



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

**FINANCIAL STATEMENTS**

**September 30, 2020 and 2019**

**Holmes County Hospital Corporation**  
**d/b/a Doctors Memorial Hospital**  
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**September 30, 2020 and 2019**

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Carr, Riggs & Ingram, LLC  
1117 Boll Weevil Circle  
Enterprise, AL 36330

Mailing Address:  
P.O. Box 311070  
Enterprise, AL 36331

(334) 347-0088  
(334) 347-7650 (fax)  
[www.cricpa.com](http://www.cricpa.com)

## **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 as of and for the years ended September 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Holmes County Hospital Corporation'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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Holmes County Hospital Corporation, as of September 30, 2020 and 2019, and the changes in its financial position and, where applicable, cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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 our report dated February 10, 2021, on our consideration of Holmes County Hospital Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Holmes County Hospital Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Holmes County Hospital Corporation's internal control over financial reporting and compliance.

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

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

Enterprise, Alabama  
February 10, 2021

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

## ***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, 2020 and 2019. It should be read in conjunction with the accompanying financial statements of the Hospital.

## ***Financial Highlights***

- Cash and cash equivalents increased by approximately \$3,749,000 in 2020 after an increase of approximately \$912,000 between 2019 and 2018.

The Hospital's net position increased by approximately \$2,855,000 and decreased by approximately \$897,000 in 2020 and 2019, respectively.

- The Hospital reported operating income (loss) of approximately \$15,000 and (\$161,000) in 2020 and 2019, respectively.
- Operating expenses increased by approximately \$556,000 in 2020 after an increase of \$174,000 in 2019.

## ***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 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. 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 any changes. 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 indicators of whether its financial health is improving or deteriorating.

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

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 increased approximately \$3,112,000 in 2020 and decreased approximately \$1,892,000 in 2019. The increase in 2020 was largely driven by the receipt of \$3,640,148 in Coronavirus Aid, Relief, and Economic Security (CARES) Act monies, \$1,117,100 in Paycheck Protection Program monies and \$1,076,309 in Medicare Advanced Payments. The decrease in 2019 was primarily due to a large payable due on the 2018 cost report of approximately \$652,000.

The Hospital's total liabilities increased approximately \$257,000 in 2020 and decreased approximately \$994,000 in 2019. The increase in 2020 was primarily due to recognizing the related liability of the \$1,117,100 in Paycheck Protection Program monies. These monies are considered a liability until a Notice of Paycheck Protection Program Forgiveness letter is received, which was received on November 10, 2020. The decrease in 2019 was primarily due to a decrease in the estimated amounts due to third-party payers.

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

**Table 1: Assets, Liabilities and Net Position (Deficit)**

<i>September 30,</i>	<b>2020</b>	<i>Variance</i>	2019	<i>Variance</i>	2018
					<i>(as restated)</i>
<b>Assets</b>					
Patient accounts receivable, net	\$ 1,350,817	\$ 105,791	\$ 1,245,026	\$ 149,106	\$ 1,095,920
Other current assets	5,846,596	4,477,115	1,369,481	(643,975)	2,013,456
Capital assets, net	5,204,239	(731,176)	5,935,415	(755,165)	6,690,580
Other noncurrent assets	313,228	(740,802)	1,054,030	(640,931)	1,694,961
<b>Total assets</b>	<b>\$ 12,714,880</b>	<b>\$ 3,110,928</b>	<b>\$ 9,603,952</b>	<b>\$ (1,890,965)</b>	<b>\$ 11,494,917</b>
<b>Liabilities</b>					
Current liabilities	\$ 2,230,874	\$ (775,781)	\$ 3,006,655	\$ (909,784)	\$ 3,916,439
Long-term liabilities	15,592,036	1,031,099	14,560,937	(84,018)	14,644,955
<b>Total liabilities</b>	<b>17,822,910</b>	<b>255,318</b>	<b>17,567,592</b>	<b>(993,802)</b>	<b>18,561,394</b>
<b>Net Position (Deficit)</b>					
Net investment in capital assets	(9,337,211)	(651,683)	(8,685,528)	(254,754)	(8,430,774)
Restricted expendable	311,479	(740,802)	1,052,281	(535,670)	1,587,951
Unrestricted	3,917,702	4,248,095	(330,393)	(106,739)	(223,654)
<b>Total net position (deficit)</b>	<b>(5,108,030)</b>	<b>2,855,610</b>	<b>(7,963,640)</b>	<b>(897,163)</b>	<b>(7,066,477)</b>
<b>Total liabilities and net position</b>	<b>\$ 12,714,880</b>	<b>\$ 3,110,928</b>	<b>\$ 9,603,952</b>	<b>\$ (1,890,965)</b>	<b>\$ 11,494,917</b>

**Operating Results and Changes in the Hospital's Net Position**

As shown in *Table 2*, in 2020 the Hospital's net position increased by approximately \$2,855,000, while in 2019, the Hospital's net position decreased by approximately \$897,000, compared to the decrease of approximately \$603,000 in 2018. In 2020, the total operating revenues increased approximately \$733,000 over 2019 and the total operating expenses increased approximately \$556,000. The increase in 2020 total operating revenues was largely due to bad debts decreasing by \$205,631 and charity write-offs decreasing by \$246,997. The increase in 2020 total operating expenses was largely due to salaries and wages increasing by \$269,117 and supplies increasing by \$206,853 due to demands of the COVID-19 pandemic.

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

**Table 2: Operating Results and Changes in Net Position**

<i>For the years ended September 30,</i>	<b>2020</b>	<i>Variance</i>	2019	<i>Variance</i>	2018 <i>(as restated)</i>
<b>Operating Revenues</b>					
Net patient service revenue	\$12,235,696	\$ 746,851	\$ 11,488,845	\$ 5,662	\$ 11,483,183
Other operating revenue	59,954	(14,345)	74,299	(173,725)	248,024
<b>Total operating revenues</b>	<b>12,295,650</b>	<b>732,506</b>	<b>11,563,144</b>	<b>(168,063)</b>	<b>11,731,207</b>
<b>Operating Expenses</b>					
Salaries and wages and employee benefits	6,035,297	255,116	5,780,181	259,439	5,520,742
Physician and professional fees	655,450	(3,136)	658,586	(87,916)	746,502
Depreciation and amortization	738,587	(20,572)	759,159	(232,942)	992,101
Other operating expenses	4,851,359	324,820	4,526,539	235,734	4,290,805
<b>Total operating expenses</b>	<b>12,280,693</b>	<b>556,228</b>	<b>11,724,465</b>	<b>174,315</b>	<b>11,550,150</b>
<b>Operating (loss) income</b>	<b>14,957</b>	<b>176,278</b>	<b>(161,321)</b>	<b>(342,378)</b>	<b>181,057</b>
<b>Nonoperating Revenues (Expenses)</b>					
Investment income	13,710	(1,557)	15,267	(8,667)	23,934
Interest expense	(864,030)	(7,849)	(856,181)	(8,601)	(847,580)
Income (loss) on disposal of capital assets	-	-	-	(3,420)	3,420
Loss on impairment	-	-	-	160,000	(160,000)
Noncapital gifts and other	3,690,973	3,585,901	105,072	(94,237)	199,309
<b>Total nonoperating revenues (expenses)</b>	<b>2,840,653</b>	<b>3,576,495</b>	<b>(735,842)</b>	<b>45,075</b>	<b>(780,917)</b>
<b>Increase (decrease) in net position</b>	<b>\$ 2,855,610</b>	<b>\$ 3,752,773</b>	<b>\$ (897,163)</b>	<b>\$ (297,303)</b>	<b>\$ (599,860)</b>

**Operating Income (Loss)**

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 one 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.



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

The operating income for fiscal year 2020 was approximately \$15,000, up approximately \$176,000 from an operating loss of approximately \$161,000 in 2019. The primary components of the 2020 operating income are:

- An increase in net patient service revenue of approximately \$747,000 or 6.50%.
- A decrease in other operating revenue of approximately \$14,000, or (19.30)%.
- An increase in operating expense of approximately \$556,000, or 4.75%.

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 (\$736,000) in 2019 to \$2,841,000 in 2020, compared with (\$784,000) in 2018. The change in 2020 compared to 2019 is primarily due to the receipt of \$3,640,149 in CARES Act Monies.

### ***Capital Contributions***

There were no capital contributions in 2020 or 2019.

### ***The Hospital's Cash Flows***

As reflected in the Statements of Cash Flows, the Hospital's cash increased in 2020 by approximately \$3,749,000, compared to a decrease in 2019 by approximately \$912,000. The increase in the ending cash balance for 2020 was primarily due to the receipt of \$3,640,148 in CARES Act monies, \$1,117,100 in Paycheck Protection Program monies and \$1,076,309 in Medicare Advanced Payments. 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.

### ***Capital Asset and Debt Administration***

#### **Capital Assets**

The Hospital had approximately \$5,204,000 and \$5,935,000 of capital assets, net of accumulated depreciation, at the end of 2020 and 2019, respectively. In 2020 and 2019, the Hospital purchased new capital assets costing approximately \$7,000 and \$4,000, respectively.

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

### Debt

At September 30, 2020 and 2019, respectively, the Hospital had approximately \$15,654,000 and \$14,621,000 and 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***

The 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, road departments and local nursing home.

### ***Strategic Planning for Future Growth***

The 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 received proposals from different facilities and Smart health, LLC was contracted to manage Doctors Memorial Hospital.

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 two active surgeons on staff as well as five active general practice physicians. In addition, seven practitioners who rotate in the Emergency Room to reduce expense to the Hospital.

On December 31, 2020, the Hospital purchased the Rural Health Clinic practice that has housed one general practitioner and specialty physicians in the fields of dermatology and general surgery. The Hospital is planning on including a Nurse practitioner specializing in women's health, to the practice.

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 2016/2017 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.

The four-bed ICU reopened January 2021. The unit is equipped with all the necessary equipment to care for acute care patients as well as COVID-19.

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

A Rural Healthcare Bus was purchased on November 4, 2020, which has two exam rooms, waiting area, etc. which will be utilized for outreach to rural areas of the county to provide needed healthcare services.

The Hospital was fortunate to have a van donated from Tri-County Community Council and it is being utilized for transportation for patients who have no way of coming to their appointments, i.e., outpatient services.

To address many of the Hospital's barriers for growth, Doctors Memorial Hospital continues to work with the Governor's Appointment Office to recruit board members. The Hospital was successful in recruiting one new board member in 2019 and two more in 2020. The Hospital continues to work to recruit the other two board members from District I and 2 so that it will have a complete board having one member per each County commission district. Due to COVID-19, this has made recruitment very difficult.

The Hospital was successful with the Referendum this past November 3, 2020, and beginning January 1, 2021, and the local businesses have been instructed to collect the 0.05 cent sales tax for the indebtedness of the Hospital from January 2021 through December 31, 2026. The sales tax will help towards payment of the bonds. 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 study is being completed. The Hospital was informed that it may be as late as September or October 2021 before the Hospital can apply for refinancing the debt. Due to this information, the Hospital is moving forward to applying for a loan from our local banks. This does not preclude the Hospital from filing an application with USDA when the Regulations are published.

The Medicare cost report for fiscal year 2018 left the Hospital owing a payable in the amount of \$652,000. The total amount owed through January 2021, is \$276,016, 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 has filed an appropriation request for \$500,000 for the funds to obtain more physician office space for future growth. The Hospital has also filed a local bill which would allow the Hospital to offer needed services to neighboring counties outside of Holmes County, Florida.

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.

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

In view of the changing political viewpoints in the federal government, the future look and amount of Low Income Pool (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) 547-8010.

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

<i>September 30,</i>	<b>2020</b>	<b>2019</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 5,416,561	\$ 924,075
Restricted cash and cash equivalents		
Bond interest fund	-	2,553
Patient accounts receivable, net of estimated uncollectibles of approximately \$2,012,000 and \$2,455,000 in 2020 and 2019, respectively	1,350,817	1,245,026
Supplies	334,450	284,380
Prepaid expenses and other	95,585	158,473
<b>Total current assets</b>	<b>7,197,413</b>	<b>2,614,507</b>
Noncurrent assets		
Restricted cash and cash equivalents		
Building fund	38,259	29,338
Grant fund	1,749	1,749
Bond sinking fund	-	194,445
Debt reserve fund	273,220	828,498
<b>Total noncurrent assets</b>	<b>313,228</b>	<b>1,054,030</b>
Capital assets		
Land	319,513	319,513
Construction in progress	-	1,700
Depreciable capital assets, net	4,884,726	5,614,202
<b>Total capital assets, net</b>	<b>5,204,239</b>	<b>5,935,415</b>
<b>Total assets</b>	<b>\$ 12,714,880</b>	<b>\$ 9,603,952</b>

-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>	<b>2020</b>	2019
<b>Liabilities and Net Position (Deficit)</b>		
Current liabilities		
Current maturities of long-term debt	\$ 61,799	\$ 60,006
Accounts payable	642,027	788,959
Accrued compensation and payroll taxes	617,268	537,125
Unearned revenue	1,749	1,749
Other accrued expenses	148,736	229,187
Accrued interest payable	337,341	344,851
Accrued interest payable from restricted assets	-	2,553
Short-term debt	-	61,677
Estimated third-party settlements (including Medicare accelerated payments)	421,954	980,548
<b>Total current liabilities</b>	<b>2,230,874</b>	<b>3,006,655</b>
Long-term liabilities		
Capital lease obligation, net of current maturities	13,399	22,904
Payroll Protection Program loan	1,117,100	-
Bonds payable, net of current maturities	14,461,537	14,538,033
<b>Total long-term liabilities</b>	<b>15,592,036</b>	<b>14,560,937</b>
<b>Total liabilities</b>	<b>17,822,910</b>	<b>17,567,592</b>
Net position (deficit)		
Net investment in capital assets	(9,337,211)	(8,685,528)
Restricted - expendable for		
Debt service	273,220	1,022,943
Specified operating activities	38,259	29,338
Unrestricted	3,917,702	(330,393)
<b>Total net position (deficit)</b>	<b>(5,108,030)</b>	<b>(7,963,640)</b>
<b>Total liabilities and net position</b>	<b>\$ 12,714,880</b>	<b>\$ 9,603,952</b>

*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>For the years ended September 30,</i>	<b>2020</b>	2019
<b>Operating Revenues</b>		
Net patient service revenue before provision for uncollectible accounts	\$ 14,756,390	\$ 14,131,014
Provision for uncollectible accounts	<b>(2,520,694)</b>	(2,642,169)
Net patient service revenue	<b>12,235,696</b>	11,488,845
Other operating revenue	<b>59,954</b>	74,299
Total operating revenues	<b>12,295,650</b>	11,563,144
<b>Operating Expenses</b>		
Salaries and wages	<b>5,621,722</b>	5,367,629
Supplies and other operating expense	<b>3,973,322</b>	3,706,520
Insurance	<b>878,037</b>	820,019
Depreciation and amortization	<b>738,587</b>	759,159
Physician and professional fees	<b>655,450</b>	658,586
Employee benefits and payroll taxes	<b>413,575</b>	412,552
Total operating expenses	<b>12,280,693</b>	11,724,465
Operating income (loss)	<b>14,957</b>	(161,321)
<b>Nonoperating Revenues (Expenses)</b>		
Investment income	<b>13,710</b>	15,267
Interest expense	<b>(864,030)</b>	(856,181)
CARES PRF income, noncapital gifts and other	<b>3,690,973</b>	105,072
Total nonoperating revenues (expenses)	<b>2,840,653</b>	(735,842)
Increase (decrease) in net position	<b>2,855,610</b>	(897,163)
Net position (deficit) - beginning of year	<b>(7,963,640)</b>	(7,066,477)
Net position (deficit) - end of year	<b>\$ (5,108,030)</b>	\$ (7,963,640)

*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>For the years ended September 30,</i>	<b>2020</b>	2019
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 11,490,860	\$ 10,587,168
Payments to suppliers and contractors	(5,676,192)	(5,137,787)
Payments to and on behalf of employees	(5,916,798)	(5,722,625)
Other receipts (payments), net	51,909	116,263
<b>Net cash provided by (used in) operating activities</b>	<b>(50,221)</b>	<b>(156,981)</b>
<b>Noncapital Financing Activities</b>		
Receipt of FEMA grant related to Hurricane Michael	-	41,996
Receipt of CARES PRF funding	3,640,149	-
Proceeds from Payroll Protection Program loan	1,117,100	-
Receipt of other noncapital grants	39,144	(9,535)
Donations, net	17,185	11,652
Financing of insurance premiums	-	105,792
Principal paid on short-term debt	(61,677)	(44,115)
Interest paid on short-term debt	(786)	(786)
Interest and finance charges paid on trade payables	(61,893)	(12,620)
<b>Net cash provided by (used in) noncapital financing activities</b>	<b>4,689,222</b>	<b>92,384</b>
<b>Capital and Related Financing Activities</b>		
Purchase of capital assets	(7,415)	(3,994)
Interest paid on long-term debt	(835,289)	(875,178)
Principal paid on long-term debt	(61,119)	(419,964)
<b>Net cash provided by (used in) capital and related financing activities</b>	<b>(903,823)</b>	<b>(1,299,136)</b>
<b>Investing Activities</b>		
Reinvestment of interest into certificates of deposits	-	(1,940)
Redemption of certificates of deposits	-	438,574
Receipt of interest on investments	13,953	15,492
<b>Net cash provided by (used in) investing activities</b>	<b>13,953</b>	<b>452,126</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>3,749,131</b>	<b>(911,607)</b>
Cash and cash equivalents - beginning of year	1,980,658	2,892,265
<b>Cash and cash equivalents - end of year</b>	<b>\$ 5,729,789</b>	<b>\$ 1,980,658</b>

-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>For the years ended September 30,</i>	<b>2020</b>	<b>2019</b>
<b>Reconciliation of Cash to Balance Sheets</b>		
Cash and cash equivalents	\$ 5,416,561	\$ 924,075
Restricted cash and cash equivalents, current		
Bond interest fund	-	2,553
Restricted cash and cash equivalents, noncurrent		
Building fund	38,259	29,338
Grant fund	1,749	1,749
Bond sinking fund	-	194,445
Debt reserve fund	273,220	828,498
<b>Cash and cash equivalents - end of year</b>	<b>\$ 5,729,789</b>	<b>\$ 1,980,658</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used In) Operating Activities</b>		
Operating income (loss)	\$ 14,957	\$ (161,321)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation and amortization	738,587	759,159
Provision for bad debts	2,520,694	2,642,169
Other nonoperating income	-	41,959
Changes in operating assets and liabilities		
Patient accounts receivable	(2,626,485)	(2,789,927)
Supplies	(50,070)	(18,497)
Prepaid expenses and other	62,645	(45,063)
Accounts payable	(151,647)	148,293
Accrued expenses	(308)	35,515
Estimated third-party settlements	(558,594)	(769,268)
<b>Net cash provided by (used in) operating activities</b>	<b>\$ (50,221)</b>	<b>\$ (156,981)</b>
<b>Noncash Investing, Capital and Financing Activities</b>		
Purchase of equipment through accounts payable	\$ 4,715	\$ -
Amortization of bond premium included in interest expense	23,089	22,962

*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: DESCRIPTION OF HOSPITAL**

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.

**Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Accounting***

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with applicable pronouncements of the Governmental Accounting Standards Board (GASB), using the economic resources measurement focus. Revenue, 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.

***Use of Estimates***

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

Estimates that are particularly susceptible to significant change in the near term are related to 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.

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

**Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Risk Management (continued)***

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 and Cash Equivalents***

Cash and cash equivalents include cash and all highly liquid investments with an original maturity of 90 days or less. At September 30, 2020 and 2019, cash equivalents consisted primarily of demand deposits.

***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 non-operating revenue on the statements of revenues, expenses and changes in net position.

***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.

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).

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

**Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Patient Accounts Receivable, Net (continued)***

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 2020 and did not have significant write-offs from third-party payers related to collectability in fiscal years 2020 or 2019.

***Supplies***

Supply inventories are stated at the lower of cost or net realizable value, determined using the first-in, first-out method. When evidence exists that the net realizable value of inventories is lower than its cost, the difference is recognized as a loss in the statement of revenues, expenses, and changes in net position in the period in which it occurs.

***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.

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.

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

**Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***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, 2020 and 2019.

***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 balance sheets.

***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.

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

**Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Net Position (continued)***

*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 Revenue and Expenses***

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

***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. 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.

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.

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

**Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***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 \$650,000 and \$897,000 for the years ended September 2020 and 2019, respectively, and estimated costs and expenses incurred to provide charity care totaled approximately \$253,000 and \$330,000, 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 non-operating revenue and expenses.

***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

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

**Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Current Healthcare Environment (continued)***

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.

***Advertising Costs***

Advertising costs are expensed as incurred. Advertising expense for the years ended September 30, 2020 and 2019 was \$22,467 and \$25,874, respectively.

***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.

***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 2019. No such significant incentive payments were received or recognized in either fiscal 2019 or 2020, 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.



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

**Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Recent Accounting Pronouncements***

During the year ended September 30, 2020, the Hospital did not adopt any new statements of financial accounting standards issued by GASB.

In May 2020, the GASB issued Statement No. 95 (GASB 95), *Postponement of the Effective Dates of Certain Authoritative Guidance*. 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 GASB 95 apply to the financial statements of all state and local governments. The primary objective of GASB 95 is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. The requirements of GASB 95 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 Deferered Compensation Plans</i>	2022

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

**Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Subsequent Events***

Management has evaluated subsequent events through the date that the financial statements were available to be issued, February 10, 2021. See Note 19 for relevant disclosures. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

***Reclassifications***

Certain reclassifications were made to prior year balances to conform with current year presentation.

**Note 3: DEPOSITS AND INVESTMENTS**

As of September 30, 2020 and 2019, the deposits and investments of the Hospital consisted of the following:

<i>September 30,</i>	<b>2020</b>	2019
Petty cash and undeposited cash	\$ 215	\$ 215
Cash deposits with financial institutions	<b>5,729,574</b>	1,980,443
<b>Total deposits</b>	<b>\$ 5,729,789</b>	<b>\$ 1,980,658</b>

Deposits are included in the following balance sheet captions:

<i>September 30,</i>	<b>2020</b>	2019
Cash and cash equivalents	\$ 5,416,561	\$ 924,075
Restricted cash and cash equivalents, current		
Bond interest fund	-	2,553
Restricted cash and cash equivalents, noncurrent		
Building fund	<b>38,259</b>	29,338
Grant fund	<b>1,749</b>	1,749
Bond sinking fund	-	194,445
Debt reserve fund	<b>273,220</b>	828,498
<b>Total</b>	<b>\$ 5,729,789</b>	<b>\$ 1,980,658</b>

***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.

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

**Note 3: DEPOSITS AND INVESTMENTS (Continued)**

***Deposits (continued)***

The State of Florida's Public Deposit Act (the "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 Federal Deposit Insurance Corporation (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, 2020, \$273,220 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 FDIC, while the balance was uncollateralized. The remainder of the Hospital's deposits at September 30, 2020 and 2019 were covered under the FDIC and the 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, 2020 and 2019 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 3: DEPOSITS AND INVESTMENTS (Continued)**

***Investments (continued)***

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, 2020 or 2019.

**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. The mix of receivables from patients and third-party payers at September 30, 2020 and 2019 was:

<i>September 30,</i>	<b>2020</b>	<b>2019</b>
Medicare	\$ 464,864	\$ 395,986
Medicaid	124,554	96,900
Other third-party payers	496,918	477,463
Patients	<b>2,276,661</b>	<b>2,729,530</b>
Total patient accounts receivable	<b>3,362,997</b>	3,699,879
Less allowance for uncollectible accounts	<b>(2,012,180)</b>	(2,454,853)
Patient accounts receivable, net	<b>\$ 1,350,817</b>	\$ 1,245,026

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

**Note 5: CAPITAL ASSETS**

Capital asset activity and balances for the year ended September 30, 2020, were as follows:

	Estimated Useful Lives (in years)	Balance 10/1/2019	Additions	Reductions	Transfers	Balance 9/30/2020
<b>Nondepreciable capital assets</b>						
Land		\$ 319,513	\$ -	\$ -	\$ -	\$ 319,513
Construction in progress		1,700	-	-	(1,700)	-
<b>Total nondepreciable</b>		<b>321,213</b>	<b>-</b>	<b>-</b>	<b>(1,700)</b>	<b>319,513</b>
<b>Depreciable capital assets</b>						
Land improvements	5 - 40	1,856,984	-	-	-	1,856,984
Buildings and improvements	5 - 40	6,960,315	-	-	-	6,960,315
Furniture and fixtures	7 - 20	203,112	-	-	-	203,112
Machinery and equipment	7 - 20	11,479,848	7,415	-	1,700	11,488,963
<b>Total depreciable, at cost</b>		<b>20,500,259</b>	<b>7,415</b>	<b>-</b>	<b>1,700</b>	<b>20,509,374</b>
<b>Less accumulated depreciation</b>						
Land improvements		(1,325,564)	(58,353)	-	-	(1,383,917)
Buildings and improvements		(3,992,583)	(231,294)	-	-	(4,223,877)
Furniture and fixtures		(168,256)	(7,775)	-	-	(176,031)
Machinery and equipment		(9,399,654)	(441,169)	-	-	(9,840,823)
<b>Total accumulated depreciation</b>		<b>(14,886,057)</b>	<b>(738,591)</b>	<b>-</b>	<b>-</b>	<b>(15,624,648)</b>
<b>Depreciable, net</b>		<b>5,614,202</b>	<b>(731,176)</b>	<b>-</b>	<b>1,700</b>	<b>4,884,726</b>
<b>Total capital assets, net</b>		<b>\$ 5,935,415</b>	<b>\$ (731,176)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 5,204,239</b>

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

**Note 5: CAPITAL ASSETS (Continued)**

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

	Estimated Useful Lives (in years)	Balance 10/1/2018	Additions	Reductions	Transfers	Balance 9/30/2019
<b>Nondepreciable capital assets</b>						
Land		\$ 319,513	\$ -	\$ -	\$ -	\$ 319,513
Construction in progress		1,700	-	-	-	1,700
<b>Total nondepreciable</b>		<b>321,213</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>321,213</b>
<b>Depreciable capital assets</b>						
Land improvements	5 - 40	1,856,984	-	-	-	1,856,984
Buildings and improvements	5 - 40	6,960,315	-	-	-	6,960,315
Furniture and fixtures	7 - 20	203,112	-	-	-	203,112
Machinery and equipment	7 - 20	11,475,854	3,994	-	-	11,479,848
<b>Total depreciable, at cost</b>		<b>20,496,265</b>	<b>3,994</b>	<b>-</b>	<b>-</b>	<b>20,500,259</b>
<b>Less accumulated depreciation</b>						
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)
<b>Total accumulated depreciation</b>		<b>(14,126,898)</b>	<b>(759,159)</b>	<b>-</b>	<b>-</b>	<b>(14,886,057)</b>
<b>Depreciable, net</b>		<b>6,369,367</b>	<b>(755,165)</b>	<b>-</b>	<b>-</b>	<b>5,614,202</b>
<b>Total capital assets, net</b>		<b>\$ 6,690,580</b>	<b>\$ (755,165)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 5,935,415</b>

Depreciation expense for the years ended September 30, 2020 and 2019 amounted to \$738,591 and \$759,159, including insignificant amounts related to equipment under capital lease. No interest was capitalized during the years ended September 30, 2020 and 2019.

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

**Note 6: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

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

<i>September 30,</i>	<b>2020</b>	2019
Payable to suppliers and contractors	\$ 642,027	\$ 788,959
Payable to employees (including payroll taxes and benefits)	617,268	537,125
Accrued interest payable	337,341	347,404
Due to patients and their insurers	148,736	229,187
	<b>\$ 1,745,372</b>	<b>\$ 1,902,675</b>

**Note 7: SHORT-TERM DEBT**

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 paid off in August 2020.

No related premiums were financed during the fiscal year ended September 30, 2020.

A summary of changes in the Hospital's short-term debt for the years ended September 30, 2020 and 2019 follows:

	Balance 10/1/2019	Additions	Reductions	Balance 9/30/2020	Due Within One Year
<b>Insurance premium financing</b>	<b>\$ 61,677</b>	<b>\$ -</b>	<b>\$ (61,677)</b>	<b>\$ -</b>	<b>\$ -</b>
	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

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

**Note 8: LONG-TERM DEBT**

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

<u>September 30,</u>	<u>2020</u>	<u>2019</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 approximately \$30,000.	\$ 21,791	\$ 29,395
Capital lease obligation, interest rate of 7.78%, monthly payments of \$182, maturing June 2020, collateralized by leased equipment with an amortized cost of approximately \$2,000.	-	1,555
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.	<b>13,875,000</b>	13,875,000
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.	<b>223,285</b>	275,245
Payroll Protection Program (PPP) Loan	<b>1,117,100</b>	-
Plus: unamortized portion of premium on Series 2006 bonds	<b>416,659</b>	439,748
	<b>15,653,835</b>	14,620,943
Less: current portion	<b>(61,799)</b>	(60,006)
<b>Total</b>	<b>\$ 15,592,036</b>	<b>\$ 14,560,937</b>



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

**Note 8: LONG-TERM DEBT (Continued)**

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, minimum days of cash on hand, minimum debt service, and sinking and interest fund balances. There are also limits to the amount of additional indebtedness that can be incurred.

As of September 30, 2019 and 2020, the Hospital had violated certain of its bond covenants. The Hospital has received a waiver of these events for the current year. The financial statements do not include any adjustments related to the events of default or that would result from the Hospital's inability to cure such defaults in the future.

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.

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. No affiliation was executed during the fiscal year ended September 30, 2020.

On December 30, 2020, an amendment to the original forbearance agreement was executed, retroactive to September 15, 2020 and extending the agreement through June 30, 2021. The amendment requires the hospital to resume debt service deposits and make full payment on the scheduled Series 2006 bond principal due November 2021. It also requires compliance with a new budget and various other terms, including keeping the aging of accounts payable to a certain limit. In addition, it requires the Hospital to submit an application to the U.S. Department of Agriculture by a certain date, yet to be determined, seeking financing 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; however, due to the terms of this agreement, no amounts are presented as current portion of debt related to the Series 2006 bonds at September 30, 2020.

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

**Note 8: 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, 2020 and 2019 follows:

	Balance 10/1/2019	Additions	Reductions	Balance 9/30/2020	Due Within One Year
Capital lease obligation	\$ 30,950	\$ -	\$ (9,159)	\$ 21,791	\$ 8,392
Revenues bonds payable					
Series 2006	13,875,000	-	-	13,875,000	-
Series 2017	275,245	-	(51,960)	223,285	53,407
Premium on Series 2006	439,748	-	(23,089)	416,659	-
Revenues bonds payable	14,589,993	-	(75,049)	14,514,944	53,407
Notes payable					
PPP loan	-	1,117,100	-	1,117,100	-
<b>Total long-term debt</b>	<b>\$ 14,620,943</b>	<b>\$ 1,117,100</b>	<b>\$ (84,208)</b>	<b>\$ 15,653,835</b>	<b>\$ 61,799</b>

	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
<b>Total long-term debt</b>	<b>\$ 15,063,869</b>	<b>\$ -</b>	<b>\$ (442,926)</b>	<b>\$ 14,620,943</b>	<b>\$ 60,006</b>

Scheduled principal and interest payments on revenue bonds payable and future minimum lease payments on capital lease obligations are as follows:

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

**Note 8: LONG-TERM DEBT (Continued)**

For the year ending <i>September 30,</i>	Capital Lease Obligation		Revenue Bonds Payable		Total to be Paid
	Principal	Interest	Principal	Interest	
2021	\$ 8,392	\$ 1,715	\$ 53,407	\$ 807,006	\$ 870,520
2022	8,524	804	484,965	769,973	1,264,266
2023	4,875	103	511,476	743,018	1,259,472
2024	-	-	538,029	714,584	1,252,613
2025	-	-	505,000	684,669	1,189,669
2025-2029	-	-	3,010,000	2,931,213	5,941,213
2030-2034	-	-	4,020,000	1,886,400	5,906,400
2035-2039	-	-	4,975,408	520,650	5,496,058
<b>Total</b>	<b>\$ 21,791</b>	<b>\$ 2,622</b>	<b>\$ 14,098,285</b>	<b>\$ 9,057,513</b>	<b>\$ 23,180,211</b>

Depreciation expense includes an insignificant amount of depreciation on equipment under capital lease for the years ended September 30, 2020 and 2019. No interest was capitalized during the years ended September 30, 2020 and 2019.

During the fiscal year ended September 30, 2020, the Hospital was granted a Small Business Administration (SBA) Paycheck Protection Program (PPP) loan of \$1,117,100 to assist with keeping its workforce employed during the Coronavirus (COVID-19) crisis. The loan, which bears interest at 1% has a maturity date of 2022 and has deferred payments until fiscal 2022. PPP loans are subject to loan forgiveness. Forgiveness is based on the employer maintaining or quickly rehiring employees and maintaining salary levels over a 24-week covered period following the receipt of the PPP loan, and may be reduced if full-time headcount declines, or if salaries and wages decrease. The application for forgiveness of the Hospital's PPP loan has not yet been completed as of September 30, 2020. Accordingly, no forgiveness is recognized on the accompanying financial statements. The entire balance is presented as a long-term liability on the accompanying financial statements at September 30, 2020.

**Note 9: 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>	<b>2020</b>	2019
Capital assets, net	<b>\$ 5,204,239</b>	\$ 5,935,415
Less outstanding accounts payable related to capital assets	<b>(4,715)</b>	-
Less debt related to capital assets:		
Capital leases	<b>(21,791)</b>	(30,950)
Bonds payable, net of premium	<b>(14,514,944)</b>	(14,589,993)
<b>Net investment in capital assets</b>	<b>\$ (9,337,211)</b>	<b>\$ (8,685,528)</b>

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

**Note 10: 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.

*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 2019, 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, 2019. A related liability of \$0 and \$90,418 is accrued in estimated third-party settlements at September 30, 2020 and 2019, 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>	<b>2020</b>	2019
Medicare	<b>36%</b>	<b>37%</b>
Medicaid	<b>1%</b>	<b>3%</b>
Blue Cross	<b>13%</b>	<b>12%</b>
Commercial/HMO/PPO	<b>48%</b>	<b>39%</b>

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

**Note 10: NET PATIENT SERVICE REVENUE (Continued)**

The composition of net patient service revenue was as follows:

<i>For the years ended September 30,</i>	<b>2020</b>	2019
Gross patient service revenue	<b>\$ 33,367,247</b>	\$ 34,378,168
Less provision for contractual adjustments under third-party reimbursement programs and other adjustments	<b>(18,610,857)</b>	(20,247,154)
Provision for bad debts	<b>(2,520,694)</b>	(2,642,169)
<b>Net patient service revenue</b>	<b>\$ 12,235,696</b>	<b>\$ 11,488,845</b>

**Note 11: 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 \$661,000 and \$683,000 for fiscal years 2020 and 2019, 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 \$0 and \$216,000 for the DSH program and \$0 and \$258,000 for the LIP program are included in estimated third-party payer settlements on the accompanying balance sheets at September 30, 2020 and 2019, respectively, as provision for program payments in excess of cost. During fiscal year 2020 net patient service revenue increased by approximately \$357,000 due to changes in such provisions and it is reasonably possible that these estimates could further materially change in the near term.

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

**Note 11: MEDICAID SUBSIDIES AND ASSESSMENTS (Continued)**

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 \$121,000 and \$118,000 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 2020 and 2019, respectively. Estimated assessments payable totaling \$129,000 and \$131,000 at both September 30, 2020 and 2019 are included in estimated third-party payer settlements on the accompanying balance sheets.

**Note 12: 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 \$21,249 and \$25,945 for the years ended September 30, 2020 and 2019, respectively, which is included in other operating revenue in the accompanying statements of revenues, expenses and changes in net position. 340B program expenses of \$322,610 and \$253,516 for the years ended September 30, 2020 and 2019, 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.

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

**Note 13: 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 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 14: 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, 2020 and 2019.

**Note 15: 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 2, 10, and 11.

***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 15: 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 11.

**Note 16: 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, 2020 and 2019 for all operating leases was approximately \$177,000 and \$178,000, 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, 2020 that have initial or remaining lease terms in excess of one year:

*For the years ending September 30,*

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2021	\$	64,059
2022		56,006
2023		48,506
2024		48,506
Thereafter		12,127

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	\$	229,204
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**Note 17: UNCERTAINTIES**

In March 2020, the World Health Organization made the assessment that the outbreak of a novel coronavirus (COVID-19) can be characterized as a pandemic. As a result, uncertainties have arisen that may have a significant negative impact on the operating activities and results of the Hospital.

The occurrence and extent of such an impact will depend on future developments, including (i) the duration and spread of the virus, (ii) government quarantine measures, (iii) voluntary and precautionary restrictions on travel or meetings, (iv) the effects on the financial markets, and (v) the effects on the economy overall, all of which are uncertain.



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

**Note 18: CARES ACT FUNDING**

Additional funding for the Public Health and Social Services Emergency Fund (“Relief Fund”) was among the provisions of the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”), which was signed into law on March 27, 2020, and other legislation. In the year ended September 30, 2020, the Hospital received cash payments of approximately \$3,640,000 from the Relief Fund and state grant programs, which is reported as non-operating revenues in accompanying statement of revenues, expenses and changes in net position.

Payments from the Relief Fund are not loans therefore, they are not subject to repayment. However, as a condition to receiving distributions, providers must agree to certain terms and conditions. Including, among other things, that the funds are being used for lost operating revenues and COVID-related costs, and that the providers will not seek collection of out-of-pocket payments from a COVID-19 patient that are greater than what the patient would have otherwise been required to pay if the care had been provided by an in-network provider. The Hospital recognizes grant payments as income when there is reasonable assurance of compliance with the conditions associated with the grant. The Hospital’s estimates could change materially in the future based on the Hospital’s operating performance or COVID-19 activities, as well as the evolving grant compliance guidance provided by the government.

*The Coronavirus Aid, Relief, and Economic Security Act of 2020 and Related Legislation.* The CARES Act and the Paycheck Protection Program and Health Care Enhancement Act, which was signed into law on April 24, 2020, authorized up to \$2 trillion in government spending to mitigate the economic effects of the COVID-19 pandemic. Below is a brief overview of certain provisions of the CARES Act and related legislation that have impacted and expect will continue to impact the Hospital’s business. Please note that this summary is not exhaustive, and additional legislative action and regulatory developments may evolve rapidly. There is no assurance that the Hospital will continue to receive or remain eligible for funding or assistance under the CARES Act or similar measures.

*Public Health and Social Services Emergency Fund.* To address the fiscal burdens on healthcare providers created by the COVID-19 public health emergency, the CARES Act and the Paycheck Protection Program authorized \$175 billion for the Relief Fund.

The U.S. Department of Health and Human Services (HHS) has indicated that it will be closely monitoring and, along with the Office of Inspector General, auditing providers to ensure that recipients comply with the terms and conditions of relief programs and to prevent fraud and abuse. All providers will be subject to civil and criminal penalties for any deliberate omissions, misrepresentations or falsifications of any information given to HHS. The Hospital has formally accepted the terms and conditions associated with the receipt of its Relief Fund payments.

During the year ended September 30, 2020, the Hospital recognized approximately \$3.6 million of Relief Fund income, included as non-operating income, associated with lost operating revenue and COVID-related costs.

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

**Note 18: CARES ACT FUNDING (Continued)**

*Medicare and Medicaid Payment Policy Changes.* The CARES Act also alleviates some of the financial strain on hospitals, physicians, and other healthcare providers and states through a series Medicare and Medicaid payment policies that temporarily increase Medicare and Medicaid reimbursement and allow for added flexibility, as described below.

- Effective May 1, 2020 through December 31, 2020, the 2% sequestration reduction on Medicare FFS and Medicare Advantage payments to hospitals, physicians and other providers authorized by the Sequestration Transparency Act of 2020 is suspended and will resume effective January 2021. The suspension is financed by a one-year extension of the sequestration adjustment through 2030.
- The CARES Act instituted a 20% increase in the Medicare MS-DRG payment for COVID-19 hospital admissions for the duration of the public health emergency as declared by the Secretary of HHS.
- The scheduled reduction of \$4 billion in federal Medicaid DSH allotments in FFY 2020, as mandated by the Affordable Care Act, is suspended until December 1, 2020. Also, the federal DSH allotment reduction for FFY 2021 will be reduced from \$8 billion to \$4 billion. Notwithstanding these adjustments, the ACA-mandated reduction is not expected to be extended past its original termination in FFY 2025.
- The CARES Act expanded the Medicare accelerated payment program, which provides prepayment of claims to providers in certain circumstances, such as national emergencies or natural disasters. Under this measure, providers could request accelerated payments that may be retained for 120 days during which time providers continue to receive payments for services. At the end of the 120-period, the accelerated payment will be repaid via a 100% offset of payments on claims that would otherwise be paid. The repayment period for hospitals and other providers is one year and 210 days, respectively, from the date of receipt of the accelerated payment, after which interest is assessed on the unpaid balance. During the fiscal year ended September 30, 2020, the Hospital applied for and received accelerated payments totaling approximately \$1.1 million, which is included in estimated third party settlements on the accompanying balance sheet.
- A 6.2% increase in the Federal Medical Assistance Percentage (“FMAP”) matching funds was instituted to help states respond to the COVID-19 pandemic. The additional funds are available to states from January 1, 2020 through the quarter in which the public health emergency period ends, provided that states meet certain conditions. An increase in states’ FMAP leverages Medicaid’s existing financing structure, which allows federal funds to be provided to states more quickly and efficiently than establishing a new program or allocating money from a new funding stream. Increased federal matching funds support states in responding to the increased need for services, such as testing and treatment during the COVID-19 public health emergency, as well as increased enrollment as more people lose income and qualify for Medicaid during the economic downturn.

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

**Note 18: CARES ACT FUNDING (Continued)**

Because of the uncertainty associated with various factors that may influence Hospital's future Medicare and Medicaid payments, including future legislative, legal or regulatory actions, or changes in volumes and case mix, there is a risk that Hospital's estimates of the impact of the aforementioned payment and policy changes will be incorrect and that actual payments received under, or the ultimate impact of, these programs may differ materially from Hospital's expectations.

**Note 19: SUBSEQUENT EVENTS**

Management evaluated all events or transactions that occurred after September 30, 2020 through February 10, 2021 the date the Hospital's financial statements were available to be issued. The following items occurred:

As described in Note 8, the Hospital signed an amendment to the forbearance agreement.



Carr, Riggs & Ingram, LLC  
1117 Boll Weevil Circle  
Enterprise, AL 36330

Mailing Address:  
P.O. Box 311070  
Enterprise, AL 36331

(334) 347-0088  
(334) 347-7650 (fax)  
[www.cricpa.com](http://www.cricpa.com)

**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 Section 218.415, Florida Statutes, during the year ended September 30, 2020. Management is responsible for the Hospital's compliance with those requirements. Our responsibility is to express an opinion on the Hospital's compliance 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 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 aforementioned requirements of Section 218.415 during the year ended September 30, 2020.

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  
February 10, 2021

**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 financial statements of Holmes County Hospital Corporation d/b/a Doctors Memorial Hospital (the "Hospital") as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated February 10, 2021

***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) as a basis for designing 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 - 002 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed 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  
February 10, 2021

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

**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 estimated third party payer settlements, Medicare cost report bad debt receivables, prepaids, accounts payable, accrued vacation, and others.

**Cause:** Internal controls 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:** Agree with the above recommendation. The hospital is comparing all general ledger accounts balances to worksheet that calculate the current balances of prepaid expenses and accrued expenses, debt and related accounts and estimated third party payer settlements.

The hospital will be 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.

**2019 – 001 Deteriorating Financial Condition**

**Criteria:** Management should have a formalized process for measurement of Florida's required assessment of deteriorating financial condition and for preparing a formalized response plan when financial deterioration exists.

**Condition and Effect:** During the course of our audit, we 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 a deteriorating financial condition, namely: failure during fiscal years 2019 and 2020 to meet bond funding obligations and recurring negative trends. These factors indicate a deteriorating financial condition.

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

**Recommendation:** We 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:** Agree with the above recommendation. A complete strategic plan with correlating budget is being developed by the hospital. It will include the following efforts:

The approval of a ½ cent sales tax referendum which is anticipated to relieve 1/3 of the annual bond interest and principal payments.

The recruitment of additional physicians, opening of two Rural Health Clinics and adding of additional services like a 3-D Mammography machine.

The purchase of a bus with two treatment areas that can be used to take services to all areas of Holmes County.

The negotiation of payor contracts that have not been renegotiated for years.

Pursuing refinancing of the bonds to obtain a more favorable interest rate. The completion of a feasibility study is currently underway as the first step in refinancing the bonds through the USDA farm bill.

The hospital has received federal funds including Cares Act Provider Relief Funds, Payroll Protection Program Funds and Advanced Medicare Payments which has permitted the hospital to keep their accounts payable current, cover their bi-weekly payroll and build up excess funds for future expenditures.

### **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 most of the fiscal years ended September 30, 2019 and 2020, 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.



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

**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:** Agree with the above recommendation. The Administrator continues 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 appointment's 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.

**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. This condition remains in fiscal year 2020.

**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 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, 2020 and have issued our report thereon dated February 10, 2021

***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 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. Disclosures in those reports, which are dated February 10, 2021, 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 2019-001, 2019-002 and 2019-003 of the preceding annual financial audit report, and finding 2018-002 in the second preceding annual financial audit report (identified as finding 2017-001 in the fiscal year 2017 audit), 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 condition(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, for all or a portion of fiscal year 2020.

- (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  
February 10, 2021

## EXHIBIT D

### Doctors Memorial Hospital

#### SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

#### FEDERAL PROGRAMS AND STATE PROJECTS

Fiscal Year Ended September 30, 2020

#### PRIOR AUDIT FINDINGS and QUESTIONED COSTS-

#### MAJOR FEDERAL PROGRAMS

#### Finding

#### Number Prior Audit Finding

#### 2018-001

**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.

**Auditor's Recommendation:** The Hospital should routinely monitor its collections percentage 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.

**Current Status:** The Hospital has 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.

The Hospital has changed its reserve methodology for Medicare, Medicaid and all other insurance and third-party payers to make its calculations for reserved based on the gross account receivable.

The Hospital is processing all refunds in a timely manner when they occur.