

**Holmes County Hospital Corporation
d/b/a Doctors Memorial Hospital**

**FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

For the Years Ended September 30, 2019 and 2018



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Holmes County Hospital Corporation
d/b/a Doctors Memorial Hospital
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September 30, 2019

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Holmes County Hospital Corporation
d/b/a Doctors Memorial Hospital
Bonifay, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of Holmes County Hospital Corporation d/b/a Doctors Memorial Hospital (the "Hospital"), as of and for the years ended September 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

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

Uncertainty Regarding Going Concern

The accompanying financial statements have been prepared assuming that the Hospital will continue as a going concern. As discussed in Note 1, the Hospital has incurred significant recurring losses, and, as of September 30, 2019, had a working capital deficiency of \$392,148. These conditions, among others discussed in Note 1, raise substantial doubt about the Hospital's ability to continue as a going concern. Management's plans regarding these matters also are described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated September 11, 2020 on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, L.L.C.

Enterprise, Alabama

September 11, 2020

Holmes County Hospital Corporation d/b/a Doctors Memorial Hospital Management's Discussion and Analysis (Unaudited)

Introduction

This management's discussion and analysis of the financial performance of Holmes County Hospital Corporation d/b/a Doctors Memorial Hospital (the Hospital) provides an overview of the Hospital's financial activities for the years ended September 30, 2019 and 2018. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and cash equivalents decreased by approximately \$912,000 in 2019 after an increase of approximately \$386,000 between 2018 and 2017.
- The Hospital's net position decreased by approximately \$897,000 and \$603,000 in 2019 and 2018, respectively.
- The Hospital reported operating income (loss) of approximately (\$161,000) and \$181,000 in 2019 and 2018, respectively.
- Operating expenses increased by approximately \$174,000 in 2019 after a decrease of \$113,000 in 2018.

Using This Annual Report

The Hospital's financial statements consist of three types of statements—balance sheets; statements of revenues, expenses and changes in net position; and statements of cash flows. These statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheets and Statements of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about any Hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheets and the Statements of Revenues, Expenses and Changes in Net Position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets, all liabilities and all deferred inflows and outflows of resources using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two types of statements report the Hospital's net position and changes in it. The Hospital's total net position—the difference between assets, liabilities and deferred inflows and outflows of resources—is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net position are an indicator of whether its financial health is improving or deteriorating.

**Holmes County Hospital Corporation
d/b/a Doctors Memorial Hospital
Management's Discussion and Analysis (Unaudited)**

Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

The Statements of Cash Flows

The Statements of Cash Flows report cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities, and provide answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

The Hospital's Balance Sheets

The Hospital's assets decreased approximately \$1,891,000 in 2019 and \$932,000 in 2018. The decrease in 2019 was largely driven by a decrease in cash caused by a large payable due on the 2018 cost report of approximately \$652,000. The decrease in 2018 was primarily due to the decrease in the value of fixed equipment.

The Hospital's total liabilities decreased approximately \$994,000 in 2019 and \$329,000 in 2018. The decrease in 2019 was primarily due to a decrease in the estimated amounts due to third-party payers. The decrease in 2018 was primarily due to a decrease in the long-term debt.

Table 1: Assets, Liabilities and Net Deficit

<i>September 30,</i>	2019	<i>Variance</i>	2018	<i>Variance</i>	2017
					<i>(as restated)</i>
Assets					
Patient accounts receivable, net	\$ 1,245,026	\$ 149,106	\$ 1,095,920	\$ (247,365)	\$ 1,343,285
Other current assets	1,369,481	(643,975)	2,013,456	257,359	1,756,097
Capital assets, net	5,935,415	(755,165)	6,690,580	(809,457)	7,500,037
Other noncurrent assets	1,054,030	(640,931)	1,694,961	(132,433)	1,827,394
Total assets	\$ 9,603,952	\$ (1,890,965)	\$ 11,494,917	\$ (931,896)	\$ 12,426,813
Liabilities					
Current liabilities	\$ 3,006,655	\$ (909,784)	\$ 3,916,439	\$ 76,432	\$ 3,840,007
Long-term liabilities	14,560,937	(84,018)	14,644,955	(405,048)	15,050,003
Total liabilities	17,567,592	(993,802)	18,561,394	(328,616)	18,890,010
Net Position (Deficit)					
Net investment in capital assets	(8,685,528)	(254,754)	(8,430,774)	(480,661)	(7,950,113)
Restricted expendable	1,052,281	(535,670)	1,587,951	21,366	1,566,585
Unrestricted	(330,393)	(106,739)	(223,654)	(143,985)	(79,669)
Total net position (deficit)	(7,963,640)	(897,163)	(7,066,477)	(603,280)	(6,463,197)
Total liabilities and net position	\$ 9,603,952	\$ (1,890,965)	\$ 11,494,917	\$ (931,896)	\$ 12,426,813

**Holmes County Hospital Corporation
d/b/a Doctors Memorial Hospital
Management's Discussion and Analysis (Unaudited)**

Operating Results and Changes in the Hospital's Net Position

As shown in *Table 2*, in 2019 the Hospital's net position decreased by approximately \$897,000, while in 2018, the Hospital's net position decreased by approximately \$603,000, compared to the decrease of approximately \$1,560,000 in 2017. In 2019, the total operating revenues decreased approximately \$168,000 over 2018 and the total operating expenses increased approximately \$174,000. The interest on the long term debt was not covered, leading to a larger decrease in net position. The decrease in 2018 was largely due to an audit performed by AHCA for the years 2006-2013 resulting in an overpayment of approximately \$890,000.

Table 2: Operating Results and Changes in Net Position

<i>Years ended September 30,</i>	2019	<i>Variance</i>	2018	<i>Variance</i>	2017
					<i>(as restated)</i>
Operating Revenues					
Net patient service revenue	\$ 11,488,845	\$ 5,662	\$ 11,483,183	\$ 1,204,386	\$ 10,278,797
Other operating revenue	74,299	(173,725)	248,024	36,636	211,388
Total operating revenues	11,563,144	(168,063)	11,731,207	1,241,022	10,490,185
Operating Expenses					
Salaries and wages and employee benefits	5,780,181	259,439	5,520,742	24,085	5,496,657
Physician and professional fees	658,586	(87,916)	746,502	(109,815)	856,317
Depreciation and amortization	759,159	(232,942)	992,101	(133,388)	1,125,489
Other operating expenses	4,526,539	235,734	4,290,805	106,235	4,184,570
Total operating expenses	11,724,465	174,315	11,550,150	(112,883)	11,663,033
Operating (loss) income	(161,321)	(342,378)	181,057	1,353,905	(1,172,848)
Nonoperating Revenues (Expenses)					
Investment income	15,267	(8,667)	23,934	10,710	13,224
Interest expense	(856,181)	(8,601)	(847,580)	19,341	(866,921)
Loss on disposal of capital assets	-	(3,420)	3,420	3,420	-
Loss on impairment	-	-	-	160,000	(160,000)
Noncapital gifts and other	105,072	69,183	35,889	(173,785)	209,674
Total nonoperating revenues (expenses)	(735,842)	48,495	(784,337)	19,686	(804,023)
Loss before capital contributions	(897,163)	(293,883)	(603,280)	1,373,591	(1,976,871)
Capital Contributions	-	-	-	(417,000)	417,000
Decrease in net position	\$ (897,163)	\$ (293,883)	\$ (603,280)	\$ 956,591	\$ (1,559,871)

**Holmes County Hospital Corporation
d/b/a Doctors Memorial Hospital
Management's Discussion and Analysis (Unaudited)**

Operating Losses

The first component of the overall change in the Hospital's net position is its operating income or loss— generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In two of the past three years, the Hospital has reported operating losses. This is consistent with the Hospital's recent operating history as the Hospital was formed and is operated primarily to serve residents of Holmes County, Florida and the surrounding area. The Hospital does not have the authority to levy property taxes to provide sufficient resources to help the Hospital to serve lower income and other residents.

The operating loss for fiscal year 2019 was approximately \$161,000, down approximately \$342,000 from an operating income of approximately \$181,000 in 2018. The primary components of the 2019 operating loss are:

- A slight increase in net patient service revenue of approximately \$6,000 or 0.1%.
- A decrease in other operating revenue of approximately \$173,000, or -70.0%.
- An increase in operating expense of approximately \$174,000, or 1.5%.

Other operating revenue decreased because of decreased activity in the 340B drug discount program with participating pharmacies.

Operating expense increased primarily because of increases of salaries and wages.

Non-operating Revenues and Expenses

Non-operating revenues and expenses consist primarily of investment income, interest expense, gains/losses on asset disposals and non-capital grants, gifts, and other. Total non-operating revenues and expenses improved from approximately (\$784,000) in 2018 to \$(736,000) in 2019, compared with \$(804,000) in 2017. The change in 2019 compared to 2018 is primarily due to FEMA reimbursement from Hurricane Michael.

Capital Contributions

There were no capital contributions in 2019 or 2018.

The Hospital's Cash Flows

As reflected in the Statements of Cash Flows, the Hospital's cash decreased in 2019 by approximately \$912,000 compared to an increase in 2018 of approximately \$386,000. The decrease in the ending cash balance for 2019 was primarily due to a decrease in receipts caused by a large rate adjustment on the 2018 cost report. The increase in the ending cash balance for 2018 was primarily due to an increase in receipts from net patient revenue.

**Holmes County Hospital Corporation
d/b/a Doctors Memorial Hospital
Management's Discussion and Analysis (Unaudited)**

Capital Asset and Debt Administration

Capital Assets

The Hospital had approximately \$5,935,000 and \$6,691,000 of capital assets, net of accumulated depreciation, at the end of 2019 and 2018, respectively. In 2019 and 2018, the Hospital purchased new capital assets costing approximately \$4,000 and \$186,000 respectively.

Debt

At September 30, 2019 and 2018, respectively, the Hospital had approximately \$14,621,000 and \$15,064,000 in revenue bonds, notes payable and capital lease obligations. The Hospital's formal debt issuances, revenue bonds, are subject to limitations imposed by state law. There have been no changes in the Hospital's debt ratings in the past three years.

Other Economic Factors

Doctors Memorial Hospital is located within an economically distressed rural area. There is no manufacturing industry in the area. The major employers are governmental in nature. The largest employer in the area is the Holmes County school system, followed by the state correctional and road departments and local nursing home.

Strategic Planning for Future Growth

Doctors Memorial Hospital has worked closely with the bond holders and received a deferment on payments until October 2020. The Hospital suffered revenue loss due to Hurricane Michael which caused a cash flow issue. The Hospital has agreed to affiliate or partner with a larger tertiary facility as a stipulation to the deferment. The Hospital has received proposals from different facilities and will be reviewing and possibly approving at the next scheduled Board meeting in September 2020.

The Hospital has endured different barriers over some time. Even with these barriers, it is significant to note the current strengths of Doctors Memorial Hospital. The Hospital currently has one active surgeon on staff as well as six active general practice physicians. In addition, six practitioners rotate in the Emergency Room to reduce expense to the hospital.

We have a Modular Medical Office Building that is currently being used to house one general practitioner and specialty physicians in the fields of dermatology, general surgery.

The Hospital continues to maintain an affiliation agreement with HCA Gulf Coast Hospital, Panama City, Florida for tele-neurology services. With this agreement, the Hospital has approximately 30 board certified neurologists on call utilizing a telemedicine robot to provide a sub-specialist technologist to our rural community.

Also, the MRI that the Hospital was successful in receiving during the Florida Legislative session of 2016 continues to allow the Hospital to provide services five days per week. This allows the patients to stay in the community for their healthcare needs.

**Holmes County Hospital Corporation
d/b/a Doctors Memorial Hospital
Management's Discussion and Analysis (Unaudited)**

To address many of the Hospitals barriers for growth, Doctors Memorial Hospital continues to work with the Governor's Appointment Office to recruit board members.

The Hospital is also seeking a ½ cent Indigent Care Sales Tax which will be placed on the General Election Ballot. If the tax passes, this would mean additional revenue to the Hospital. The Hospital had taxing authority in the past but that expired in 1986.

The Hospital is also working on refinancing the current debt of the facility through USDA. While awaiting the issuance of the Farm Bill regulations to refinance existing debt for hospitals, Doctors Memorial Hospital remains in touch with USDA staff. As part of the USDA loan application, a financial feasibility report may be required. The financial feasibility report must be current and is not recommended until a preliminary eligibility determination is made.

The Medicare cost report for fiscal year 2018 left the Hospital owing a payable in the amount of \$652,000, which the Hospital is paying off monthly per an agreement.

The Hospital is continuing its efforts to meet with legislative officials to request funding for capital equipment needs.

The Hospital is taking advantage of grant programs that allow for additional training and updates. Hospital management continues to participate in weekly webinars hosted by Hometown Health, LLC to keep the Hospital informed on industry best practices and abreast of the new legislative changes that are forthcoming that will affect the Hospital. The Hospital continues to participate in the State for Rural Health FLEX Program to ensure the successful continuation of performance improvement interventions for Florida's Critical Access Hospitals (CAHs) participating in the FLEX program for Financial and Quality Improvement.

In view of the changing political viewpoints in the federal government, the future look and amount of LIP Program and disproportionate share (DSH) funding has been reduced. The Hospital receives DSH funding from the State of Florida in relation to the percentage of Medicaid and indigent population that is served. Members of the Florida legislature are hopeful that the State of Florida will receive favorable consideration with respect to these programs.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital Business Administration by telephoning (850) 547-8000.

**Holmes County Hospital Corporation
d/b/a Doctors Memorial Hospital
Balance Sheets**

<i>September 30,</i>	2019	2018
Assets		
Current assets		
Cash and cash equivalents	\$ 924,075	\$ 935,337
Certificates of deposit	-	21,490
Restricted cash and cash equivalents		
Bond sinking fund	-	328,883
Bond interest fund	2,553	348,228
Patient accounts receivable, net of estimated uncollectibles of approximately \$2,455,000 and \$2,577,000 in 2019 and 2018, respectively	1,245,026	1,095,920
Supplies	284,380	265,883
Prepaid expenses and other	158,473	113,635
Total current assets	2,614,507	3,109,376
Noncurrent assets		
Certificates of deposit	-	415,144
Restricted cash and cash equivalents		
Building fund	29,338	31,824
Grant fund	1,749	20,749
Bond sinking fund	194,445	-
Debt reserve fund	828,498	1,227,244
Total noncurrent assets	1,054,030	1,694,961
Capital assets		
Land	319,513	319,513
Construction in progress	1,700	1,700
Depreciable capital assets, net	5,614,202	6,369,367
Total capital assets, net	5,935,415	6,690,580
Total assets	\$ 9,603,952	\$ 11,494,917

-Continued-

The accompanying notes are an integral part of these financial statements.

**Holmes County Hospital Corporation
d/b/a Doctors Memorial Hospital
Balance Sheets (Continued)**

<i>September 30,</i>	2019	2018
Liabilities and Net Position (Deficit)		
Current liabilities		
Current maturities of long-term debt	\$ 60,006	\$ 418,914
Accounts payable	788,959	639,318
Accrued compensation and payroll taxes	537,125	516,959
Unearned revenue	1,749	20,749
Other accrued expenses	229,187	213,838
Accrued interest payable	344,851	5,262
Accrued interest payable from restricted assets	2,553	351,583
Short-term debt	61,677	-
Estimated third-party settlements	980,548	1,749,816
Total current liabilities	3,006,655	3,916,439
Long-term liabilities		
Capital lease obligation, net of current maturities	22,904	32,000
Bonds payable, net of current maturities	14,538,033	14,612,955
Total long-term liabilities	14,560,937	14,644,955
Total liabilities	17,567,592	18,561,394
Net position (deficit)		
Net investment in capital assets	(8,685,528)	(8,430,774)
Restricted - expendable for		
Debt service	1,022,943	1,556,127
Specified operating activities	29,338	31,824
Unrestricted	(330,393)	(223,654)
Total net position (deficit)	(7,963,640)	(7,066,477)
Total liabilities and net position	\$ 9,603,952	\$ 11,494,917

The accompanying notes are an integral part of these financial statements.

**Holmes County Hospital Corporation
d/b/a Doctors Memorial Hospital
Statements of Revenues, Expenses and Changes in Net Position**

<i>Years ended September 30,</i>	2019	2018
Operating Revenues		
Net patient service revenue before provision for uncollectible accounts	\$ 14,131,014	\$ 14,191,972
Provision for uncollectible accounts	(2,642,169)	(2,708,789)
Net patient service revenue	11,488,845	11,483,183
Other operating revenue	74,299	248,024
Total operating revenues	11,563,144	11,731,207
Operating Expenses		
Salaries and wages	5,367,629	5,147,035
Supplies and other operating expense	3,706,520	3,504,067
Insurance	820,019	786,738
Depreciation and amortization	759,159	992,101
Physician and professional fees	658,586	746,502
Employee benefits and payroll taxes	412,552	373,707
Total operating expenses	11,724,465	11,550,150
Operating (loss) income	(161,321)	181,057
Nonoperating Revenues (Expenses)		
Investment income	15,267	23,934
Interest expense	(856,181)	(847,580)
Gain on disposal of assets held for sale	-	3,420
Noncapital gifts and other	105,072	35,889
Total nonoperating revenues (expenses)	(735,842)	(784,337)
Decrease in net position	(897,163)	(603,280)
Net Position (Deficit) - beginning of year	(7,066,477)	(6,463,197)
Net Position (Deficit) - end of year	\$ (7,963,640)	\$ (7,066,477)

The accompanying notes are an integral part of these financial statements.

Holmes County Hospital Corporation
d/b/a Doctors Memorial Hospital
Statements of Cash Flows

<i>Years ended September 30,</i>	2019	2018
Operating Activities		
Receipts from and on behalf of patients	\$ 10,587,168	\$ 11,911,372
Payments to suppliers and contractors	(5,137,787)	(5,141,556)
Payments to and on behalf of employees	(5,722,625)	(5,453,895)
Other receipts (payments), net	116,263	268,140
Net cash (used in) provided by operating activities	(156,981)	1,584,061
Noncapital Financing Activities		
Receipt of FEMA grant related to Hurricane Michael	41,996	-
Receipt of other noncapital grants	(9,535)	-
Donations, net	11,652	9,806
Financing of insurance premiums	105,792	-
Principal paid on short-term debt	(44,115)	(45,044)
Interest paid on short-term debt	(786)	(786)
Interest and finance charges paid on trade payables	(12,620)	(11,471)
Net cash provided by (used in) noncapital financing activities	92,384	(47,495)
Capital and Related Financing Activities		
Proceeds from sale of assets held for sale	-	183,420
Purchase of capital assets	(3,994)	(88,152)
Interest paid on long-term debt	(875,178)	(867,335)
Principal paid on long-term debt	(419,964)	(399,206)
Net cash used in capital and related financing activities	(1,299,136)	(1,171,273)
Investing Activities		
Reinvestment of interest into certificates of deposits	(1,940)	(2,744)
Redemption of certificates of deposits	438,574	-
Receipt of interest on investments	15,492	23,826
Net cash provided by investing activities	452,126	21,082
Net (decrease) increase in cash and cash equivalents	(911,607)	386,375
Cash and Cash Equivalents - beginning of year	2,892,265	2,505,890
Cash and Cash Equivalents - end of year	\$ 1,980,658	\$ 2,892,265

-Continued-

The accompanying notes are an integral part of these financial statements.

**Holmes County Hospital Corporation
d/b/a Doctors Memorial Hospital
Statements of Cash Flows (Continued)**

<i>Years ended September 30,</i>	2019	2018
Reconciliation of Cash to Balance Sheets		
Cash and cash equivalents	\$ 924,075	\$ 935,337
Restricted cash and cash equivalents, current		
Bond sinking fund	-	328,883
Bond interest fund	2,553	348,228
Restricted cash and cash equivalents, noncurrent		
Building fund	29,338	31,824
Grant fund	1,749	20,749
Bond sinking fund	194,445	-
Debt reserve fund	828,498	1,227,244
Cash and Cash Equivalents - end of year	\$ 1,980,658	\$ 2,892,265
Reconciliation of Operating (Loss) Income to Net Cash (Used In) Provided by Operating Activities:		
Operating (loss) income	\$ (161,321)	\$ 181,057
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities:		
Depreciation and amortization	759,159	992,101
Construction in progress expensed	-	2,993
Provision for bad debts	2,642,169	2,708,789
Other nonoperating income	41,959	21,083
Changes in:		
Patient accounts receivable	(2,789,927)	(2,461,424)
Supplies	(18,497)	29,146
Prepaid expenses and other	(45,063)	55,155
Accounts payable	148,293	(153,360)
Accrued expenses	35,515	72,828
Estimated third-party settlements	(769,268)	135,693
Net cash (used in) provided by operating activities	\$ (156,981)	\$ 1,584,061
Noncash Investing, Capital and Financing Activities:		
Purchase of equipment through accounts payable	\$ -	\$ 57,485
Purchase of equipment through capital lease	-	40,000
Amortization of bond premium included in interest expense	22,962	22,963

The accompanying notes are an integral part of these financial statements.

**Holmes County Hospital Corporation
d/b/a Doctors Memorial Hospital
Notes to Financial Statements**

Note 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Reporting Entity

Holmes County Hospital Corporation, operating as Doctors Memorial Hospital (the "Hospital"), was organized under Senate Bill No. 45, Chapter 30843, Laws of Florida, Acts of 1955, filed with the Office of the Secretary of State on April 25, 1956. It reincorporated on April 27, 1992 by filing its present Articles of Incorporation. The Hospital is administered by a five-member board of trustees appointed by the Governor of the State of Florida. The Hospital operates a 20-bed critical access hospital in Bonifay, Florida providing inpatient and outpatient services.

Basis of Accounting and Presentation

The Hospital prepares its financial statements in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB).

In accordance with GASB standards, the accompanying financial statements have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met.

Uncertainty Regarding Going Concern

As shown in the accompanying financial statements, the Hospital incurred a net operating loss of approximately \$161,000 in fiscal year 2019 and net losses of approximately \$897,000 and \$603,000 for the years ended September 30, 2019 and 2018, respectively, resulting in deficit net positions of approximately \$7,964,000 and \$7,066,000, respectively, at September 30, 2019 and 2018. In addition, the hospital experienced negative operating cash flows of approximately \$157,000 and an overall decrease of cash of approximately \$912,000 during fiscal 2019, and, at September 30, 2019, the Hospital's current liabilities exceeded its current assets by approximately \$392,000.

During fiscal year 2019, the Hospital was unable to meet its obligations to fund its bonds on a monthly basis and to make regularly scheduled principal and interest payments, resulting in a forbearance agreement with the bondholders, described further in Note 9. This agreement deferred bond funding and principal payments through October 2020, subject to compliance with the terms of the agreement, which included, among others, a requirement that the Hospital pursue an affiliation agreement with unrelated hospitals or health systems and seek additional revenue sources. The terms of forbearance agreement also include monthly monitoring and required compliance with a budget, as well as several other restrictive terms. Failure to comply with the agreement in full may result in the bondholders calling the debt immediately and exercising any and all available remedies, up to and including seizure of assets.

**Holmes County Hospital Corporation
d/b/a Doctors Memorial Hospital
Notes to Financial Statements**

**Note 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

Uncertainty Regarding Going Concern

The combined effect of these factors, as well as others, creates substantial doubt about the Hospital's ability to continue as a going concern. The financial statements do not include any adjustments that might be necessary if the Hospital is unable to continue as a going concern.

Use of Estimates

The preparation of financial statements in conformity 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 dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Significant items subject to such estimates include the determination of the allowances for uncollectible accounts and contractual adjustments and estimated third-party payer settlements. In particular, laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates related to these programs will change by a material amount in the near term.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Hospital purchases medical malpractice under claims-made policies. Under these policies, only claims made and reported to the insurer are covered during the policy term, regardless of when the incident giving rise to the claim occurred.

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2019 and 2018, cash equivalents consisted primarily of demand deposits.

**Holmes County Hospital Corporation
d/b/a Doctors Memorial Hospital
Notes to Financial Statements**

**Note 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

Investments and Investment Income

Investments in nonnegotiable certificates of deposit are carried at amortized cost. Money market funds (such as short-term, highly liquid debt instruments including bankers' acceptances and securities notes, bills, and bonds of the U.S. government and its agencies) are carried at amortized cost. Any other investments are carried at fair value. Investment income includes interest income from certificates of deposit and is included in nonoperating revenue on the statements of revenues, expenses and changes in net position.

Fair Value Measurements

The Hospital categorizes its fair value measurements, if any, within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the following valuation inputs and techniques used to measure the fair value of the asset.

- Level 1 inputs are quoted prices in active markets for identical assets. Quoted price data is generally obtained from exchange or dealer markets.
- Level 2 inputs are significant other observable inputs. Inputs are obtained from various sources, including market participants, dealers, and brokers.
- Level 3 inputs are significant unobservable inputs as they trade infrequently or not at all.

The Hospital did not have any significant assets measured at fair value on a recurring basis requiring disclosure of fair value inputs at either September 30, 2019 or 2018.

Income Taxes

As an essential government function of Holmes County, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law.

Patient Accounts Receivable, Net

Patient accounts receivable are reduced by estimated contractual and other adjustments and estimated uncollectible accounts. In evaluating the collectability of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowances for third-party contractual and other adjustments and bad debt. Management reviews data about these major payer sources of revenue on a monthly basis in evaluating the sufficiency of the allowances. On a continuing basis, management analyzes delinquent receivables and writes them off against the allowance when deemed uncollectible. No interest is charged on patient accounts receivable balances.

**Holmes County Hospital Corporation
d/b/a Doctors Memorial Hospital
Notes to Financial Statements**

**Note 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

Patient Accounts Receivable, Net (Continued)

For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for contractual adjustments and, if necessary, a provision for bad debts (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with uninsured patients (also known as 'self-pay'), which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill, the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many uninsured patients are often either unable or unwilling to pay the full portion of their bill for which they are financially responsible. The difference between standard rates (or the discounted rates, if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

The Hospital has not materially altered its accounts receivable and revenue recognition policies during fiscal year 2019 and did not have significant write-offs from third-party payers related to collectability in fiscal years 2019 or 2018.

Supplies

Supply inventories are stated at the lower of cost or market, determined using the first-in, first-out method.

Prepaid Expenses

Prepaid expenses are amortized over the estimated period of future benefit, generally on a straight-line basis.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or acquisition value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

Land improvements	5 to 40 years
Buildings, improvements and fixed equipment	5 to 40 years
Major moveable equipment, computers and furniture	7 to 20 years

**Holmes County Hospital Corporation
d/b/a Doctors Memorial Hospital
Notes to Financial Statements**

**Note 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

Capital Assets (Continued)

Upon sale or retirement of capital assets, the cost and related accumulated depreciation are eliminated from the respective accounts, and the resulting gain or loss, if any, is included in the statement of revenues, expenses and changes in net position.

Expenditures that materially increase values, change capacities, or extend useful lives of the respective assets are capitalized. Routine maintenance and repairs are charged to expense when incurred.

Cost of Borrowing

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. Costs incurred in connection with the obtaining of financing are deferred and amortized over the period the obligation is outstanding using the interest method. Premiums or discounts incurred in connection with the issuance of bonds and indentures are amortized over the life of the obligations on the interest method, and the unamortized amount is included in the balance of the outstanding debt.

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 assessment of the recoverability of assets will be impacted if estimated future operating cash flows are not achieved. Based on management's evaluations, no long-lived assets impairments were recognized during the years ended September 30, 2019 and 2018.

Compensated Absences

Hospital policies permit most employees to accumulate vacation benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date. The Hospital's estimated accrual for accumulated vacation leave is recorded as a current liability on the accompanying balances sheets.

**Holmes County Hospital Corporation
d/b/a Doctors Memorial Hospital
Notes to Financial Statements**

**Note 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

Net Position

Net position of the Hospital is classified in three components, as follows:

Net investment in capital assets – consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets.

Restricted net position – made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Hospital, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings.

Unrestricted net position – the remaining net position that does not meet the definitions of net investment in capital assets or restricted net position described above.

The Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Operating Revenues and Expenses

The Hospital's statements of revenues, expenses and changes in net position distinguish between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Hospital's principal activity. Non-exchange revenues, including investment income, grants and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Net Patient Service Revenues

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined or as years are no longer subject to such audits, reviews, and investigations.

During fiscal year 2019, net patient service revenue decreased by approximately \$181,000 due to changes in estimates related to prior cost reporting periods and removals of allowances previously estimated that are no longer considered necessary as a result of final settlements and years that are no longer subject to audits, reviews and investigations. There were no significant changes in cost report estimates during fiscal 2018.

**Holmes County Hospital Corporation
d/b/a Doctors Memorial Hospital
Notes to Financial Statements**

**Note 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

Net Patient Service Revenues (Continued)

The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potentially significant wrongdoing. However, compliance with such laws and regulations is subject to future government review and interpretation, as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medicaid program, and in recent years there has been an increase in regulatory initiatives at the state and federal levels including the Recovery Audit Contractor (“RAC”) and Medicaid Integrity Contractor (“MIC”) programs, among others. These programs were created to review Medicare and Medicaid claims for medical necessity and coding appropriateness. The RAC’s have authority to pursue ‘improper’ (in their judgment) payments with a three year look back from the date the claim was paid.

Charity Care

The Hospital provides care without charge, or at a reduced charge, to patients who meet certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify pursuant to this policy, these charges are not reported as revenue. The amount of charges foregone for services and supplies furnished under the Hospital's charity care policy was approximately \$897,000 and \$746,000 for the years ended September 2019 and 2018, respectively, and estimated costs and expenses incurred to provide charity care totaled approximately \$330,000 and \$273,000, respectively. The estimated costs and expenses incurred to provide charity care were determined by applying the Hospital’s cost to charge ratio from its latest filed Medicare cost report to its charges foregone for charity care, at established rates.

Grants and Contributions

From time to time, the Hospital receives grants from other governmental entities as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted either for specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisition are reported after nonoperating revenue and expenses.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense for the years ended September 30, 2019 and 2018 was \$25,874 and \$23,542, respectively.

**Holmes County Hospital Corporation
d/b/a Doctors Memorial Hospital
Notes to Financial Statements**

**Note 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

Electronic Health Records Incentive Program

The Electronic Health Records (EHR) Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified EHR technology. Critical access hospitals (CAHs) are eligible to receive incentive payments in the cost reporting period beginning in the federal fiscal year in which meaningful use criteria have been met. The Medicare incentive payment is for qualifying costs of the purchase of certified EHR technology multiplied by the Hospital's Medicare share fraction, which includes a 20% incentive. This payment is an acceleration of amounts that would have been received in future periods based on reimbursable costs incurred, including depreciation. If meaningful use criteria are not met in future periods, the Hospital is subject to penalties that would reduce future payments for services. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services (CMS). The final amount for any payment year under both programs is determined based upon an audit by the Medicare Administrative Contractor.

The Hospital received and recognized EHR incentive payments prior to fiscal 2017. No such incentive payments were received or recognized in either fiscal 2018 or 2019, and management believes it is unlikely that any additional significant meaningful use incentives will be received in the future, as the terms of the program are coming to a close. However, prior incentive payments remain subject to future audits and recoupments.

Recently Adopted Accounting Pronouncements

In November 2016, GASB issued GASB Statement No. 83, *Certain Asset Retirement Obligations* (GASB 83). GASB 83 addresses accounting and financial reporting requirements for certain asset retirement obligations (ARO). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in GASB 83. The requirements of GASB 83 are effective for reporting periods beginning after June 15, 2019. Management elected to early implement GASB 83, which had no impact on the Hospital's financial statements.

In March 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* (GASB 88). GASB 88 requires that additional essential information related to debt be disclosed in the notes to the financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this statement also requires that existing and additional information be provided for direct borrowings and direct placement of debt separately from other

**Holmes County Hospital Corporation
d/b/a Doctors Memorial Hospital
Notes to Financial Statements**

**Note 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

Recently Adopted Accounting Pronouncements (Continued)

debt. The requirements of GASB 88 are effective for reporting periods beginning after June 15, 2019. Management elected to early implement GASB 88. The Hospital's implementation with respect to GASB 88 includes additional disclosures in the long-term debt note (Note 9).

In May 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* (GASB 95). GASB 95 extends the effective date of certain accounting and financial reporting provisions in Statements and Implementation Guides that were first effective for reporting periods beginning after June 15, 2018. The requirements of this Statement apply to the financial statements of all state and local governments. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. The requirements of this Statement are effective immediately.

Pronouncements Issued But Not Yet Effective

GASB has issued the following pronouncements that may affect future financial position, results of operations, cash flows, or financial presentation of the Hospital upon implementation. Management has not yet evaluated the effect of implementation of these standards.

GASB Statement No.	GASB Accounting Standard	Effective Fiscal Year
84	<i>Fiduciary Activities</i>	2021
87	<i>Leases</i>	2022
89	<i>Accounting for Interest Cost Incurred before the End of a Construction Period</i>	2022
90	<i>Majority Equity Interest an amendment of GASB Statements No. 14 and No. 61</i>	2021
91	<i>Conduit Debt Obligations</i>	2023
92	<i>Omnibus 2020</i>	2021
93	<i>Replacement of Interbank Offered Rates</i>	2023
94	<i>Public-Private and Public-Public Partnerships and Availability Payment Requirements</i>	2023
96	<i>Subscription-based Information Technology Arrangements</i>	2023
97	<i>Certain Component Unit Criteria and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans</i>	2022

**Holmes County Hospital Corporation
d/b/a Doctors Memorial Hospital
Notes to Financial Statements**

**Note 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

Current Healthcare Environment

The Hospital monitors economic conditions closely, both with respect to potential impacts on the healthcare industry and from a more general business perspective. Management recognizes that economic conditions may continue to impact the Hospital in a number of ways, including, but not limited to, uncertainties associated with the United States and state political landscape and rising uninsured patient volumes and corresponding increases in uncompensated care.

Additionally, the general healthcare industry environment is increasingly uncertain, especially with respect to the ongoing impacts of the federal healthcare reform legislation. Potential impacts of ongoing healthcare industry transformation include, but are not limited to:

- Significant capital investment in healthcare information technology
- Continuing volatility in state and federal government reimbursement programs
- Effective management of multiple major regulatory mandates, including the previously mentioned audit activity
- Significant potential business model changes throughout the healthcare system, including within the healthcare commercial payer industry

The business of healthcare in the current economic, legislative, and regulatory environment is volatile. Any of the above factors, along with others both currently in existence and which may or may not arise in the future, could have a material adverse impact on the Hospital's financial position and operating results.

Subsequent Events

The Hospital has evaluated subsequent events through September 11, 2020, the date these financial statements were issued. Refer to Note 16.

Note 2: NET PATIENT SERVICE REVENUE

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

Medicare – Inpatient and substantially all outpatient services related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for certain services 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.

**Holmes County Hospital Corporation
d/b/a Doctors Memorial Hospital
Notes to Financial Statements**

Note 2: NET PATIENT SERVICE REVENUE (Continued)

Medicaid – Inpatient and outpatient services rendered to 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 contractor. The inpatient rates are established by the Agency for Health Care Administration (“AHCA”) for which the Hospital is a provider. Outpatient services are reimbursed based on a per diem amount established by utilization on a semi-annual basis.

During fiscal year 2017, overpayments made to the Hospital of approximately \$889,000 were identified by AHCA as a result of the audit of state fiscal years 2006 – 2013 and reprocessing of claims based on the audit results. This amount was included as a decrease in net patient revenue for the year ended September 30, 2017. A related liability of \$90,418 and \$396,327 is accrued in estimated third-party settlements at September 30, 2019 and 2018, respectively, on the accompanying financial statements.

Other – 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 prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

A summary of gross revenue from patient services provided under contracts with third-party payers follows:

<i>For the years ended September 30,</i>	2019	2018
Medicare	37%	41%
Medicaid	3%	2%
Blue Cross	12%	12%
Commercial/HMO/PPO	39%	36%

The composition of net patient service revenue was as follows:

<i>For the years ended September 30,</i>	2019	2018
Gross patient service revenue	\$ 34,378,168	\$ 34,221,943
Less provision for contractual adjustments under third-party reimbursement programs and other adjustments	(20,247,154)	(20,029,971)
Provision for bad debts	(2,642,169)	(2,708,789)
Net patient service revenue	\$ 11,488,845	\$ 11,483,183

**Holmes County Hospital Corporation
d/b/a Doctors Memorial Hospital
Notes to Financial Statements**

Note 3: MEDICAID SUBSIDIES AND ASSESSMENTS

The Agency for Health Care Administration (“AHCA”) is the entity designated by the State of Florida to administer its Medicaid program. AHCA and the State of Florida have established various programs that provide additional payments from the state to qualifying Florida hospitals that service a disproportionate share of Medicaid, underinsured, uninsured and low-income patients. Notably, these programs include Medicaid disproportionate share (“DSH”) and the low income pool (“LIP”). The Hospital generally qualifies as a DSH and LIP provider and receives payments based on formulas established by AHCA. The possibility exists that the formulas may continue to change, pending federal and/or state legislation. Total proceeds of DSH and LIP payments were approximately \$683,000 and \$744,000 for fiscal years 2019 and 2018, respectively.

These program payments, in connection with other payments received from the State of Florida for providing health services to Medicaid, uninsured and underinsured people of the State of Florida, are subject to audit, and payments received in excess of costs may be required to be refunded to the State of Florida. While the State of Florida has not requested recoupment of program payments from any facility participating in the DSH and LIP Programs, liabilities of approximately \$258,000 and \$516,000 for the DSH program and \$216,000 and \$432,000 for the LIP program are included in estimated third-party payer settlements on the accompanying balances sheets at September 30, 2019 and 2018, respectively, as provision for program payments in excess of cost. During fiscal years 2019 and 2018, net patient service revenue increased by approximately \$474,000 due to changes in such provisions and it is reasonably possible that these estimates could further materially change in the near term.

Section 395.701 of the Florida Statutes imposes an annual assessment on all hospitals operating in the State of Florida. The assessment is currently calculated as 1.5% of annual net operating revenues for inpatient services; 1% of annual net operating revenues for outpatient services; and .4% of annual gross operating expenses (per AHCA’s definition). The assessments are due on a quarterly basis to AHCA and are used, among other purposes, to obtain federal financial participation for medical assistance payments to providers on behalf of Medicaid recipients, which serve to increase payments to Medicaid provider hospitals throughout the state. Approximately \$118,000 and \$126,000 of expenses related to these assessments are included in operating expenses on the accompanying statements of revenues, expenses and changes in net position for fiscal years 2019 and 2018, respectively. Estimated assessments payable totaling approximately \$131,000 and \$160,000 at September 30, 2019 and 2018, respectively, are included in estimated third-party payer settlements on the accompanying balances sheets.

Note 4: PATIENT ACCOUNTS RECEIVABLE

The Hospital is located in Bonifay, Florida. The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payer agreements.

**Holmes County Hospital Corporation
d/b/a Doctors Memorial Hospital
Notes to Financial Statements**

Note 4: PATIENT ACCOUNTS RECEIVABLE (Continued)

The mix of receivables from patients and third-party payers at September 30, 2019 and 2018 was:

<i>September 30,</i>	2019	2018
Medicare	\$ 395,986	\$ 407,423
Medicaid	96,900	141,111
Other third-party payers	477,463	398,137
Patients	2,729,530	2,726,025
<hr/>		
Total patient accounts receivable	3,699,879	3,672,696
Less allowance for uncollectible accounts	(2,454,853)	(2,576,776)
<hr/>		
Patient accounts receivable, net	\$ 1,245,026	\$ 1,095,920

Note 5: DEPOSITS AND INVESTMENTS

As of September 30, 2019 and 2018, the deposits and investments of the Hospital consisted of the following:

<i>September 30,</i>	2019	2018
Petty cash and undeposited cash	\$ 215	\$ 215
Cash deposits with financial institutions	1,964,637	987,695
Money market accounts (Moody's rating: AAA)	15,806	1,904,355
Certificates of deposits	-	436,634
<hr/>		
Total deposits	\$ 1,980,658	\$ 3,328,899

Deposits are included in the following balance sheet captions:

<i>September 30,</i>	2019	2018
Cash and cash equivalents	\$ 924,075	\$ 935,337
Certificates of deposit, current	-	21,490
Restricted cash and cash equivalents, current		
Bond sinking fund	-	328,883
Bond interest fund	2,553	348,228
Certificates of deposit, noncurrent	-	415,144
Restricted cash and cash equivalents, noncurrent		
Building fund	29,338	31,824
Grant fund	1,749	20,749
Bond sinking fund	194,445	-
Debt reserve fund	828,498	1,227,244
<hr/>		
	\$ 1,980,658	\$ 3,328,899

**Holmes County Hospital Corporation
d/b/a Doctors Memorial Hospital
Notes to Financial Statements**

Note 5: DEPOSITS AND INVESTMENTS (Continued)

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Hospital's deposit policy for custodial credit risk requires compliance with the provisions of state law.

The State of Florida's Public Deposit Act requires that public deposits may only be made at qualified public depositories. The Act requires each qualified public depository to deposit with the State Treasurer eligible collateral equal to or in excess of the required collateral as determined by the provisions of the Act. In the event of a failure by a qualified public depository, losses in excess of FDIC limits and proceeds from the sale of securities pledged by the defaulting depository are assessed against other qualified public depositories of the same type as the depository in default. When other qualified public depositories are assessed additional amounts, they are assessed on a pro-rata basis.

At September 30, 2019, \$1,409,689 of cash deposits in sinking, interest and reserve fund accounts related to the Hospital's Series 2006 revenue bonds were held at a financial institution which is not a qualified public depository. \$250,000 of such deposits were collateralized by the Federal Deposit Insurance Corporation (FDIC), while the balance was uncollateralized. The remainder of the Hospital's deposits at September 30, 2019 and 2018 were covered under the FDIC and State of Florida's Public Deposit Act.

Investments

The Hospital is authorized by statute to invest public funds in the Local Government Surplus Funds Trust Fund; direct obligations of the United States government, its agencies and instrumentalities; Securities and Exchange Commission registered money market funds with the highest quality rating from a nationally recognized rating agency; interest-bearing time deposits or savings accounts in qualified public depositories; commercial paper; and certain registered open-end or closed-end management investment companies. The Hospital places no limit on the amount that may be invested in any one issuer.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Hospital does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses from changing interest rates. However, interest rate risk has been effectively limited by only investing in securities with maturities of less than five years.

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investment or collateral securities that are in possession of an outside party. All of the underlying securities for the Hospital's investments at September 30, 2019 and 2018 are held by the counterparties in other than the Hospital's name.

**Holmes County Hospital Corporation
d/b/a Doctors Memorial Hospital
Notes to Financial Statements**

Note 6: CAPITAL ASSETS

Capital asset activity and balances for the years ended September 30, 2019 and 2018 were as follows:

	Balance 10/1/2018	Additions	Reductions	Transfers	Balance 9/30/2019
Nondepreciable capital assets					
Land	\$ 319,513	\$ -	\$ -	\$ -	\$ 319,513
Construction in progress	1,700	-	-	-	1,700
Total nondepreciable	321,213	-	-	-	321,213
Depreciable capital assets					
Land improvements	1,856,984	-	-	-	1,856,984
Buildings and improvements	6,960,315	-	-	-	6,960,315
Furniture and fixtures	203,112	-	-	-	203,112
Machinery and equipment	11,475,854	3,994	-	-	11,479,848
Total depreciable, at cost	20,496,265	3,994	-	-	20,500,259
Less accumulated depreciation					
Land improvements	(1,267,211)	(58,353)	-	-	(1,325,564)
Buildings and improvements	(3,761,287)	(231,296)	-	-	(3,992,583)
Furniture and fixtures	(160,240)	(8,016)	-	-	(168,256)
Machinery and equipment	(8,938,160)	(461,494)	-	-	(9,399,654)
Total accumulated depreciation	(14,126,898)	(759,159)	-	-	(14,886,057)
Depreciable, net	6,369,367	(755,165)	-	-	5,614,202
Total capital assets, net	\$ 6,690,580	\$ (755,165)	\$ -	\$ -	\$ 5,935,415

**Holmes County Hospital Corporation
d/b/a Doctors Memorial Hospital
Notes to Financial Statements**

Note 6: CAPITAL ASSETS (Continued)

	Balance 10/1/2017	Additions	Reductions	Transfers	Balance 9/30/2018
Nondepreciable capital assets					
Land	\$ 319,513	\$ -	\$ -	\$ -	\$ 319,513
Construction in progress	11,398	658	-	(10,356)	1,700
Total nondepreciable	330,911	658	-	(10,356)	321,213
Depreciable capital assets					
Land improvements	1,856,984	-	-	-	1,856,984
Buildings and improvements	6,960,315	-	-	-	6,960,315
Furniture and fixtures	203,112	-	-	-	203,112
Machinery and equipment	11,333,442	184,979	(49,930)	7,363	11,475,854
Total depreciable, at cost	20,353,853	184,979	(49,930)	7,363	20,496,265
Less accumulated depreciation					
Land improvements	(1,194,484)	(72,727)	-	-	(1,267,211)
Buildings and improvements	(3,492,702)	(268,585)	-	-	(3,761,287)
Furniture and fixtures	(148,221)	(12,019)	-	-	(160,240)
Machinery and equipment	(8,349,320)	(638,770)	49,930	-	(8,938,160)
Total accumulated depreciation	(13,184,727)	(992,101)	49,930	-	(14,126,898)
Depreciable, net	7,169,126	(807,122)	-	7,363	6,369,367
Total capital assets, net	\$ 7,500,037	\$ (806,464)	\$ -	\$ (2,993)	\$ 6,690,580

Depreciation expense for the years ended September 30, 2019 and 2018 totaled \$759,159 and \$992,101, including \$2,596 and \$2,529, respectively, related to equipment under capital lease. No interest was capitalized during the years ended September 30, 2019 and 2018.

**Holmes County Hospital Corporation
d/b/a Doctors Memorial Hospital
Notes to Financial Statements**

Note 7: ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses included in current liabilities consisted of the following:

<i>September 30,</i>	2019	2018
Payable to suppliers and contractors	\$ 788,959	\$ 639,318
Payable to employees (including payroll taxes and benefits)	537,125	516,959
Accrued interest payable	347,404	356,845
Due to patients and their insurers	229,187	213,838
	\$ 1,902,675	\$ 1,726,960

Note 8: SHORT-TERM DEBT

In September 2017, the Hospital financed \$45,044 related to its fiscal 2018 Property and Directors and Officers insurance premiums. Under the financing agreement, which bore interest at 3.7%, principal and interest payments were due in 10 consecutive monthly installments of \$4,581 beginning in November 2017. The balance of this financial agreement was paid off in August 2018.

In October 2018, the Hospital financed \$44,115 related to its fiscal 2019 Property and Directors and Officers insurance premiums. Under the financing agreement, which bore interest at 4.70%, principal and interest payments were due in 10 consecutive monthly installments of \$4,507 beginning in November 2018. The balance of this financial agreement was paid off in August 2019.

In September 2019, the Hospital financed \$61,677 related to its fiscal 2020 Property, Cyber and Directors and Officers insurance premiums. Under the financing agreement, which bore interest at 4.95%, principal and interest payments were due in 10 consecutive monthly installments of \$6,308 beginning in November 2019. The balance of this financial agreement was \$61,677 at September 30, 2019.

A summary of changes in the Hospital's short-term debt for the years ended September 30, 2019 and 2018 follows:

	Balance 10/1/2018	Additions	Reductions	Balance 9/30/2019	Due Within One Year
Insurance premium financing	\$ -	\$ 105,792	\$ (44,115)	\$ 61,677	\$ 61,677

	Balance 10/1/2017	Additions	Reductions	Balance 9/30/2018	Due Within One Year
Insurance premium financing	\$ 44,919	\$ -	\$ (44,919)	\$ -	\$ -

**Holmes County Hospital Corporation
d/b/a Doctors Memorial Hospital
Notes to Financial Statements**

Note 9: LONG-TERM DEBT

The Hospital's long-term debt, including capital lease obligations, consisted of the following obligations:

<u>September 30,</u>	<u>2019</u>	<u>2018</u>
Capital lease obligation, interest rate of 9.90%, monthly payments of \$848, maturing January 2023, collateralized by leased equipment with an amortized cost of \$32,000 and \$38,000 at September 30, 2019 and 2018, respectively.	\$ 29,395	\$ 36,828
Capital lease obligation, interest rate of 7.78%, monthly payments of \$182, maturing June 2020, collateralized by leased equipment with an amortized cost of \$2,100 and \$3,900 at September 30, 2019 and 2018, respectively.	1,555	3,534
Hospital Revenue Bonds Series 2006, original principal amount of \$16,935,000. The bond is comprised of two individual issues, the first in the principal amount of \$6,820,000 with an interest rate of 5.75%, and the second in the principal amount of \$10,115,000 with an interest rate of 6.00%. Principal payments are due annually on November 1, and interest is payable semiannually on May 1 and November 1. Proceeds from the bonds were used to construct a replacement facility which was placed into service on April 1, 2008. The bonds mature in 2039.	13,875,000	14,235,000
Hospital Revenue Bonds Series 2017, original principal amount of \$375,000, bearing an interest rate of 2.75%. Principal and interest payments in the amount of \$59,625 are due annually beginning on February 22, 2018 through February 22, 2024. Proceeds from the bonds were used for the reimbursement and purchase of imaging equipment.	275,245	325,797
Plus: unamortized portion of premium on Series 2006 bonds	439,748	462,710
	14,620,943	15,063,869
Less: current portion	(60,006)	(418,914)
	\$ 14,560,937	\$ 14,644,955

**Holmes County Hospital Corporation
d/b/a Doctors Memorial Hospital
Notes to Financial Statements**

Note 9: LONG-TERM DEBT (Continued)

A summary of changes in the Hospital's long-term debt, including capital lease obligations, for the years ended September 30, 2019 and 2018 follows:

	Balance 10/1/2018	Additions	Reductions	Balance 9/30/2019	Due Within One Year
Capital lease obligation	\$ 40,362	\$ -	\$ (9,412)	\$ 30,950	\$ 8,046
Revenues bonds payable					
Series 2006	14,235,000	-	(360,000)	13,875,000	-
Series 2017	325,797	-	(50,552)	275,245	51,960
Premium on Series 2006	462,710	-	(22,962)	439,748	-
Revenues bonds payable	15,023,507	-	(433,514)	14,589,993	51,960
Total long-term debt	\$ 15,063,869	\$ -	\$ (442,926)	\$ 14,620,943	\$ 60,006

	Balance 10/1/2017	Additions	Reductions	Balance 9/30/2018	Due Within One Year
Capital lease obligation	\$ 5,365	\$ 50,880	\$ (15,883)	\$ 40,362	\$ 8,362
Revenues bonds payable					
Series 2006	14,580,000	-	(345,000)	14,235,000	360,000
Series 2017	375,000	-	(49,203)	325,797	50,552
Premium on Series 2006	485,673	-	(22,963)	462,710	-
Revenues bonds payable	15,440,673	-	(417,166)	15,023,507	410,552
Total long-term debt	\$ 15,446,038	\$ 50,880	\$ (433,049)	\$ 15,063,869	\$ 418,914

The Hospital is subject to certain financial and nonfinancial covenants and restrictions related to its revenue bonds payable, which require, among other things, a minimum long-term debt service coverage ratio, a minimum days of cash on hand, and minimum debt service, sinking and interest fund balances. There are also limits to the amount of additional indebtedness that can be incurred.

As of September 30, 2019, the Hospital had violated certain of its bond covenants. On September 30, 2019, the Hospital entered into a forbearance agreement with bondholders, whereby the bondholders agreed to forbear any remedies throughout a specified forbearance period (through October 30, 2020, absent any triggering events) subject to compliance with the terms therein. Under the provisions of the agreement, \$400,000 was released from the debt service fund to pay selected vendors, and the debt service deposits and November 2019 principal payment were delayed until after the forbearance period.

**Holmes County Hospital Corporation
d/b/a Doctors Memorial Hospital
Notes to Financial Statements**

Note 9: LONG-TERM DEBT (Continued)

For the agreement to remain in effect, the Hospital was required pay all expenses, including consulting fees, related to the agreement and comply with a new budget and various other terms, including keeping the aging of accounts payable to a certain limit and remitting any excess of days cash on hand over 20 to the debt service fund (among others). The Hospital was also required to search for an affiliation partner and choose one by February 2020. As of September 11, the date these financials were available to be issued, the Hospital was out of compliance with the affiliation and various other requirements of the forbearance agreement, but in negotiations with bondholders to enter into an addendum to the forbearance agreement.

The addendum, as currently proposed, would extend the forbearance period to a date yet to be determined, but would require the hospital to resume debt service deposits on September 15, 2020 and make full payment on the scheduled Series 2006 bond principal due November 2020. It would also require compliance with a new budget and various other terms, including keeping the aging of accounts payable to a certain limit. In addition, it would require the Hospital to submit an application to the U.S. Department of Agriculture by a certain date, yet to be determined, seeking financial sufficient to refinance the Series 2006 bonds for the full amount outstanding. The financial statements do not include any adjustments related to the events of default.

Scheduled future minimum lease payments on capital lease obligations and principal and interest payments on revenue bonds payable, as modified by the terms of the forbearance agreement discussed above, are as follows:

<i>Year ending September 30,</i>	Capital Lease Obligation		Revenue Bonds Payable	
	Principal	Interest	Principal	Interest
2020	\$ 8,046	\$ 3,682	\$ 51,960	\$ 830,721
2021	8,461	1,715	843,815	806,685
2022	8,524	804	484,965	769,973
2023	5,919	103	511,476	743,018
2024	-	-	538,029	714,584
2025-2029	-	-	2,840,000	3,103,332
2030-2034	-	-	3,795,000	2,120,850
2035-2039	-	-	5,085,000	798,750
	\$ 30,950	\$ 6,304	\$ 14,150,245	\$ 9,887,913

**Holmes County Hospital Corporation
d/b/a Doctors Memorial Hospital
Notes to Financial Statements**

Note 10: NET INVESTMENT IN CAPITAL ASSETS

The Hospital's net investment in capital assets, as presented on the accompanying statements of net position, is calculated as follows:

<i>September 30,</i>	2019	2018
Capital assets, net	\$ 5,935,415	\$ 6,690,580
Less outstanding accounts payable related to capital assets	-	(57,485)
Less debt related to capital assets:		
Capital leases	(30,950)	(40,362)
Bonds payable, net of premium	(14,589,993)	(15,023,507)
Net investment in capital assets	\$ (8,685,528)	\$ (8,430,774)

Note 11: 340B DRUG PRICING PROGRAM

The Hospital participates in the 340B Drug Pricing Program (340B Program), enabling the Hospital to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases. The Hospital earns revenue under this program by purchasing pharmaceuticals at a reduced cost to fill prescriptions to qualified patients. The Hospital operates an internal pharmacy and has partnered with a network of participating local pharmacies that dispense the pharmaceuticals to its patients under a contractual arrangement with the Hospital.

The Hospital recorded 340B Program revenues of \$25,945 and \$201,630 for the years ended September 30, 2019 and 2018, respectively, which is included in other operating revenue in the accompanying statements of revenues, expenses and changes in net position. 340B program expenses of \$253,516 and \$180,169 for the years ended September 30, 2019 and 2018, respectively, are included in supplies and other operating expense in the accompanying statements of revenues, expenses and changes in net position.

This program is overseen by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs (OPA). HRSA is currently conducting routine audits of these programs at health care organizations and increasing its compliance monitoring processes. Laws and regulations governing the 340B Program are complex and subject to interpretation and change. As a result, it is reasonably possible that material changes to financial statement amounts related to the 340B Program could occur in the near term.

Note 12: MEDICAL MALPRACTICE INSURANCE

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any

**Holmes County Hospital Corporation
d/b/a Doctors Memorial Hospital
Notes to Financial Statements**

Note 12: MEDICAL MALPRACTICE INSURANCE (Continued)

reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

In addition, other claims may be asserted arising from services provided to patients in the past. In the opinion of management, adequate provision has been made for losses which may occur from such asserted and unasserted claims that are not covered by liability insurance, if any. It is reasonably possible that this estimate could change materially in the near term.

Note 13: 403(B) DEFERRED COMPENSATION PLAN

The Hospital sponsors a deferred compensation plan, which qualifies as a tax-sheltered annuity plan under Section 403(b) of the Internal Revenue Code. The Plan covers all employees who elect to participate. The plan allows participants to defer a portion of their annual compensation. The amount of annual contributions to the plan by participants is subject to certain limitations as defined in the plan document. Plan participants vest 100% immediately in their contributions and investment earnings thereon. The plan does not require or provide for employer contributions, and, accordingly, no contribution expense was recognized for the years ended September 30, 2019 and 2018.

Note 14: SIGNIFICANT ESTIMATES AND CONCENTRATIONS

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in Notes 1, 2 and 3.

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

**Holmes County Hospital Corporation
d/b/a Doctors Memorial Hospital
Notes to Financial Statements**

Note 14: SIGNIFICANT ESTIMATES AND CONCENTRATIONS (Continued)

Supplemental Medicaid Reimbursements

The Hospital receives reimbursements from various programs in relation to the Medicaid uninsured and underinsured patients they serve. Funding received in excess of costs to provide these services is subject to audit and payments received in excess of costs may be required to be refunded to the State of Florida. The estimate of potential liability is described in Note 3.

Note 15: COMMITMENTS AND CONTINGENCIES

Operating Leases

The Hospital leases various pieces of equipment under operating leases expiring at various dates through 2025. Total rental expense for the years ended September 30, 2019 and 2018 for all operating leases was approximately \$178,000 and \$185,000, respectively.

The following is a schedule by year of expiration of approximate future minimum lease payments under non-cancelable operating leases as of September 30, 2019 that have initial or remaining lease terms in excess of one year:

<i>Year ending September 30,</i>	Amount
2020	\$ 88,792
2021	64,059
2022	56,006
2023	48,506
2024	48,506
2025	12,127
	<hr/> <hr/> \$ 317,996

Florida Blue Toxicology Refunds

In July 2016, the Hospital entered into a services agreement with a reference laboratory to provide specialized urine toxicology services. In September 2016, the Hospital received a letter from Florida Blue Cross and Blue Shield (Florida Blue) denying payment to the Hospital for claims billed for services provided by independent clinical laboratories not participating in the Florida Blue's network. As a result, the Hospital removed approximately \$20,000 and \$3,178,000 of net patient service revenue and accounts receivable related to these reference lab charges during the years ended September 30, 2017 and 2016, respectively.

In September 2017, Florida Blue Cross and Blue Shield (Florida Blue) notified the Hospital that additional claims totaling approximately \$110,000 remained to be recouped. The Hospital disputes that any amounts are due, contending that substantially all Florida Blue receipts related to the

**Holmes County Hospital Corporation
d/b/a Doctors Memorial Hospital
Notes to Financial Statements**

Note 15: COMMITMENTS AND CONTINGENCIES (Continued)

Florida Blue Toxicology Refunds (Continued)

toxicology matter were recouped prior to September 30, 2017. Hospital management responded to Florida Blue with documentation that they believe supports this position. While no significant recoupment or further requests for significant recoupment have been made related to these claims, the Hospital is committed to vigorously defending itself in this matter. Accordingly, no amounts have been accrued related to this matter in the accompanying financial statements. There can be no assurances that the Hospital will be successful in their defense.

Note 16: SUBSEQUENT EVENTS

From approximately October of 2019 through August of 2020, the Hospital lacked sufficient Board members to form a quorum. In August of 2020, the Governor of the State of Florida appointed new Board members and a quorum was established. During this time period, the Hospital signed a memorandum of understanding with a third party management company who now operates the facility on a day to day basis. There was no change in ownership or control of the Hospital.

In March of 2020, the COVID-19 pandemic and accompanying federal, state and local government responses significantly disrupted operations of the Hospital, including the suspension of certain elective and outpatient procedures and an overall decrease in patient volumes. While volumes began to recover in the summer of 2020, the Hospital's management anticipates that the COVID-19 pandemic will continue to effect operations well into fiscal year 2021, and there can be no assurances that the disruption will not result in substantial negative impacts to the Hospital's future financial results.

In response to the pandemic, the United States government passed the CARES Act, which included substantial funding allocated to healthcare providers under the Provider Relief Fund (PRF). From April of 2020 through the date of these financial statements, the Hospital has received approximately \$3,640,000 of funding under the PRF. As these amounts were received in fiscal year 2020, they are not reflected on the accompanying financial statements.

Also, the Hospital applied for and received funding under the Paycheck Protection Program in the amount of approximately \$1,117,000. While technically a loan, this amount is forgivable, pending the Hospital applying for forgiveness and expending the funds on qualifying expenditures. As these amounts were received in fiscal year 2020, they are not reflected on the accompanying financial statements.

Finally, the Hospital qualified for and received accelerated Medicare payments in the amount of approximately \$1,076,000 in fiscal year 2020. These amounts are not a loan – rather they are advanced payments for services to be provided in future periods. These amounts will be deducted from standard Medicare remittances beginning in fiscal year 2021 and the Hospital's management anticipates these amounts will be fully repaid in that year.



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**INDEPENDENT ACCOUNTANTS' REPORT ON AN EXAMINATION
CONDUCTED IN ACCORDANCE WITH AICPA PROFESSIONAL STANDARDS,
AT-C SECTION 315, REGARDING COMPLIANCE REQUIREMENTS IN
ACCORDANCE WITH CHAPTER 10.550, RULES OF THE AUDITOR GENERAL**

Board of Trustees
Holmes County Hospital Corporation
d/b/a Doctors Memorial Hospital
Bonifay, Florida

We have examined Holmes County Hospital Corporation d/b/a Doctors Memorial Hospital (the "Hospital") compliance with the requirements of Section 218.415, Florida Statutes, *Local Government investment Policies*, during the year ended September 30, 2019. Management of the Hospital is responsible for the Hospital's compliance with the specified requirements. Our responsibility is to express an opinion on the Hospital's compliance with the specified requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the Hospital complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether the Hospital complied with the specified requirements. The nature, timing and extent of the procedures selected depend on our judgement, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Our examination does not provide a legal determination on the Hospital's compliance with specified requirements.

In our opinion, the Hospital complied, in all material respects, with the requirements of Section 218.415, Florida Statutes, *Local Government investment Policies*, for the year ended September 30, 2019.

This report is intended solely for the information and use of management and the State of Florida Auditor General and is not intended to be and should not be used by anyone other than these specified parties.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, L.L.C.

Enterprise, Alabama

September 11, 2020

**INDEPENDENT AUDITORS' 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 Trustees
Holmes County Hospital Corporation
d/b/a Doctors Memorial Hospital
Bonifay, Florida

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 consolidated financial statements of Holmes County Hospital Corporation d/b/a Doctors Memorial Hospital (the "Hospital") as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents, and have issued our report thereon dated September 11, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the 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.

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

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 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. We consider the deficiencies described in findings 2018 - 001 through 2018 - 002 and 2019 - 001 through 2019 - 003 in the accompanying schedule of findings and responses to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as finding 2019 – 003.

Hospital's Responses to Findings

The Hospital's responses to the findings identified in our audit, if any, are described in the accompanying schedule of findings and responses. The Hospital's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, L.L.C.

Enterprise, Alabama

September 11, 2020

**Holmes County Hospital Corporation
d/b/a Doctors Memorial Hospital
Schedule of Findings and Responses**

2018 – 001 Accounts Receivable Reserves and Net Patient Revenue (Repeat)

Criteria: Generally accepted accounting principles require that accounts receivable be presented net of a provision for uncollectible accounts receivables, based on management's assessment of collectability.

Condition: The Hospital's unadjusted reserves for patient accounts receivable were materially understated, requiring audit adjustments to the allowance for uncollectible accounts, allowance for contractual and other adjustments, provision for bad debts and revenue deductions for contractual and other adjustments.

Cause: Deficiencies in the Hospital's reserving methodologies were noted, including that the current methodology calculates reserves based on patient account receivable net of credit balances payable to patients and insurers, rather than gross of such amounts. In addition, contractual reserve percentages used in reserving for certain third-payer payer classes of patient accounts receivable were also low, based on actual collections experience.

In addition, we noted that credit balances in the patient accounts receivable details totaled approximately \$229,000 and \$214,000 at September 30, 2019 and 2018, respectively. Credit balances generally indicate either (a) instances where insurers legitimately paid more than expected, (b) overpayments by patients or insurers that are required to be paid back to them, or (c) contractual adjustments erroneously posted to patient accounts. All significant credit balances at September 30, 2019 were reclassified to accounts payable (liabilities) on the accompanying balance sheets.

Effect: Material audit adjustments were required to properly state the accounts.

Recommendation: The Hospital should routinely monitor its collections percentages through the use of a comprehensive "lookback analysis," or comparable information, using a sufficiently long (yet current) look back period in determining the reserve percentages to be used in its patient accounts receivable reserve methodology. In addition, the Hospital should ensure that its reserve methodology considers the entire population of patient accounts receivable, gross of any credit balances payable to patients and insurers.

As we have discussed with management, regulations require that overpayments to governmental insurers be identified, reported, and paid back to them in a very timely manner. In order to ensure continued compliance is possible, we recommend that the Hospital dedicate the necessary resources to researching credit balances in accounts receivable and refunding appropriate amounts to the respective parties, if applicable.

Views of Responsible Officials and Planned Corrective Actions: In October 2019, the Hospital changed its reserve methodology to include the entire population of patient accounts receivable, gross of any credit balances payable to patients and insurers, to calculate the reserve for bad debts.

**Holmes County Hospital Corporation
d/b/a Doctors Memorial Hospital
Schedule of Findings and Responses**

The hospital is in the process of changing its reserve methodology for Medicare, Medicaid and all other insurance and third party payers to make its calculations for reserve based on the gross account receivable.

The hospital will also begin to routinely monitor its collections percentage through comprehensive “lookback analysis” to compare collections with the calculated net revenues to be sure the calculations are representative of the amounts to be collected.

2018 – 002 Accruals and Balance Sheet Presentation (Partial Repeat)

Criteria: Management is responsible for establishing and maintaining effective internal control over financial reporting and presenting financial statements in accordance with generally accepted accounting principles.

Condition: Audit adjustments were required to adjust prepaid expenses and accounts payable for fiscal 2020 amounts not yet paid at September 30, 2019; to record the financing of certain insurance premiums and the related prepaid expense; to adjust certain accrued liabilities, including accrued payroll, interest and their related expense; and to adjust estimated third party payer settlements.

Cause: Internal controls over prepaid expenses, accounts payable, accrued liabilities and debt were not sufficient to detect certain misstatements in the financial statements.

Effect: Material audit adjustments were required to properly state the accounts.

Recommendation: Management should continue to focus on strengthening internal controls surrounding financial reporting and the proper presentation of financial statements in accordance with GAAP and ensure that appropriate measures are taken to record all assets and liabilities. Financial close procedures should include an analysis of all prepaid expenses, accrued expenses, debt and related accounts and estimated third party payer settlements.

Views of Responsible Officials and Planned Corrective Actions: The hospital has begun a procedure to compare all general ledger accounts balances to worksheets that calculate the current balances of prepaid expenses and accrued expenses, debt and related accounts and estimated third party payer settlements.

The hospital plans to focus on strengthening internal controls surrounding financial reporting and the proper presentation of financial statements with GAAP and take steps to ensure that appropriate measures are taken to record all assets and liabilities.

**Holmes County Hospital Corporation
d/b/a Doctors Memorial Hospital
Schedule of Findings and Responses**

2019 – 001 Going Concern / Deteriorating Financial Condition

Criteria: Management should have a formalized process for evaluating risk factors challenging the Hospital's ability to continue as a going concern (as well as measurement of and response to Florida's required assessment of deteriorating financial condition) and for preparing a formalized response plan when substantial doubt about the Hospital's ability to continue as a going concern and/or financial deterioration exists.

Condition and Effect: During the course of our audit, we evaluated the Hospital's ability to continue as a going concern, as required of us by AICPA Statement on Auditing Standards No. 126, The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern. We also measured the Hospital's financial metrics, as required by the rules of the Florida Auditor General. The results of our procedures indicated the existence of several risk factors challenging the Hospital's ability to continue as a going concern, as well as a deteriorating financial condition, namely: failure during fiscal 2019 to meet bond funding obligations and recurring negative trends such as net losses, negative cash flows and working capital deficits. These factors raise substantial doubt about the Hospital's ability to continue as a going concern and indicate a deteriorating financial condition. As such, we added an explanatory paragraph to our audit opinion and management included disclosure in the notes to the consolidated financial statements addressing these factors.

Recommendation: GASB Statement No. 56 states that "financial statement preparers have a responsibility to evaluate whether there is substantial doubt about a government's ability to continue as a going concern..." We recommend the Hospital develop a formal, written plan to identify, evaluate, and address each of the risk factors challenging the Hospital's ability to continue as a going concern.

We further recommend that the Hospital continue to work closely with its bondholders, trustee, vendors and lenders to alleviate their concerns and work towards a mutually beneficial solution that will result in the continued viability of the Hospital.

Views of Responsible Officials and Planned Corrective Actions: Hospital management is in the process of finalizing a strategic plan which includes priorities and objectives summarized below.

Hospital management entered a forbearance agreement with the bondholders in order to implement a management agreement. The management company has identified working capital deficits and negative cash flow and has implemented goals to increase revenue and decrease costs.

The Hospital's management plans to improve revenues by increasing swing bed utilization and rehabilitation services, increasing emergency department volumes, acquiring a local Rural Health Clinic, increasing ancillary services through recruitment of additional physicians, re-opening the ICU and implementing in-house nuclear medicine services. Increasing cash collections are anticipated to be achieved through improving coding and billing processes. The Hospital has been successful in

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having a ½ cent sales tax referendum added to the November 3rd ballot. Should this referendum be favorable, this revenue source would be stable and reoccurring in future years.

The Hospital is vigorously pursuing refinancing of the bonds to obtain a more favorable interest rate. An application will be submitted for refinancing the debt through the USDA farm bill which may allow for refinancing of existing debt.

Due to the COVID-19 epidemic, the Hospital has received federal funds including CARES Act Provider Relief Funds and advanced Medicare payments. Additionally, the County has agreed to provide funds to purchase capital equipment necessary to treat COVID-19 patients.

2019 – 002 Governing Board

Criteria: Per statute, the Hospital is to be administered by a five-member Board of Trustees appointed by the Governor of the State of Florida.

Condition: Throughout the fiscal year ended September 30, 2019, the Hospital Board had less than the designated five members. In addition, at times during fiscal 2019 and from October 2019 to August 2020, the Hospital Board lacked sufficient members to form a quorum.

Cause: Various factors, many outside of the Hospital's control, led to board member resignations, and replacement appointments, made by the Governor's office, were delayed.

Effect: The governing board is charged with the administration of the Hospital, and, in that role, performs vital functions such as appointing management, overseeing and monitoring operations, and making and approving major decisions and transactions. The deficiency of board members and lack of a quorum for extended periods of time reduced the Board's ability to effectively carry out its duties on behalf of the Hospital.

Recommendation: Though appointments by the Governor's office reestablished the Board's quorum in August 2020, the Hospital should continue its close communication with the Governor's office to ensure that further board appointments are made to first fill, and thereafter maintain, the full five-member board.

Views of Responsible Officials and Planned Corrective Actions: The Administrator plans to continue communicating with the Governor's appointment office to fill the vacant Board positions in districts one and two. An application has been submitted by a resident of district two and is currently being considered by the appointments office. Contacts have been made with possible candidates in district one to evaluate their interest in the position and it is hoped an application will be submitted promptly.

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The Administrator will follow up with the Governor's appointment office to evaluate progress on the applications.

2019 – 003 Public Deposit Act Compliance

Criteria: The State of Florida's Public Deposit Act requires that public deposits may only be made at qualified public depositories.

Condition: During the year ended September 30, 2019, the Hospital transferred its Series 2006 bond reserve and interest and sinking fund cash accounts to a new financial institution which is not a qualified public depository of the State of Florida.

Cause: Cash balances related to the Series 2006 revenue bond were transferred to a new financial institution at the time the financial institution became the new custodian of the related bonds.

Effect: The Hospital is not in compliance with the requirements of the State of Florida's Public Deposit Act.

Recommendation: Management should consult with bondholders and financial institution representatives to ensure that all public deposits are held in qualified public depositories, as required.

Views of Responsible Officials and Planned Corrective Actions: The Hospital attorney has communicated to the bond holders the necessity to transfer funds from the account at UMB to a qualified public depository with the State of Florida. Future transfers will include an analysis of the bank status regarding its qualification as a public depository with the State of Florida.

MANAGEMENT LETTER

Board of Trustees
Holmes County Hospital Corporation
d/b/a Doctors Memorial Hospital
Bonifay, Florida

Report on the Financial Statements

We have audited the financial statements of Holmes County Hospital Corporation d/b/a Doctors Memorial Hospital (the "Hospital"), as of and for the fiscal year ended September 30, 2019, and have issued our report thereon dated September 11, 2020.

Auditors' Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America; and Chapter 10.550, Rules of the Auditor General.

Other Reporting Requirements

We have issued our Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*; and Independent Accountant's Report on an examination conducted in accordance with AICPA Professional Standards, AT-C Section 315, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports, which are dated September 11, 2020, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. In connection with our audits, we determined that findings 2018-001 and 2018-002 of the preceding annual financial audit report, and finding 2017-001 in the second preceding annual financial report, were all or partially repeated, as described in the accompanying schedule of findings and responses.

Financial Condition and Management

Section 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General, requires us to apply appropriate procedures and communicate the results of our determination as to whether or not the Hospital has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and to identify

the specific conditions(s) met. In connection with our audit, we determined that the Hospital met the following conditions in Section 218.503(1) as a result of deteriorating financial conditions.

- (a) Failure within the same fiscal year in which due to pay short-term loans or failure to make bond debt service or other long-term debt payments when due, as a result of a lack of funds.
- (b) Failure to pay uncontested claims from creditors within 90 days after the claim is presented, as a result of a lack of funds.

Pursuant to Sections 10.554(1)(i)5.b. and 10.556(8), Rules of the Auditor General, we applied financial condition assessment procedures for the Hospital. It is management's responsibility to monitor the Hospital's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

As noted above, we concluded that the Hospital's financial condition was deteriorating. This determination was made based on the results of our assessment and the fact that the Hospital was not able to generate enough revenues to meet its expenditures without causing the occurrence of the two conditions described in s. 218.503(1)(a) and (b).

Section 10.554(1)(i)2., Rules of the Auditor General, requires that we communicate any recommendations to improve financial management. In connection with our audit, we included recommendations in the accompanying schedule of findings and responses.

Additional Matters

Section 10.554(1)(i)3., Rules of the Auditor General, requires us to communicate noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but warrants the attention of those charged with governance. In connection with our audit, we noted that certain deposits were not held at a Qualified Public Depository in accordance with the Public Deposit Act Compliance. This is described in finding 2019 – 003 in the accompanying schedule of findings and responses.

Purpose of this Letter

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, the Board of Trustees, and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, L.L.C.

Enterprise, Alabama

September 11, 2020