

MADISON COUNTY HEALTH AND
HOSPITAL DISTRICT



FINANCIAL STATEMENTS

for the years ended September 30, 2020 and 2019

CONTENTS

	<u>Pages</u>
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-6
Financial Statements:	
Balance Sheets	7-8
Statements of Revenues, Expenses and Changes in Net Position	9
Statements of Cash Flows	10-11
Notes to Financial Statements	12-29
Other Information:	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	30-31
Schedule of Findings and Responses	32-33
Independent Auditor's Management Letter	34-36
Independent Accountant's Report on Compliance with Section 218.415, Florida Statutes	37



INDEPENDENT AUDITOR'S REPORT

Members of the Board
Madison County Health and Hospital District
Madison, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of Madison County Health and Hospital District (District), which comprise the balance sheets as of September 30, 2020 and 2019, 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 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Continued

Let's Think Together.®

Opinion

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

Emphasis of Matter

As disclosed in Note 14 to the financial statements, the District is facing financial difficulty and recurring operating losses. The District has become fiscally dependent on Madison County. See Note 14 for additional details. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2021, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Draffin & Tucker, LLP

Albany, Georgia
February 25, 2021



Management's Discussion and Analysis For the Year Ended September 30, 2020

Our discussion and analysis of the Madison County Health and Hospital District's ("District") financial performance provides an overview of the District's financial activities during the fiscal years ended September 30, 2020 and 2019. Please read it in conjunction with the District's financial statements and accompanying notes.

Financial Highlights

- The District's net position decreased in each of the past two years with a \$1,380,669 or 54% decrease in 2020 and a \$618,803 or 32% decrease in 2019.
- The District reported net operating losses of \$1,607,373 in 2020 and \$577,666 in 2019.

Using This Annual Report

The District's financial statements consist of three statements – Balance Sheet; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the District, including resources held by the District but restricted for specific purposes by contributors, grantors, or enabling legislation.

The Balance Sheet and Statement of Revenues, Expenses, and Changes in Net Position

Our analysis of the District's finances begins on page 7. One of the most important questions asked about the District'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. 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 them. You can think of the District's net position – the difference between assets and liabilities – as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the District's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the District.

Continued

**Management's Discussion and Analysis
For The Year Ended September 30, 2020**

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing 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 balance during the reporting period?".

The District's Net Position

The District's net position is the difference between its assets and liabilities reported on the balance sheet. The following table summarizes the balance sheets as of September 30, 2020, 2019 and 2018:

Balance Sheet Data

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Current assets	\$ 8,295,055	\$ 4,611,868	\$ 4,266,408
Capital assets, net	14,514,777	15,220,226	16,550,143
Other noncurrent assets	<u>826,471</u>	<u>695,625</u>	<u>570,570</u>
Total assets	<u>\$ 23,636,303</u>	<u>\$ 20,527,719</u>	<u>\$ 21,387,121</u>
Current liabilities	\$ 5,051,725	\$ 1,315,925	\$ 1,206,464
Long-term debt	22,356,532	21,764,591	22,114,651
Due to Madison County	<u>161,512</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>27,569,769</u>	<u>23,080,516</u>	<u>23,321,115</u>
Net position:			
Net investment in capital assets	(6,867,700)	(6,457,251)	(5,410,334)
Restricted	826,471	695,625	570,570
Unrestricted	<u>2,107,763</u>	<u>3,208,829</u>	<u>2,905,770</u>
Total net position	<u>(3,933,466)</u>	<u>(2,552,797)</u>	<u>(1,933,994)</u>
Total liabilities and net position	<u>\$ 23,636,303</u>	<u>\$ 20,527,719</u>	<u>\$ 21,387,121</u>

Total cash increased by approximately \$2,439,000, ending the year at approximately \$5.3 million. The cash on hand at year end equaled 181 days of expense requirements. This cash position compares favorably with other Florida hospitals. Capital asset additions totaled approximately \$581,000 for the year. The District's current liabilities increased approximately \$3.7 million due to CARES Act unearned revenue. See Note 15 for additional information. The District's long-term debt increased by approximately \$637,000 as the result of a newly issued Paycheck Protection Program loan.

Continued

**Management's Discussion and Analysis
For The Year Ended September 30, 2020**

The District's Net Position, Continued

The following table summarizes the revenues and expenses for the periods ended September 30, 2020, 2019 and 2018:

Statement of Revenue and Expense Data

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Operating revenues	\$ 9,607,426	\$ 9,415,034	\$ 9,090,155
Operating expenses	<u>11,214,799</u>	<u>9,992,700</u>	<u>9,810,148</u>
Operating loss	(1,607,373)	(577,666)	(719,993)
Nonoperating revenues (expenses)	<u>14,554</u>	(<u>173,637</u>)	(<u>204,920</u>)
Excess expenses	(1,592,819)	(751,303)	(924,913)
Capital grant and contributions	<u>212,150</u>	<u>132,500</u>	<u>-</u>
Decrease in net position	(1,380,669)	(618,803)	(924,913)
Net position at beginning of year	(<u>2,552,797</u>)	(<u>1,933,994</u>)	(<u>1,009,081</u>)
Net position at end of year	\$(<u>3,933,466</u>)	\$(<u>2,552,797</u>)	\$(<u>1,933,994</u>)

Operating expenses increased approximately \$1,222,000 during fiscal year 2020. This was primarily related to the increase in supplies and salaries expense. The expenses related to supplies increased approximately \$390,000 as a result of additional operating room (OR) supplies purchased in relation to the completion of the new OR. Additionally, supplies were purchased in preparation for and in response to the Coronavirus Pandemic. The effect of the pandemic on the Hospital lead to an increase in salary expense of approximately \$770,000 which was largely related to increase in nursing staff. The overall increase in operating expense caused an increase in excess expenses of approximately \$842,000.

Continued

**Management's Discussion and Analysis
For The Year Ended September 30, 2020**

Capital Assets and Debt

At the end of 2020, the District had approximately \$14.5 million invested in capital assets, net of accumulated depreciation. Additions during 2020, totaling approximately \$581,000, include operating room and additional patient care equipment.

On April 20, 2020, the District received a loan of \$987,932 under the Paycheck Protection Program. A recap of the District's long-term debt outstanding at September 30, 2020, 2019 and 2018 follows:

<u>Description</u>	<u>Interest Rates</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
MCCB note	Variable Rates	\$ 115,738	\$ 123,562	\$ 130,136
Office of Tourism	0.000%	114,971	162,971	210,971
Madison County BOCC	0.370%	151,614	151,614	151,614
Paycheck Protection Program loan	1.00%	987,932	-	-
Series 2014 USDA bonds	4.000%	<u>21,382,477</u>	<u>21,677,477</u>	<u>21,960,477</u>
Total debt		\$ <u>22,752,732</u>	\$ <u>22,115,624</u>	\$ <u>22,453,198</u>

Contacting the District's Financial Management

This financial report is designed to provide a general overview of the District's finances. If you have questions about this report or need additional financial information, contact the District's management at Madison County Memorial Hospital, 224 N.W. Crane Avenue, Madison, Florida 32340.

MADISON COUNTY HEALTH AND HOSPITAL DISTRICT

BALANCE SHEETS
September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Current assets:		
Cash	\$ 5,332,116	\$ 2,892,658
Short-term investments	262,087	259,811
Patient accounts receivable, net of contractual allowances and estimated uncollectibles of \$5,200,000 in 2020 and \$7,414,000 in 2019	771,970	1,157,021
Estimated third-party payor settlements	1,534,893	169,394
Inventory and other current assets	<u>393,989</u>	<u>132,984</u>
Total current assets	<u>8,295,055</u>	<u>4,611,868</u>
Restricted assets:		
Receivable from Madison County	<u>826,471</u>	<u>695,625</u>
Capital assets:		
Nondepreciable	518,910	490,000
Depreciable, net of accumulated depreciation	<u>13,995,867</u>	<u>14,730,226</u>
Total capital assets, net of accumulated depreciation	<u>14,514,777</u>	<u>15,220,226</u>
 Total assets	 \$ <u>23,636,303</u>	 \$ <u>20,527,719</u>

Continued

	<u>2020</u>	<u>2019</u>
LIABILITIES AND NET POSITION		
Current liabilities:		
Current maturities of long-term debt	\$ 396,200	\$ 351,033
Accounts payable	217,422	193,107
Accrued salaries and benefits payable	569,624	473,259
CARES Act unearned revenue	3,569,953	-
Other accrued expenses	<u>298,526</u>	<u>298,526</u>
Total current liabilities	5,051,725	1,315,925
Long-term liabilities:		
Due to Madison County	161,512	-
Long-term debt, excluding current maturities	<u>22,356,532</u>	<u>21,764,591</u>
Total liabilities	<u>27,569,769</u>	<u>23,080,516</u>
Net position:		
Net investment in capital assets	(6,867,700)	(6,457,251)
Restricted for debt service	826,471	695,625
Unrestricted	<u>2,107,763</u>	<u>3,208,829</u>
Total net position	(3,933,466)	(2,552,797)
Total liabilities and net position	\$ <u>23,636,303</u>	\$ <u>20,527,719</u>

See accompanying notes to financial statements.

MADISON COUNTY HEALTH AND HOSPITAL DISTRICT

STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
for the years ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating revenues:		
Net patient service revenue (net of provision for bad debts of \$2,385,000 in 2020 and \$2,936,000 in 2019)	\$ 9,489,370	\$ 9,104,485
Other revenue	<u>118,056</u>	<u>310,549</u>
Total operating revenues	<u>9,607,426</u>	<u>9,415,034</u>
Operating expenses:		
Salaries	5,320,353	4,550,837
Employee benefits	640,254	550,604
Purchased services	1,650,858	1,590,660
Supplies	1,381,763	991,699
Depreciation	1,286,555	1,459,407
Insurance	115,939	86,368
Rents and leases	80,625	75,710
Other expenses	<u>738,452</u>	<u>687,415</u>
Total operating expenses	<u>11,214,799</u>	<u>9,992,700</u>
Operating loss	(<u>1,607,373</u>)	(<u>577,666</u>)
Nonoperating revenues (expenses):		
Sales tax revenue	687,917	683,717
Interest income and other	202,049	30,725
Interest expense	(<u>875,412</u>)	(<u>888,079</u>)
Total nonoperating revenues (expenses)	<u>14,554</u>	(<u>173,637</u>)
Excess expenses	(1,592,819)	(751,303)
Capital grants and contributions	<u>212,150</u>	<u>132,500</u>
Decrease in net position	(1,380,669)	(618,803)
Net position, beginning of year	(<u>2,552,797</u>)	(<u>1,933,994</u>)
Net position, end of year	\$(<u>3,933,466</u>)	\$(<u>2,552,797</u>)

See accompanying notes to financial statements.

MADISON COUNTY HEALTH AND HOSPITAL DISTRICT

STATEMENTS OF CASH FLOWS
for the years ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Cash received from patients and payors	\$ 8,626,978	\$ 9,548,323
Cash payments to vendors and other suppliers	(4,233,237)	(3,380,554)
Cash payments to employees	<u>(5,864,242)</u>	<u>(5,061,029)</u>
Net cash provided (used) by operating activities	<u>(1,470,501)</u>	<u>1,106,740</u>
Cash flows from noncapital financing activities:		
CARES Act funding	3,654,270	-
Proceeds from issuance of long-term debt	987,932	-
Proceeds from Madison County loan	<u>161,512</u>	<u>-</u>
Net cash provided by noncapital financing activities	<u>4,803,714</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Capital grants and contributions	212,150	132,500
Proceeds from tax revenue	557,071	558,662
Principal paid on long-term debt	(350,824)	(337,574)
Cash paid for interest	(875,412)	(888,079)
Purchase of capital assets	<u>(552,196)</u>	<u>(129,490)</u>
Net cash used by capital and related financing activities	<u>(1,009,211)</u>	<u>(663,981)</u>
Cash flows from investing activities:		
Purchase of short-term investments	(2,276)	(2,251)
Interest income and other	<u>117,732</u>	<u>30,725</u>
Net cash provided by investing activities	<u>115,456</u>	<u>28,474</u>
Net increase in cash	2,439,458	471,233
Cash, beginning of year	<u>2,892,658</u>	<u>2,421,425</u>
Cash, end of year	\$ <u>5,332,116</u>	\$ <u>2,892,658</u>

Continued

MADISON COUNTY HEALTH AND HOSPITAL DISTRICT

STATEMENTS OF CASH FLOWS, Continued
for the years ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Reconciliation of operating loss to net cash flows from operating activities:		
Operating loss	\$(1,607,373)	\$(577,666)
Adjustments to reconcile operating loss to net cash flows from operating activities:		
Depreciation	1,286,555	1,459,407
Provision for bad debt	2,385,067	2,936,234
Change in:		
Patient accounts receivable	(2,000,016)	(3,304,905)
Inventory and other current assets	(261,005)	(5,265)
Estimated third-party payor settlements	(1,365,499)	501,960
Accounts payable	(4,595)	56,563
Salaries and benefits payable	<u>96,365</u>	<u>40,412</u>
Net cash provided (used) by operating activities	\$(<u>1,470,501</u>)	\$ <u>1,106,740</u>
Supplemental disclosure of noncash capital and related financing activities:		
Acquisition of capital assets included in accounts payable	\$ <u>28,910</u>	\$ <u>-</u>

See accompanying notes to financial statements.

MADISON COUNTY HEALTH AND HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS

September 30, 2020 and 2019

1. Summary of Significant Accounting Policies

Organization

Madison County Health and Hospital District (District) is an independent special district organized under Chapter 2003–333 of the Laws of Florida for the purpose of providing public health care services. The District has a seven-member governing board that is appointed by the Governor of the State of Florida. The members of the District's board also serve as members of the Board of Directors of Madison County Hospital Health Systems, Inc., D/B/A Madison County Memorial Hospital (Hospital), a Florida not-for-profit corporation under Internal Revenue Code 501(c)(3). The Hospital is a blended component unit of the Madison County Health and Hospital District located in Madison, Florida.

The Hospital is a 25 bed critical access healthcare facility licensed by the State of Florida through the Agency for Healthcare Administration. Serving its rural community since 1938, the Hospital offers ancillary services such as: routine radiology, mammography, ultrasound, laboratory, respiratory therapy, as well as providing a 24 hour emergency room, swing bed services (skilled nursing beds) and an acute care setting for inpatients.

The District has leased all assets, liabilities and operations to the Hospital for a period of 40 years expiring on October 1, 2052; as such the District does not have any activity. The District retains oversight of the Hospital as they share the same members of the board. The activity presented in the accompanying financial statements and notes to the financial statements represents the operations of the Hospital.

Tax Status

The District is a governmental entity and is exempt from income taxes. Accordingly, no provision for income taxes has been considered in the accompanying financial statements.

The Hospital is a not-for-profit organization exempt from income taxes, except on unrelated business income, under Internal Revenue Code Section 501(c)(3).

The Hospital applies accounting policies that prescribe when to recognize and how to measure the financial statement effects of income tax positions taken or expected to be taken on its income tax returns. These rules require management to evaluate the likelihood that, upon examination by the relevant taxing jurisdictions, those income tax positions would be sustained. Based on that evaluation, the Hospital only recognizes the maximum benefit of each income tax position that is more than 50% likely of being sustained. To the extent that all or a portion of the benefits of an income tax position are not recognized, a liability would be recognized for the unrecognized benefits, along with any interest and penalties that would result from disallowance of the position. Should any such penalties and interest be incurred, they would be recognized as operating expenses.

Continued

MADISON COUNTY HEALTH AND HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020 and 2019

1. Summary of Significant Accounting Policies, Continued

Tax Status, Continued

Based on the results of management's evaluation, no liability is recognized in the accompanying balance sheet for unrecognized income tax positions. Further, no interest or penalties have been accrued or charged to expense as of September 30, 2020 and 2019 or for the years then ended. The Hospital's tax returns are subject to possible examination by the taxing authorities. For federal income tax purposes, the tax returns essentially remain open for possible examination for a period of three years after the respective filing deadlines of those returns.

Use of Estimates

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

Enterprise Fund Accounting

The District uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

The financial statements are prepared as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB).

Allowance for Doubtful Accounts

The Hospital provides an allowance for doubtful accounts based on an evaluation of the overall collectability of the accounts receivable. As accounts are known to be uncollectible, the accounts are charged against the allowance.

Inventory

Inventory which consists principally of medical and other supplies, is valued at the lower of cost or market on the first-in, first-out (FIFO) method.

Continued

MADISON COUNTY HEALTH AND HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020 and 2019

1. Summary of Significant Accounting Policies, Continued

Receivable from Madison County

Receivable from Madison County includes tax monies collected by Madison County pursuant to a voter approved one-half-cent sales surtax on the purchase of goods (“Sales Surtax”) under the authority of Section 212.055(7), Florida Statutes which allowed for the financing and construction of the new Hospital facility. The assets are held by Madison County under the terms of the interlocal agreement between the District and Madison County dated March 15, 2011, on behalf of the District. These funds are restricted by covenants to be used only for debt service related to bonds held by the United States Department of Agriculture, Rural Development Division.

Capital Assets

Facilities owned by the District are operated by the Hospital. The capital asset acquisitions are reported at historical cost. Contributed capital assets are reported at their acquisition value at the time of their donation. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. The estimated useful life is assigned using AHA Useful Lives Guidelines listed below. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Land improvements	15 to 20 years
Buildings and improvements	5 to 40 years
Equipment	3 to 15 years

Net Position

Net position is classified into three components. *Net investment in capital assets* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net position* is noncapital assets reduced by liabilities related to those assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures. *Unrestricted net position* is the remaining net amount of assets and liabilities that do not meet the definition of *net investment in capital assets* or the *restricted net position*.

Continued

MADISON COUNTY HEALTH AND HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020 and 2019

1. Summary of Significant Accounting Policies, Continued

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement arrangements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

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 revenue.

Operating Revenues and Expenses

The statement of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Hospital's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Compensated Absences

The Hospital's employees earn paid time off (benefit time) at varying rates depending on years of service. Benefit time accumulates up to a maximum of 300 hours based on years of service. The estimated amount of benefit time payable is reported as a current liability in 2020 and 2019.

Unearned Revenue

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. CARES Act advance payments are reported as unearned revenue until all applicable eligibility requirements are met. See Note 15 for additional information.

Continued

MADISON COUNTY HEALTH AND HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020 and 2019

1. Summary of Significant Accounting Policies, Continued

Grants and Contributions

From time to time, the Hospital receives contributions from Madison County, individuals and private organizations. Revenues from contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenue. The Hospital received \$212,150 and \$132,500 in grants from the United States Department of Agriculture (USDA) for the years ended in 2020 and 2019. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses. See Note 15 to the financial statements for funding related to the CARES Act.

Restricted Resources

When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; workers compensation; natural disasters; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from all such matters other than malpractice claims for which the Hospital is self-insured, see Note 11. The Hospital is insured for employee health insurance, see Note 12.

Impairment of Long-Lived Assets

The Hospital evaluates on an ongoing basis the recoverability of its assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The impairment loss to be recognized is the amount by which the carrying value of the long-lived asset exceeds the asset's fair value. In most instances, the fair value is determined by discounted estimated future cash flows using an appropriate interest rate. The Hospital has not recorded any impairment charges in the accompanying statements of revenues, expenses and changes in net position for the years ended September 30, 2020 and 2019.

Financing Cost

Costs incurred in connection with the issuance of bonds and notes are expensed in the period in which they are incurred.

Continued

MADISON COUNTY HEALTH AND HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020 and 2019

1. Summary of Significant Accounting Policies, Continued

Recently Adopted Accounting Pronouncement

In May 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* (GASB 95). GASB 95's primary objective is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic by postponing the effective dates of certain provisions in Statements and Implementation Guides. GASB 95 is effective immediately. Earlier application of provisions is permitted to the extent specified in each pronouncement as originally issued.

2. Net Patient Service Revenue

The Hospital has arrangements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. The Hospital does not believe that there are any significant credit risks associated with receivables due from third-party payors.

Revenue from the Medicare and Medicaid programs accounted for approximately 77% and 10%, respectively, of the Hospital's net patient service revenue for the year ended 2020 and 72% and 18%, respectively, of the Hospital's net patient service revenue for the year ended 2019. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

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

A summary of the payment arrangements with major third-party payors follows:

- Medicare

Effective January 1, 2006, the Hospital was granted Critical Access Hospital (CAH) designation by the Medicare program. The CAH designation places certain restrictions on daily acute care inpatient census and an annual, average length of stay of acute care inpatients. Inpatient acute care and outpatient services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology.

Continued

MADISON COUNTY HEALTH AND HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020 and 2019

2. Net Patient Service Revenue, Continued

• Medicare, Continued

The Hospital is reimbursed for certain reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor (MAC). The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital. The Hospital's Medicare cost reports have been audited by the MAC through September 30, 2017.

• Medicaid

Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid based upon a prospective cost reimbursement methodology. The Hospital is paid at a rate based upon the most recent cost report processed by the Agency for Health Care Administration adjusted for inflation and regional cost limitation.

The Hospital recorded revenue of approximately \$292,000 and \$305,000 during 2020 and 2019, respectively for funding from the State of Florida under the Medicaid Rural Financial Assistance Program (Program). In 2020 and 2019, the Hospital qualified for the rural assistance DSH payment and lower income pool payments.

	<u>2020</u>	<u>2019</u>
Lower income pool payments	\$ 36,000	\$ 37,000
Rural assistance DSH payments	<u>256,000</u>	<u>268,000</u>
Total	\$ <u>292,000</u>	\$ <u>305,000</u>

Program proceeds are based on an allocation of a fixed sum appropriated by the Florida Legislature to be distributed to eligible rural hospitals based on the level of indigent and Medicaid care provided. Such amounts have been recognized as net patient service revenue in the accompanying statements of revenues, expenses and changes in net position.

• Other Arrangements

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

Continued

MADISON COUNTY HEALTH AND HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020 and 2019

2. Net Patient Service Revenue, Continued

• Uninsured Patients

The Hospital has a Financial Assistance Policy (FAP) in accordance with Internal Revenue Code Section 501(r). Based on the FAP, following a determination of financial assistance eligibility, an individual will not be charged more than the Amounts Generally Billed (AGB) for emergency or other medical care provided to individuals with insurance covering that care. AGB is calculated by reviewing claims that have been paid in full (including deductibles and coinsurance paid by the patient) to the Hospital for medically necessary care by Medicare and private health insurers during a 12-month look-back period.

3. Uncompensated Services

The Hospital was compensated for services at amounts less than its established rates. Charges for uncompensated services for 2020 and 2019 were approximately \$12,283,000 and \$16,226,000, respectively.

Charges for uncompensated care included charity and indigent care services of approximately \$310,000 and \$555,000 for fiscal years 2020 and 2019, respectively. The cost of charity and indigent care services provided during 2020 and 2019 was approximately \$172,000 and \$238,000, respectively computed by applying a total cost factor to the charges forgone.

The following is a summary of uncompensated services and a reconciliation of gross patient charges to net patient service revenue for 2020 and 2019.

	<u>2020</u>	<u>2019</u>
Gross patient charges	\$ <u>21,772,472</u>	\$ <u>25,330,183</u>
Uncompensated services:		
Charity and indigent care	309,773	555,193
Medicare	5,264,287	8,405,055
Medicaid	1,410,433	1,377,923
Other allowances	2,913,542	2,951,293
Provision for bad debts	<u>2,385,067</u>	<u>2,936,234</u>
Total uncompensated care	<u>12,283,102</u>	<u>16,225,698</u>
Net patient service revenue	\$ <u>9,489,370</u>	\$ <u>9,104,485</u>

Continued

MADISON COUNTY HEALTH AND HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020 and 2019

4. Cash and Investments

The composition of cash and investments on the balance sheet includes the following:

	<u>2020</u>	<u>2019</u>
Cash – demand deposit accounts	\$ 5,332,116	\$ 2,892,658
Short-term investment – certificate of deposit	<u>262,087</u>	<u>259,811</u>
Total cash and investments	\$ <u>5,594,203</u>	\$ <u>3,152,469</u>

- *Certificate of deposit.* The term of the certificate of deposit is twelve months and is reported at amortized cost which approximates fair value.

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the Hospital will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by depository insurance or the deposits are uncollateralized.

The Hospital's unrestricted cash balances in checking and savings accounts and time deposits are held by banks qualified as public depositories under Florida law. All deposits are insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida's multiple financial institution collateral pool as required by Chapter 280, Florida Statutes.

5. Accounts Receivable and Payable

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Hospital at September 30, 2020 and 2019 consisted of these amounts:

	<u>2020</u>	<u>2019</u>
Patient accounts receivable:		
Receivable from patients and their insurance carriers	\$ 4,737,901	\$ 6,509,766
Receivable from Medicare	773,359	1,582,111
Receivable from Medicaid	<u>460,710</u>	<u>479,144</u>
Total patient accounts receivable	5,971,970	8,571,021
Less allowance for uncollectible amounts and contractual adjustments	<u>5,200,000</u>	<u>7,414,000</u>
Patient accounts receivable, net	\$ <u>771,970</u>	\$ <u>1,157,021</u>
Accounts payable and accrued expenses:		
Payable to employees (including payroll taxes)	\$ 569,624	\$ 473,259
Payable to suppliers	217,422	193,107
Payable to others	<u>298,526</u>	<u>298,526</u>
Total accounts payable and accrued expenses	\$ <u>1,085,572</u>	\$ <u>964,892</u>

Continued

MADISON COUNTY HEALTH AND HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020 and 2019

6. Capital Assets

Capital asset changes for the years ended September 30, 2020 and 2019 are as follows:

	Balance September 30, <u>2019</u>	<u>Increases</u>	<u>Decreases</u>	Balance September 30, <u>2020</u>
Land	\$ 490,000	\$ -	\$ -	\$ 490,000
Construction-in-progress	<u>-</u>	<u>28,910</u>	<u>-</u>	<u>28,910</u>
Total capital assets not being depreciated	<u>490,000</u>	<u>28,910</u>	<u>-</u>	<u>518,910</u>
Land improvements	13,960	-	-	13,960
Buildings	19,010,636	28,142	-	19,038,778
Equipment	3,046,438	524,053	-	3,570,491
Software	475,855	-	-	475,855
Leasehold improvements	59,607	-	-	59,607
Capitalized interest	<u>802,330</u>	<u>-</u>	<u>-</u>	<u>802,330</u>
Total capital assets being depreciated	<u>23,408,826</u>	<u>552,195</u>	<u>-</u>	<u>23,961,021</u>
Less accumulated depreciation:				
Land improvements	(10,960)	(1,000)	-	(11,960)
Buildings	(5,583,380)	(1,036,525)	-	(6,619,905)
Equipment	(2,349,420)	(197,401)	-	(2,546,821)
Software	(457,055)	(9,400)	-	(466,455)
Leasehold improvements	(59,607)	-	-	(59,607)
Capitalized interest	<u>(218,178)</u>	<u>(42,228)</u>	<u>-</u>	<u>(260,406)</u>
Total accumulated depreciation	<u>(8,678,600)</u>	<u>(1,286,554)</u>	<u>-</u>	<u>(9,965,154)</u>
Capital assets being depreciated, net	<u>14,730,226</u>	<u>(734,359)</u>	<u>-</u>	<u>13,995,867</u>
Capital assets, net	\$ <u>15,220,226</u>	\$(<u>705,449</u>)	\$ <u>-</u>	\$ <u>14,514,777</u>

Continued

MADISON COUNTY HEALTH AND HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020 and 2019

6. Capital Assets, Continued

	Balance September 30, <u>2018</u>	<u>Increases</u>	<u>Decreases</u>	Balance September 30, <u>2019</u>
Land	\$ 490,000	\$ -	\$ -	\$ 490,000
Construction-in-progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets not being depreciated	<u>490,000</u>	<u>-</u>	<u>-</u>	<u>490,000</u>
Land improvements	13,960	-	-	13,960
Buildings	19,010,636	-	-	19,010,636
Equipment	3,007,221	101,290	(62,073)	3,046,438
Software	447,655	28,200	-	475,855
Leasehold improvements	59,607	-	-	59,607
Capitalized interest	<u>802,330</u>	<u>-</u>	<u>-</u>	<u>802,330</u>
Total capital assets being depreciated	<u>23,341,409</u>	<u>129,490</u>	<u>(62,073)</u>	<u>23,408,826</u>
Less accumulated depreciation:				
Land improvements	(9,960)	(1,000)	-	(10,960)
Buildings	(4,519,195)	(1,064,185)	-	(5,583,380)
Equipment	(2,068,899)	(342,594)	62,073	(2,349,420)
Software	(447,655)	(9,400)	-	(457,055)
Leasehold improvements	(59,607)	-	-	(59,607)
Capitalized interest	<u>(175,950)</u>	<u>(42,228)</u>	<u>-</u>	<u>(218,178)</u>
Total accumulated depreciation	<u>(7,281,266)</u>	<u>(1,459,407)</u>	<u>62,073</u>	<u>(8,678,600)</u>
Capital assets being depreciated, net	<u>16,060,143</u>	<u>(1,329,917)</u>	<u>-</u>	<u>14,730,226</u>
Capital assets, net	\$ <u>16,550,143</u>	\$ <u>(1,329,917)</u>	\$ <u>-</u>	\$ <u>15,220,226</u>

Continued

MADISON COUNTY HEALTH AND HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020 and 2019

7. Long-Term Debt

Long-term debt schedule of changes for 2020 and 2019 are as follows:

	Balance September 30, <u>2019</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, <u>2020</u>	Amounts Due Within <u>One Year</u>
Direct borrowings:					
MCCB note payable	\$ 123,562	\$ -	\$ 7,824	\$ 115,738	\$ 8,549
Office of Tourism note payable	162,971	-	48,000	114,971	48,000
Madison County BOCC note payable	151,614	-	-	151,614	-
Paycheck Protection Program loan	-	987,932	-	987,932	31,651
Direct placement: Series 2014 USDA bonds	<u>21,677,477</u>	<u>-</u>	<u>295,000</u>	<u>21,382,477</u>	<u>308,000</u>
Total long-term debt	\$ <u>22,115,624</u>	\$ <u>987,932</u>	\$ <u>350,824</u>	\$ <u>22,752,732</u>	\$ <u>396,200</u>
	Balance September 30, <u>2018</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, <u>2019</u>	Amounts Due Within <u>One Year</u>
Direct borrowings:					
MCCB note payable	\$ 130,136	\$ -	\$ 6,574	\$ 123,562	\$ 8,033
Office of Tourism note payable	210,971	-	48,000	162,971	48,000
Madison County BOCC note payable	151,614	-	-	151,614	-
Paycheck Protection Program loan	-	-	-	-	-
Direct placement: Series 2014 USDA bonds	<u>21,960,477</u>	<u>-</u>	<u>283,000</u>	<u>21,677,477</u>	<u>295,000</u>
Total long-term debt	\$ <u>22,453,198</u>	\$ <u>-</u>	\$ <u>337,574</u>	\$ <u>22,115,624</u>	\$ <u>351,033</u>

Continued

MADISON COUNTY HEALTH AND HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020 and 2019

7. Long-Term Debt, Continued

- Long-Term Notes:
 - Madison County Community Bank, at an interest rate of prime + 1.5%, currently at 6.25%. Final payment due September 1, 2030, collateralized by real estate. The note payable contains a provision that in an event of default, outstanding obligations may become immediately due and payable.
 - Florida Office of Tourism, Trade, and Economic Development (OTTED), whereas the original agreement dated December 22, 2006 in the amount of \$450,000 with a term of four years plus simple interest of 3%, reached a settlement with the Hospital in October 2016, as no payments were made in either 2015 or 2016 due to the economic condition of the Hospital. Per the terms of the settlement agreement, the OTTED agrees to forgive accrued interest and penalties. The settlement amount of \$306,971 will be repaid in monthly installments of \$4,000 beginning October 15, 2016 at zero percent interest.
 - Madison County Board of County Commissioners, at an interest rate of 0.370%, unsecured. The Hospital did not make payments toward this note in 2019 or 2020. Madison County Board of Commissioners has delayed the due date of the note until the Hospital is in a better position to pay off the note.
 - Paycheck Protection Program, at an interest rate of 1%, unsecured. The Hospital was not required to make any payments on this loan in 2020. The note payable contains a provision that in an event of default, outstanding obligations may become immediately due and payable.

On October 31, 2014, the District issued Hospital Revenue Bond Series 2014 in the amount of 22,543,400, at an interest rate of 4.00% with final payment due September 1, 2054. These bonds are payable to the United States Department of Agriculture Rural Development Division (USDA) and are first collateralized by a lien on all revenues received from the Local Government Half-Cent Sales Tax and a first lien on all revenues received by the District and its operational entity Madison County Hospital Health Systems, Inc., from the operation of the Hospital and all other activities. In March 2018, the District and the USDA entered into an agreement to substitute the original bond payment schedule with a revised version as the original principal payments were incorrectly calculated. Under the revised schedule, the overpayment of the 2017 principal payment was applied to the 2018 revised amount resulting in no payment to be required by the District for 2018. The five year debt summary reflects these changes. No other changes were made to the agreements.

As part of the USDA requirements, the Hospital must meet certain conditions and reporting requirements as well as establish and fund a debt service reserve fund equal to 10% of the annual payment each year until the equivalent of one annual installment is accumulated. At September 30, 2020, the Hospital was in compliance with the debt service reserve requirement.

Continued

MADISON COUNTY HEALTH AND HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020 and 2019

7. Long-Term Debt, Continued

The Revenue Bonds include a provision that in an event of continuing default, USDA may take whatever action at law or in equity may appear necessary or desirable to collect the amounts then due and thereafter to become due.

On April 20, 2020, the Hospital received loan proceeds in the amount of \$987,932 under the Paycheck Protection Program (PPP). The PPP, established as part of the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable after the covered period as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the covered period. The unforgiven portion of the PPP loan is payable over five years at an interest rate of 1 percent, with a deferral of payments for the first ten months after the covered period. The Hospital believes its use of the proceeds is consistent with the PPP and intends to seek forgiveness. The Hospital will recognize any forgiveness of the loan at the time the Hospital is legally released from the debt. While the Hospital currently believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan, no assurances can be provided.

Scheduled principal and interest repayments on long-term debt are as follows:

<u>Years Ending September 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 396,200	\$ 875,872	\$ 1,272,072
2022	638,532	857,712	1,496,244
2023	779,349	841,760	1,621,109
2024	625,059	825,144	1,450,203
2025	526,987	808,132	1,335,119
2026–2030	2,088,128	3,799,552	5,887,680
2031–2035	2,460,000	3,350,575	5,810,575
2036–2040	2,994,000	2,817,415	5,811,415
2041–2045	3,640,000	2,169,015	5,809,015
2046–2050	4,430,000	1,380,255	5,810,255
2051–2054	<u>4,174,477</u>	<u>422,839</u>	<u>4,597,316</u>
Total	\$ <u>22,752,732</u>	\$ <u>18,148,271</u>	\$ <u>40,901,003</u>

8. Pension Plan

The Madison County Memorial Hospital 401(k) Savings Plan (Plan) was established by the Hospital and administered by The Pension Center of Florida, Inc. to provide benefits at retirement to substantially all employees of the Hospital who have completed six months of service and have attained 21 years of age. Plan provisions and contribution requirements are established and may be amended by the Hospital.

Continued

MADISON COUNTY HEALTH AND HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020 and 2019

8. Pension Plan, Continued

Pension expense for the years ended September 30, 2020 and 2019 was \$16,214 and \$13,929, respectively. The amount of employer contributions to be made for any particular year end with respect to any particular participant is not to exceed 3%. Employees begin vesting after two years of service at 20% each year until they become fully vested in year six. Employees vest immediately in their contributions. The Hospital had an outstanding liability of \$12,358 and \$6,480 related to the plan at September 30, 2020 and 2019, respectively.

9. Concentration 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 at September 30, 2020 and 2019 was as follows:

	<u>2020</u>	<u>2019</u>
Medicare	36%	49%
Medicaid	11%	8%
Commercial and other	36%	21%
Self-pay	<u>17%</u>	<u>22%</u>
Total	<u>100%</u>	<u>100%</u>

10. Contingencies and Commitments

Health Care Reform

There has been increasing pressure on Congress and some state legislatures to control and reduce the cost of healthcare at the national and the state levels. Legislation has been passed that includes cost controls on healthcare providers, insurance market reforms, delivery system reforms and various individual and business mandates among other provisions. The costs of these provisions are and will be funded in part by reductions in payments by government programs, including Medicare and Medicaid. There can be no assurance that these changes will not adversely affect the Hospital.

Litigation

The Hospital is involved in various claims and lawsuits arising out of the conduct of its business. The ultimate outcome of these matters is uncertain at this time; however, management does not believe that the ultimate liabilities resulting from the claims, if any, will have a material adverse effect on the Hospital's financial position, results of operations, or cash flows.

Continued

MADISON COUNTY HEALTH AND HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020 and 2019

10. Contingencies and Commitments, Continued

Operating Leases

The Hospital leases certain equipment from third parties. Total lease expense was \$52,218 and \$45,848 for the years ended September 30, 2020 and 2019, respectively. Future minimum lease payments under noncancelable operating leases at September 30, 2020 are as follows:

<u>Year Ending September 30</u>	<u>Total</u>
2021	\$ 30,681
2022	27,741
2023	27,741
2024	<u>27,741</u>
Total	\$ <u>113,904</u>

11. Malpractice Insurance

The Hospital is self-insured for malpractice claims. As a component unit of the District, a subdivision of the state of Florida, the Hospital has sovereign immunity for medical malpractice claims. As such, claim settlements may not exceed \$200,000 per individual and \$300,000 per occurrence.

Various claims and assertions have been made against the Hospital in its normal course of providing services. In addition other claims may be asserted arising from services provided to patients in the past. In the opinion of management, due to minimal prior expenses, the Hospital has not accrued a reserve for such asserted and unasserted claims.

12. Employee Health Insurance

The Hospital has purchased group health insurance coverage for the Hospital employees and their covered dependents. Under the group insurance program, the Hospital paid \$183,697 and \$159,094 in 2020 and 2019, respectively.

13. Compliance Plan

The healthcare industry has been subjected to increased scrutiny from governmental agencies at both the federal and state level with respect to compliance with regulations. Areas of noncompliance identified at the national level include Medicare and Medicaid, Internal Revenue Service, and other regulations governing the healthcare industry. In addition, the Reform Legislation includes provisions aimed at reducing fraud, waste, and abuse in the healthcare industry. These provisions allocate significant additional resources to federal enforcement agencies and expand the use of private contractors to recover potentially inappropriate Medicare and Medicaid payments. The Hospital has implemented a compliance plan focusing on such issues. There can be no assurance that the Hospital will not be subjected to future investigations with accompanying monetary damages.

Continued

MADISON COUNTY HEALTH AND HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020 and 2019

14. Economic Dependency

The District has experienced net operating losses over the last several years which has resulted in an overall negative net position. The District currently receives a one-half-cent sales tax approved by the voters of Madison County to be used for the construction of the new hospital facilities in Madison County. The intention of these funds is to pay for the debt service related to the new hospital which opened in August 2014. The first principal payments became due on September 1, 2017. Without the support of the County, it would be doubtful the District would be able to meet these obligations. The District met with the USDA and revised the payment schedule of the 2014 USDA bonds to enable the District to be better able to meet the obligations.

The District applied for three USDA grants for the operating room project. The first grant was reimbursed on August 12, 2020 in the amount of \$212,150. The second grant is expected to be approved in February or March 2021 and to be reimbursed in the amount of \$189,000. On September 29, 2020, the USDA notified the District that the application for the third grant is eligible for \$300,000 of additional operating room funding subject to receipt of the fiscal year 2021 State of Florida Community Facilities Disaster Assistance Grant funds.

The Legislative Budget Funding Request was resubmitted for \$350,000 for the operating room project. If approved, the funds are expected to be received in August 2022.

During fiscal year 2020, the District began participating in the 2020-2021 SHIP (Small Hospital Improvement Program) Consortium Project with the Florida State Office of Rural Health. The purpose of the project is to build a group of hospitals and other stakeholders working together to strengthen the rural health infrastructure and increase access for rural hospitals through the pursuit of innovation. This year's grant project will focus on hospital and medical staff documentation improvement.

The Hospital submitted the SBA Forgiveness application/documentation to Madison County Community Bank during January 2021 for forgiveness of the first round of the SBA PPP Loan. The Hospital plans to apply for the second round of the SBA PPP Loan Program with Madison County Community Bank by March 2021.

The ultimate outcome of these plans is uncertain; however, management believes with the continued support of the County sales tax and progress toward their goals, they will be able to continue to provide services to Madison County and surrounding areas.

15. Coronavirus (COVID-19)

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen. The outbreak has put an unprecedented strain on the U.S. healthcare system, disrupted or delayed production and delivery of materials and products in the supply chain, and caused staffing shortages. The extent of the impact of COVID-19 on the District's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, remedial actions and stimulus measures adopted by local, state, and federal

Continued

MADISON COUNTY HEALTH AND HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2020 and 2019

15. Coronavirus (COVID-19), Continued

governments, and impact on the District's customers, employees, and vendors, all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the District's financial position or results of operations is uncertain.

On March 27, 2020, the President signed the *Coronavirus, Aid, Relief, and Economic Security Act* (CARES Act). Certain provisions of the CARES Act provide relief funds to hospitals and other healthcare providers. The funding is to be used to support healthcare-related expenses or lost revenue attributable to COVID-19. The U.S. Department of Health and Human Services (HHS) began distributing funds on April 10, 2020 to eligible providers in an effort to provide relief to both providers in areas heavily impacted by COVID-19 and those providers who are struggling to keep their doors open due to healthy patients delaying care and canceling elective services. On April 24, 2020, the *Paycheck Protection Program and Health Care Enhancement Act* was passed. This Act provides additional funding to replenish and supplement key programs under the CARES Act, including funds to health care providers for COVID-19 testing. Grant and contribution advance payments are reported as unearned revenue until all eligibility requirements are met. Recognized revenue is reported as nonoperating revenues in the statements of revenues, expenses and changes in net position. The District received approximately \$3.6 million in grant stimulus funding in fiscal year 2020.

CARES Act funding may be subject to audits. While the District currently believes its use of the funds is in compliance with applicable terms and conditions, there is a possibility payments could be recouped based on changes in reporting requirements or audit results.

The District has received the following program funding:

- \$30 Billion General Distribution (1st round) – On April 10, 2020, HHS distributed \$30 billion to nearly 320,000 Medicare fee-for-service providers based on their portion of 2019 Medicare fee-for-service payments. The District received \$254,736 in funding from this distribution.
- \$10 Billion Rural Distribution – On May 6, 2020, HHS distributed \$10 billion to almost 4,000 rural health care providers including hospitals, health clinics, and health centers. The District received \$3,315,217 in funding from this distribution.
- In September 2020, the Florida State Office of Rural Health issued Coronavirus SHIP Funding to qualifying SHIP hospitals. The District received \$84,317 in funding from this distribution. Hospitals have flexibility to use the funding as the coronavirus and related community, patient, organizational needs evolve.

The CARES Act also did the following:

- Sequestration – Suspended the Medicare sequestration payment adjustment, which reduces payments to providers by 2%, for the period May 1, 2020 through March 31, 2021.
- Medicare Add-on for Inpatient Hospital COVID-19 Patients – Increased the Medicare payment for hospital patients admitted with COVID-19 by 20%.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Members of the Board
Madison County Health and Hospital District
Madison, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Madison County Health and Hospital District (District) as of and for the year ended September 30, 2020, and the related notes to the financial statements, and have issued our report thereon dated February 25, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider deficiency 2020-001 described in the accompanying schedule of findings and responses to be a material weakness.

Continued

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider deficiency 2020-002 described in the accompanying schedule of findings and responses to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Madison County Health and Hospital District's Response to Findings

The Madison County Health and Hospital District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Draffin + Tucker, LLP

Albany, Georgia
February 25, 2021

MADISON COUNTY HEALTH AND HOSPITAL DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES
for the year ended September 30, 2020

(Comment Reported in Prior Year Still Applicable to Fiscal Year 2020)
Material Weakness 2020-001

Condition:	Estimates for accounts receivable allowances were calculated based on revenues rather than current collection history which resulted in a significant understatement.
Criteria:	Accounts receivable allowances should be based on history and expectations of reimbursement.
Cause:	The allowance methodology currently utilized does not consider actual reimbursement on existing accounts receivable. Rather, it is based on total revenue, regardless of expected collections.
Effect:	The District's financial statements could be materially misstated.
Recommendation:	It is recommended that allowances be adjusted according to current reimbursement percentages based on actual collection history to determine the collectability of the accounts.
Views of responsible officials and planned corrective actions:	Accounting will evaluate the collection history of the previous twelve months to determine expected accounts receivable collections and adjust the allowance account accordingly prior to year end.

Continued

MADISON COUNTY HEALTH AND HOSPITAL DISTRICT

SCHEDULE OF FINDINGS AND RESPONSES, Continued
for the year ended September 30, 2020

(Comment Reported in Prior Year Still Applicable to Fiscal Year 2020)
Significant Deficiency 2020-002

Condition:	The CFO and human resource officer have access to more system modules than necessary to complete job related tasks creating a lack of segregation of duties in various processes including the financial reporting, cash, payroll, and accounts payable functions.
Criteria:	To ensure appropriate reporting and physical safeguard of assets, certain responsibilities such as authorization, recordkeeping, and custody should be appropriately segregated. In situations where all three elements cannot be adequately segregated, a robust review process should be implemented.
Cause:	Due to the nature of operations, there are not enough personnel to adequately staff all functions creating the need for key personnel to perform tasks outside their normal duties.
Effect:	While no specific misstatements were noted due to segregation issues, the potential for misappropriation exists when appropriate safeguards are not in place.
Recommendation:	It is recommended that a review process of system access be performed to determine which access is necessary to carry out day-to-day activities and limiting access, where possible. Further, it is recommended that an additional review process be implemented at the administrator or board level for areas where segregation is not possible.
Views of responsible officials and planned corrective actions:	Due to staffing constraints, Madison County Memorial Hospital is not able to separate all duties. A review of the user access is performed quarterly to remove access not currently used or needed. We are continuing to look at adding additional review processes outside of those that are currently working in the system, to mitigate these risks.

INDEPENDENT AUDITOR'S MANAGEMENT LETTER



INDEPENDENT AUDITOR'S MANAGEMENT LETTER

Members of the Board
Madison County Health and Hospital District
Madison, Florida

Report on the Financial Statements

We have audited the financial statements of Madison County Health and Hospital District, Florida, as of and for the fiscal year ended September 30, 2020, and have issued our report thereon dated February 25, 2021.

Auditor's Responsibility

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

Other Reporting Requirements

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*; and Independent Accountant's Report on an examination conducted in accordance with *AICPA Professional Standards*, AT-C Section 315, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in these reports, which are dated February 25, 2021, should be considered in conjunction with this management letter.

Continued

34

Let's Think Together.®

Prior Audit Findings

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding financial audit report. Corrective actions have been taken to address findings and recommendations made in the preceding financial audit report except as noted in the table below.

Tabulation of Uncorrected Audit Findings

<u>Current Year Finding Number</u>	<u>FY 2018-2019 Finding Number</u>	<u>FY 2017-2018 Finding Number</u>
2020-001	2019-001	
2020-002	2019-002	2018-001

Official Title and Legal Authority

Section 10.554(1)(i)4., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The Madison County Health and Hospital District was established pursuant to Chapter 2003-333, Laws of Florida, on June 10, 2003. It has been determined to be an independent special district of Florida and Madison County as enacted by the Legislature of the State of Florida to provide public health care services. Madison County Health Systems, Inc., D/B/A Madison County Memorial Hospital is a blended component unit of the Madison County Health and Hospital District.

Financial Condition and Management

Section 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General, require that we apply appropriate procedures and communicate the results of our determination as to whether or not the Madison County Health and Hospital District met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific conditions met. In connection with our audit, we determined that the Madison County Health and Hospital District did not meet any conditions described in Section 218.503(1), Florida Statutes.

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

Based on our assessment at year end, it was noted that the financial condition worsened as compared to the prior year. The District continues to have an operating loss which has resulted in a negative net position. However, they have a current ratio of 1.6 and are able to meet their current obligations. Please refer to Note 14 to the financial statements for additional details. Section 10.554(1)(i)(2), Rules of the Auditor General, requires that we communicate any recommendations to improve financial management. In connection with our audit, we have one recommendation to improve financial management. We recommend that the District continue to seek ways to maximize reimbursements and collections in order to increase operating revenues.

Continued

Additional Matters

Section 10.554(1)(i)3., Rules of the Auditor General, requires us to communicate noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but warrants the attention of those charged with governance. In connection with our audit, we did not note any such findings.

Purpose of this Letter

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

Draffin & Tucker, LLP

Albany, Georgia
February 25, 2021

INDEPENDENT ACCOUNTANT'S REPORT ON
COMPLIANCE WITH SECTION 218.415, FLORIDA STATUTES



INDEPENDENT ACCOUNTANT'S REPORT ON
COMPLIANCE WITH SECTION 218.415, FLORIDA STATUTES

Members of the Board
Madison County Health and Hospital District
Madison, Florida

We have examined the Madison County Health and Hospital District's (District) compliance with Section 218.415, Florida Statutes, regarding the investment of public funds during the year ended September 30, 2020, as required by Section 10.556(10)(a), *Rules of the Auditor General*. Management is responsible for the District's compliance with the specified requirements. Our responsibility is to express an opinion on the District's compliance with the specified requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the District complied, in all material respects, with the specified requirements referenced in Section 218.415, Florida Statutes. An examination involves performing procedures to obtain evidence about whether the District complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion. Our examination does not provide a legal determination on the District's compliance with specified requirements.

In our opinion, the District complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2020.

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

Driffin & Tucker, LLP

Albany, Georgia
February 25, 2021