

BATH COMMUNITY HOSPITAL

FINANCIAL REPORT

December 31, 2017

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Bath Community Hospital (a non-profit organization hereinafter referred to as the "Hospital") which comprise the statements of assets, liabilities, and fund balances - income tax basis as of December 31, 2017 and 2016, and the related statements of revenues, expenses, and changes in fund balances— income tax basis and cash flows - income tax basis for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting the Hospital uses for income tax purposes as described in Note 2; this includes determining that the income tax basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances - income tax basis of Bath Community Hospital as of December 31, 2017 and 2016, and its revenues, expenses, and other changes in fund balances and cash flows - income tax basis for the years then ended, in accordance with the basis of accounting the Hospital uses for income tax purposes as described in Note 2.

Emphasis-of-matter

As described in Note 17 to the financial statements, the Hospital corrected an error in the 2016 financial statements that is reflected in the statement of assets, liabilities, and fund balances - income tax basis and the related statements of revenues, expenses and changes in fund balances- income tax basis and cash flows - income tax basis. Our opinion is not modified with respect to this matter.

Basis of Accounting

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
April 23, 2018

BATH COMMUNITY HOSPITAL

STATEMENTS OF ASSETS, LIABILITIES, AND FUND BALANCES - INCOME TAX BASIS
December 31, 2017 and 2016

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 337,554	\$ 3,399,483
Accounts receivable, net (Note 4)	1,409,510	1,348,804
Cost report settlement receivable	502,948	-
Inventory (Note 5)	495,261	585,104
Current portion of notes receivable	36,028	44,487
Current portion of prepaid expenses	45,000	45,000
	<u>2,826,301</u>	<u>5,422,878</u>
LONG-TERM INVESTMENTS	<u>20,053</u>	<u>16,408</u>
PROPERTY, PLANT, AND EQUIPMENT, NET (Note 7)	<u>21,363,775</u>	<u>21,834,723</u>
OTHER ASSETS		
Restricted cash and cash equivalents	108,769	129,283
457(b) investments (Note 8)	118,927	89,105
Note receivable, net of current portion	149,284	181,470
Prepaid expenses, net of current portion	394,754	386,767
	<u>771,734</u>	<u>786,625</u>
Total other assets	<u>771,734</u>	<u>786,625</u>
Total assets	<u>\$ 24,981,863</u>	<u>\$ 28,060,634</u>
LIABILITIES AND FUND BALANCES		
CURRENT LIABILITIES		
Accounts payable	\$ 419,061	\$ 292,211
Accrued expenses	1,229,598	1,471,347
Cost report settlement payable	-	40,024
	<u>1,648,659</u>	<u>1,803,582</u>
Total current liabilities	<u>1,648,659</u>	<u>1,803,582</u>
LONG-TERM DEBT, NET (Note 9)	<u>15,833,516</u>	<u>15,743,701</u>
Total liabilities	<u>17,482,175</u>	<u>17,547,283</u>
FUND BALANCES	<u>7,499,688</u>	<u>10,513,351</u>
Total liabilities and fund balances	<u>\$ 24,981,863</u>	<u>\$ 28,060,634</u>

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

BATH COMMUNITY HOSPITAL

**STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN FUND BALANCES - INCOME TAX BASIS
Years Ended December 31, 2017 and 2016**

	2017	2016
Revenues, Gains, and Other Support		
Net patient service revenue (Note 3)	\$ 13,193,555	\$ 12,476,287
Provision for bad debts	(1,409,475)	(1,326,482)
Net patient service revenue excluding provision for bad debts	11,784,080	11,149,805
Investment income (Note 6)	13,283	11,754
Contributions (Note 15)	2,131,417	3,065,485
Income from funds held in trust by others (Note 12)	4,712,839	4,418,863
Other revenues, gains, and support	2,528,220	2,380,554
Total revenues, gains, and other support	21,169,839	21,026,461
Expenses		
Salaries and benefits	11,347,839	10,726,253
Other operating	7,603,090	7,887,593
Depreciation	1,432,573	1,338,235
Total expenses (Note 13)	20,383,502	19,952,081
Change in fund balances from operations	786,337	1,074,380
Pass through of contributions to Foundation (Note 15)	(3,800,000)	-
Change in fund balances	(3,013,663)	1,074,380
Fund balances, beginning as restated (Note 17)	10,513,351	9,438,971
Fund balances, end	\$ 7,499,688	\$ 10,513,351

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

BATH COMMUNITY HOSPITAL

STATEMENTS OF CASH FLOWS - INCOME TAX BASIS

Years Ended December 31, 2017 and 2016

	2017	2016
OPERATING ACTIVITIES		
Change in fund balances	\$ (3,013,663)	\$ 1,074,380
Adjustments to reconcile change in fund balances to net cash provided by (used in) operating activities:		
Depreciation	1,432,573	1,338,235
Amortization of loan issuance costs	89,815	89,814
Provision for bad debts	1,409,475	1,326,482
Loss on disposal of equipment	-	1,435
Noncash forgiveness of notes receivable	37,173	115,289
Changes in operating assets and liabilities		
Accounts receivable	(1,470,181)	(811,927)
Inventory	89,843	59,726
Prepaid expenses	(7,987)	172,202
Cost report settlement refund	(542,972)	(152,144)
Accounts payable	126,850	20,988
Accrued expenses	(241,749)	(86,473)
	(2,090,823)	3,148,007
Net cash provided by (used in) operating activities		
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(961,625)	(3,536,037)
Advances for new notes receivable	(15,308)	(50,906)
Collections on notes receivable	18,780	18,780
Purchase of long-term investments	(33,591)	(320)
Proceeds from sale of long-term investments	124	127,725
	(991,620)	(3,440,758)
Net cash used in investing activities		
Net decrease in cash	(3,082,443)	(292,751)
CASH AND CASH EQUIVALENTS		
Beginning	3,528,766	3,821,517
Ending	\$ 446,323	\$ 3,528,766
Reconciliation to Statements of Assets, Liabilities, and Fund Balances - Income Tax Basis		
Cash and cash equivalents	\$ 337,554	\$ 3,399,483
Restricted cash and cash equivalents	108,769	129,283
Total	\$ 446,323	\$ 3,528,766
Supplemental Disclosure of Cash Flows Information:		
Cash Paid for Interest	\$ 144,298	\$ 144,298

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

BATH COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

Note 1. Organization and Nature of Business

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

The Millboro Clinic was closed at the end of June 2017 for the purpose of identifying a more suitable location for the Clinic and to pursue the Rural Health Clinic designation. A new location was secured effective January 1, 2018 and the Clinic plans to reopen fourth quarter 2018.

Note 2. Summary of Significant Accounting Policies

Basis of accounting

The accompanying financial statements have been prepared on the basis of accounting used for income tax reporting. That basis differs from generally accepted accounting principles in that funds held in trust by others and all investments are carried at their tax basis rather than fair value.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

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

Allowance for uncollectible accounts

Accounts receivable are reported at net realizable value. Balances are considered delinquent when they are outstanding for 90 days with no activity at which time the balances are transferred to a collection agency and the balance is moved to the allowance for uncollectible accounts. Balances are written off after all reasonable collection efforts have been made. The allowance for uncollectible accounts is based on historical bad debt experience and management's evaluation of the accounts receivable.

Inventory

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

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BATH COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

Note 2. Summary of Significant Accounting Policies (Continued)

Notes receivable

The Hospital satisfied the student loans of one physician in 2009. In 2012, this physician terminated from employment and the note was split into two parts that includes loan repayment and forgiveness over ten years. As the former physician repays the first part of the note, the second part is forgiven. The portion due including loan forgiveness for the coming year is considered current. At December 31, 2017 and 2016, the first part of the note totaled approximately \$86,000 and \$99,000, respectively and the second part totaled approximately \$95,000 and \$109,000, respectively.

The Hospital also has loan forgiveness agreements with three physicians that are renewed on an annual basis. The full amount of these agreements is included in current portion of notes receivable.

Property, plant, and equipment

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

Loan issuance costs

Loan issuance costs represent the cost of debt issuance to renovate the Hospital facilities. During 2016, the Hospital adopted FASB Accounting Standards Update (ASU) No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* which requires loan issuance costs to be recorded with long-term debt on the statement of assets, liabilities, and fund balances. Loan issuance costs are amortized over the life of the debt, and included as a component of interest expense.

Change in fund balances

The Statements of Revenues, Expenses, and Changes in Fund Balances – Income Tax Basis include the excess of revenues, gains, and other support over expenses. Changes in unrestricted fund balances that are excluded from revenues, gains, and other support over expenses, consistent with industry practice, would consist of certain restricted contributions and investment income from restricted funds. During 2017, the pass through of Lettie Pate Evans contributions to the Foundation was excluded from this performance indicator. There were no items that were excluded from this performance indicator during 2016.

Charity care

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

(Continued)

BATH COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

Note 2. Summary of Significant Accounting Policies (Continued)

Income taxes

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

Reclassifications:

Certain amounts in the prior year statements were reclassified to conform with current year presentation.

Subsequent events

Subsequent events have been evaluated through April 23, 2018, the date the financial statements were available to be issued.

Note 3. Net Patient Service Revenue

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

- Medicare - Medicare reimbursement is based on the ratio of Medicare patients to non-Medicare patients times Medicare allowable costs. Final Medicare settlements have been determined for all years prior to and including 2015.
- Medicaid - Hospital inpatient and outpatient services, rendered to Medicaid program beneficiaries, are paid at prospectively determined rates. The Hospital's Rural Health Clinic is reimbursed at a tentative rate per visit based upon allowable costs with final settlement determined after submission of annual cost reports by the Hospital for its Rural Health Clinics and audits thereof by the Medicaid fiscal intermediary. Final Medicaid settlements have been determined for all years prior to and including 2013.

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

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

		Governmental Payors	Third-Party Payors	Self-Pay	Total All Payors
Patient service revenue (net of contractual allowances and discounts)	2017	\$ 9,515,064	\$ 3,326,776	\$ 351,715	\$ 13,193,555
	2016	\$ 8,212,641	\$ 3,897,308	\$ 366,338	\$ 12,476,287

(Continued)

BATH COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

Note 4. Accounts Receivable

Accounts receivable consists of the following:

	<u>2017</u>	<u>2016</u>
Due from patients	\$ 1,230,467	\$ 658,959
Due from third-party payors	<u>2,435,039</u>	<u>2,465,872</u>
	3,665,506	3,124,831
Allowance for uncollectible receivables	(1,525,996)	(1,046,027)
Allowance for contractual adjustments	<u>(730,000)</u>	<u>(730,000)</u>
	<u>\$ 1,409,510</u>	<u>\$ 1,348,804</u>

Concentrations of Credit Risk

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

	<u>2017</u>	<u>2016</u>
Commercial	14%	17%
Self-pay	40%	31%
Medicare	30%	40%
Medicaid	5%	1%
Anthem	<u>11%</u>	<u>11%</u>
	<u>100%</u>	<u>100%</u>

Note 5. Inventory

Inventory consists of the following:

	<u>2017</u>	<u>2016</u>
Hospital pharmacy	\$ 213,000	\$ 243,522
Supplies and food	124,834	168,565
Hot Springs Pharmacy	<u>157,427</u>	<u>173,017</u>
	<u>\$ 495,261</u>	<u>\$ 585,104</u>

(Continued)

BATH COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

Note 6. Long-Term Investments

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

Investment income is comprised of the following:

	<u>2017</u>	<u>2016</u>
Interest and dividends on investments	\$ 3,768	\$ 320
Interest on operating accounts	9,639	11,544
Investment fees	(124)	(110)
	<u>\$ 13,283</u>	<u>\$ 11,754</u>

Note 7. Property, Plant, and Equipment

A summary of property, plant, and equipment follows:

	<u>2017</u>	<u>2016</u>
Land and land improvements	\$ 1,176,310	\$ 1,176,310
Buildings and fixed equipment	25,350,762	25,135,278
Major movable and minor equipment	6,472,953	5,929,735
Transportation vehicles	664,297	464,468
Construction in progress	14,013	10,918
	<u>33,678,335</u>	<u>32,716,709</u>
Total cost	33,678,335	32,716,709
Less accumulated depreciation	<u>(12,314,560)</u>	<u>(10,881,986)</u>
	<u>\$ 21,363,775</u>	<u>\$ 21,834,723</u>

Note 8. Retirement Plan

The Hospital has a 403(b) defined contribution plan. The Hospital contributes 3% of gross pay for all eligible employees. In addition, the Hospital matches 50% of the first 3% that the employee contributes. The expense for the years ended December 31, 2017 and 2016 was \$349,126 and \$276,491, respectively.

The Hospital also maintains a 457(b) deferred compensation plan for certain key employees. Members contribute to the plan through payroll deductions. There is an offsetting asset and liability for the year ended December 31, 2017 and 2016 of \$118,927 and \$89,105, respectively. The liability is included in accrued expenses on the statements of assets, liabilities, and fund balances.

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BATH COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

Note 9. Long-term Debt

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

	2017	2016
Notes payable	\$ 16,155,350	\$ 16,155,350
Loan issuance costs, net	(321,834)	(411,649)
Long-term debt, net	<u>\$ 15,833,516</u>	<u>\$ 15,743,701</u>

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

Note 10. Leases

The Hospital is currently obligated under several leases for facilities and equipment. Rent expense for those leases for the years ending December 31, 2017 and 2016 was \$86,560 and \$85,194, respectively. Future minimum lease payments for non-cancellable leases for the next five years are as follows:

2018	\$ 93,600
2019	63,720
2020	40,920
	<u>\$ 198,240</u>

Note 11. Medical Malpractice Insurance

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

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BATH COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

Note 12. Funds Held in Trust by Others

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

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

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

	<u>2017</u>	<u>2016</u>
Evans Foundation	\$ 149,611,104	\$ 134,732,204
Campbell Trust	<u>883,989</u>	<u>746,480</u>
	<u>\$ 150,495,093</u>	<u>\$ 135,478,684</u>

Note 13. Functional Expenses

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

	<u>2017</u>	<u>2016</u>
Health care services	\$ 16,411,649	\$ 16,404,768
General and administrative	<u>3,971,853</u>	<u>3,547,313</u>
	<u>\$ 20,383,502</u>	<u>\$ 19,952,081</u>

Note 14. Charity Care

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

	<u>2017</u>	<u>2016</u>
Cost of charity care provided at cost	<u>\$ 630,490</u>	<u>\$ 1,107,474</u>
Cost as a percentage of gross patient service revenue	<u>3.06%</u>	<u>5.10%</u>

(Continued)

BATH COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

Note 15. Affiliated Organizations

The Bath Community Hospital Foundation exists for the purpose of supporting the Hospital's plans for development and community programs through philanthropy. During 2017 and 2016, \$134,350 and \$39,968, respectively, was raised on the Hospital's behalf. Funds of \$2,127,285 and \$2,767,285 were transferred from the Foundation to the Hospital during 2017 and 2016, respectively and are included in contributions. Per Board approval, the Hospital transferred \$3,800,000 of contributions from the Lettie Pate Evans Foundation to the Foundation during 2017. In addition, at the end of 2017 and 2016, the Hospital has accounts receivable from the Foundation of \$1,114 and \$23,238, respectively. As of December 31, 2017 and 2016, the Foundation held \$15,936,648 and \$12,408,476, respectively, for the Hospital's benefit.

Note 16. Contingencies

The Hospital awarded several key employees severance packages during 2014. Certain aspects of the employees' severance packages are contingent upon various factors. The Hospital has recognized \$222,647 as of December 31, 2016 relating to these severance packages which is included in accrued expenses on the Statements of Assets, Liabilities, and Fund Balances. Severance packages were fully paid as of December 31, 2017.

Note 17. Prior Period Adjustment

The Hospital restated 2016 to correct prior year errors. The effect on fund balance is as follows:

Fund balance, December 31, 2016	\$ 10,589,461
To correct Hot Springs Pharmacy AR	<u>(76,110)</u>
Fund balance, December 31, 2016, as restated	<u><u>\$ 10,513,351</u></u>

The above correction also decreased 2016 net patient service revenue and accounts receivable by \$76,110.



INDEPENDENT AUDITOR’S REPORT ON SUPPLEMENTARY INFORMATION

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

We have audited the financial statements of Bath Community Hospital as of and for the years ended December 31, 2017 and 2016, and our report thereon dated April 23, 2018, which expresses an unmodified opinion on those financial statements, appears on page one. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The following schedules are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
April 23, 2018

BATH COMMUNITY HOSPITAL

SUPPLEMENTARY INFORMATION
NET PATIENT SERVICE REVENUE - INCOME TAX BASIS
Years Ended December 31, 2017 and 2016

	<u>Inpatient</u>		<u>Outpatient</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Daily Patient Services						
Room and board	\$ 2,151,121	\$ 2,286,510	\$ -	\$ -	\$ 2,151,121	\$ 2,286,510
Observation	-	-	61,396	161,107	61,396	161,107
	<u>2,151,121</u>	<u>2,286,510</u>	<u>61,396</u>	<u>161,107</u>	<u>2,212,517</u>	<u>2,447,617</u>
Other Nursing Services						
Operating room	-	40	423,176	354,583	423,176	354,623
Central services and supply	193,258	221,845	217,391	244,818	410,649	466,663
Emergency room	135,758	235,103	3,183,513	3,628,479	3,319,271	3,863,582
	<u>329,016</u>	<u>456,988</u>	<u>3,824,080</u>	<u>4,227,880</u>	<u>4,153,096</u>	<u>4,684,868</u>
Other Professional Services						
Laboratory	292,993	263,080	2,013,892	2,174,111	2,306,885	2,437,191
Echocardiology	58,109	54,691	121,345	201,671	179,454	256,362
Electrocardiology	6,255	9,828	58,636	73,875	64,891	83,703
Cardiac rehabilitation	-	-	35,329	59,914	35,329	59,914
Vascular lab	9,009	19,246	75,419	94,430	84,428	113,676
Home oxygen	-	-	366,327	331,167	366,327	331,167
Radiology	108,675	104,415	754,082	893,558	862,757	997,973
Medical transport	70,865	59,040	360,581	521,125	431,446	580,165
CT scan	182,259	260,707	2,071,274	2,077,312	2,253,533	2,338,019
MRI	-	-	249,384	338,298	249,384	338,298
Pharmacy	1,215,332	1,247,287	577,774	890,650	1,793,106	2,137,937
Hospitalist	585,449	607,939	85,082	154,973	670,531	762,912
Anesthesiology	-	-	54,521	52,519	54,521	52,519
Respiratory therapy	591,420	621,789	94,005	140,055	685,425	761,844
Physical therapy	459,710	434,343	556,728	594,351	1,016,438	1,028,694
Occupational therapy	270,748	281,864	75,276	62,522	346,024	344,386
Sleep study	-	-	86,909	72,119	86,909	72,119
Physician Clinics	-	-	2,618,360	1,740,014	2,618,360	1,740,014
Other	20,482	33,573	234,914	26,173	255,396	59,746
	<u>3,871,306</u>	<u>3,997,802</u>	<u>10,489,838</u>	<u>10,498,837</u>	<u>14,361,144</u>	<u>14,496,639</u>
Gross patient service Revenue	<u>\$ 6,351,443</u>	<u>\$ 6,741,300</u>	<u>\$ 14,375,314</u>	<u>\$ 14,887,824</u>	20,726,757	21,629,124
Reductions of revenue (Page 16)					(6,895,642)	(7,948,481)
Charity care, at gross charge					<u>(637,560)</u>	<u>(1,204,356)</u>
Net patient service revenue					13,193,555	12,476,287
Provision for bad debts					<u>1,409,475</u>	<u>1,326,482</u>
Net patient service revenue including provision for bad debts					<u>\$ 11,784,080</u>	<u>\$ 11,149,805</u>

BATH COMMUNITY HOSPITAL

**SUPPLEMENTARY INFORMATION
REDUCTIONS OF REVENUE - INCOME TAX BASIS
Years Ended December 31, 2017 and 2016**

	<u>Gross Revenue</u>	<u>Reductions of Revenue</u>	<u>Net Revenue</u>
December 31, 2017			
Anthem	\$ 4,451,322	\$ 1,360,553	\$ 3,090,769
Other commercial	1,318,031	805,951	512,080
Medicare	12,604,024	3,713,880	8,890,144
Medicaid	874,942	510,953	363,989
Private Pay	1,478,438	1,141,865	336,573
	<u>\$ 20,726,757</u>	<u>\$ 7,533,202</u>	<u>\$ 13,193,555</u>
12/31/2016*			
Anthem	\$ 3,217,725	\$ 966,115	\$ 2,251,610
Other commercial	3,676,271	1,606,410	2,069,861
Medicare	12,191,561	4,227,012	7,964,549
Medicaid	299,808	443,222	(143,414)
Private Pay	2,243,759	1,910,078	333,681
	<u>\$ 21,629,124</u>	<u>\$ 9,152,837</u>	<u>\$ 12,476,287</u>

* - 2016 figures are not comparable to 2017 due to the fact that management re-mapped certain general ledger accounts to more accurately reflect the payor in the current year.

BATH COMMUNITY HOSPITAL

**SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENSES - INCOME TAX BASIS
Years Ended December 31, 2017 and 2016**

	<u>Salaries</u>		<u>Other Operating Expenses</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Nursing Services						
Nursing administration	\$ 192,136	\$ 117,919	\$ 5,652	\$ 8,706	\$ 197,788	\$ 126,625
Nursing services	1,024,624	1,182,101	109,877	91,651	1,134,501	1,273,752
	<u>1,216,760</u>	<u>1,300,020</u>	<u>115,529</u>	<u>100,357</u>	<u>1,332,289</u>	<u>1,400,377</u>
Other Nursing Services						
Operating and recovery room	121,029	106,329	141,783	128,443	262,812	234,772
Central supply	-	-	155,110	24,621	155,110	24,621
Emergency room	1,120,043	1,054,108	819,278	1,065,711	1,939,321	2,119,819
	<u>1,241,072</u>	<u>1,160,437</u>	<u>1,116,171</u>	<u>1,218,775</u>	<u>2,357,243</u>	<u>2,379,212</u>
Other Professional Services						
Laboratory	554,840	536,579	492,765	597,902	1,047,605	1,134,481
Echocardiology	-	-	11,450	30,211	11,450	30,211
Electrocardiology	-	-	8,620	4,798	8,620	4,798
Cardiac rehabilitation	11,180	13,233	11,476	11,218	22,656	24,451
Vascular lab	-	-	1,481	8,076	1,481	8,076
Pulmonary rehabilitation	2,829	4,368	73	18	2,902	4,386
Hospice	-	-	-	217	-	217
Home oxygen	72,155	68,680	115,409	99,925	187,564	168,605
Radiology	513,433	494,382	383,429	403,711	896,862	898,093
CT scan	-	-	62,134	76,658	62,134	76,658
Speech therapy	1,366	13,559	5,045	-	6,411	13,559
Pharmacy	447,454	464,939	318,368	438,887	765,822	903,826
Hospitalist	406,234	534,497	-	-	406,234	534,497
Fitness and rehab	36,794	32,830	33,149	34,296	69,943	67,126
Anesthesiology	19,306	37,562	34,480	31,406	53,786	68,968
Respiratory therapy	176,700	139,160	55,153	62,836	231,853	201,996
Physical therapy	518,572	546,974	66,209	61,255	584,781	608,229
Occupational therapy	141,408	130,118	1,585	4,631	142,993	134,749
Senior center	-	-	6,140	5,080	6,140	5,080
Supervised exercise	152,013	139,830	-	-	152,013	139,830
Contract physician	68,130	183,529	231,868	76,550	299,998	260,079
Ambulance	282,304	350,999	53,787	46,006	336,091	397,005
Medical records	221,028	258,330	51,520	77,583	272,548	335,913
Time share clinic	1,816	1,401	2,585	3,791	4,401	5,192
Wellness clinic	-	-	19,440	25,931	19,440	25,931
Patient education	-	-	-	-	-	-
Sleep study	18,055	16,255	19,878	16,133	37,933	32,388
Behavioral health	144,527	36,078	16,142	3,245	160,669	39,323
Quality	212,922	159,283	15,572	7,891	228,494	167,174
Hot Springs Pharmacy	227,835	236,428	1,291,100	1,328,595	1,518,935	1,565,023
Physician practice	1,965,474	1,559,118	443,594	543,047	2,409,068	2,102,165
	<u>6,196,375</u>	<u>5,958,132</u>	<u>3,752,452</u>	<u>3,999,897</u>	<u>9,948,827</u>	<u>9,958,029</u>

BATH COMMUNITY HOSPITAL

**SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENSES - INCOME TAX BASIS (CONTINUED)
Years Ended December 31, 2017 and 2016**

	Salaries		Other Operating Expenses		Total	
	2017	2016	2017	2016	2017	2016
General Services						
Dietary	\$ 272,459	\$ 255,818	\$ 183,429	\$ 157,612	\$ 455,888	\$ 413,430
Operation of plant	220,020	210,145	389,329	344,322	609,349	554,467
Housekeeping	192,782	187,228	81,979	84,898	274,761	272,126
	<u>685,261</u>	<u>653,191</u>	<u>654,737</u>	<u>586,832</u>	<u>1,339,998</u>	<u>1,240,023</u>
Administrative Services						
Business office	322,415	266,383	391,686	449,589	714,101	715,972
Social services	71,135	71,839	1,322	1,820	72,457	73,659
Purchasing	75,724	74,715	716	2,967	76,440	77,682
Medical information systems	118,891	126,092	117,052	136,937	235,943	263,029
Administration	997,025	761,215	402,081	452,340	1,399,106	1,213,555
Human resources	184,758	129,369	53,275	42,250	238,033	171,619
Public relations	81,504	82,252	57,956	59,927	139,460	142,179
Security	156,917	142,608	1,964	500	158,881	143,108
Property fees	-	-	9,518	12,145	9,518	12,145
Professional fees	-	-	285,326	237,267	285,326	237,267
Telephone	-	-	27,821	47,156	27,821	47,156
Insurance	-	-	212,174	206,827	212,174	206,827
Interest	-	-	234,112	157,172	234,112	157,172
Miscellaneous	-	-	169,200	174,835	169,200	174,835
	<u>2,008,369</u>	<u>1,654,473</u>	<u>1,964,203</u>	<u>1,981,732</u>	<u>3,972,572</u>	<u>3,636,205</u>
Benefits						
Payroll taxes	-	-	637,211	602,829	637,211	602,829
Group life insurance	-	-	9,233	8,465	9,233	8,465
Long term disability	-	-	42,224	38,066	42,224	38,066
Hospitalization insurance	-	-	1,000,707	942,766	1,000,707	942,766
Pension plan	-	-	350,739	278,966	350,739	278,966
Workmen's compensation	-	-	77,682	66,422	77,682	66,422
Other employee benefits	-	-	8,414	9,219	8,414	9,219
Employee physicals	-	-	13,796	23,619	13,796	23,619
HSA contributions	-	-	14,515	-	14,515	-
Benefit allocation	-	-	(2,154,521)	(1,970,352)	(2,154,521)	(1,970,352)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other Expenses						
Depreciation	-	-	1,432,573	1,338,235	1,432,573	1,338,235
	<u>-</u>	<u>-</u>	<u>1,432,573</u>	<u>1,338,235</u>	<u>1,432,573</u>	<u>1,338,235</u>
Total Expenses	<u>\$ 11,347,837</u>	<u>\$ 10,726,253</u>	<u>\$ 9,035,665</u>	<u>\$ 9,225,828</u>	<u>\$ 20,383,502</u>	<u>\$ 19,952,081</u>