Grant Memorial Hospital (A Component Unit of Grant County, West Virginia)

Financial Statements

Years Ended June 30, 2020 and 2019

DIXON HUGHES GOODMAN LLP

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DIXON HUGHES GOODMAN LLP

Independent Auditors' Report

Board of Trustees
Grant Memorial Hospital
Petersburg, West Virginia

Report on the Financial Statements
We have audited the accompanying financial statements of Grant Memorial Hospital (a component unit of Grant County, West Virginia) (the Hospital) which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of revenue, 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.

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

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

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

Basis for Qualified Opinion
As more fully described in Note 2, the Hospital has not recorded its proportionate share of the West Virginia Retiree Health Benefit Trust net postemployment benefit (OPEB) liability and related balances or made the footnote disclosures as required by Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. In our opinion, accounting principles generally accepted in the United States of America require that the Hospital record its proportionate share of its net OPEB liability and related balances in the statements of financial position and revenues and expenses and changes in net position and make the related required footnote disclosures.

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Qualified Opinion
In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Grant Memorial Hospital as of June 30, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter
Management has omitted required OPEB supplementary information that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the GASB, 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. Our opinion on the basic financial statements is not affected by this missing information.

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 - 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB 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.

Dixon Hughes Goodman LLP

Charleston, West Virginia
February 11, 2021

DIXON HUGHES GOODMAN LLP

Management's Discussion and Analysis

Management's Discussion and Analysis

Overview

This discussion and analysis for Grant Memorial Hospital (Hospital) provides an overview of the Hospital's financial activities for the years ended June 30, 2020, 2019 and 2018, as well as insights into quality initiatives, service achievements and future challenges. This narrative should be read in conjunction with the audited financial statements and the accompanying notes to those financial statements. Management's purpose for preparing this discussion and analysis is to provide our readers with a better understanding of the Hospital's operating performance and other initiatives.

Using the annual report

The basic financial statements include the statements of financial position, the statements of revenues, expenses and changes in net position and the statements of cash flows. The statement of financial position presents information at the end of the fiscal year for the Hospital's assets, liabilities and net position or net worth. The statements of revenues, expenses and changes in net position reflect the overall result of our annual operations using accrual basis accounting which recognizes revenue when services are provided and expenses when they are incurred, not when cash is received or paid. The statements of cash flows help the reader understand how much cash was generated from our operations and how much cash was used to buy fixed assets, invest in strategic initiatives or to pay off debt. The statements of cash flows will also inform the reader how much cash was received or consumed by investment activities. The basic financial statements are accompanied by footnotes to help disclose information essential to supporting data presented in the financial statements. These footnotes describe accounting policies, significant account balances and activities, material risks, environmental and regulatory concerns, obligations, commitments and subsequent events, if applicable.

Financial

Condensed Statements of Financial Position

	2020	2019	2018
Assets:			
Current assets	**$ 15,411,870**	$ 5,336,502	$ 10,144,779
Assets whose use is limited	**6,911,746**	6,383,224	5,950,030
Capital assets – net	**5,369,579**	5,316,330	6,221,308
Other assets	**147,761**	147,761	857,761
Total assets	**$ 27,840,956**	$ 17,183,817	$ 23,173,878
Liabilities:			
Current liabilities	**$ 13,399,024**	$ 6,521,781	$ 7,436,798
Long-term liabilities	**2,161,999**	-	181,526
Total liabilities	**$ 15,561,023**	$ 6,521,781	$ 7,618,324
Net position:			
Invested in capital assets, net of related debt	**$ 4,759,497**	$ 5,147,264	$ 5,739,048
Unrestricted	**7,520,436**	5,514,772	9,816,506
Total net position	**$ 12,279,933**	$ 10,662,036	$ 15,555,554

Condensed Statements of Revenues, Expenses and Changes in Net Position

A summary comparison of revenues, expenses, and changes in net position for fiscal years 2020, 2019 and 2018 is presented in the table below:

	2020	2019	2018
Operating revenues:			
Net patient service revenue	**$ 33,929,807**	$ 32,170,050	$ 35,545,735
Other revenue	**444,036**	427,194	363,378
Total operating revenue	**34,373,843**	32,597,244	35,909,113
Total operating expenses	**36,280,452**	38,394,031	36,602,880
Operating loss	**(1,906,609)**	(5,796,787)	(693,767)
Investment income	**754,275**	661,465	655,135
Other non-operating income (loss), net	**2,770,231**	241,804	(33,932)
Total non-operating income	**3,524,506**	903,269	621,203
Excess (deficit) of revenues over expenses	**$ 1,617,897**	$ (4,893,518)	$ (72,564)

Highlights of financial performance for fiscal years are presented below:

Cash and cash equivalents increased by approximately $7,715,000 from 2019 to 2020 and decreased by approximately $2,060,000 from 2018 to 2019, respectively. Patient receivables increased by approximately $2,345,000 from 2019 to 2020 and decreased by approximately $1,948,000 from 2018 to 2019, respectively. Net days in accounts receivable was 51, 28 and 45 days for the years ended June 30, 2020, 2019 and 2018, respectively. Overall, this compares favorably with similar hospitals. The increase in receivables is due primarily to increase in net patient service revenue and a decrease in third-party contractual allowances.

The Hospital's assets whose use is limited are managed externally under a board approved investment policy and are available for future capital programs, including the construction of a new hospital, or other uses designated by the board. The portfolio's market value increased by approximately $529,000 from 2020 to 2019 and $433,000 from 2018 to 2019. The portfolio is subject to future market volatility.

Estimated third-party payer settlements remained comparable to the prior year during the year ended June 30, 2020. For Medicare, cost reports are still open going back to 2012 and for Medicaid, there are open cost report settlements going back to 2012 and Medicaid Disproportionate Share settlements going back to 2014. Even though there have been a few years settled for Medicare where a portion of the Medicaid provider tax was disallowed, this issue is still being debated and it is difficult to determine what the final outcome will be. There are similar issues pertaining to the Medicaid Program.

Total operating revenues increased by approximately $1,777,000 from 2019 to 2020 primarily due to changes in third party payor settlements and adjustments made to the retail pricing structure which improved the overall ratio of costs-to-charges thus decreasing allowances from cost based reimbursed payors. Total operating revenues decreased by approximately $3,312,000 from 2018 to 2019 primarily due to changes in the third-party contractual allowances, changes in estimated third-party payer settlements and a reduction of overall charges so that they reflect a markup of 2.50 times the Medicare Fee Schedule.

Total operating expenses, excluding depreciation, decreased by approximately $2,095,000 from 2019 to 2020. The major components of this expense decrease were decreases in Professional Fees and Purchased Services ($1,628,000), Miscellaneous Expenses ($743,000) and Impairment of Goodwill ($710,000). Total operating expenses, excluding depreciation, increased by approximately $2,048,000 from 2018 to 2019. The major components of this expense increase were increases in Professional Fees and Purchased Services ($557,000), Miscellaneous Expenses ($656,000) and Impairment of Goodwill ($710,000). An accrued settlement to the OIG and a related increase in legal fees were the primary reasons for the increase in Professional Fees and Purchased Services and Miscellaneous expense in 2019, which did not reoccur in 2020. The impairment of goodwill related to a physician practice that has generated recurring losses and the practicing physician converted to part-time in 2019.

Total operating expenses for the Hospital in fiscal year 2020 were approximately $36,280,000, which equates to a decrease of approximately $2,114,000, over 2019. In fiscal year 2019, total operating expenses were approximately $38,394,000, an approximate $1,791,000 increase over 2018. As presented on the financial statements, salaries and wages expense increased by approximately $1,344,000 and employee benefits expense decreased by approximately $138,000 from 2019 to 2020. Fiscal year 2019 salaries and wages increased approximately $143,000 over 2018 and employee benefits expense decreased by approximately $200,000 from 2018 to 2019.

Supplies and other expenses decreased by approximately $1,768,000 from 2019 to 2020. In 2019, supplies and other expenses increased approximately $1,394,000 from 2018. This broad category of operating expenses includes supplies, purchased services, professional fees, insurance and utility costs. Supplies include medical supplies charged to patients as well as non-chargeable supplies, drugs, food, chemical reagents, office supplies and minor equipment.

Expenses for depreciation of capital assets decreased by approximately $19,000 from 2019 to 2020 and decreased by approximately $257,000 from fiscal year 2018 to 2019.

Financial ratios

Financial ratios relevant to the Hospital are as follows:

Ratios	2020	2019	2018
Current ratio	**1.2**	0.8	1.4
Days cash on hand	**161.7**	74.0	98.0
Days revenue in accounts receivable - net	**51.7**	28.0	45.0

Capital assets

Capital assets, net of accumulated depreciation, increased by approximately $53,000 in fiscal year 2020 and decreased by approximately $905,000 in fiscal year 2019. The Hospital had a total net investment of approximately $5,370,000, $5,316,000 and $6,221,000 as of June 30, 2020, 2019 and 2018, respectively in land, buildings, equipment and furniture and construction in progress. The Hospital purchased new capital assets of approximately $1,285,000, $386,000 and $995,000 during fiscal years 2020, 2019 and 2018, respectively.

Grant County (the "County") received a donation from Grant Memorial Trust Foundation, Incorporated of four tracts of land with a total of approximately 59 acres, with a cost of $625,000, to be used for the construction of a new hospital by the Hospital. The Hospital has seven years from February 2016 to begin the construction of this project, or they will owe these funds back to Grant Memorial Trust Foundation, Incorporated. The estimated cost to build a new hospital is currently unknown. During FY20, Management engaged an engineering firm to conduct a site feasibility study. The results of this study indicated the site would not be financially feasible to construct a new hospital facility. As a result, Management worked with the Grant Memorial Trust Foundation, Incorporated Board of Trustees to sell this property back to the original owners. This sale occurred in December 2019, alleviating the Hospital from any and all covenants from the original transaction.

Long-term debt

In fiscal year 2020, the Hospital received approximately $3,063,000 from the Paycheck Protection Program loan and executed two notes payable for approximately $695,000 for the purchase of equipment. Outstanding long-term debt was approximately $3,673,000, $169,000 and $482,000 at June 30, 2020, 2019 and 2018, respectively.

Quality and customer service

During the reporting periods, the Hospital received notable quality and safety recognitions.

In FY18, the Hospital received a Silver Medal, followed by Gold Medals in FY19 and FY20, from the West Virginia Hospital Association's (WVHA) Commitment to Excellent Honors Program. The Honors Program was conceived and developed by the WVHA Quality Committee and approved by the WVHA Board of Trustees. The objectives of the Honors Program are to Reward successful efforts to develop and promote quality improvement activities, inspire hospitals to be leaders in improving the health of West Virginians and to raise awareness of nationally accepted standards of care that are proven to enhance patient outcomes.

Honors Program topic areas are: Antibiotic Stewardship, Breastfeeding Initiative, Influenza Vaccination, Hospital Improvement Innovation Network (HIIN), Use and Prescribing of Opioids in Emergency Departments, Tobacco Cessation Assistance and Emergency Department Information Exchange (EDIE).

The Hospital has also been recognized by a national patient satisfaction surveying agency, Press Ganey, for its Commitment to Excellence in patient satisfaction. Furthermore, the Hospital received the 2020 WV Donate Life Award-Platinum Level.

Community service

The Hospital is committed to improving the health and wellbeing of the communities they serve by delivering state-of-the-art services, close to home. The Hospital provides services to patients all through the Potomac Highlands, which includes the following counties: Grant, Pendleton, Hardy, Hampshire and Mineral. The Hospital's mission, vision and values place emphasis on high quality, safe and affordable care to help pave the way for a healthy future.

Mission: deliver quality, compassionate, safe and innovative care – close to home.
Vision: leading to a healthy tomorrow.
Values: loyalty, immediacy, goodwill, hospitality, teamwork, service.

The Hospital has a program referred to as "Healthy Saturday's" to promote wellness initiatives and health screenings to citizens of the community one Saturday per month. The Hospital served over 3,300 members of the community through its Healthy Saturday's program annually during FY19. Due to the coronavirus (COVID-19) pandemic, the Healthy Saturday program had to be canceled starting in March 2020 through the remainder of the fiscal year.

In FY20, the Hospital began tracking and monitoring cash and in-kind community benefits. In-kind benefits include medical student teaching, Healthy Saturday lab discounts, volunteerism, use of hospital space, etc. Total community benefits offered by the Hospital were approximately $1,260,000 in FY20.

Challenges facing the Hospital

The health care environment nationally is ever changing and particularly challenging for rural health care providers. Over the years the Hospital has received a positive financial benefit from the State of WV's decision to expand Medicaid, which helped provide financial support for uninsured or underinsured patients in its region. However, the Hospital still experiences a substantial volume of patients who need financial assistance and those whose bills for services are adjusted off to bad debt. Financial assistance adjustments were approximately $1,786,000 and $517,000 in fiscal years 2020 and 2019, respectively. Accounts written off as bad debts were approximately

$1,780,000 and $2,333,000 in fiscal years 2020 and 2019, respectively. These adjustments combined account for 5% and 7% of net patient service revenue for fiscal years 2020 and 2019, respectively.

The Hospital experienced a successful recruiting year for its general surgery concerns. During FY19, the Hospital's sole general surgeon, Anil Makani, MD announced a transition to part-time with a full retirement on June 30, 2020. During this transition period, the Hospital was able to secure Tracy Rutledge, D.O. and Peter Deveaux, M.D. While Dr. Rutledge is part time, she contributes 3 weeks per month to the Hospital and clinic with Dr. Deveaux coming on as a full-time surgeon. Dr. Deveaux was recruited in FY2020 with a start date of September 2020.

From a staffing standpoint, the Hospital struggles to find and retain qualified personnel in several areas, mainly nursing, dietary and admissions. The Hospital utilizes agency staffing or experiences excessive overtime costs when it cannot fill vacancies typically caused by family medical leave, maternity leave, or night shift staffing needs.

The Hospital is also challenged by competitive strategic overtures by large health systems, community health centers and private practice physicians who have aligned with other organizations. These pressures directly impact financial performance, patient access and long-term strategic investments.

Finally, the COVID-19 pandemic has significantly impacted Hospital operations during the fiscal year, and there is a substantial amount of uncertainty as to how future viral outbreaks could impact the Hospital. Management was on the forefront of responding to the pandemic through early interventions including but not limited to curb-side swabbing for the region, securing necessary personal protective equipment for its staff and community, building a negative pressure unit for COVID-19 related inpatient admissions, and securing financial resources that were available from the government. With the respect to the latter, the Hospital received Medicare accelerated payments, of $3,761,492, CARES Act stimulus funds of $4,667,677, and Small Business Administration Paycheck Protection Funds of $3,062,500. Additionally, the Hospital received two State grants from the Assistant Secretary for Preparedness and Response of $2,699 and from the Small Hospital Improvement Program of $84,317.

Request for information

This financial report is designed to provide a general overview of the Hospital's finances. Questions concerning any information provided in this report or requests for additional information should be addressed to: CFO, Grant Memorial Hospital, P.O. Box 1019, Petersburg, West Virginia 26847.

Financial Statements

Grant Memorial Hospital
(A Component Unit of Grant County, West Virginia)
Statements of Financial Position
June 30, 2020 and 2019

	2020	2019
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 9,157,145**	$ 1,441,706
Accounts receivable:		
Patients (net of allowance for doubtful accounts 2020 $1,619,000; 2019 $1,749,000)	**4,800,959**	2,455,817
Other	**11,981**	40,927
Inventories of supplies	**1,158,423**	1,123,374
Prepaid expenses and other current assets	**283,362**	274,678
Total current assets	**15,411,870**	5,336,502
Assets whose use is limited	**6,911,746**	6,383,224
Capital assets, net	**5,369,579**	5,316,330
Other assets	**147,761**	147,761
Total assets	**$ 27,840,956**	$ 17,183,817
LIABILITIES AND NET POSITION		
Current liabilities:		
Current maturities of long-term debt	**$ 1,510,583**	$ 169,066
Accounts payable and accrued expenses	**1,234,228**	1,857,845
Accrued salaries and benefits	**2,182,351**	1,616,295
Medicare advance contract liability	**3,761,492**	-
Provider relief fund advance	**1,831,514**	-
Estimated third-party payor settlements	**2,878,856**	2,878,575
Total current liabilities	**13,399,024**	6,521,781
Long-term debt, net of current portion	**2,161,999**	-
Total liabilities	**15,561,023**	6,521,781
Net position:		
Invested in capital assets, net of related debt	**4,759,497**	5,147,264
Unrestricted	**7,520,436**	5,514,772
Total net position	**12,279,933**	10,662,036
Total liabilities and net position	**$ 27,840,956**	$ 17,183,817

Grant Memorial Hospital
(A Component Unit of Grant County, West Virginia)
Statements of Revenue, Expenses and Changes in Net Position
Years Ended June 30, 2020 and 2019

	2020	2019
Operating revenue:		
Patient service revenue (net of contractual allowances and discounts)	**$ 35,709,338**	$ 34,503,455
Provision for bad debts	**(1,779,531)**	(2,333,405)
Net patient service revenue	**33,929,807**	32,170,050
Other revenue	**444,036**	427,194
Total operating revenues	**34,373,843**	32,597,244
Operating expenses:		
Salaries and wages	**15,712,019**	14,367,854
Professional fees and purchased services	**7,266,751**	8,894,659
Supplies	**5,544,130**	5,630,105
Employee benefits	**3,203,117**	3,340,659
Miscellaneous expenses	**608,893**	1,352,379
Depreciation	**1,187,660**	1,206,656
Repairs and maintenance	**969,342**	938,089
Licenses and taxes	**731,886**	842,383
Utilities	**663,389**	724,568
Impairment of goodwill	**-**	710,000
Insurance	**393,265**	386,679
Total operating expenses	**36,280,452**	38,394,031
Operating loss	**(1,906,609)**	(5,796,787)
Non-operating income (expenses):		
Investment income	**754,275**	661,465
Gain on sale of licensed beds	**-**	350,000
Provider relief funding	**2,837,163**	-
Noncapital grants and contributions	**58,839**	3,925
Interest expense	**(81,759)**	(44,008)
Loss on disposal of capital assets	**(44,012)**	(68,113)
Total non-operating income	**3,524,506**	903,269
Excess (deficit) of revenues over expenses and increase (decrease) in net position	**1,617,897**	(4,893,518)
Net position, beginning	**10,662,036**	15,555,554
Net position, ending	**$ 12,279,933**	$ 10,662,036

See accompanying notes.

Grant Memorial Hospital
(A Component Unit of Grant County, West Virginia)
Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Receipts from and on behalf of patients	**$ 31,584,946**	$ 33,647,737
Payments to employees	**(15,145,963)**	(14,294,093)
Payments to suppliers and contractors	**(20,048,123)**	(21,792,197)
Proceeds from Medicare advance payments	**3,761,492**	-
Other receipts and payments, net	**472,982**	523,044
Net cash provided by (used in) operating activities	**625,334**	(1,915,509)
Cash flows from noncapital financing activities:		
Proceeds from PPP loan	**3,062,500**	-
Provider relief funding	**4,668,677**	-
Noncapital grants and contributions	**58,839**	3,925
Net cash provided by noncapital financing activities	**7,790,016**	3,925
Cash flows from capital and related financing activities:		
Purchase of capital assets	**(1,284,921)**	(385,854)
Proceeds from sale of capital assets	**-**	16,119
Proceeds from sale of licensed beds	**-**	350,000
Interest paid	**(81,759)**	(44,008)
Proceeds from long-term debt	**695,002**	-
Principal paid on long-term debt	**(253,986)**	(313,194)
Net cash used in capital and related financing activities	**(925,664)**	(376,937)
Cash flows from investing activities:		
Investment income received	**329,279**	661,465
Net increase in assets whose use is limited	**(101,586)**	(433,194)
Net cash provided by investing activities	**227,693**	228,271
Net change in cash and cash equivalents	**7,717,379**	(2,060,250)
Cash and cash equivalents, beginning of year	**1,442,168**	3,502,418
Cash and cash equivalents, end of year	**$ 9,159,547**	$ 1,442,168
Reconciliation of cash and cash equivalents to the Statements of Financial Position:		
Cash and cash equivalents	**$ 9,157,145**	$ 1,441,706
Assets whose use is limited	**2,402**	462
Total cash and cash equivalents	**$ 9,159,547**	$ 1,442,168

See accompanying notes.

	2020	2019
Reconciliation of operating loss to net cash provided by (used in) operating activities:		
Operating loss	$ **(1,906,609)**	$ (5,796,787)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation	**1,187,660**	1,206,656
Provision for bad debts	**1,779,531**	2,333,405
Impairment of goodwill	**-**	710,000
Changes in assets and liabilities:		
Patient accounts receivable	**(4,124,673)**	(385,719)
Other receivable	**28,946**	95,850
Inventories of supplies	**(35,049)**	38,109
Prepaid expenses and other current assets	**(8,684)**	(43,472)
Accounts payable and accrued expenses	**(623,617)**	322,687
Accrued salaries and benefits	**566,056**	73,761
Medicare advance contract liability	**3,761,492**	-
Estimated third-party payor settlements	**281**	(469,999)
Net cash provided by (used in) operating activities	$ **625,334**	$ (1,915,509)

Notes to Financial Statements

1. Description of Reporting Entity and Summary of Significant Accounting Policies

Nature of operations and reporting entity

Grant Memorial Hospital (the Hospital) is a Critical Access Hospital operating under the authority of the Grant County Commission (County Commission). The Hospital provides acute, emergency and physician clinic medical services to Grant, Hardy and Pendleton counties in West Virginia and the surrounding communities. The Hospital, a discretely-presented component unit of the County Commission, is governed by a Board of Trustees (Board) approved by the County Commission.

Enterprise fund accounting

As an enterprise fund, the Hospital's financial statements are reported using the economic resources measurement focus whereby revenue and expenses are recognized on the accrual basis. In its accounting and financial reporting, the Hospital follows the pronouncements of the Governmental Accounting Standards Board (GASB).

Use of estimates

The preparation of financial statements in accordance 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 as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents include investments in highly liquid debt instruments purchased with an original maturity of three months or less, excluding assets whose use is limited by board designation.

Patient accounts receivable

Patient accounts receivable are reported at estimated net realizable value after deduction of allowances for contractuals and doubtful accounts. The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements, primarily with Medicare, Medicaid and various commercial insurance companies. The allowance for doubtful accounts is based on historical losses and an analysis of currently outstanding amounts for each of its major payor sources. Management regularly reviews data about these major payor sources of revenue and agings in evaluating the sufficiency of the allowance for doubtful accounts. Accounts are written off when they are determined to be uncollectable. For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts. For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records bad debts in the period of service on the basis of its past experience. Recoveries of accounts previously written off are recorded as a reduction to the provision for bad debt when received. Interest is not charged on patient accounts receivable. Contractual adjustments represent the difference between amounts billed as patient service revenue and amounts allowed by third-party payors. It is reasonably possible that the Hospital's estimate of the allowances for contractuals and doubtful accounts will change and such changes could be material.

Other accounts receivable

Other accounts receivable include advances to physicians, scholarships and receivables related to the Hospital provider tax.

Inventories of supplies

Inventories of supplies are stated at the lower of cost (first-in, first-out), determined using the average cost method, or net realizable value.

Assets whose use is limited

Assets whose use is limited include assets designated by the Board for future capital improvements, over which the Board retains control and may, at its discretion, subsequently use for other purposes.

Investments

The Hospital has investments in marketable equity securities that are traded or listed on the national exchanges. Management must determine the appropriate classification of securities at the date individual investment securities are acquired and the appropriateness of such classification is reassessed at each statement of financial position date.

Investments included in assets whose use is limited are reported at fair value based on quoted market prices. The Hospital invests in mutual funds that are in accordance with the Hospital's investment policy. Investment income (including realized and unrealized gains and losses on investments, interest and dividends) is included in non-operating income when earned.

Dividend and interest income is accrued as earned. The cost of marketable securities sold is determined by the average cost method.

Capital assets, net

Capital assets, net are carried at cost for purchased assets or fair market value at the date of donation for donated assets. Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings and improvements	15 to 40 years
Fixed equipment	10 to 20 years
Movable equipment	5 to 15 years
Land improvements	10 to 20 years

When capital assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income for the period. The cost of maintenance and repairs is charged to expense as incurred. Renewals and betterments are capitalized, and a deduction is made for the retirements resulting from the renewals or betterments.

Impairment losses are recognized on the statements of revenues, expenses, and changes in net position as a component of non-operating income (expenses) as they are determined. Capital assets, net are evaluated for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. If expected cash flows are less than the carrying value, an impairment loss is recognized for the difference between the estimated fair value and the carrying value of the asset. There were no impairment losses recognized in 2020 or 2019.

Other assets

Other assets include an investment in a home health agency recorded under the equity method. Management has evaluated the investment to determine applicability of the appropriate method of accounting. During 2019, management determined goodwill, related to the purchase of a physician practice, was impaired and recognized a loss of $710,000, which is included on the statements of revenues, expenses, and changes in net position.

Compensated absences

The Hospital's employees earn vacation days at varying rates depending on years of service and employment status. Paid time off and sick leave benefits are accumulated based on varying rates depending on years of service. Employees may accumulate paid time off and sick leave benefits up to a specified maximum. Employees are not paid for accumulated sick leave if their employment with the Hospital is terminated.

Net position

Net position of the Hospital is classified in three components as follows:

> *Invested in capital assets, net of related debt* – Consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
>
> *Unrestricted net position* – The net amount of the assets and liabilities that are not included in the determination of net investment in capital assets or the restricted component of net position.
>
> *Restricted net position* – Consists of restricted assets reduced by related liabilities. The Hospital had no restricted net position at June 30, 2020 and 2019.

Net patient service revenue

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 agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and are adjusted in future periods as final settlements are determined.

Charity care and community service benefits

The Hospital accepts all patients regardless of their ability to pay. Policies established by the Hospital are used to determine if a patient should be classified as a charity patient. These policies define charity services as those services for which no payment is anticipated. These estimated charges are not included in net patient service revenue.

Provider tax

The State of West Virginia assesses a health care provider tax based on net patient service revenue at rates ranging from 2.5% to 5.5% of such revenue. Provider taxes of approximately $732,000 and $827,000 were incurred by the Hospital for the years ended June 30, 2020 and 2019, respectively.

Operating and non-operating revenue and expenses

The Hospital's statements of revenue and expenses and changes in net position distinguish between operating revenue and non-operating income (expenses). Operating revenue results from exchange transactions associated with providing health care services, the Hospital's principal activity. Non-exchange transactions, including provider relief funds, grants and contributions received for purposes other than capital asset acquisition, investment income, gains/losses on disposal of capital assets and interest expense are reported as non-operating income (expenses). Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Risk management

The Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets, business interruption, errors and omissions, employee injuries and illnesses, natural disasters, medical malpractice and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Income tax status

The Hospital is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and, therefore, is not subject to federal income tax under current income tax regulations. Current accounting standards define the threshold for recognizing uncertain income tax return positions in the financial statements as "more likely than not" that the position is sustainable, based on its technical merits and also provide guidance on the measurement, classification and disclosure of tax return positions in the financial statements. Management believes there is no impact on the accompanying financial statements related to uncertain income tax positions. The Hospital is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Advertising costs

Advertising costs are expensed as incurred. Advertising costs were approximately $62,000 and $102,000 for the years ended June 30, 2020 and 2019, respectively, and are included in miscellaneous expenses on the accompanying statements of revenue and expenses and changes in net position.

Grants and contributions

From time to time, the Hospital receives grants from federal and state agencies as well as contributions from individuals and private organizations. Revenue from grants and contributions (including contributions of capital assets) is recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are used for a specific operating purpose are reported as non-operating income. Amounts restricted to capital acquisitions would be reported as a change in restricted net position. There were no amounts restricted for capital acquisitions in 2020 and 2019.

CARES Act provider relief funding

The Hospital has received provider relief funding under the federal Coronavirus Aid, Relief and Economic Security (CARES) Act. These relief funds are considered non-exchange transactions subject to eligibility terms and conditions specified by the resource provider distributed by the Health Resources Service Administration (HRSA) section of the U.S. Department of Health and Human Services (HHS). These conditions create an eligibility requirement that such funds must be used to prevent, prepare or respond to COVID-19. This grant revenue is recognized as other non-operating income to the extent terms and conditions/restrictions are met for allowable coronavirus related expenses or lost revenues. Such funds are subject to recoupment.

New or recent accounting pronouncements

GASB No. 87, *Leases*, relates to improving accounting and financial reporting for leases by governments. The new guidance establishes a single model for lease accounting based on the foundational principal that leases are financings of the right to use an underlying asset. Under this standard, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activity. GASB 95 delayed the effective date of this standard for the Hospital to fiscal year 2022. The Hospital is currently evaluating the impact that adoption will have on its financial statements. The impact of adoption is unknown.

GASB No. 84, *Fiduciary Activities*, relates to guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This standard establishes criteria for identifying fiduciary activities based on 1) whether the government is controlling the assets of the fiduciary activity and 2) the beneficiaries with whom a fiduciary relationship exists. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. GASB 95 delayed the effective date of this standard for the Hospital to fiscal year 2021. The Hospital is currently evaluating the impact that adoption will have on its financial statements. The impact of adoption is unknown.

Reclassifications

Certain prior year asset amounts have been reclassified to conform with current period presentation, the effect of which was not material.

Subsequent events

Subsequent events have been evaluated through February 11, 2021, which is the date the financial statements were available to be issued.

2. Departure from Accounting Principles Generally Accepted in the United States of America

The Hospital has not recorded its proportionate share of the West Virginia Retiree Health Benefit Trust (RHBT) net postemployment benefit (OPEB) liability and related balances or made the footnote or required supplementary information disclosures as required by GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* as of June 30, 2020 and 2019 and for the years then ended. During fiscal year 2020, management completed the paperwork to legally opt out of participation in the RHBT. However, since the Hospital made contributions to RHBT during 2020, the Hospital is required to record the OPEB obligation though fiscal year 2021 based on applicable accounting standards. Management has decided to not record the OPEB balances or make the disclosures required by GASB Statement No. 75 since they have no plan participants and will no longer be required to record the obligation after fiscal year 2021. If the financial statements were corrected for this departure from accounting principles generally accepted in the United States of America, the Hospital would have recorded OPEB (benefit) expense of approximately ($185,000) and $196,000 in the statements of revenues, expenses, and changes in net position for the years ending June 30, 2020 and 2019, respectively, and the following in its statements of net position as of June 30:

	2020	2019
Net OPEB liability	**$ 3,634,114**	$ 4,770,252
Total deferred outflows	**$ 262,822**	$ 332,756
Total deferred inflows	**$ 1,685,783**	$ 1,130,488

3. Cash and Cash Equivalents

Custodial credit risk is the risk that, in the event of a financial institution failure, the Hospital's deposits may not be returned. The Hospital’s deposit policy for custodial credit risk, as a governmental not-for-profit entity, is to require all deposits with financial institutions to be entirely insured or collateralized by securities held by financial institutions. At June 30, 2020 and 2019, the carrying amount of the Hospital’s bank deposits for all funds was $9,157,145 and $1,441,706, respectively. The bank balance was $9,673,654 and $2,146,039 in 2020 and 2019, respectively. Of the bank balance, $252,535 and $252,529 at June 30, 2020 and 2019, respectively, is covered by Federal Depository Insurance (“FDIC”). The amounts on deposit above the FDIC limits are subject to credit risk.

4. Patient Accounts Receivable

The mix of receivables as of June 30 from patients and third-party payors is as follows:

	2020	2019
Other third-party payors	**16%**	24%
Medicare	**22**	30
Self-pay (including self-pay after insurance)	**23**	24
Blue Cross	**31**	13
Medicaid	**8**	9
	100%	100%

5. Assets Whose Use is Limited and Investment Risk

The composition of assets whose use is limited as of June 30 is as follows:

	2020	2019
Internally designated for capital improvements:		
Cash and cash equivalents	**$ 2,402**	$ 462
Mutual funds, equity and bonds	**6,909,344**	6,382,762
Total	**$ 6,911,746**	$ 6,383,224

Interest rate risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The Board's investment policy authorizes a strategic asset allocation that is designed to provide an optimal return over the Board's investment horizon within the Board's risk tolerance and cash requirements.

Custodial credit risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Hospital will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The Hospital's investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Hospital, or are held by either the counterparty or the counterparty's trust department or agent but not in the Hospital's name. As of June 30, 2020 and 2019, the Hospital's investments were not exposed to custodial credit risk since the full amount was insured or registered or consisted of securities held by the Hospital or its agent in the Hospital's name.

Credit risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Board's investment policy provides guidelines for its fund managers and lists specific allowable investments. The policy provides for the utilization of varying styles of managers so that portfolio diversification is maximized and total portfolio efficiency is enhanced.

Concentration of credit risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Hospital's investment in a single issuer. Disclosure is required for investments in any one issuer that represent 5% or more of total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools and other pooled investments are excluded from this requirement. As of June 30, 2020 and 2019, the Hospital had the following investments in excess of 5%: Nuveen Winslow Large-Cap Growth Fund, American Beacon London Company Income Equity Fund, Wasatch Small Cap Growth Fund, Carillon Scout Trust Mid Cap Class I, Virtus SGA Global Growth Fund, Natixis Loomis Sayles Core Plus Bond, and Thompson Bond Fund.

6. Capital Assets, Net

Capital asset activity for the year ended June 30, 2020 is as follows:

	July 1, 2019	Additions	Transfers	Disposals	June 30, 2020
Capital assets not being depreciated:					
Land	$ 70,684	$ -	$ -	$ -	**$ 70,684**
Construction in progress	54,311	3,438	(54,311)	-	**3,438**
Total capital assets not being depreciated	$ 124,995	$ 3,438	$ (54,311)	$ -	**$ 74,122**
Other capital assets:					
Land/land improvements	$ 438,134	$ -	$ -	$ -	**$ 438,134**
Building and improvements	16,802,132	425,771	-	-	**17,227,903**
Equipment	13,683,742	855,712	54,311	(1,435,299)	**13,158,466**
Total other capital assets	$ 30,924,008	$ 1,281,483	$ 54,311	$ (1,435,299)	**$ 30,824,503**
Accumulated depreciation:					
Land improvements	$ (438,133)	$ -	$ -	$ -	**$ (438,133)**
Building and improvements	(14,129,172)	(272,989)	-	-	**(14,402,161)**
Equipment	(11,165,368)	(914,671)	-	1,391,287	**(10,688,752)**
Total accumulated depreciation	$ (25,732,673)	$ (1,187,660)	$ -	$ 1,391,287	**$ (25,529,046)**
Other capital assets, net	$ 5,191,335	$ 93,823	$ 54,311	$ (44,012)	**$ 5,295,457**
Capital assets summary:					
Capital assets not being depreciated	$ 124,995	$ 3,438	$ (54,311)	$ -	**$ 74,122**
Other capital assets	30,924,008	1,281,483	54,311	(1,435,299)	**30,824,503**
Total cost of capital assets	31,049,003	1,284,921	-	(1,435,299)	**30,898,625**
Less accumulated depreciation	(25,732,673)	(1,187,660)	-	1,391,287	**(25,529,046)**
Capital assets, net	$ 5,316,330	$ 97,261	$ -	$ (44,012)	**$ 5,369,579**

Capital asset activity for the year ended June 30, 2019 is as follows:

	July 1, 2018	Additions	Transfers	Disposals	June 30, 2019
Capital assets not being depreciated:					
Land	$ 70,684	$ -	$ -	$ -	$ 70,684
Construction in progress	54,311	-	-	-	54,311
Total capital assets not being depreciated	$ 124,995	$ -	$ -	$ -	$ 124,995
Other capital assets:					
Land/land improvements	$ 438,134	$ -	$ -	$ -	$ 438,134
Building and improvements	16,729,003	73,129	-	-	16,802,132
Equipment	13,613,347	312,727	-	(242,332)	13,683,742
Total other capital assets	$ 30,780,484	$ 385,856	$ -	$ (242,332)	$ 30,924,008
Accumulated depreciation:					
Land improvements	$ (438,133)	$ -	$ -	$ -	$ (438,133)
Building and improvements	(13,866,200)	(264,113)	-	1,141	(14,129,172)
Equipment	(10,379,838)	(942,543)	-	157,013	(11,165,368)
Total accumulated depreciation	$ (24,684,171)	$ (1,206,656)	$ -	$ 158,154	$ (25,732,673)
Other capital assets, net	$ 6,096,313	$ (820,800)	$ -	$ (84,178)	$ 5,191,335
Capital assets summary:					
Capital assets not being depreciated	$ 124,995	$ -	$ -	$ -	$ 124,995
Other capital assets	30,780,484	385,856	-	(242,332)	30,924,008
Total cost of capital assets	30,905,479	385,856	-	(242,332)	31,049,003
Less accumulated depreciation	(24,684,171)	(1,206,656)	-	158,154	(25,732,673)
Capital assets, net	$ 6,221,308	$ (820,800)	$ -	$ (84,178)	$ 5,316,330

7. Accrued Salaries and Benefits

The components of accrued salaries and benefits as of June 30 are as follows:

	2020	2019
Accrued retirement plan contributions	**$ 295,200**	$ 295,200
Accrued vacation and sick leave	**801,751**	684,867
Accrued payroll and withholding and other	**1,085,400**	636,228
	$ 2,182,351	$ 1,616,295

8. Long-Term Debt

Long-term debt activity for the years ended June 30, 2020 and 2019, is as follows:

	July 1, 2019	Proceeds	Repayments	June 30, 2020	Amounts Due Within One Year
Long-term debt:					
Notes payable	**$ 169,066**	**$ 695,002**	**$ (253,986)**	**$ 610,082**	**$ 131,551**
Paycheck Protection Program Loan	**-**	**3,062,500**	**-**	**3,062,500**	**1,379,032**
Total long-term debt	**$ 169,066**	**$ 3,757,502**	**$ (253,986)**	**$ 3,672,582**	**$ 1,510,583**

	July 1, 2018	Proceeds	Repayments	June 30, 2019	Amounts Due Within One Year
Long-term debt:					
Notes payable	$ 482,260	$ -	$ (313,194)	$ 169,066	$ 169,066
Total long-term debt	$ 482,260	$ -	$ (313,194)	$ 169,066	$ 169,066

Long-term debt consists of the following as of June 30:

	2020	2019
Note payable, due in monthly installments of $26,942 including interest at 2.94%, matures January 2020, secured by equipment	**$ -**	$ 169,066
Note payable, due in monthly installments of $10,013 including interest at 4.1%, matures August 13, 2024, secured by equipment	**458,938**	-
Note payable, due in monthly installments of $2,809 including interest at 3.75%, matures May 19, 2015, secured by equipment	**151,144**	-
Commercial promissory note related to the Paycheck Protection Program	**3,062,500**	-
Less, current maturities	**(1,510,583)**	(169,066)
Long-term debt	**$ 2,161,999**	$ -

The scheduled principal and interest repayments for long-term debt are as follows as of June 30, 2020:

Year Ending June 30:	Notes Payable Principal	Notes Payable Interest
2021	$ 1,510,583	$ 36,106
2022	1,820,473	33,697
2023	142,685	11,182
2024	148,589	5,278
2025	50,252	806
Total	$ 3,672,582	$ 87,069

On April 14, 2020, the Hospital entered into a $3,062,500 unsecured term loan through the Paycheck Protection Program of the U.S. Small Business Administration's 7(a) Loan Program (PPP). The loan will accrue interest at 1%. Scheduled principal payments (18 monthly installments of $172,379) are scheduled to begin on November 14, 2020 and continue through April 14, 2022. Since the loan was authorized under the terms of the PPP, the Hospital intends to utilize proceeds to support payroll and other allowable expenditures under the program. The Hospital intends to apply for loan forgiveness in connection with CARES Pub. Law 116-136, 134 Stat. 281 (2020). If certain criteria are met, all or a portion of the loan may be forgiven, effectively converting the outstanding balance and accrued interest to a grant. It is uncertain at this time what portion of the PPP loan may be forgiven, if any.

In August 2019, the Hospital obtained a line of credit in the amount of $500,000. The line of credit has an interest rate of Prime minus .75 basis points with a floor of 3.99%. The line is secured by accounts receivable and all cash and noncash proceeds thereof. As of June 30, 2020 there were no draws on the line of credit.

Subsequent to year end on February 2, 2021, the Hospital obtained a commercial loan in the amount of $5,000,000. The loan has an interest rate of 3.53% and is to be paid interest only for the first 24 months. Beginning on March 2, 2023, payments of $29,208 will be made monthly until the note matures on February 2, 2043.

9. Net Patient Service Revenue

Net patient service revenue is presented net of contractual allowances and discounts. The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. As a Critical Access Hospital, the Hospital receives payment, on a reasonable cost basis, for inpatient and most outpatient services provided to eligible Medicare and Medicaid patients. A summary of the payment arrangements with major third-party payors follows:

Medicare: Inpatient services and most outpatient services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology at 101% of allowable cost. Other outpatient services are paid based on fee schedules, or prospectively paid. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and review thereof by the Medicare fiscal intermediary. The appropriateness of the admission of Medicare program beneficiaries is subject to an independent review by a peer review organization.

Medicaid: Inpatient services and most outpatient services rendered to Medicaid program beneficiaries are paid based on cost reimbursement methodology at 100% of allowable cost. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and review thereof by the Medicaid fiscal intermediary. Other outpatient services are reimbursed based upon the lesser of the Hospital's charge or predetermined fee schedule amounts.

Commercial insurance: The Hospital also entered into payment agreements with certain commercial insurance carriers. The basis for payment to the Hospital under these agreements includes various discounts from established charges

Summary of gross and net patient service revenue for the years ended June 30 is as follows:

	2020	2019
Gross patient service revenue	**$ 62,828,803**	$ 77,191,725
Less provisions for:		
Contractual adjustments	**27,119,465**	42,688,270
Provision for bad debts	**1,779,531**	2,333,405
Total deductions from revenue	**28,898,996**	45,021,675
Net patient service revenue	**$ 33,929,807**	$ 32,170,050

The Hospital's net patient service revenue is comprised of approximately 48% and 48% of Medicare program revenue and approximately 17% and 20% of Medicaid program revenue, for the years ended June 30, 2020 and 2019, respectively.

Disproportionate share payments

The State of West Virginia Disproportionate Share Hospital (DSH) State Plan provides for a settlement process among participating hospitals. The amounts received by the Hospital for this program have been audited through 2017. For future years, settlements could result. The laws and regulations governing the DSH settlement process are complex, involving statistical data from all participating hospitals and subject to interpretation. Accordingly, the Hospital is not able to estimate the possible loss that could arise upon completion of the DSH settlement process. An unfavorable settlement could materially impact the Hospital's future results of operations or cash flows in a particular period.

There was approximately $979,000 of Medicaid disproportionate share revenue recognized for the year ended June 30, 2020 and none for the year ended June 30, 2019. Future receipt of these funds will be strictly dependent upon the continuation of applicable federal and state laws and regulations.

Medicaid provider tax disallowance

The Centers for Medicare and Medicaid Services (CMS) has recently directed some local intermediaries to disallow the cost of provider taxes claimed in cost reports. Hospitals claimed the tax assessment as an allowable cost under the applicable regulations and the Provider Reimbursement Manual (PRM) sections. Hospitals have relied upon the fact that CMS approved applicable State Plan Amendments relating to the Provider Tax Assessments. The Hospital paid the provider tax and included it as an allowable expense. The disallowance may be applied retroactively for several years and the impact could be significant, depending upon various factors. The Hospital has reserved 100% of the provider tax based on prior year cost report settlements. This reserve is included in third-party payor settlements on the statements of financial position. Management and various associations representing affected hospitals plan to appeal the disallowance. The ultimate outcome of the issue is unknown at this time.

The Hospital recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for charity care, the Hospital recognizes revenue on the basis of discounted rates as provided by its policy. On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Hospital records a significant provision for bad debts related to uninsured patients in the period the services are provided. Laws and regulations governing the Medicare and

Medicaid programs are extremely complex and subject to interpretation. As a result, there is a reasonable possibility that recorded estimates could change by a material amount in the near term.

Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows for the years ended June 30:

	2020			
	Third-Party Government Payors	Third-Party Commercial Payors	Self-Pay	Total
Patient service revenue (net of contractual allowances and discounts)	$ 21,965,839	$ 11,944,321	$ 1,799,178	$ 35,709,338

	2019			
	Third-Party Government Payors	Third-Party Commercial Payors	Self-Pay	Total
Patient service revenue (net of contractual allowances and discounts)	$ 17,393,164	$ 16,045,540	$ 1,064,751	$ 34,503,455

Management identified underpayments for outpatient services under the Hospital's contract with Highmark Blue Cross Blue Shield (Highmark) approximating $3,000,000 for the period July 1, 2019 through October 25, 2020. These underpayments were the result of Highmark not updating their claims processing system to reflect the Hospital's recent ratio of cost to charges, per the agreement. Highmark agreed to reprocess nearly 7,700 claims to be in compliance with their contractual agreement with the Hospital. Subsequent to June 30, 2020, approximately $1,900,000 of payments have been received related to reprocessed claims, of which $1,500,000 relates to fiscal year 2020. The $1,500,000 is included in patient accounts receivable and net patient service revenue in the accompanying financial statements. The remaining amount to be received by the Hospital related to the reprocessing such claims is currently unknown.

Starting February 1, 2004, the Hospital became eligible under West Virginia Medicaid regulations as a critical access hospital (CAH), for full cost reimbursement of the cost of providing care to indigent patients. Future receipt of these funds will be strictly dependent upon the continuation of applicable Federal and state laws and regulations.

As disclosed in Note 11 to the accompanying financial statements, the Hospital has recorded assets and liabilities for settlement amounts with third parties. Net patient service revenue decreased approximately $680,000 and increased approximately $1,043,000 during the year ended June 30, 2020 and 2019, respectively, due to changes in estimates in estimated third-party payor settlements.

10. Charity Care

The Hospital provides care to its patients who meet certain criteria under its patient financial assistance 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 patient service revenue. In assessing a patient's inability to pay, the Hospital utilizes the generally recognized Federal Poverty Guidelines, but also includes certain cases where incurred charges are significant when compared to the patient's income. The costs associated with the charity care services provided are estimated by applying a cost-to-charge ratio to the amount of gross uncompensated charges for the patients receiving charity care. The costs of charity care provided by the Hospital amounted to approximately $1,031,000 and $257,000 for the years ended June 30, 2020 and 2019, respectively.

11. Estimated Third-Party Payor Settlements

Estimated third-party payor settlements consist of amounts due from (to) Medicare and Medicaid for settlement of current and prior year cost reports and payments due from (to) the State of West Virginia under its disproportionate share program. These estimated settlements by program are as follows as of June 30:

	2020	2019
Amounts due to:		
Medicare	**$ 689,922**	$ 94,105
Medicaid including DSH	**2,188,934**	2,784,470
	$ 2,878,856	$ 2,878,575

12. Retirement Plan

The Hospital maintains a profit-sharing plan. Eligible employees include those who have completed one year of service. There is no minimum employee contribution required by the plan. Each year the Hospital may contribute a discretionary amount to the plan.

The Hospital recognized plan expense of approximately $285,000 and $445,000 for the year ended June 30, 2020 and 2019, respectively. The Hospital has no additional liability to the plan. Plan contributions are included with employee benefits on the accompanying statements of revenue and expenses and changes in net position.

13. General and Professional Liability Coverage

The Hospital maintains primary coverage under the terms of an insurance contract which covers losses, if any, which are reported during the period the contract is in force, “claims-incurred coverage,” subject to the per occurrence and aggregate limits of $1,000,000 and $3,000,000, respectively. Additionally, the Hospital has an umbrella liability insurance contract that insures against losses in excess of the primary coverage reported during the period of policy coverage. The umbrella policy has limits of $5,000,000 per occurrence and in aggregate. The Hospital believes it has adequate insurance coverages and accruals for all asserted claims and it has no knowledge of unasserted claims which would exceed its insurance coverages and accruals. However, the ultimate outcome of such matters is unknown.

14. Functional Expenses

The Hospital provides health care and other related services to its patients. The classification of expenses related to providing these services approximates the following for the years ended June 30:

	2020	2019
Health care services	**$ 29,782,000**	$ 30,367,000
General and administrative	**6,499,000**	8,027,000
	$ 36,281,000	$ 38,394,000

15. Commitments and Contingencies

Health care industry

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Compliance with these laws and regulations is subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Government activity continues to increase with respect to investigations and allegations concerning possible violations by health care providers of fraud and abuse statutes and regulations, which could result in could result in expulsion from government health care programs and the imposition of significant fines and penalties as well as significant repayments for patient services previously billed. Management is not aware of any material incidents of noncompliance that have not been provided for in the accompanying financial statements; however, the possible future financial effects of such matters on the Hospital, if any, are not presently determinable.

During 2019, the Hospital made a submission pursuant to the Office of Inspector General's (OIG) self-disclosure protocol related to a certain physician employment arrangement. This matter was settled in September 2019 with a payment to the OIG for $662,000, which is included in accounts payable and accrued expenses and miscellaneous expenses in the accompanying financial statements as of and for the year ended June 30, 2019.

An increasing number of the Hospital's third-party payors are adopting prospective payment systems similar to those used by the federal government's Medicare program which shift financial risk from the payor/insurer to the health care provider. The Hospital has signed provider contracts with several managed care organizations, which emphasize utilization control and cost containment. Managed care organizations either directly transfer risk to health care providers through capitation payment arrangements or pay for units of service on a steeply discounted basis.

Litigation and claims

The Hospital is a defendant in various lawsuits where various amounts are being claimed. The ultimate outcome of such matters is unknown. Depending on the outcome and timing of resolution of such matters, an unfavorable outcome could materially affect the results of operations or cash flows in a particular period.

16. Fair Value Measurements and Financial Instruments

Authoritative guidance regarding fair value measurements establishes a framework for measuring fair value. This guidance defines fair value, establishes a framework and hierarchy for measuring fair value and outlines the related disclosure requirements. The guidance indicates that a fair value measurement assumes that the transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability based upon an exit price model. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

Financial assets recorded on the statements of financial position are categorized based on the inputs to the valuation techniques as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market.

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments or derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The fair values of financial instruments listed below were determined using the following valuation hierarchy as of June 30:

	2020				
	Carrying Value	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Assets whose use is limited:					
Mutual funds					
Domestic large cap	**$ 2,166,038**	**$ 2,166,038**	**$ 2,166,038**	**$ -**	**$ -**
Domestic small-midcap	**1,354,436**	**1,354,436**	**1,354,436**	**-**	**-**
Global equity	**771,967**	**771,967**	**771,967**	**-**	**-**
Bond	**2,616,903**	**2,616,903**	**2,616,903**	**-**	**-**
Total	**$ 6,909,344**	**$ 6,909,344**	**$ 6,909,344**	**$ -**	**$ -**

	2019				
	Carrying Value	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Assets whose use is limited:					
Domestic large cap	$ 1,933,950	$ 1,933,950	$ 1,933,950	$ -	$ -
Domestic small-midcap	1,260,300	1,260,300	1,260,300	-	-
Global equity	672,667	672,667	672,667	-	-
Bond	2,515,845	2,515,845	2,515,845	-	-
Total	$ 6,382,762	$ 6,382,762	$ 6,382,762	$ -	$ -

The Hospital had cash and cash equivalents of $2,402 and $462 at June 30, 2020 and 2019, respectively, in assets whose use is limited which were not required to be included in the fair value tables.

Unrealized gains for the years ending June 30, 2020 and 2019, were approximately $425,000 and $19,000, respectively, and are included in investment income in the accompany statements of revenue, expenses, and changes in net position.

The following methods were used by the Hospital in estimating fair value of its financial instruments. There have been no changes in methodologies used as of June 30, 2020 and 2019:

Mutual funds

Valued at closing price reported on the active market on which the individual securities are traded for mutual funds and quoted market prices in active markets.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Hospital believes its valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

17. Leases

Rent expense under operating leases approximated $19,500 and $21,000 for the year ended June 30, 2020 and 2019, respectively.

Minimum annual lease payments for years subsequent to June 30, 2020 are as follows:

Fiscal Year Ending		
2021	$	21,276
2022		21,276
2023		19,503
	$	62,055

18. COVID-19 Pandemic

In response to the global coronavirus disease (COVID-19) pandemic across the United States, the federal government and a large number of state governments, including West Virginia, have imposed strict measures to curtail aspects of public life in an effort to control further spreading of COVID-19, including limitations on public gatherings, wearing of masks in public, and restrictions on restaurant and other businesses operating capacity.

An outbreak of an infectious disease, including the growth in the magnitude or severity of COVID-19 cases in the Hospital’s service area, could result in an abnormally high demand for health care services, potentially inundating hospitals with patients in need of intensive care services. The treatment of this highly contagious disease could also result in a temporary shutdown of areas of the facility or diversion of patients or staffing shortages. Additionally, elective services were being deferred in the later part of FY2020, which resulted in reduced patient volumes and operating revenues. Further, the changing global economic conditions or potential global health concerns surrounding the COVID-19 pandemic may also affect the Hospital’s partners, suppliers, distributors and payors, potentially disrupting or delaying the Hospital’s supply chain and delaying reimbursement by governmental, commercial or private payors, as well as impacting their creditworthiness and ability to pay. At this time, it is not possible to accurately predict the significance of the duration of the COVID-19 pandemic, the impact on operating loss, the costs associated with responding to this pandemic, or what federal funds may continue be made available to help recover from this crisis.

In addition to the direct impact to the health care industry, global investment and financial markets have experienced substantial volatility, with significant declines attributed to COVID-19 concerns and associated economic impacts of the curtailment of public life described above. As with nearly all industries and companies operating through the COVID-19 pandemic, the Hospital expects to encounter further volatility and disruption in its operations and in the local, national and global economies.

Although the Hospital has activated plans to address the COVID-19 threat and is operating pursuant to infectious disease protocols and its emergency preparedness plan, the potential impact of the COVID-19 pandemic is difficult to predict and could materially adversely impact the Hospital’s financial condition, liquidity and results of operations in the future.

On March 27, 2020, the federal CARES Act was signed into law, which is intended to provide economic relief and emergency assistance for individuals, families and businesses affected by COVID-19. Various state governments are also taking action to provide economic relief and emergency assistance. The Hospital received CARES Act provider relief funding of $4,668,677 during the year ended June 30, 2020. The Hospital has recognized other non-operating revenue of $2,837,163 for the Hospital related to this funding for the year ended June 30, 2020 to the extent the eligibility requirements with the terms and conditions for entitlement to such funding for healthcare related expenses or lost revenues to prevent, prepare for or respond to COVID-19, have been met. The remaining funds of $1,831,514 is reflected as a provider relief funds advance in the accompanying statement of financial position. The Hospital has until June 30, 2021 to utilize remaining funds toward expenses attributable to coronavirus but not reimbursed by other sources or to lost revenues per the terms and conditions.

Subsequent to June 30, 2020, on September 19, 2020, October 22, 2020, and then on November 2, 2020 HHS issued Post-Payment Notice of Reporting Requirements (PPNRR) which establish the reporting criteria for providers which received Provider Relief Fund (PRF) funding under the CARES Act. The PPNRR also provide guidance related to the determination of lost revenues and COVID-19 related expenses under the terms and conditions of the PRF funding received by the Hospital. Additionally, on December 27, 2020, the federal Coronavirus Response and Relief Supplemental Appropriations Act ("CRRSA Act") was signed into law. The CRRSA Act, as well as a revised PPNRR issued in January 2021 as a result, provided additional guidance relating to the determination of lost revenues and COVID-19 related expenses under the terms and conditions of the PRF funding received by the Hospital. Due to the nature and extent of the guidance that existed as of June 30, 2020, the issuance of the CRRSA Act and PPNRR is a substantial change from the initial guidance that the Hospital operated under when attesting to the terms and conditions of the awards and the subsequent guidance HHS had previously issued through its "Frequently Asked Questions" on the PRF website through June 30, 2020. The guidance provided in the PPNRR is advisory in nature, and subject to change, and it is unknown at the report date what impacts this and future guidance will have on PRF funding and revenue recognition. Management has determined that the issuance of the CRRSA Act and PPNRR guidance is a non-recognized subsequent event that does not provide additional information about the facts and circumstances that existed as of June 30, 2020. As a non-recognized subsequent event, the Hospital has not changed its methodology for recognizing revenue during the year ended June 30, 2020, which was based on the guidance that was available and in effect as of year-end. As such, amounts recognized as other non-operating income for the year ended June 30, 2020, are subject to change and those changes could be material. The funds are also subject to future audits and potential adjustment and certain amounts may need to be repaid to the government.

The Hospital also received $3,761,492 in Medicare Advance Payments as part of the CARES Act stimulus to provide additional working capital. The Hospital has recognized these amounts as Medicare advance contract liability in the consolidated balance sheets. On September 30, 2020, the Continuing Appropriations Act (CAA) was signed into law which includes provision to relax the recoupment of Medicare Advance Payments, including delaying recoupment for one year from when the advances were made. It also staggers the percentage of claims processed that will be recouped over a twenty-nine-month period. Management believes the CAA is a non-recognized subsequent event. Therefore, the Hospital has not changed its methodology for presenting the balance of Medicare Advance Payments as a current liability, which was based on the guidance that was available and in effect as of year-end.