>	<u>412,511</u>
Noncurrent assets limited as to use	<u>500,304</u>	<u>466,669</u>
Property and equipment, net	<u>4,267,232</u>	<u>4,589,456</u>
Other assets	<u>837</u>	<u>837</u>
Total assets	<u>\$ 11,044,265</u>	<u>\$ 7,517,277</u>

Continued

	<u>2020</u>	<u>2019</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt and capital lease obligations	\$ 503,662	\$ 525,133
Current portion of Medicare advance payments	48,662	-
Accounts payable	297,178	1,398,370
Accrued expenses	883,156	1,061,431
Estimated third-party payor settlements	331,555	218,287
HHS refundable advance	<u>3,614,348</u>	<u>-</u>
Total current liabilities	5,678,561	3,203,221
Medicare advance payments, excluding current portion	1,119,227	-
Paycheck Protection Program loan	1,349,200	-
Long-term debt and capital lease obligations, net of current portion	4,380,625	4,844,234
Deferred compensation payable	<u>117,467</u>	<u>127,439</u>
Total liabilities	<u>12,645,080</u>	<u>8,174,894</u>
Net assets:		
Without donor restrictions:		
Undesignated	(1,653,477)	(710,205)
With donor restrictions:		
Purpose restrictions	42,662	42,588
Perpetual in nature	<u>10,000</u>	<u>10,000</u>
Total net deficit	<u>(1,600,815)</u>	<u>(657,617)</u>
Total liabilities and net assets	<u>\$ 11,044,265</u>	<u>\$ 7,517,277</u>

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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Revenues, gains and other support:		
Net patient service revenue	\$ 11,062,164	\$ 10,312,481
Other revenue	<u>733,652</u>	<u>843,624</u>
Total revenues, gains and other support	<u>11,795,816</u>	<u>11,156,105</u>
Operating expenses:		
Salaries and wages	6,941,602	6,073,566
Employee health and welfare	1,117,650	1,239,443
Supplies and other	2,253,386	2,126,210
Purchased services	2,869,985	2,902,605
Interest	151,491	274,976
Depreciation	<u>782,035</u>	<u>730,301</u>
Total operating expenses	<u>14,116,149</u>	<u>13,347,101</u>
Operating loss	(2,320,333)	(2,190,996)
Other income:		
Interest income	6,405	17,487
Contributions from Evans County for		
Revenue Certificate interest	293,305	261,972
Rural hospital tax credit contributions	172,240	192,427
Other contributions	<u>615,111</u>	<u>736,169</u>
Excess expenses	(1,233,272)	(982,941)
Net assets without donor restrictions:		
Contribution from Evans County for		
Revenue Certificate principal	<u>290,000</u>	<u>280,000</u>
Decrease in net assets without donor restrictions	<u>(943,272)</u>	<u>(702,941)</u>

Continued

EVANS MEMORIAL HOSPITAL, INC.

COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS, Continued
for the years ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Net assets with donor restrictions:		
Investment income	\$ 74	\$ 102
Dorothy Blocker Scholarship	<u>-</u>	<u>25,000</u>
Increase in net assets with donor restrictions	<u>74</u>	<u>25,102</u>
Decrease in net assets	(943,198)	(677,839)
Net assets (deficit), beginning of year	<u>(657,617)</u>	<u>20,222</u>
Net deficit, end of year	<u>\$ (1,600,815)</u>	<u>\$ (657,617)</u>

See accompanying notes to financial statements.

EVANS MEMORIAL HOSPITAL, INC.

COMBINED STATEMENTS OF CASH FLOWS
for the years ended September 30, 2020 and 2019

	<u>2020</u>	Restated <u>2019</u>
Cash flows from operating activities:		
Decrease in net assets	\$ (943,198)	\$ (677,839)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Contribution from Evans County for Revenue Certificate principal	(290,000)	(280,000)
Depreciation and amortization	803,397	751,662
Changes in:		
Patient accounts receivable	(266,446)	76,966
Supplies	(2,260)	(1,652)
Other current assets	(120,110)	138,029
Accounts payable	(1,101,192)	845,382
Accrued expenses	(188,247)	345,794
Estimated third-party payor settlements	113,268	234,127
Medicare advance payments	1,167,889	-
HHS refundable advance	<u>3,614,348</u>	<u>-</u>
Net cash provided by operating activities	<u>2,787,449</u>	<u>1,432,469</u>
Cash flows from investing activities:		
Purchase of property and equipment	<u>(459,811)</u>	<u>(1,087,364)</u>
Cash flows from financing activities:		
Contribution from Evans County for Revenue Certificate principal	290,000	280,000
Payments on long-term debt	(335,683)	(325,683)
Payments on capital lease obligations	(170,759)	(202,467)
Proceeds from PPP loan	<u>1,349,200</u>	<u>-</u>
Net cash provided (used) by financing activities	<u>1,132,758</u>	<u>(248,150)</u>
Net increase in cash	3,460,396	96,955
Cash, beginning of year	<u>1,541,490</u>	<u>1,444,535</u>
Cash, end of year	<u>\$ 5,001,886</u>	<u>\$ 1,541,490</u>

Continued

EVANS MEMORIAL HOSPITAL, INC.

COMBINED STATEMENTS OF CASH FLOWS, Continued
for the years ended September 30, 2020 and 2019

	<u>2020</u>	Restated <u>2019</u>
Reconciliation of cash to the combined balance sheets:		
Cash	\$ 4,146,603	\$ 662,310
Cash in assets limited as to use	<u>855,283</u>	<u>879,180</u>
Total	<u>\$ 5,001,886</u>	<u>\$ 1,541,490</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 212,421</u>	<u>\$ 211,398</u>

See accompanying notes to financial statements.

EVANS MEMORIAL HOSPITAL, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS
September 30, 2020 and 2019

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

EVANS MEMORIAL HOSPITAL, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
September 30, 2020 and 2019

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, 2020 and 2019.

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, 2020 and 2019.

Refundable Advance

A refundable advance arises when assets are recognized before revenue recognition criteria have been satisfied. Funding from HHS through the CARES Act are reported as a refundable advance until donor conditions such as qualifying expenditures have been substantially met. See note 17 for additional information.

Continued

EVANS MEMORIAL HOSPITAL, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
September 30, 2020 and 2019

1. Summary of Significant Accounting Policies, Continued

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:

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 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

EVANS MEMORIAL HOSPITAL, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
September 30, 2020 and 2019

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

EVANS MEMORIAL HOSPITAL, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
September 30, 2020 and 2019

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, 2020 and 2019 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 November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The ASU requires entities to show the changes in the total cash, cash equivalents, restricted cash, and restricted cash equivalents in the statement of cash flows and reconcile those amounts to the balance sheet. The Hospital adopted ASU 2016-18 in 2020 and applied the provisions retrospectively to all periods presented in the combined financial statements. For the years ended September 30, 2020 and 2019, the Hospital included approximately \$855,000 and \$879,000, respectively, of restricted cash and cash equivalents to the total cash and cash equivalents presented in the combined statements of cash flows. The adoption of ASU 2016-18 had no impact to total revenues, gains, and other support, excess expenses, or total net assets.

Continued

EVANS MEMORIAL HOSPITAL, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
September 30, 2020 and 2019

1. Summary of Significant Accounting Policies, Continued

Recently Adopted Accounting Pronouncements, Continued

In June 2020, the FASB issued ASU No. 2020-05, *Revenue from Contracts with Customers* (Topic 606) and *Leases* (Topic 842), *Effective Dates for Certain Entities*. The ASU was issued to provide relief for certain entities in light of the COVID-19 pandemic by deferring the effective dates of certain Updates, including subsequent amendments. The ASU is effective immediately. Earlier application of amendments are permitted to the extent specified in each Update as originally issued.

Prior Year Reclassifications

Certain reclassifications have been made to the fiscal year 2019 combined financial statements to conform to the fiscal year 2020 presentation. These reclassifications had no impact on the change in net assets in the accompanying combined financial statements.

Accounting Pronouncement Not Yet Adopted

In February 2016, the FASS issued ASU No. 2016-02, *Leases* (Topic 842), which is a new comprehensive lease accounting model. The new standard clarifies the definition of a lease and requires lessees to recognize right-of-use assets and related lease liabilities for all leases with terms greater than twelve months. The new guidance, including subsequent amendments, is effective for the Hospital as of October 1, 2020, with ASU 2020-05 deferral. The Hospital is continuing to evaluate the impact the guidance will have on the combined financial statements.

Subsequent Events

In preparing these combined financial statements, the Hospital has evaluated events and transactions for potential recognition through April 27, 2021, the date the financial statements were issued.

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

EVANS MEMORIAL HOSPITAL, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
September 30, 2020 and 2019

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

EVANS MEMORIAL HOSPITAL, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
September 30, 2020 and 2019

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, 2015. The Medicare cost report for fiscal year 2010 was reopened during 2019 resulting in recognized income in 2019 of approximately \$30,000.

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, 2018.

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 \$550,000 and \$196,000 for the years ended September 30, 2020 and 2019, respectively.

Continued

EVANS MEMORIAL HOSPITAL, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
September 30, 2020 and 2019

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 \$71,000 and \$47,000 for the years ended September 30, 2020 and 2019, 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 \$143,000 and \$154,000 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, 2020 and 2019, 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

EVANS MEMORIAL HOSPITAL, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
September 30, 2020 and 2019

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 2020 or 2019.

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, 2020 and 2019. 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, 2020 and 2019 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

EVANS MEMORIAL HOSPITAL, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
September 30, 2020 and 2019

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, 2020 and 2019 is as follows:

Net Patient Service Revenue					
	<u>Medicare</u>	<u>Medicaid</u>	<u>Third-Party Payors</u>	<u>Self-Pay</u>	<u>Total All Payors</u>
2020	<u>\$ 3,619,193</u>	<u>\$ 2,307,016</u>	<u>\$ 4,855,356</u>	<u>\$ 280,599</u>	<u>\$ 11,062,164</u>
2019	<u>\$ 3,264,356</u>	<u>\$ 1,466,382</u>	<u>\$ 5,415,260</u>	<u>\$ 166,483</u>	<u>\$ 10,312,481</u>

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

EVANS MEMORIAL HOSPITAL, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
September 30, 2020 and 2019

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 2020 and 2019 was \$191,611 and \$136,899, 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 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Gross patient charges	\$ 56,902,853	\$ 52,784,750
Uncompensated services:		
Charity and indigent care	772,392	541,405
Medicare	12,359,502	13,263,832
Medicaid	5,578,340	5,153,816
Other third-party payors	25,076,037	21,523,051
Price concessions	<u>2,054,418</u>	<u>1,990,165</u>
Total uncompensated care	<u>45,840,689</u>	<u>42,472,269</u>
Net patient service revenue	<u>\$ 11,062,164</u>	<u>\$ 10,312,481</u>

4. Assets Limited as to Use

The composition of assets limited as to use at September 30, 2020 and 2019 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:

	<u>2020</u>	<u>2019</u>
Internally designated for employee benefits:		
Cash	<u>\$ 60,173</u>	<u>\$ 82,783</u>

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

	<u>2020</u>	<u>2019</u>
Under indenture agreement - held by trustee		
Cash	<u>\$ 742,448</u>	<u>\$ 743,808</u>

Continued

EVANS MEMORIAL HOSPITAL, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
September 30, 2020 and 2019

4. Assets Limited as to Use, Continued

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

	<u>2020</u>	<u>2019</u>
By donor:		
Dorothy Blocker Scholarship - Cash	\$ <u>52,662</u>	\$ <u>52,589</u>

5. Property and Equipment

A summary of property and equipment at September 30, 2020 and 2019 follows:

	<u>2020</u>	<u>2019</u>
Land	\$ 190,328	\$ 190,328
Land improvements	77,297	77,297
Buildings and improvements	11,276,440	11,097,405
Equipment	8,682,728	8,401,952
Equipment under capital lease obligations	<u>2,731,370</u>	<u>2,731,370</u>
	22,958,163	22,498,352
Less accumulated depreciation and amortization	<u>18,690,931</u>	<u>17,908,896</u>
Property and equipment, net	\$ <u>4,267,232</u>	\$ <u>4,589,456</u>

Depreciation expense for the years ended September 30, 2020 and 2019 amounted to approximately \$782,000 and \$730,000, respectively. Accumulated amortization for equipment under capital lease obligations was approximately \$2,558,000 and \$2,419,000 at September 30, 2020 and 2019, respectively.

Continued

EVANS MEMORIAL HOSPITAL, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
September 30, 2020 and 2019

6. Long-Term Debt and Capital Leases

A summary of long-term debt and capital leases at September 30, 2020 and 2019 follows:

	<u>2020</u>	<u>2019</u>
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%.	\$ 4,545,000	\$ 4,835,000
Note payable, with an interest rate of 3.00%, due November 2022 in 60 equal monthly payments.	81,565	127,248
Capital lease obligations, at imputed interest rate of 3.750%, collateralized by leased equipment.	33,773	98,916
Capital lease obligations, at imputed interest rate of 6%, collateralized by leased equipment.	<u>322,094</u>	<u>427,710</u>
	4,982,432	5,488,874
Less unamortized debt issue costs	98,145	119,507
Less current portion	<u>503,662</u>	<u>525,133</u>
Total	<u>\$ 4,380,625</u>	<u>\$ 4,844,234</u>

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. Starting in fiscal year 2015, Evans County has provided financial support to the hospital for the payments on this debt. See note 19 for additional details. 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.

Continued

EVANS MEMORIAL HOSPITAL, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
September 30, 2020 and 2019

6. Long-Term Debt and Capital Leases

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.

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

	<u>Long-Term Debt</u>	<u>Obligations Under Capital Leases</u>
2021	\$ 521,483	\$ 175,349
2022	524,183	136,240
2023	482,985	67,188
2024	477,400	-
2025	478,500	-
Thereafter	<u>3,321,798</u>	<u>-</u>
	5,806,349	378,777
Less amount representing interest on requirements and obligations under capital leases	<u>1,179,784</u>	<u>22,910</u>
Total	<u>\$ 4,626,565</u>	<u>\$ 355,867</u>

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 2020 or 2019.

Continued

EVANS MEMORIAL HOSPITAL, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
September 30, 2020 and 2019

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:

	<u>2020</u>	<u>2019</u>
Medicare	15%	23%
Medicaid	10%	12%
Blue Cross	11%	7%
Other third-party payors	56%	53%
Patients	<u>8%</u>	<u>5%</u>
Total	<u>100%</u>	<u>100%</u>

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, 2020, 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 2020 and 2019 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.

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.

Continued

EVANS MEMORIAL HOSPITAL, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
September 30, 2020 and 2019

11. Employee Health Insurance

Effective January 1, 2020, the Hospital transitioned to a purchased policy through a third-party for employee health insurance. Prior to this date, the Hospital was self-insured for employee health insurance under which a third-party administrator processed and paid claims. The Hospital reimbursed the third-party administrator for claims incurred and paid and purchased stop-loss insurance coverage for claims in excess of \$100,000 for each individual employee. Total expenses relative to these plans were approximately \$455,000 and \$722,000 for 2020 and 2019, 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, estimated third-party payor settlements, HHS refundable advance, and Medicare advance payments:* 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, 2020 and 2019 are as follows:

	<u>2020</u>		<u>2019</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Long-term debt	\$ <u>5,975,765</u>	\$ <u>5,830,669</u>	\$ <u>4,962,248</u>	\$ <u>5,004,922</u>

Continued

EVANS MEMORIAL HOSPITAL, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
September 30, 2020 and 2019

13. Functional Expenses

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

	2020		
	<u>Health Care Services</u>	<u>General and Administrative</u>	<u>Total</u>
Salaries and wages	\$ 5,672,847	\$ 1,268,755	\$ 6,941,602
Employee health and welfare	913,370	204,280	1,117,650
Supplies and other	1,673,320	580,066	2,253,386
Purchased services	2,322,038	547,947	2,869,985
Interest	139,807	11,684	151,491
Depreciation	721,719	60,316	782,035
	<u>\$ 11,443,101</u>	<u>\$ 2,673,048</u>	<u>\$ 14,116,149</u>
	2019		
	<u>Health Care Services</u>	<u>General and Administrative</u>	<u>Total</u>
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
	<u>\$ 10,663,059</u>	<u>\$ 2,684,042</u>	<u>\$ 13,347,101</u>

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.

Continued

EVANS MEMORIAL HOSPITAL, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
September 30, 2020 and 2019

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.

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 2019 and 2020. Contributions received under the program approximated \$172,000 and \$192,000 during the Hospital's fiscal years 2020 and 2019, 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, 2020 and 2019, respectively.

	<u>2020</u>	<u>2019</u>
Cash	\$ 532,255	\$ 662,310
Patient accounts receivable, net	1,480,696	1,214,250
Other receivables	84,685	68,532
Assets limited as to use:		
Internally designated for employee benefits	<u>60,173</u>	<u>82,783</u>
Total financial assets available	<u>\$ 2,157,809</u>	<u>\$ 2,027,875</u>

Cash in the table above does not include amounts related to the HHS refundable advance restricted for healthcare-related expenses or lost revenue attributable to COVID-19 of \$3,614,348. No other 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. The Hospital has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

Continued

EVANS MEMORIAL HOSPITAL, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
September 30, 2020 and 2019

17. Coronavirus (COVID-19)

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen. The outbreak has put an unprecedented strain on the U.S. healthcare system, disrupted or delayed production and delivery of materials and products in the supply chain, and caused 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, remedial actions and stimulus measures adopted by local, state, and federal governments, and 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. On April 24, 2020, the Paycheck Protection Program and Health Care Enhancement Act was passed. This Act provides additional funding to replenish and supplement key programs under the CARES Act, including funds to health care providers for COVID-19 testing. The CARES Act funding is a conditional contribution and accounted for as a refundable advance until conditions have been substantially met or explicitly waived by the grantor. Because the use of the funds is limited to the purposes stated in the terms and conditions, the contributions are grantor restricted. The Hospital reports restricted contributions, whose restrictions are met in the same period in which they are recognized (simultaneous release), as net assets without donor restrictions. Recognized revenue is reported as other operating revenue in the statements of operations and changes in net assets. The Hospital has received approximately \$3.6 million in funding from HHS through the CARES Act and is reported as a HHS refundable advance liability on the balance sheet.

The CARES Act expanded the existing Medicare Accelerated and Advance Payment (MAAP) program by allowing qualifying providers to receive an advanced Medicare payment. The advanced payment will have to be repaid. Recoupment begins one year after the date of receipt of the advanced payment with 25% of each Medicare remittance advice withheld for the first 11 months of repayment, and 50% for the six months afterward. After the 29-month period, CMS will issue letters requiring payment of any outstanding balance, subject to an interest rate of 4%. In September 2020, the Hospital received approximately \$1.2 million in MAAP payments.

CARES Act funding may be subject to audits. While the Hospital currently believes its use of the funds is in compliance with applicable terms and conditions, there is a possibility payments could be recouped based on changes in reporting requirements or audit results.

Continued

EVANS MEMORIAL HOSPITAL, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
September 30, 2020 and 2019

18. Paycheck Protection Program

In April 2020, the Hospital received loan proceeds in the amount of \$1,349,200 under the Paycheck Protection Program (PPP). The PPP, established as part of the CARES Act, provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable after the covered period as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the covered period. The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1 percent, with a deferral of payments for the first ten months after the covered period. The Hospital accounts for the PPP loan as debt under FASB ASC 470 and classifies the entire liability as long-term on the balance sheet. Any loan forgiveness will be recognized at the time the Hospital is legally released from the debt. Subsequent to year end, the Hospital met the conditions of the loan and, as of November 5, 2020, the PPP note was forgiven by the Small Business Administration.

19. Economic Dependency

Evans County contributes significant funds to support operations and for the repayment of the 2006 Series Revenue Certificates to the Hospital. The support from Evans County must continue into the future for the Hospital to remain financially viable for years to come.

20. Management's Plan

As indicated in the accompanying combined financial statements, the Hospital has experienced financial difficulties due to recurring operating losses and worsening financial position 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 able to meet its obligations as they become due for a period of one year from the date the combined financial statements are issued and concludes substantial doubt is not raised. Management has adopted a plan focused on improving short-term financial performance as follows:

- *Expansion of Services*

Management plans to introduce orthopedic services as a new service offering in fiscal year 2021. This expansion of services is expected to provide increased revenues and an overall increase to operating income.

Continued

EVANS MEMORIAL HOSPITAL, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued
September 30, 2020 and 2019

20. Management's Plan, Continued

- *Augusta University*

The Hospital entered into an agreement with Augusta University to provide telehealth services for higher acuity, critical care patients at the Hospital. This arrangement is expected to provide an increase in admissions of approximately 20% as the Hospital will be able to provide a higher level of care to their patients without having to transfer them to another location.

- *Foundation Support*

Subsequent to the date of the combined financial statements, the Hospital was awarded a \$400,000 grant from a local Foundation during 2021. These funds are intended to be used for capital renovation projects.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements of Evans Memorial Hospital, Inc. (Hospital), which comprise the combined balance sheet as of September 30 2020, and the related combined statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the combined financial statements, and have issued our report thereon dated April 27, 2021.

Internal Control over Financial Reporting

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

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

Continued

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

Compliance and Other Matters

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

Purpose of this Report

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

Draffin & Tucker, LLP

Albany, Georgia
April 27, 2021