

BATH COMMUNITY HOSPITAL

FINANCIAL REPORT

December 31, 2018

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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, 2018 and 2017, 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.

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, 2018 and 2017, 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.

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, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
April 23, 2019

BATH COMMUNITY HOSPITAL

STATEMENTS OF ASSETS, LIABILITIES, AND FUND BALANCES - INCOME TAX BASIS
December 31, 2018 and 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 720,232	\$ 337,554
Accounts receivable, net (Note 4)	3,089,887	1,409,510
Cost report settlement receivable	115,207	502,948
Inventory (Note 5)	460,526	495,261
Current portion of notes receivable	33,421	36,028
Current portion of prepaid expenses	45,000	45,000
	4,464,273	2,826,301
LONG-TERM INVESTMENTS	26,485	20,053
PROPERTY, PLANT, AND EQUIPMENT, NET (Note 7)	20,826,724	21,363,775
OTHER ASSETS		
Restricted cash and cash equivalents	88,223	108,769
457(b) investments (Note 8)	109,884	118,927
Note receivable, net of current portion and allowance	52,023	149,284
Prepaid expenses, net of current portion	282,502	394,754
	532,632	771,734
Total other assets	532,632	771,734
Total assets	\$ 25,850,114	\$ 24,981,863
LIABILITIES AND FUND BALANCES		
CURRENT LIABILITIES		
Accounts payable	\$ 1,547,876	\$ 419,061
Accrued expenses	1,284,674	1,229,598
	2,832,550	1,648,659
Total current liabilities	2,832,550	1,648,659
LONG-TERM DEBT, NET (Note 9)	15,923,330	15,833,516
Total liabilities	18,755,880	17,482,175
FUND BALANCES	7,094,234	7,499,688
Total liabilities and fund balances	\$ 25,850,114	\$ 24,981,863

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, 2018 and 2017**

	2018	2017
Revenues, Gains, and Other Support		
Net patient service revenue (Note 3)	\$ 14,119,158	\$ 13,193,555
Provision for bad debts	(1,291,280)	(1,409,475)
Net patient service revenue excluding provision for bad debts	12,827,878	11,784,080
Investment income (Note 6)	9,828	13,283
Contributions (Note 16)	5,231,007	2,131,417
Income from funds held in trust by others (Note 12)	4,913,466	4,712,839
Other revenues, gains, and support	2,406,130	2,528,220
Total revenues, gains, and other support	25,388,309	21,169,839
Expenses		
Salaries and benefits	12,188,178	11,347,839
Other operating	7,347,256	7,603,090
Depreciation	1,344,863	1,432,573
Total expenses (Note 14)	20,880,297	20,383,502
Change in fund balances from operations	4,508,012	786,337
Pass through of contributions to Foundation (Note 16)	(4,913,466)	(3,800,000)
Change in fund balances	(405,454)	(3,013,663)
Fund balances, beginning	7,499,688	10,513,351
Fund balances, end of the year	\$ 7,094,234	\$ 7,499,688

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, 2018 and 2017

	2018	2017
OPERATING ACTIVITIES		
Change in fund balances	\$ (405,454)	\$ (3,013,663)
Adjustments to reconcile change in fund balances to net cash provided by (used in) operating activities:		
Depreciation	1,344,863	1,432,573
Amortization of loan issuance costs	89,814	89,815
Provision for bad debts	1,291,280	1,409,475
Loss on disposal of equipment	40,289	-
Forgiveness of notes receivable	3,469	37,173
Allowance for notes receivable	85,444	-
Changes in operating assets and liabilities		
Accounts receivable	(2,971,657)	(1,470,181)
Inventory	34,735	89,843
Prepaid expenses	112,252	(7,987)
Cost report settlement refund	387,741	(542,972)
Accounts payable	804,311	126,850
Accrued expenses	55,076	(241,749)
Net cash provided by (used in) operating activities	872,163	(2,090,823)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(668,597)	(961,625)
Proceeds from sale of property, plant and equipment	145,000	-
Advances for new notes receivable	-	(15,308)
Collections on notes receivable	10,955	18,780
Purchase of long-term investments	(6,571)	(33,591)
Proceeds from sale of long-term investments	9,182	124
Net cash used in investing activities	(510,031)	(991,620)
Net increase (decrease) in cash	362,132	(3,082,443)
CASH AND CASH EQUIVALENTS		
Beginning	446,323	3,528,766
Ending	\$ 808,455	\$ 446,323
Reconciliation to Statements of Assets, Liabilities, and Fund Balances - Income Tax Basis		
Cash and cash equivalents	\$ 720,232	\$ 337,554
Restricted cash and cash equivalents	88,223	108,769
Total	\$ 808,455	\$ 446,323
Supplemental Disclosure of Cash Flows Information:		
Cash paid for interest	\$ 144,298	\$ 144,298
Property, plant and equipment in accounts payable	\$ 324,504	\$ -

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

BATH COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

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 and reopened in a more suitable location the fourth quarter 2018 to pursue the Rural Health Clinic designation.

Note 2. Summary of Significant Accounting Policies

Basis of accounting and financial reporting

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. Unless there is an explicit difference required by the income tax basis of accounting, the Hospital follows accounting principles generally accepted in the United States of America.

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 a minimum of 120 days from the first statement of patient balance, at which time they are reviewed for collectability and, if appropriate, transferred to a collection agency. The balance is then 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, 2018

Note 2. Summary of Significant Accounting Policies (Continued)

Notes receivable

The Hospital had loan forgiveness agreements with three physicians as of December 31, 2017. All such agreements were fully satisfied in 2018. The full amount of these agreements is included in current portion of notes receivable for December 31, 2017.

The Hospital also 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 included 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, 2018 and 2017, the first part of the note totaled approximately \$79,000 and \$86,000, respectively and the second part totaled approximately \$92,000 and \$95,000, respectively. Events during 2018 led the Hospital to record an allowance of approximately \$85,000 for these 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 and are required 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.

Measure of operations

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. The pass through of Lettie Pate Evans contributions to the Foundation is excluded from this performance indicator.

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, 2018

Note 2. Summary of Significant Accounting Policies (Continued)

Expense allocation

Directly identifiable expenses are charged to programs and supporting services. Expenses that are attributable to one or more program or supporting functions of the Organization; include depreciation, salaries and benefits, professional fees, supplies, purchased services, utilities, and other expenses. Depreciation is allocated based on the location and therefore use of the asset. Generally speaking, utilities are expensed directly to areas that are separately metered. Utilities for the Wellness Center are allocated between Physical Therapy and Fitness/Rehab based upon square footage. Salaries and benefits are allocated based on estimates of time and effort. Supplies, purchased services, and other expenses are allocated based on the benefit received.

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.

Not-for-Profit Financial Statement Presentation

On August 18, 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Hospital has implemented ASU 2016-14 and has adjusted the presentation in these consolidated financial statements accordingly.

Subsequent events

Subsequent events have been evaluated through April 23, 2019, the date the financial statements were available to be issued.

Note 3. 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 - Hospital inpatient services are reimbursed on a per day rate based upon allowable costs. Outpatient services are reimbursed based upon a ratio of allowable costs to charges and the Rural Health Clinics are reimbursed based upon a per visit basis based upon allowable costs. All Medicare cost-based reimbursement rates during the year are tentative based upon the prior year's costs with final settlement determined after submission of annual cost reports for the Hospital and the Rural Health Clinics and audits thereof by the Medicare Administrative Contractor. Final Medicare settlements have been determined for all years prior to and including 2016.

(Continued)

BATH COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

Note 3. Net Patient Service Revenue (Continued)

- 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	2018	\$ 9,076,516	\$ 4,127,391	\$ 915,251	\$ 14,119,158
(net of contractual					
allowances and discounts)	2017	\$ 9,515,064	\$ 3,326,776	\$ 351,715	\$ 13,193,555

Note 4. Accounts Receivable

Accounts receivable consists of the following:

	<u>2018</u>	<u>2017</u>
Due from patients	\$ 2,034,571	\$ 1,230,467
Due from third-party payors	4,557,557	2,435,039
	6,592,128	3,665,506
Allowance for uncollectible receivables	(2,052,241)	(1,525,996)
Allowance for contractual adjustments	(1,450,000)	(730,000)
	<u>\$ 3,089,887</u>	<u>\$ 1,409,510</u>

(Continued)

BATH COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

Note 4. Accounts Receivable (Continued)

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>2018</u>	<u>2017</u>
Commercial	17%	14%
Self-pay	39%	40%
Medicare	25%	30%
Medicaid	9%	5%
Anthem	10%	11%
	<u>100%</u>	<u>100%</u>

Note 5. Inventory

Inventory consists of the following:

	<u>2018</u>	<u>2017</u>
Hospital pharmacy	\$ 197,868	\$ 213,000
Supplies and food	143,716	124,834
Hot Springs Pharmacy	118,942	157,427
	<u>\$ 460,526</u>	<u>\$ 495,261</u>

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>2018</u>	<u>2017</u>
Interest and dividends on investments	\$ 6,470	\$ 3,768
Interest on operating accounts	3,497	9,639
Investment fees	(139)	(124)
	<u>\$ 9,828</u>	<u>\$ 13,283</u>

(Continued)

BATH COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

Note 7. Property, Plant, and Equipment

A summary of property, plant, and equipment follows:

	2018	2017
Land and land improvements	\$ 1,119,167	\$ 1,176,310
Buildings and fixed equipment	25,167,293	25,350,762
Major movable and minor equipment	6,501,650	6,472,953
Transportation vehicles	664,297	664,297
Construction in progress	875,799	14,013
 Total cost	 34,328,206	 33,678,335
Less accumulated depreciation	(13,501,482)	(12,314,560)
	\$ 20,826,724	\$ 21,363,775

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, 2018 and 2017 was \$325,515 and \$349,126, 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, 2018 and 2017 of \$109,884 and \$118,927, respectively. The liability is included in accrued expenses on the statements of assets, liabilities, and fund balances.

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.

	2018	2017
Notes payable	\$ 16,155,350	\$ 16,155,350
Loan issuance costs, net	(232,020)	(321,834)
Long-term debt, net	\$ 15,923,330	\$ 15,833,516

(Continued)

BATH COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

Note 9. Long-term Debt (Continued)

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, 2018 and 2017 was \$88,170 and \$86,560, respectively. Future minimum lease payments for non-cancellable leases for the next five years are as follows:

2019	\$	66,520
2020		40,920
2021		-
2022		-
2023		-
		-
	\$	107,440

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.

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.

BATH COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

Note 12. Funds Held in Trust by Others (Continued)

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

	2018	2017
Evans Foundation	\$ 151,097,331	\$ 149,611,104
Campbell Trust	656,250	883,989
	\$ 151,753,581	\$ 150,495,093

Note 13. Liquidity and Availability

The following table reflects the Hospital's financial assets as of December 31, 2018, reduced for amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, assets held for others, or because the governing board has set aside the funds for a specific purpose. These board designations could be drawn upon if the board approves that action. The Hospital considers general expenditures to be all expenditures related to its ongoing activities of providing healthcare as well as the conduct of services undertaken to support those activities to be general expenditures.

The Hospital has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

Financial assets:	
Cash and cash equivalents	\$ 808,455
Accounts and other receivables, net	3,089,887
Notes receivable, net	85,444
Investments	136,369
Total financial assets	4,120,155
Less those unavailable for general expenditure within one year:	
Reserved cash - NMTC	(88,223)
Notes receivable to be collected after one year	(52,023)
Investments designated for deferred compensation	(109,884)
Total unavailable assets	(250,130)
Financial assets available to meet cash needs for general expenditures within one year	\$ 3,870,025

(Continued)

BATH COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

Note 14. Functional Expenses

The following detail shows all expenditures according to their natural classification as well as their function for the year ended December 31, 2018.

	Nursing Services	Other Nursing Services	Other Professional Services	General Services	Total Program	General & Administrative	Total
Salaries and benefits	\$ 1,223,512	\$ 1,783,714	\$ 6,441,942	\$ 693,935	\$ 10,143,103	\$ 2,045,075	\$ 12,188,178
Professional fees	-	346,736	100,160	-	446,896	7,500	454,396
Pharmaceuticals	-	-	1,363,761	-	1,363,761	2,200	1,365,961
Supplies – medical and non-medical	41,801	99,648	656,741	241,176	1,039,366	45,877	1,085,243
Purchased services	103,906	184,109	661,445	118,152	1,067,612	1,146,106	2,213,718
Utilities	4,469	9,546	56,743	244,633	315,391	128,844	444,235
Interest	-	-	-	-	-	268,016	268,016
Other	60,517	100,623	678,951	105,436	945,527	570,160	1,515,687
Total before depreciation	<u>1,434,205</u>	<u>2,524,376</u>	<u>9,959,743</u>	<u>1,403,332</u>	<u>15,321,656</u>	<u>4,213,778</u>	<u>19,535,434</u>
Depreciation	25,725	126,020	408,337	656,736	1,216,818	128,045	1,344,863
Total	<u>\$ 1,459,930</u>	<u>\$ 2,650,396</u>	<u>\$ 10,368,080</u>	<u>\$ 2,060,068</u>	<u>\$ 16,538,474</u>	<u>\$ 4,341,823</u>	<u>\$ 20,880,297</u>

Note 15. 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:

	2018	2017
Cost of charity care provided at cost	<u>\$ 501,695</u>	<u>\$ 630,490</u>
Cost as a percentage of gross patient service revenue	<u>2.06%</u>	<u>3.06%</u>

(Continued)

BATH COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

Note 16. 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 2018 and 2017, \$4,076 and \$134,350, respectively, was raised on the Hospital's behalf. Funds of \$5,217,285 and \$2,127,285 were transferred from the Foundation to the Hospital during 2018 and 2017, respectively and are included in contributions. Per Board approval, the Hospital transferred \$4,913,466 and \$3,800,000 of contributions in 2018 and 2017, respectively from the Lettie Pate Evans Foundation to the Foundation. In addition, at the end of 2018 and 2017, the Hospital has accounts receivable from the Foundation of \$8,143 and \$4,862, respectively. As of December 31, 2018 and 2017, the Foundation held \$14,876,440 and \$15,936,648, respectively, for the Hospital's benefit.

Note 17. New Accounting Standards

The Financial Accounting Standards Board (FASB) has issued the following statements which are not yet effective.

The FASB issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers. The standard will eliminate the transaction- and industry-specific revenue recognition guidance under current U.S. GAAP and replace it with a principle based approach for determining revenue recognition. The core principle of the revenue recognition standard is that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those good or services. The effective date for nonpublic companies is annual reporting periods beginning after December 15, 2018.

The FASB issued ASU 2016-02, Leases. The core principle of the new leases standard is that lessees should recognize assets and liabilities arising from all leases, except for leases with a lease term of 12 months or less. This will significantly gross-up many entities balance sheets. Nonpublic entities are required to adopt the new leases standard for reporting periods beginning after December 15, 2019. Early adoption is permitted.

Management has not determined the effects these new FASB Statements may have on prospective financial statements but will be assessing these changes in 2019 with the assistance of its accountants.



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, 2018 and 2017, and our report thereon dated April 23, 2019, 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, S. L. P.
CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
April 23, 2019

BATH COMMUNITY HOSPITAL

SUPPLEMENTARY INFORMATION
NET PATIENT SERVICE REVENUE - INCOME TAX BASIS
Years Ended December 31, 2018 and 2017

	<u>Inpatient</u>		<u>Outpatient</u>		<u>Total</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Daily Patient Services						
Room and board	\$ 2,176,116	\$ 2,151,121	\$ -	\$ -	\$ 2,176,116	\$ 2,151,121
Observation	-	-	105,986	61,396	105,986	61,396
	<u>2,176,116</u>	<u>2,151,121</u>	<u>105,986</u>	<u>61,396</u>	<u>2,282,102</u>	<u>2,212,517</u>
Other Nursing Services						
Operating room	221	-	521,683	423,176	521,904	423,176
Central services and supply	257,016	193,258	220,223	217,391	477,239	410,649
Emergency room	191,790	135,758	3,356,503	3,183,513	3,548,293	3,319,271
	<u>449,027</u>	<u>329,016</u>	<u>4,098,409</u>	<u>3,824,080</u>	<u>4,547,436</u>	<u>4,153,096</u>
Other Professional Services						
Laboratory	374,244	292,993	2,393,355	2,013,892	2,767,599	2,306,885
Echocardiology	38,778	58,109	133,752	121,345	172,530	179,454
Electrocardiology	14,118	6,255	126,142	58,636	140,260	64,891
Cardiac rehabilitation	-	-	14,039	35,329	14,039	35,329
Vascular lab	14,066	9,009	72,397	75,419	86,463	84,428
Home oxygen	-	-	344,298	366,327	344,298	366,327
Radiology	92,013	108,675	921,709	754,082	1,013,722	862,757
Medical transport	3,805	70,865	359,741	360,581	363,546	431,446
CT scan	133,973	182,259	2,166,616	2,071,274	2,300,589	2,253,533
MRI	-	-	196,172	249,384	196,172	249,384
Pharmacy	1,334,129	1,215,332	559,204	577,774	1,893,333	1,793,106
Hospitalist	640,603	585,449	130,347	85,082	770,950	670,531
Anesthesiology	-	-	58,454	54,521	58,454	54,521
Respiratory therapy	609,168	591,420	101,882	94,005	711,050	685,425
Physical therapy	416,396	459,710	541,733	556,728	958,129	1,016,438
Occupational therapy	247,550	270,748	75,701	75,276	323,251	346,024
Sleep study	-	-	124,907	86,909	124,907	86,909
Physician Clinics	-	-	2,875,503	2,618,360	2,875,503	2,618,360
Other	10,250	20,482	73,028	234,914	83,278	255,396
	<u>3,929,093</u>	<u>3,871,306</u>	<u>11,268,980</u>	<u>10,489,838</u>	<u>15,198,073</u>	<u>14,361,144</u>
Gross Patient Service Revenue	<u>\$ 6,554,236</u>	<u>\$ 6,351,443</u>	<u>\$ 15,473,375</u>	<u>\$ 14,375,314</u>	22,027,611	20,726,757
Reductions of Revenue (Page 18)					(7,416,702)	(6,895,642)
Charity Care, at Gross Charge					<u>(491,751)</u>	<u>(637,560)</u>
Net Patient Service Revenue					14,119,158	13,193,555
Provision for Bad Debts					<u>1,291,280</u>	<u>1,409,475</u>
Net Patient Service Revenue Including Provision for Bad Debts					<u>\$ 12,827,878</u>	<u>\$ 11,784,080</u>

BATH COMMUNITY HOSPITAL

**SUPPLEMENTARY INFORMATION
REDUCTIONS OF REVENUE - INCOME TAX BASIS
Years Ended December 31, 2018 and 2017**

	<u>Gross Revenue</u>	<u>Reductions of Revenue</u>	<u>Net Revenue*</u>
December 31, 2018			
Anthem	\$ 4,812,016	\$ 1,443,605	\$ 3,368,411
Other commercial	1,574,579	488,119	1,086,460
Medicare	12,829,092	3,979,640	8,849,452
Medicaid	1,178,485	920,666	257,819
Private Pay	1,633,439	1,076,423	557,016
	<u>\$ 22,027,611</u>	<u>\$ 7,908,453</u>	<u>\$ 14,119,158</u>
December 31, 2017			
Anthem	\$ 4,451,322	\$ 1,379,910	\$ 3,071,412
Other commercial	1,318,031	420,277	897,754
Medicare	12,604,024	3,907,247	8,696,777
Medicaid	874,942	683,903	191,039
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>

* Net Revenue based upon historical average collections

BATH COMMUNITY HOSPITAL
SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENSES - INCOME TAX BASIS
Years Ended December 31, 2018 and 2017

	<u>Salaries</u>		<u>Other Operating Expenses</u>		<u>Total</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Nursing Services						
Nursing administration	\$ 216,270	\$ 192,136	\$ 8,097	\$ 5,652	\$ 224,367	\$ 197,788
Nursing services	1,007,242	1,024,624	202,596	109,877	1,209,838	1,134,501
	<u>1,223,512</u>	<u>1,216,760</u>	<u>210,693</u>	<u>115,529</u>	<u>1,434,205</u>	<u>1,332,289</u>
Other Nursing Services						
Operating and recovery room	137,616	121,029	176,870	141,783	314,486	262,812
Central supply	-	-	62,612	155,110	62,612	155,110
Emergency room	1,646,098	1,120,043	501,180	819,278	2,147,278	1,939,321
	<u>1,783,714</u>	<u>1,241,072</u>	<u>740,662</u>	<u>1,116,171</u>	<u>2,524,376</u>	<u>2,357,243</u>
Other Professional Services						
Laboratory	500,248	554,840	477,278	492,765	977,526	1,047,605
Echocardiology	-	-	12,670	11,450	12,670	11,450
Electrocardiology	-	-	7,322	8,620	7,322	8,620
Cardiac rehabilitation	4,653	11,180	9,153	11,476	13,806	22,656
Vascular lab	-	-	-	1,481	-	1,481
Pulmonary rehabilitation	4,152	2,829	-	73	4,152	2,902
Home oxygen	63,677	72,155	120,431	115,409	184,108	187,564
Radiology	520,701	513,433	337,425	383,429	858,126	896,862
CT scan	-	-	75,590	62,134	75,590	62,134
Speech therapy	-	1,366	3,070	5,045	3,070	6,411
Pharmacy	433,747	447,454	404,111	318,368	837,858	765,822
Hospitalist	136,109	406,234	-	-	136,109	406,234
Fitness and rehab	39,286	36,794	37,345	33,149	76,631	69,943
Anesthesiology	18,737	19,306	20,370	34,480	39,107	53,786
Respiratory therapy	205,071	176,700	60,450	55,153	265,521	231,853
Physical therapy	524,608	518,572	65,150	66,209	589,758	584,781
Occupational therapy	142,653	141,408	2,249	1,585	144,902	142,993
Senior center	-	-	8,724	6,140	8,724	6,140
Supervised exercise	162,628	152,013	-	-	162,628	152,013
Contract physician	279,351	68,130	10,100	231,868	289,451	299,998
Ambulance	241,106	282,304	43,801	53,787	284,907	336,091
Medical records	156,700	221,028	58,011	51,520	214,711	272,548
Time share clinic	5,299	1,816	2,144	2,585	7,443	4,401
Wellness clinic	-	-	18,609	19,440	18,609	19,440
Sleep study	24,050	18,055	27,276	19,878	51,326	37,933
Behavioral health	176,669	144,527	17,843	16,142	194,512	160,669
Quality	170,758	212,922	18,140	15,572	188,898	228,494
Hot Springs Pharmacy	244,235	227,835	1,247,624	1,291,100	1,491,859	1,518,935
Physician practice	2,387,504	1,965,474	432,915	443,594	2,820,419	2,409,068
	<u>6,441,942</u>	<u>6,196,375</u>	<u>3,517,801</u>	<u>3,752,452</u>	<u>9,959,743</u>	<u>9,948,827</u>

BATH COMMUNITY HOSPITAL

**SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENSES - INCOME TAX BASIS (CONTINUED)
Years Ended December 31, 2018 and 2017**

	Salaries		Other Operating Expenses		Total	
	2018	2017	2018	2017	2018	2017
General Services						
Dietary	\$ 269,334	\$ 272,459	\$ 189,216	\$ 183,429	\$ 458,550	\$ 455,888
Operation of plant	231,986	220,020	444,015	389,329	676,001	609,349
Housekeeping	192,615	192,782	76,166	81,979	268,781	274,761
	<u>693,935</u>	<u>685,261</u>	<u>709,397</u>	<u>654,737</u>	<u>1,403,332</u>	<u>1,339,998</u>
Administrative Services						
Business office	310,141	322,415	467,772	391,686	777,913	714,101
Social services	74,753	71,135	1,648	1,322	76,401	72,457
Purchasing	93,164	75,724	2,696	716	95,860	76,440
Medical information systems	124,605	118,891	131,005	117,052	255,610	235,943
Administration	996,043	997,025	533,439	402,081	1,529,482	1,399,106
Human resources	141,126	184,758	64,901	53,275	206,027	238,033
Public relations	87,915	81,504	98,857	57,956	186,772	139,460
Security	215,570	156,914	3,467	1,967	219,037	158,881
Finance	1,758	-	3,882	-	5,640	-
Property fees	-	-	13,254	9,518	13,254	9,518
Professional fees	-	-	209,550	285,326	209,550	285,326
Telephone	-	-	15,969	27,821	15,969	27,821
Insurance	-	-	270,411	212,174	270,411	212,174
Interest	-	-	234,112	234,112	234,112	234,112
Miscellaneous	-	-	117,740	169,200	117,740	169,200
	<u>2,045,075</u>	<u>2,008,366</u>	<u>2,168,703</u>	<u>1,964,206</u>	<u>4,213,778</u>	<u>3,972,572</u>
Benefits						
Payroll taxes	-	-	670,009	637,211	670,009	637,211
Group life insurance	-	-	3,054	9,233	3,054	9,233
Long term disability	-	-	49,452	42,224	49,452	42,224
Hospitalization insurance	-	-	1,049,423	1,000,707	1,049,423	1,000,707
Pension plan	-	-	327,115	350,739	327,115	350,739
Workmen's compensation	-	-	82,594	77,682	82,594	77,682
Other employee benefits	-	-	4,071	8,414	4,071	8,414
Employee physicals	-	-	20,879	13,796	20,879	13,796
HSA contributions	-	-	-	14,515	-	14,515
Benefit allocation	-	-	(2,206,597)	(2,154,521)	(2,206,597)	(2,154,521)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other Expenses						
Depreciation	-	-	1,344,863	1,432,573	1,344,863	1,432,573
	<u>-</u>	<u>-</u>	<u>1,344,863</u>	<u>1,432,573</u>	<u>1,344,863</u>	<u>1,432,573</u>
Total Expenses	<u>\$ 12,188,178</u>	<u>\$ 11,347,834</u>	<u>\$ 8,692,119</u>	<u>\$ 9,035,668</u>	<u>\$ 20,880,297</u>	<u>\$ 20,383,502</u>