

Scotland County Memorial Hospital District

Independent Auditor's Report and Financial Statements

June 30, 2019 and 2018

Scotland County Memorial Hospital District

June 30, 2019 and 2018

Contents

Independent Auditor's Report.....	1
Management's Discussion and Analysis	3
Financial Statements	
Balance Sheets	9
Statements of Revenues, Expenses and Changes in Net Position	10
Statements of Cash Flows	11
Notes to Financial Statements	13
Other Information (Unaudited)	
Accounts Receivable	32
Net Patient Service Revenue	33
Other Revenue	34
Operating Expenses	35

Independent Auditor's Report

Board of Directors
Scotland County Memorial Hospital District
Memphis, Missouri

We have audited the accompanying financial statements of Scotland County Memorial Hospital District (the "District"), which comprise the balance sheets as of June 30, 2019 and 2018, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended and the related notes to the basic 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 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.

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 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 District'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 District'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 financial position of the District as of June 30, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The accompanying financial statements have been prepared assuming the District will continue as a going concern. As discussed in Note 13, the District has suffered recurring losses from operations and has negative cash flow from operations, which raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 13. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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 Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of accounts receivable, net patient service revenues, other revenue and operating expenses listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

BKD, LLP

St. Louis, Missouri
January 28, 2020

Scotland County Memorial Hospital District

Management's Discussion and Analysis

Years Ended June 30, 2019 and 2018

Introduction

This management's discussion and analysis of the financial performance of Scotland County Memorial Hospital District (the "District") provides an overview of the District's financial activities for the years ended June 30, 2019 and 2018. It should be read in conjunction with the accompanying financial statements of the District.

Financial Highlights

- Cash and noncurrent cash decreased by \$1,832,702 (48 percent) in 2019 and decreased by \$511,171 (12 percent) in 2018.
- Net capital assets decreased by \$952,686 (11 percent) in 2019 and decreased by \$936,981 (10 percent) in 2018.
- Long-term debt obligations decreased by \$322,585 (4 percent) in 2019 and decreased by \$426,776 (4 percent) in 2018.
- The District's net position decreased by \$1,819,857 (27 percent) in 2019 over 2018 and decreased by \$794,114 (11 percent) in 2018 over 2017.
- The District had an operating loss of \$2,079,397 and \$1,076,084 in 2019 and 2018, respectively.

Using This Annual Report

The District's financial statements consist of three statements - a balance sheet; a statement of revenues, expenses and changes in net position and a statement of cash flows. These statements provide information about the activities of the District, including resources held by the District but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The District 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 Sheet and Statement of Revenues, Expenses and Changes in Net Position

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

These two statements report the District's net position and changes in it. The District's total net position - the difference between assets and liabilities - is one measure of the District's financial health or financial position. Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating. Other non-financial factors, such as changes in the District'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 District.

The Statement of Cash Flows

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

The District's Net Position

The District's net position is the difference between its assets and liabilities reported in the Balance Sheet. The District's net position decreased by \$1,819,857 (27 percent) in 2019 over 2018 and decreased by \$794,114 (11 percent) in 2018 over 2017 as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	2019	2018	2017
Assets			
Cash	\$ 815,079	\$ 1,874,990	\$ 2,491,066
Restricted cash	372,106	322,322	272,729
Noncurrent cash	760,593	1,583,168	1,527,856
Total cash and noncurrent cash	1,947,778	3,780,480	4,291,651
Patient accounts receivable, net	4,672,692	2,829,584	2,723,718
Other current assets	1,797,023	1,942,108	1,914,860
Other noncurrent assets	688,667	646,335	452,119
Capital assets, net	7,667,419	8,620,105	9,557,086
Total assets	<u>\$ 16,773,579</u>	<u>\$ 17,818,612</u>	<u>\$ 18,939,434</u>
Liabilities			
Long-term debt obligations	\$ 8,842,742	\$ 9,165,327	\$ 9,592,103
Other liabilities	3,120,764	2,023,355	1,923,287
Total liabilities	<u>11,963,506</u>	<u>11,188,682</u>	<u>11,515,390</u>
Net Position			
Invested in capital assets, net of related debt	(1,349,343)	(571,238)	(88,014)
Restricted - expendable for			
Debt service	326,758	277,207	227,846
Other	45,348	45,115	44,883
Unrestricted	5,787,310	6,878,846	7,239,329
Total net position	<u>4,810,073</u>	<u>6,629,930</u>	<u>7,424,044</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 16,773,579</u>	<u>\$ 17,818,612</u>	<u>\$ 18,939,434</u>

The most significant changes in assets and liabilities during 2019 and 2018 as shown in Table 1 are:

- Cash and noncurrent cash decreased by \$1,832,702 (48 percent) in 2019 and decreased by \$511,171 (12 percent) in 2018.
- Patient accounts receivable, net, increased by \$1,843,108 (65 percent) in 2019 after having increased by \$105,866 (4 percent) in 2018.
- Net capital assets decreased by \$952,686 (11 percent) in 2019 and decreased by \$936,981 (10 percent) in 2018.
- Long-term debt obligations decreased by \$322,585 (4 percent) in 2019 and decreased by \$426,776 (4 percent) in 2018.

2019

A change in the District's financial position in 2019 was the significant decrease in cash. In 2019 the District outsourced its billing and collections function for commercial insurance and governmental payors. During this transition cash flows from collections were reduced and patient accounts receivables increased, leading to a significant decrease in cash.

Another significant change was the decrease in capital assets and corresponding decrease in long-term debt, as discussed in the *Capital Assets and Debt Administration* section below.

2018

A change in the District's financial position in 2018 was the decrease in cash, coupled with a trend of increasing patient accounts receivable. A more significant change was the decrease in capital assets and corresponding decrease in long-term debt, as discussed in the *Capital Assets and Debt Administration* section below.

Operating Results and Changes in the District's Net Position

In 2019, the District's net position decreased by \$1,819,857 (27 percent) as shown in Table 2. The decrease is composed of \$2,079,397 in operating loss against \$259,540 of nonoperating revenues. In 2018, the District's net position decreased by \$794,114 (11 percent). That decrease is composed of \$1,076,087 in operating loss coupled with \$281,973 of nonoperating revenues.

Table 2: Operating Results and Changes in Net Position

	2019	2018	2017
Operating Revenues			
Net patient service revenue	\$ 20,669,421	\$ 21,122,353	\$ 21,251,699
Electronic health record incentive payment	645	106,946	395,398
Other	852,258	638,884	686,438
Total operating revenues	21,522,324	21,868,183	22,333,535
Operating Expenses			
Salaries and wages and employee benefits	13,649,889	13,617,344	13,085,303
Other purchased services	3,105,898	2,377,729	2,014,902
Other operating expenses	5,307,187	5,399,920	5,141,570
Loss on impairment	125,903	-	-
Depreciation	1,412,844	1,549,277	1,985,605
Total operating expenses	23,601,721	22,944,270	22,227,380
Operating Income (Loss)	(2,079,397)	(1,076,087)	106,155
Nonoperating Revenues (Expenses)			
Property taxes	543,486	567,020	540,151
Investment income	26,642	34,483	30,106
Noncapital grants and gifts	21,283	22,621	30,650
Interest expense	(331,871)	(342,151)	(362,426)
Total nonoperating revenues	259,540	281,973	238,481
Increase (Decrease) in Net Position	<u>\$ (1,819,857)</u>	<u>\$ (794,114)</u>	<u>\$ 344,636</u>

Operating Income (Loss)

The first component of the overall change in the District'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. The District receives less than 3 percent of its total revenue from taxes, so it must, over time, generate income from operations in order to be able to pay for updating its buildings and equipment. The District must have facilities and technology that meet or exceed the current standard of care in order to provide necessary health care services to residents of Memphis, Missouri and surrounding areas. Likewise, the District also must generate operating income in order to be able to make its payments on its long-term debt.

2019

Operating revenues for 2019 decreased by \$345,859, or 2 percent, as compared to 2018. This decrease was attributable to decreases in net patient service revenue of \$452,932, or 2 percent. Patient volumes were relatively flat or decreased in 2019 compared to 2018. In addition, electronic health record incentive payments decreased by \$106,301, nearly 100 percent.

Operating expenses increased in 2019 by \$657,451, or 3 percent, as compared to 2018. It should be noted that \$125,903 of the increase in operating expense was a loss on impairment. This was a direct result of the purchasing assets for the Scotland County Community Health Development Services, Inc. pharmacy for \$157,500 while the assets only had a net book value of \$31,597, resulting in an immediate loss of \$125,903.

Combined, the loss from operations in 2019 increased by \$1,003,310, as compared to 2018.

2018

Operating revenues for 2018 decreased by \$465,352, or 2 percent, as compared to 2017. This decrease was mostly attributable from decreases in net patient service revenue of \$129,346, or 1 percent. Both inpatient and outpatient volumes were relatively flat or decreased in 2018 compared to 2017. In addition, electronic health record incentive payments decreased by \$288,452, or 73 percent.

Operating expenses increased in 2018 by \$716,890, or 3 percent. It should be noted that certain operating expenses are fixed costs and would not decrease at the same rate as the decreases in patient volumes. For example, employee compensation (salaries, wages and benefits) increased by \$532,041, or 4 percent, and increased as a percentage of net patient service revenue from 62 percent in 2017 to 64 percent in 2018.

Combined, the District had a loss from operations in 2018 of \$1,076,087 compared to an operating income of \$106,155 in 2017.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of property taxes, investment income, interest expense and noncapital grants and gifts. Property taxes decreased slightly in 2019 compared to 2018, and increased in 2018 compared to 2017. Noncapital grants decreased in 2019 compared to 2018, and decreased 2018 compared to 2017.

The District's Cash Flows

Changes in the District's cash flows are consistent with changes in operating results and nonoperating revenues, discussed earlier. The District posted a negative cash flow from operations of \$1,252,452 in 2019 compared to a positive cash flow from operations of \$262,976 in 2018.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2019, the District had \$7,667,419 invested in capital assets, net of accumulated depreciation, as detailed in Note 6, to the financial statements. At June 30, 2018, the District had \$8,620,105 invested in capital assets, net of accumulated depreciation, as detailed in Note 6, to the financial statements. The trend of declining capital assets in recent years is largely due to short lived capital assets, such as those for electronic health records and other technology related items, depreciating quickly in recent years.

Debt

During 2019, the District's long-term debt obligations decreased by \$322,585 (4 percent) and during 2018, the District's long-term debt obligations decreased by \$426,776 (4 percent) as detailed in Note 9 to the financial statements.

Contacting the District's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, creditors and others with a general overview of the District's finances and to show the District's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to District Administration by telephoning 660.465.8511.

Scotland County Memorial Hospital District

/s/ Randy Tobler

Randy Tobler, MD FACOG
Administrator and CEO

/s/ Michael Brandon

Michael Brandon
Controller

Scotland County Memorial Hospital District

Balance Sheets

June 30, 2019 and 2018

Assets

	2019	2018
Current Assets		
Cash	\$ 815,079	\$ 1,874,990
Restricted cash	372,106	322,322
Patient accounts receivable, net of allowance; 2019 - \$5,759,937, 2018 - \$3,899,230	4,672,692	2,829,584
Supplies	826,092	711,829
Prepaid expenses and other	847,931	601,614
Estimated amounts due from Medicare and Medicaid	123,000	628,665
Total current assets	7,656,900	6,969,004
Estimated Amounts Due from Medicaid	622,000	646,335
Internally Designated Cash	760,593	1,583,168
Investment in Scotland County Community Health Development Services, Inc.	66,667	-
Capital Assets, At Cost		
Land and land improvements	356,012	356,012
Buildings	13,899,568	13,830,920
Equipment	12,925,928	12,950,792
Equipment not yet placed in service	211,584	-
	27,393,092	27,137,724
Less accumulated depreciation	19,725,673	18,517,619
	7,667,419	8,620,105
Total assets	\$ 16,773,579	\$ 17,818,612

Liabilities and Net Position

	<u>2019</u>	<u>2018</u>
Current Liabilities		
Current maturities of long-term debt	\$ 309,155	\$ 285,476
Accounts payable	1,506,137	709,089
Accrued payroll	224,502	201,232
Accrued payroll taxes and benefits	132,976	121,370
Accrued compensated absences	797,534	811,771
Estimated amounts due to Medicare	250,000	-
Other	<u>209,615</u>	<u>179,893</u>
Total current liabilities	3,429,919	2,308,831
 Long-Term Debt	 <u>8,533,587</u>	 <u>8,879,851</u>
Total liabilities	<u>11,963,506</u>	<u>11,188,682</u>
 Net Position		
Net investment in capital assets	(1,349,343)	(571,238)
Restricted - expendable for		
Debt service	326,758	277,207
Other	45,348	45,115
Unrestricted	<u>5,787,310</u>	<u>6,878,846</u>
Total net position	<u>4,810,073</u>	<u>6,629,930</u>
Total liabilities, deferred inflow of resources and net position	<u><u>\$ 16,773,579</u></u>	<u><u>\$ 17,818,612</u></u>

Scotland County Memorial Hospital District
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2019 - \$2,344,656, 2018 - \$1,477,239	\$ 20,669,421	\$ 21,122,353
Electronic health records incentive payment	645	106,946
Other	<u>852,258</u>	<u>638,884</u>
Total operating revenues	<u>21,522,324</u>	<u>21,868,183</u>
Operating Expenses		
Salaries and wages	10,484,997	10,598,877
Employee benefits	3,164,892	3,018,467
Purchased services and professional fees	3,105,898	2,377,729
Supplies and other	5,307,187	5,399,920
Loss on impairment	125,903	-
Depreciation	<u>1,412,844</u>	<u>1,549,277</u>
Total operating expenses	<u>23,601,721</u>	<u>22,944,270</u>
Operating Loss	<u>(2,079,397)</u>	<u>(1,076,087)</u>
Nonoperating Revenues (Expenses)		
Property taxes	543,486	567,020
Investment income	26,642	34,483
Noncapital grants and gifts	21,283	22,621
Interest expense	<u>(331,871)</u>	<u>(342,151)</u>
Total nonoperating revenues	<u>259,540</u>	<u>281,973</u>
Decrease in Net Position	(1,819,857)	(794,114)
Net Position, Beginning of Year	<u>6,629,930</u>	<u>7,424,044</u>
Net Position, End of Year	<u><u>\$ 4,810,073</u></u>	<u><u>\$ 6,629,930</u></u>

Scotland County Memorial Hospital District
Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 19,606,313	\$ 20,313,237
Payments to suppliers and contractors	(8,082,694)	(7,255,815)
Payments to employees	(13,628,974)	(13,557,324)
Other operating receipts	<u>852,903</u>	<u>762,878</u>
Net cash provided by (used in) operating activities	<u>(1,252,452)</u>	<u>262,976</u>
Noncapital Financing Activities		
Property taxes supporting operations	543,486	567,020
Noncapital grants and gifts	<u>21,283</u>	<u>22,621</u>
Net cash provided by noncapital financing activities	<u>564,769</u>	<u>589,641</u>
Capital and Related Financing Activities		
Principal paid on long-term debt	(322,585)	(637,810)
Purchase of capital assets	(450,538)	(418,310)
Interest payments	<u>(331,871)</u>	<u>(342,151)</u>
Net cash used in capital and related financing activities	<u>(1,104,994)</u>	<u>(1,398,271)</u>
Investing Activities		
Change in non-current investments	(66,667)	-
Investment income	<u>26,642</u>	<u>34,483</u>
Net cash provided by (used in) investing activities	<u>(40,025)</u>	<u>34,483</u>
Decrease in Cash	(1,832,702)	(511,171)
Cash, Beginning of Year	<u>3,780,480</u>	<u>4,291,651</u>
Cash, End of Year	<u><u>\$ 1,947,778</u></u>	<u><u>\$ 3,780,480</u></u>

(Continued)

Scotland County Memorial Hospital District
Statements of Cash Flows (Continued)
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Reconciliation of Cash to the Balance Sheets		
Cash in current assets	\$ 815,079	\$ 1,874,990
Restricted cash in current assets	372,106	322,322
Noncurrent cash	<u>760,593</u>	<u>1,583,168</u>
Total cash	<u><u>\$ 1,947,778</u></u>	<u><u>\$ 3,780,480</u></u>
Reconciliation of Net Operating Revenues to Net Cash Provided by (Used in) Operating Activities		
Operating loss	\$ (2,079,397)	\$ (1,076,087)
Depreciation	1,412,844	1,549,277
Provision for uncollectible accounts	2,344,656	1,477,239
Loss on impairment	125,903	-
Loss on disposal of capital assets	12,477	17,048
Changes in operating assets and liabilities		
Patient accounts receivable	(4,187,764)	(1,583,105)
Supplies	(114,263)	5,890
Prepaid expenses and other	(246,317)	475,896
Accounts payable and accrued expenses	699,409	100,068
Estimated settlements with third-party payees	<u>780,000</u>	<u>(703,250)</u>
Net cash provided by (used in) operating activities	<u><u>\$ (1,252,452)</u></u>	<u><u>\$ 262,976</u></u>
Supplemental Cash Flows Information		
Capital lease obligations incurred for capital assets	\$ -	\$ 211,034
Capital asset acquisitions included in accounts payable	\$ 148,000	\$ -

Scotland County Memorial Hospital District

Notes to Financial Statements

June 30, 2019 and 2018

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Scotland County Memorial Hospital District (the “District”) is a political subdivision of the state of Missouri and primarily earns revenues by providing inpatient, outpatient, skilled nursing and emergency care services to patients from Memphis, Missouri and surrounding areas. The District also operates an ambulance service and physician clinics in the same geographic area.

The accompanying financial statements present the District and its component unit, an entity for which the government is considered to be financially accountable. The blended component unit is, in substance, part of the primary government’s operations, even though they are legally separate entities. Thus, the blended component unit is appropriately presented as funds of the primary government.

Blended Component Unit

In 2019 the Scotland County Hospital Foundation (the “Foundation”) was formed as a Section 501(c)(3) not-for-profit corporation. The Foundation was established to facilitate the operations of the Scotland County Community Health Development Services, Inc. pharmacy, located on the grounds of the District. District management performs the day-to-day management of the Foundation operations. The Foundation has the same fiscal year end as the District and does not issue separate financial statements.

Basis of Accounting and Presentation

The financial statements of the District have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated and other nonexchange transactions (principally grants) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated and other nonexchange transactions. Government-mandated nonexchange transactions that are not program specific, property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The District first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net positions are available.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Scotland County Memorial Hospital District

Notes to Financial Statements

June 30, 2019 and 2018

Patient Accounts Receivable

The District reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The District provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies

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

Capital Assets

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

Land improvements	5–10 years
Buildings	10–30 years
Equipment	5–10 years

Capital Asset Impairment

The District evaluates the recoverability of the carrying value of capital assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a capital asset is tested for recoverability and the undiscounted estimate future cash flows expected to result from that use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a capital asset exceeds its fair value. Impairment losses of \$125,903 were recognized for the year ended June 30, 2019. No impairment was recognized during the year ended June 30, 2018.

Compensated Absences

District policies permit most employees to accumulate vacation and sick leave 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. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. 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.

Scotland County Memorial Hospital District

Notes to Financial Statements

June 30, 2019 and 2018

Net Position

Net position of the District is classified in three components. 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 expendable net position is made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the District, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Net Patient Service Revenue

The District has agreements with third-party payers that provide for payments to the District 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 revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

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

Electronic Health Records Incentive Program

The Electronic Health Records 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 electronic health records technology (EHR). 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 District's Medicare share fraction, which includes a 20 percent 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 District 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. The final amount for any payment year under both programs is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

Scotland County Memorial Hospital District

Notes to Financial Statements

June 30, 2019 and 2018

The District recognizes the incentive payment revenue received for qualified EHR technology expenditures in the period during which management was reasonably assured meaningful use was achieved and the earnings process was complete. Management believes the incentive payments reflect a change in how “allowable costs” are determined in paying CAHs for providing services to Medicare beneficiaries.

The District recorded revenues of \$645 and \$106,946, which is included in operating revenues in the statements of revenue, expenses and changes in net position for the years ended 2019 and 2018, respectively.

Risk Management

The District 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; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The District is self-insured for a portion of its exposure to risk of loss from employee health claims. Annual estimated provisions are accrued for the self-insured portion of employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Property Taxes

The District recorded the following property tax revenue:

	2019	2018
Used to support operations	\$ 381,136	\$ 381,046
Used to support ambulance services	162,350	185,974
	<u>\$ 543,486</u>	<u>\$ 567,020</u>

Taxes are assessed on January 1, becoming a lien against the property in September, are due on November 1 and become delinquent after December 31 of each calendar year. Property taxes are recognized as assets in the period an enforceable legal claim to the assets arises and are recognized as revenue in the period for which the taxes are levied. Assets and revenue arising from property taxes levied for operating purposes are recognized in the year levied as those taxes are first permitted to be used in that year. Property taxes are collected by Scotland County and remitted monthly to the District and are primarily received by the District in December and January.

Investment Income

Investment income consists of interest income on deposits and certificates of deposit.

Scotland County Memorial Hospital District

Notes to Financial Statements

June 30, 2019 and 2018

Income Taxes

The District is exempt from income taxes under provisions of the Internal Revenue Code as a political subdivision of the state of Missouri. However, the District is subject to federal income tax on any unrelated business taxable income.

Revisions

An immaterial revision has been made to the 2018 financial statements related to estimated amounts due from Medicaid on the balance sheet. As such, \$646,335 has been revised from current assets to long-term assets. This revision did not have a significant impact on the financial statement line items impacted and had no effect on the change in net position.

Note 2: Net Patient Service Revenue

The District has agreements with third-party payers that provide for payments to the District at amounts different from its established rates. These payment arrangements include:

Medicare. The District has been designated as a critical access hospital for Medicare reimbursement purposes. As a critical access hospital, the Medicare program reimburses the District for most services provided to Medicare beneficiaries under a cost reimbursement methodology. The District is reimbursed for cost reimbursable services at tentative rates with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare administrative contractor. The District's Medicare cost reports have been audited by the Medicare administrative contractor through June 30, 2017.

Medicaid. Inpatient services rendered to Medicaid program beneficiaries are reimbursed based on a prospectively determined per diem rate. Outpatient hospital reimbursement is based on a prospective percentage payment rate determined from the fourth, fifth and sixth prior cost reports regressed forward.

Rural health clinic services to Medicaid beneficiaries are paid under a cost reimbursement methodology. The District is reimbursed at tentative rates with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicaid administrative contractor. The District's Medicaid cost reports have been audited by the Medicaid administrative contractor through June 30, 2014.

Approximately 50 and 49 percent of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2019 and 2018, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The District has also entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to the District under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Scotland County Memorial Hospital District

Notes to Financial Statements

June 30, 2019 and 2018

Note 3: 340B Drug Pricing Program

The District participates in the 340B Drug Pricing Program (340B Program) enabling the District to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases. The District recorded revenues of \$675,679 and \$489,120 for the years ended June 30, 2019 and 2018, respectively. This program is overseen by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs (OPA). HRSA is currently conducting routine audits of these programs at health care organizations and increasing its compliance monitoring processes. Laws and regulations governing the 340B Program are complex and subject to interpretation and change. As a result, it is reasonably possible that material changes to financial statement amounts related to the 340B Program could occur in the near term.

Note 4: Deposits and Investment Income

Deposits

Missouri state statutes do not specifically enumerate the investments a hospital district may hold. Unless acquired through donor contribution, the District's investment policy is to hold only certificates of deposit.

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. At June 30, 2019 and 2018, the District's deposits were covered by federal depository insurance or collateralized by U.S. government securities held by the pledging financial institution's agent in other than the District's name.

At June 30, 2019 and 2018, the District had bank balances as follows:

	2019	2018
Insured by the FDIC	\$ 254,952	\$ 254,930
Uninsured and collateralized as described above	1,847,390	3,858,063
Total	<u>\$ 2,102,342</u>	<u>\$ 4,112,993</u>
Carrying value of deposits	<u>\$ 1,947,778</u>	<u>\$ 3,780,480</u>

The District maintains a substantial portion of its deposits in one financial institution. The District has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its deposits.

Scotland County Memorial Hospital District
Notes to Financial Statements
June 30, 2019 and 2018

Summary of Carrying Values

The carrying values of deposits are included in the balance sheets as follows:

	2019	2018
Included in the following balance sheet captions		
Cash	\$ 815,079	\$ 1,874,990
Restricted cash	372,106	322,322
Noncurrent cash internally designated	<u>760,593</u>	<u>1,583,168</u>
	<u><u>\$ 1,947,778</u></u>	<u><u>\$ 3,780,480</u></u>

Investment Income

Interest income for the years ended June 30, 2019 and 2018, was \$26,642 and \$34,483, respectively.

Note 5: Patient Accounts Receivable

The District grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at June 30, 2019 and 2018, consisted of:

	2019	2018
Medicare	\$ 1,401,544	\$ 710,944
Medicaid	544,990	422,689
Other third-party payers	2,064,259	1,474,612
Patients	<u>6,421,836</u>	<u>4,120,569</u>
	10,432,629	6,728,814
Less allowance for uncollectible accounts	<u>5,759,937</u>	<u>3,899,230</u>
	<u><u>\$ 4,672,692</u></u>	<u><u>\$ 2,829,584</u></u>

Scotland County Memorial Hospital District
Notes to Financial Statements
June 30, 2019 and 2018

Note 6: Capital Assets

Capital assets activity for the years ended June 30, 2019 and 2018, was:

	2019			
	Beginning Balance	Additions	Disposals	Ending Balance
Land and land improvements	\$ 356,012	\$ -	\$ -	\$ 356,012
Buildings	13,830,920	77,122	8,474	13,899,568
Equipment	12,950,792	309,832	334,696	12,925,928
Equipment not yet placed in service	-	211,584	-	211,584
	<u>27,137,724</u>	<u>598,538</u>	<u>343,170</u>	<u>27,393,092</u>
Less accumulated depreciation				
Land improvements	170,913	5,045	-	175,958
Buildings	7,874,780	654,285	8,474	8,520,591
Equipment	10,471,926	753,514	196,316	11,029,124
	<u>18,517,619</u>	<u>1,412,844</u>	<u>204,790</u>	<u>19,725,673</u>
Capital assets, net	<u>\$ 8,620,105</u>	<u>\$ (814,306)</u>	<u>\$ 138,380</u>	<u>\$ 7,667,419</u>

	2018			
	Beginning Balance	Additions/ Transfers	Disposals	Ending Balance
Land and land improvements	\$ 356,012	\$ -	\$ -	\$ 356,012
Buildings	13,738,486	92,434	-	13,830,920
Equipment	12,519,991	536,910	106,109	12,950,792
	<u>26,614,489</u>	<u>629,344</u>	<u>106,109</u>	<u>27,137,724</u>
Less accumulated depreciation				
Land improvements	165,298	5,615	-	170,913
Buildings	7,214,519	660,261	-	7,874,780
Equipment	9,677,586	883,401	89,061	10,471,926
	<u>17,057,403</u>	<u>1,549,277</u>	<u>89,061</u>	<u>18,517,619</u>
Capital assets, net	<u>\$ 9,557,086</u>	<u>\$ (919,933)</u>	<u>\$ 17,048</u>	<u>\$ 8,620,105</u>

Scotland County Memorial Hospital District

Notes to Financial Statements

June 30, 2019 and 2018

Note 7: Employee Health Claims

Substantially all of the District's employees and their dependents are eligible to participate in the District's employee health insurance plan. The District is self-insured for health claims of participating employees and dependents up to an amount of \$50,000 per claim and an annual aggregate amount of \$1,369,290. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual, which is included in accounts payable and other current liabilities, is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the District's estimate will change by a material amount in the near term.

Activity in the District's accrued employee health claims liability during 2019 and 2018 is summarized as follows:

	2019	2018
Balance, beginning of year	\$ 308,879	\$ 351,918
Current year claims incurred and changes in estimates		
for claims incurred in prior years	1,224,608	886,885
Claims and expenses paid	(1,219,122)	(929,924)
Balance, end of year	<u>\$ 314,365</u>	<u>\$ 308,879</u>

Note 8: Risk Management and Medical Malpractice Claims

The District has joined together with other providers of health care services to form the Missouri Hospital Plan, a risk pool (the "Pool") currently operating as a common risk management and insurance program for its members. The District purchases medical malpractice insurance from the Pool under a claims-made policy. The District pays an annual premium to the Pool for its torts insurance coverage. The Pool's governing agreement specifies that the Pool will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of stop loss amounts.

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 District's claim experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Scotland County Memorial Hospital District

Notes to Financial Statements

June 30, 2019 and 2018

Note 9: Long-Term Debt

The following is a summary of long-term debt transactions for the District for the years ended June 30, 2019 and 2018:

		2019			
		Beginning Balance	Additions	Deductions	Ending Balance
					Current Portion
Long-term debt					
Revenue bonds	\$ 8,377,743	\$ -	\$ 168,677	\$ 8,209,066	\$ 169,167
Capital lease obligations	787,584	-	153,908	633,676	139,988
Total long-term debt	<u>\$ 9,165,327</u>	<u>\$ -</u>	<u>\$ 322,585</u>	<u>\$ 8,842,742</u>	<u>\$ 309,155</u>
		2018			
		Beginning Balance	Additions	Deductions	Ending Balance
					Current Portion
Long-term debt					
Revenue bonds	\$ 8,540,221	\$ -	\$ 162,478	\$ 8,377,743	\$ 164,167
Capital lease obligations	1,051,882	211,034	475,332	787,584	121,309
Total long-term debt	<u>\$ 9,592,103</u>	<u>\$ 211,034</u>	<u>\$ 637,810</u>	<u>\$ 9,165,327</u>	<u>\$ 285,476</u>

Revenue Bonds

The District entered into an agreement on October 28, 2010, allowing for the issuance of Hospital Revenue Bonds (the "Bonds") to fund construction projects incurred by the District. The terms of the agreement allowed for borrowings up to \$9,000,000 at a fixed interest rate of 3.75 percent. The balances outstanding as of June 30, 2019 and 2018, were \$8,209,066 and \$8,377,743, respectively.

The Bonds are payable in monthly installments averaging \$40,000, and must be paid in full by September 1, 2047. All of the Bonds outstanding may be redeemed at the District's option on or after September 1, 2021.

The Bonds are secured by the gross revenues of the District. The Bond agreement requires the District to comply with certain restrictive covenants including minimum insurance coverage, maintaining unrestricted cash and investments equal to at least 35 days cash on hand and restrictions on incurrence of additional debt, and requires that certain measures of financial performance be maintained so long as the Bonds are outstanding. The District is also required to make monthly deposits of \$4,000 into a debt service reserve account. At June 30, 2018, the District was in compliance with such requirements. At June 30, 2019, the District did not meet the days cash on hand requirement and may be required to engage an outside consultant if the minimum required days cash on hand is not met at June 30, 2020.

Scotland County Memorial Hospital District

Notes to Financial Statements

June 30, 2019 and 2018

Principal payments on the borrowings under the agreement as of June 30, 2019, are as follows:

Year Ending June 30,	Total	Principal	Interest
2020	\$ 478,823	\$ 169,167	\$ 309,656
2021	481,646	178,333	303,313
2022	480,792	184,167	296,625
2023	478,886	189,167	289,719
2024	480,958	198,333	282,625
2025 - 2029	2,399,646	1,103,333	1,296,313
2030 - 2034	2,395,719	1,322,500	1,073,219
2035 - 2039	2,396,313	1,590,000	806,313
2040 - 2044	2,398,364	1,913,333	485,031
2045 - 2048	1,473,514	1,360,733	112,781
	\$ 13,464,661	\$ 8,209,066	\$ 5,255,595

Subsequent to year-end, the District ceased payments to the debt service reserve account. Additionally, a short term hold on Bond payments was granted to the District for a six-month period beginning in October 2019.

Capital Lease Obligations

The District has capital lease obligations at varying rates of imputed interest from 2.95 percent to 10.67 percent. These obligations expire in various years through 2039, and are collateralized by leased property and equipment.

Subsequent to year-end, approximately \$148,000 of equipment not yet placed in service was financed through a capital lease for a period of 60 months beginning November 1, 2019 at \$2,946 per month.

Property and equipment include the following property and equipment under capital leases:

	2019	2018
Equipment	\$ 4,149,442	\$ 4,149,442
Less accumulated depreciation	3,547,729	3,105,722
	\$ 601,713	\$ 1,043,720

Scotland County Memorial Hospital District

Notes to Financial Statements

June 30, 2019 and 2018

Future minimum capital lease payments, together with the present value of the future minimum lease payments, at June 30, 2019, are:

2020	\$ 139,988
2021	134,011
2022	105,742
2023	44,922
2024	16,196
Thereafter	222,425
	<hr/> 663,284
Less amount representing interest	<hr/> 29,608
Present value of future minimum lease payments	633,676
Less current maturities	<hr/> 139,988
Noncurrent portion	<hr/> <hr/> \$ 493,688

Note 10: Restricted and Designated Net Position

At June 30, 2019 and 2018, \$326,758 and \$277,207 of restricted expendable net position was available for debt service, and \$45,348 and \$45,115 for other operating activities.

At June 30, 2019 and 2018, \$760,593 and \$1,583,168, respectively, of unrestricted net position has been designated by the District's board of directors for capital acquisitions. Designated net position remain under the control of the board of directors, which may at its discretion later use this net position for other purposes.

Note 11: Pension Plans

Deferred Compensation Plan

The District sponsors a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan is available to all eligible District employees and participation is voluntary. The Plan permits eligible participants to defer a portion of their salary until future years. The District does not contribute to this plan. In 2019 and 2018, employees contributed \$404,610 and \$359,143 to the Plan, respectively. All contributions are 100 percent vested.

Scotland County Memorial Hospital District

Notes to Financial Statements

June 30, 2019 and 2018

Defined Contribution Plan

The District sponsors an Internal Revenue Code Section 401(a) defined contribution plan which covers eligible employees. The District makes all the contributions under the Plan and employee contributions are not permitted. The District's contribution formula is discretionary and involves a discretionary match of eligible employee contributions to the Deferred Compensation Plan. The District's board of directors determines the contribution. Pension expense is recorded for the amount of the District's required contributions. In 2019 and 2018, the District contributed \$198,490 and \$196,632 to the Plan, respectively. Employer contributions are subject to a vesting schedule.

Note 12: Contingencies

Billing Review

The District is conducting a review of certain third-party payer program billing issues. Management believes the District's medical records fully support the codes used and billings submitted and intends to vigorously defend the District should any assertions to the contrary be made. Regulations governing billing, coding, and documentation are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

Litigation

In the normal course of business, the District is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the District's commercial insurance; for example, allegations regarding employment practices or performance of contracts. The District 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.

Note 13: Management's Consideration of Going Concern Matters

The District incurred recurring operating losses of approximately \$2,100,000 and \$1,100,000 in 2019 and 2018, respectively, and continued to experience certain decreases in working capital as well as negative cash flow from operations. The District's negative cash flow from operations and continued ongoing operating losses raise substantial doubt about the District's ability to continue as a going concern.

Scotland County Memorial Hospital District

Notes to Financial Statements

June 30, 2019 and 2018

The District is working with outside firms and advisors in order to institute changes to the District's revenue cycle, billing and collection practices. In addition, the District is establishing certain internal operating and management plans and is in the process of evaluation and making operational changes based on a service line analysis. However, there can be no assurance that the District will be successful in achieving its objectives.

The accompanying financial statements have been prepared assuming that the District will continue as a going concern; however, the above conditions raise substantial doubt about the District's ability to do so. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result should the District be unable to continue as a going concern.

Note 14: Blending Schedules

The following table includes balance sheet information for the District and its blended component unit as of June 30, 2019.

Assets

	2019			
	Scotland County Memorial Hospital District	Scotland County Hospital Foundation	Eliminations	Consolidated
Current Assets				
Cash	\$ 810,107	\$ 4,972	\$ -	\$ 815,079
Restricted cash	372,106	-	-	372,106
Patient accounts receivable, net of allowance; 2019 - \$5,759,937	4,672,692	-	-	4,672,692
Supplies	826,092	-	-	826,092
Prepaid expenses and other	847,931	-	-	847,931
Estimated amounts due from Medicaid	123,000	-	-	123,000
Total current assets	7,651,928	4,972	-	7,656,900
Due From Foundation	12,201	-	(12,201)	-
Estimated Amounts Due from Medicaid	622,000	-	-	622,000
Internally Designated Cash	760,593	-	-	760,593
Investment in Scotland County Community Health Development Services, Inc.	-	66,667	-	66,667
Capital Assets, At Cost				
Land and land improvements	356,012	-	-	356,012
Buildings	13,899,568	-	-	13,899,568
Equipment	12,925,928	-	-	12,925,928
Equipment not yet placed in service	211,584	-	-	211,584
	27,393,092	-	-	27,393,092
Less accumulated depreciation	19,725,673	-	-	19,725,673
	7,667,419	-	-	7,667,419
Total assets	\$ 16,714,141	\$ 71,639	\$ (12,201)	\$ 16,773,579

Scotland County Memorial Hospital District

Notes to Financial Statements

June 30, 2019 and 2018

Liabilities and Net Position

	2019			
	Scotland County Memorial Hospital District	Scotland County Hospital Foundation	Eliminations	Consolidated
Current Liabilities				
Current maturities of long-term debt	\$ 309,155	\$ -	\$ -	\$ 309,155
Accounts payable	1,506,137	-	-	1,506,137
Accrued payroll	224,502	-	-	224,502
Accrued payroll taxes and benefits	132,976	-	-	132,976
Accrued compensated absences	797,534	-	-	797,534
Estimated amounts due to Medicare	250,000	-	-	250,000
Other	209,615	-	-	209,615
Total current liabilities	3,429,919	-	-	3,429,919
Due To Hospital	-	12,201	(12,201)	-
Long-Term Debt	8,533,587	-	-	8,533,587
Total liabilities	11,963,506	12,201	(12,201)	11,963,506
Net Position				
Net investment in capital assets	(1,349,343)	-	-	(1,349,343)
Restricted - expendable for				
Debt service	326,758	-	-	326,758
Other	45,348	-	-	45,348
Unrestricted	5,727,872	59,438	-	5,787,310
Total net position	4,750,635	59,438	-	4,810,073
Total liabilities, deferred inflow of resources and net position	\$ 16,714,141	\$ 71,639	\$ (12,201)	\$ 16,773,579

Scotland County Memorial Hospital District

Notes to Financial Statements

June 30, 2019 and 2018

The following table includes statement of revenues, expenses and changes in net position for the District and its blended component unit for the year ended June 30, 2019.

	2019			
	Scotland County Memorial Hospital District	Scotland County Hospital Foundation	Eliminations	Consolidated
Operating Revenues				
Net patient service revenue, net of provision for uncollectible accounts; 2019 - \$2,344,656, 2018 - \$1,477,239	\$ 20,669,421	\$ -	\$ -	\$ 20,669,421
Electronic health records incentive payment	645	-	-	645
Other	852,258	-	-	852,258
Total operating revenues	21,522,324	-	-	21,522,324
Operating Expenses				
Salaries and wages	10,484,997	-	-	10,484,997
Employee benefits	3,164,892	-	-	3,164,892
Purchased services and professional fees	3,090,336	15,562	-	3,105,898
Supplies and other	5,307,187	-	-	5,307,187
Loss on impairment	125,903	-	-	125,903
Depreciation	1,412,844	-	-	1,412,844
Total operating expenses	23,586,159	15,562	-	23,601,721
Operating Loss	(2,063,835)	(15,562)	-	(2,079,397)
Nonoperating Revenues (Expenses)				
Property taxes	543,486	-	-	543,486
Investment income	26,642	-	-	26,642
Noncapital grants and gifts	21,283	-	-	21,283
Interest expense	(331,871)	-	-	(331,871)
Total nonoperating revenues	259,540	-	-	259,540
Excess (Deficiency) of Revenues Over Expenses, Before Transfers	(1,804,295)	(15,562)	-	(1,819,857)
Transfers (to Foundation) from Hospital	(75,000)	75,000	-	-
Increase (Decrease) in Net Position	(1,879,295)	59,438	-	(1,819,857)
Net Position, Beginning of Year	6,629,930	-	-	6,629,930
Net Position, End of Year	\$ 4,750,635	\$ 59,438	\$ -	\$ 4,810,073

Scotland County Memorial Hospital District

Notes to Financial Statements

June 30, 2019 and 2018

The following table includes combining statement of cash flows information for the District and its blended component unit for the year ended June 30, 2019.

	2019			
	Scotland County Memorial Hospital District	Scotland County Hospital Foundation	Eliminations	Consolidated
Operating Activities				
Receipts from and on behalf of patients	\$ 19,606,313	\$ -	\$ -	\$ 19,606,313
Payments to suppliers and contractors	(8,079,333)	(3,361)	-	(8,082,694)
Payments to employees	(13,628,974)	-	-	(13,628,974)
Other operating receipts	852,903	-	-	852,903
Net cash used in operating activities	(1,249,091)	(3,361)	-	(1,252,452)
Noncapital Financing Activities				
Property taxes supporting operations	543,486	-	-	543,486
Noncapital grants and gifts	21,283	-	-	21,283
Net cash provided by noncapital financing activities	564,769	-	-	564,769
Capital and Related Financing Activities				
Principal paid on long-term debt	(322,585)	-	-	(322,585)
Purchase of capital assets	(450,538)	-	-	(450,538)
Transfer from Hospital (to Foundation)	(75,000)	75,000	-	-
Interest payments	(331,871)	-	-	(331,871)
Net cash provided by (used in) capital and related financing activities	(1,179,994)	75,000	-	(1,104,994)
Investing Activities				
Change in non-current investments	-	(66,667)	-	(66,667)
Investment income	26,642	-	-	26,642
Net cash provided by (used in) investing activities	26,642	(66,667)	-	(40,025)
Increase (Decrease) in Cash	(1,837,674)	4,972	-	(1,832,702)
Cash, Beginning of Year	3,780,480	-	-	3,780,480
Cash, End of Year	\$ 1,942,806	\$ 4,972	\$ -	\$ 1,947,778

Scotland County Memorial Hospital District

Notes to Financial Statements

June 30, 2019 and 2018

	2019			
	Scotland County Memorial Hospital District	Scotland County Hospital Foundation	Eliminations	Consolidated
Reconciliation of Cash to the Balance Sheets				
Cash in current assets	\$ 810,107	\$ 4,972	\$ -	\$ 815,079
Restricted cash in current assets	372,106	-	-	372,106
Noncurrent cash	760,593	-	-	760,593
Total cash	<u>\$ 1,942,806</u>	<u>\$ 4,972</u>	<u>\$ -</u>	<u>\$ 1,947,778</u>
Reconciliation of Net Operating Revenues to Net Cash Provided by (Used in) Operating Activities				
Operating loss	\$ (2,063,835)	\$ (15,562)	\$ -	\$ (2,079,397)
Depreciation	1,412,844	-	-	1,412,844
Provision for uncollectible accounts	2,344,656	-	-	2,344,656
Loss on impairment	125,903	-	-	125,903
Loss on disposal of capital assets	12,477	-	-	12,477
Changes in operating assets and liabilities				
Patient accounts receivable	(4,187,764)	-	-	(4,187,764)
Supplies	(114,263)	-	-	(114,263)
Prepaid expenses and other	(246,317)	-	-	(246,317)
Accounts payable and accrued expenses	687,208	12,201	-	699,409
Estimated settlements with third-party payees	780,000	-	-	780,000
Net cash used in operating activities	<u>\$ (1,249,091)</u>	<u>\$ (3,361)</u>	<u>\$ -</u>	<u>\$ (1,252,452)</u>

Scotland County Memorial Hospital District
Notes to Financial Statements
June 30, 2019 and 2018

Note 15: Future Change in Accounting Principles

GASB Statement No. 84, Fiduciary Activities (GASB 84)

GASB 84 establishes criteria for identifying fiduciary activities. It presents separate criteria for evaluating component units, pension and other postemployment benefit arrangements, and other fiduciary activities. The focus is on a government controlling the assets of the fiduciary activity and identification of the beneficiaries of those assets. Fiduciary activities are reported in one of four types of funds: pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds or custodial funds. Custodial funds are used to report fiduciary activities that are not held in a trust. The agency fund designation will no longer be used. GASB 84 also provides guidance on fiduciary fund statements and timing of recognition of a liability to beneficiaries.

GASB 84 is effective for financial statements for fiscal years beginning after December 15, 2018. Earlier application is encouraged. The District is evaluating the impact the statement will have on the financial statements.

GASB Statement No. 87, Leases (GASB 87)

GASB 87 provides a new framework for accounting for leases under the principle that leases are financings. No longer will leases be classified between capital and operating. Lessees will recognize an intangible asset and a corresponding liability. The liability will be based on the payments expected to be paid over the lease term, which includes an evaluation of the likelihood of exercising renewal or termination options in the lease. Lessors will recognize a lease receivable and related deferred inflow of resources. Lessors will not derecognize the underlying asset. An exception to the general model is provided for short-term leases that cannot last more than 12 months. Contracts that contain lease and nonlease components will need to be separated so each component is accounted for accordingly.

GASB 87 is effective for financial statements for fiscal years beginning after December 15, 2019. Earlier application is encouraged. Governments will be allowed to transition using the facts and circumstances in place at the time of adoption, rather than retroactive to the time each lease was begun. The District is evaluating the impact the statement will have on the financial statements.

Other Information

Scotland County Memorial Hospital District
Accounts Receivable – Excluding Foundation
“Unaudited”
June 30, 2019 and 2018

	2019		2018	
	Amount	Percent	Amount	Percent
Patient Accounts				
In hospital and unbilled at June 30	\$ 2,098,813	13.0%	\$ 1,446,382	15.3%
Discharged patients				
Medicare	3,418,970	21.2%	1,150,254	12.2%
Medicaid	1,232,232	7.6%	876,062	9.3%
Commercial insurance	3,842,477	23.8%	1,901,238	20.1%
Self-pay	<u>5,527,737</u>	<u>34.4%</u>	<u>4,085,778</u>	<u>43.1%</u>
Total accounts	16,120,229	<u>100.0%</u>	9,459,714	<u>100.0%</u>
Allowance for uncollectible accounts	(5,759,937)		(3,899,230)	
Allowance for contractual allowances	<u>(5,687,600)</u>		<u>(2,730,900)</u>	
	<u>\$ 4,672,692</u>		<u>\$ 2,829,584</u>	

Scotland County Memorial Hospital District
Net Patient Service Revenue – Excluding Foundation
“Unaudited”
Years Ended June 30, 2019 and 2018

	2019			2018		
	Inpatient	Outpatient	Total	Inpatient	Outpatient	Total
Daily Patient Services						
Acute and skilled care	\$ 2,796,656	\$ 233,728	\$ 3,030,384	\$ 2,870,833	\$ 266,469	\$ 3,137,302
Nursery	113,792	1,782	115,574	95,868	702	96,570
	<u>2,910,448</u>	<u>235,510</u>	<u>3,145,958</u>	<u>2,966,701</u>	<u>267,171</u>	<u>3,233,872</u>
Other Nursing Services						
Operating and recovery	564,664	3,738,153	4,302,817	640,849	2,605,116	3,245,965
Central services and supply	250,759	1,011,060	1,261,819	257,940	1,189,054	1,446,994
Emergency services	250,580	2,411,621	2,662,201	258,481	2,623,649	2,882,130
	<u>1,066,003</u>	<u>7,160,834</u>	<u>8,226,837</u>	<u>1,157,270</u>	<u>6,417,819</u>	<u>7,575,089</u>
Other Professional Services						
Anesthesiology	196,000	494,038	690,038	170,792	602,097	772,889
Laboratory	1,355,395	5,683,792	7,039,187	1,625,841	5,965,433	7,591,274
Electrocardiology	32,750	1,718,905	1,751,655	42,873	1,302,268	1,345,141
Radiology	499,252	4,695,974	5,195,226	404,553	4,793,255	5,197,808
Oncology	15,794	2,438,483	2,454,277	33,010	1,543,264	1,576,274
Ambulance	49,046	653,266	702,312	2,090	730,578	732,668
Clinics	513,054	4,310,195	4,823,249	529,499	3,781,636	4,311,135
Pharmacy	1,566,775	5,645,289	7,212,064	1,752,876	5,570,608	7,323,484
Geriatric psychiatry	-	705,750	705,750	-	193,725	193,725
Respiratory therapy	542,851	230,571	773,422	676,054	221,394	897,448
Nuclear medicine	-	469,910	469,910	-	384,231	384,231
Physical therapy	111,617	1,115,916	1,227,533	124,137	1,133,510	1,257,647
Occupational therapy	779,954	152,256	932,210	871,811	112,416	984,227
Speech therapy	10,115	38,186	48,301	19,421	54,023	73,444
Urgent Care	-	132,709	132,709	-	160,419	160,419
	<u>5,672,603</u>	<u>28,485,240</u>	<u>34,157,843</u>	<u>6,252,957</u>	<u>26,548,857</u>	<u>32,801,814</u>
	<u>\$ 9,649,054</u>	<u>\$ 35,881,584</u>	<u>45,530,638</u>	<u>\$ 10,376,928</u>	<u>\$ 33,233,847</u>	<u>43,610,775</u>
Less Allowances for Contractual and Uncollectible Accounts						
Medicare contractual allowances			15,243,904			14,330,944
Medicaid contractual allowances			2,501,987			2,711,449
Other allowances			3,915,275			3,466,883
RHC adjustments			855,395			501,907
Provision for uncollectible accounts			2,344,656			1,477,239
			<u>24,861,217</u>			<u>22,488,422</u>
			<u>\$ 20,669,421</u>			<u>\$ 21,122,353</u>

Scotland County Memorial Hospital District
Other Revenue – Excluding Foundation
“Unaudited”
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Lifeline rental	\$ 14,248	\$ 13,321
Rental	57,152	31,528
Physical and occupational therapy consulting	121,039	91,200
Contract pharmacy services (340B drug pricing program)	675,679	489,120
Miscellaneous	<u>(15,860)</u>	<u>13,715</u>
	<u>\$ 852,258</u>	<u>\$ 638,884</u>

Scotland County Memorial Hospital District
Operating Expenses – Excluding Foundation
“Unaudited”
Years Ended June 30, 2019 and 2018

	2019			2018		
	Salaries and Wages	Other	Total	Salaries and Wages	Other	Total
Nursing Services						
Acute and skilled nursing care	\$ 2,069,487	\$ 936,051	\$ 3,005,538	\$ 2,130,720	\$ 919,577	\$ 3,050,297
Operating and recovery	458,493	565,147	1,023,640	403,545	583,071	986,616
Central services and supply	-	857	857	-	455	455
Emergency services	1,095,010	135,471	1,230,481	1,186,591	151,218	1,337,809
	<u>3,622,990</u>	<u>1,637,526</u>	<u>5,260,516</u>	<u>3,720,856</u>	<u>1,654,321</u>	<u>5,375,177</u>
Other Professional Services						
Anesthesiology	-	493,700	493,700	-	416,638	416,638
Laboratory	369,555	744,569	1,114,124	367,960	835,082	1,203,042
Electrocardiology	8,327	637	8,964	8,848	677	9,525
Radiology	291,907	445,900	737,807	270,552	408,426	678,978
Pharmacy	1,190	1,040,877	1,042,067	-	1,106,245	1,106,245
Respiratory therapy	117,181	104,218	221,399	133,627	95,490	229,117
Nuclear medicine	-	132,519	132,519	-	137,721	137,721
Physical therapy	295,252	132,981	428,233	279,915	126,209	406,124
Occupational therapy	121,400	38,167	159,567	114,896	34,788	149,684
Social services	-	2,296	2,296	28,750	8,682	37,432
Medical records	111,251	77,164	188,415	115,384	77,639	193,023
Clinics	3,621,490	1,496,098	5,117,588	3,525,605	1,532,045	5,057,650
Oncology	27,285	184,938	212,223	19,055	256,376	275,431
Ambulance	434,047	146,530	580,577	447,164	155,115	602,279
Speech therapy	6,276	480	6,756	8,101	620	8,721
Rheumatology therapy	5,897	182,792	188,689	5,442	202,237	207,679
Wound care	3,166	220,533	223,699	46,382	212,725	259,107
Geriatric psychiatry	20,153	328,718	348,871	8,099	194,833	202,932
Urgent Care	45,695	6,957	52,652	46,680	8,102	54,782
	<u>5,480,072</u>	<u>5,780,074</u>	<u>11,260,146</u>	<u>5,426,460</u>	<u>5,809,650</u>	<u>11,236,110</u>

Scotland County Memorial Hospital District
Operating Expenses – Excluding Foundation (Continued)
“Unaudited”
Years Ended June 30, 2019 and 2018

	2019			2018		
	Salaries and Wages	Other	Total	Salaries and Wages	Other	Total
General Services						
Dietary	\$ 56,900	\$ 192,787	\$ 249,687	\$ 68,641	\$ 208,532	\$ 277,173
Plant operation and maintenance	89,855	877,542	967,397	88,955	803,639	892,594
Housekeeping	79,295	71,405	150,700	171,476	138,844	310,320
Laundry	-	189,032	189,032	-	41,663	41,663
	<u>226,050</u>	<u>1,330,766</u>	<u>1,556,816</u>	<u>329,072</u>	<u>1,192,678</u>	<u>1,521,750</u>
Administrative and Fiscal Services						
Administrative and fiscal	1,155,885	2,393,266	3,549,151	1,122,489	1,811,636	2,934,125
Employee benefits *	-	420,783	420,783	-	327,831	327,831
	<u>1,155,885</u>	<u>2,814,049</u>	<u>3,969,934</u>	<u>1,122,489</u>	<u>2,139,467</u>	<u>3,261,956</u>
Loss on impairment	<u>-</u>	<u>125,903</u>	<u>125,903</u>	<u>-</u>	<u>-</u>	<u>-</u>
Depreciation	<u>-</u>	<u>1,412,844</u>	<u>1,412,844</u>	<u>-</u>	<u>1,549,277</u>	<u>1,549,277</u>
	<u>\$ 10,484,997</u>	<u>\$ 13,101,162</u>	<u>\$ 23,586,159</u>	<u>\$ 10,598,877</u>	<u>\$ 12,345,393</u>	<u>\$ 22,944,270</u>

* \$2,744,109 and \$2,690,636 of payroll taxes and employee benefits are directly allocated to the individual departments and not included in the employee benefit line for 2019 and 2018, respectively.