

**LEE COUNTY HOSPITAL AUTHORITY
A COMPONENT UNIT OF
LEE COUNTY, VIRGINIA**

AUDITED FINANCIAL STATEMENT

June 30, 2020

LEE COUNTY HOSPITAL AUTHORITY
A COMPONENT UNIT OF LEE COUNTY, VIRGINIA
AUDITED FINANCIAL REPORT
YEAR ENDED JUNE 30, 2020

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LIST OF AUTHORITY MEMBERS

H. Ronald Montgomery, Chairman

Benny Sargent, Vice-Chairman

Diana Pope, Treasurer

Tom Clark, Member

Travis Lawson, Member

Howard Elliott, Member

Dr. John Scott Litton, Jr., Member

Malcom Perdue, Member

Patton Speak, Member

Dr. Jill Couch, Member

Kris Westover, Member

Thomas M. Hicok, CPA, CVA, MAFF¹
David B. Brown, CPA
Juan J. Garcia, CPA
Karen L. Jackson, CPA
Rodney P. Jackson, CPA¹¹



TRUST. LEGACY. VALUES. IT ALL ADDS UP.

INDEPENDENT AUDITOR'S REPORT

155 E. Valley Street
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To the Board
Lee County Hospital Authority

Report on the Financial Statements

We have audited the accompanying financial statements of Lee County Hospital Authority (the Authority), which comprise the statement of net position as of June 30, 2020 and the related statement of revenues, expenditures, and changes in net position and cash flows for the year 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 audit. We conducted our audit 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 Controller 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 of material misstatement.

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

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

Opinion

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

Emphasis of Matter Regarding Going Concern

The accompanying financial statements have been prepared assuming the Authority will continue as a going concern. As discussed in Note 7 to the financial statements, the Authority has suffered funding cuts that raise substantial doubt about its ability to continue as a going concern. Management's plans regarding this matter is also described in Note 7. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplemental Information

Management has omitted the Management's Discussion and Analysis 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 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards we have also issued a report, dated November 6, 2020 on our consideration of Lee County Hospital Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants, and other matters. The purpose of that report is 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 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 Lee County Hospital Authority's internal control over financial reporting and compliance.

Hicok, Brown & Company

Hicok, Brown & Company
Certified Public Accountants

November 6, 2020

Thomas M. Hicok, CPA, CVA, MAFF¹
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**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**

To the Board
Lee County Hospital Authority

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 the business-type activities of The Lee County Hospital Authority as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Lee County Hospital Authority's basic financial statements, and have issued our report thereon dated November 6, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lee County Hospital Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lee County Hospital Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Lee County Hospital Authority's internal control.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

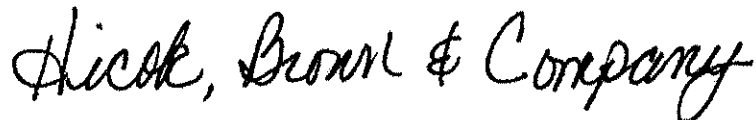
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lee County Hospital Authority's financial statements are free from 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 determination of financial statement amounts. 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*.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Hicok, Brown & Company". The script is cursive and fluid, with the company name written in a single line.

HICOK, BROWN & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

November 6, 2020

Lee County Hospital Authority
A Component Unit of Lee County, Virginia
Statement of Net Position
At June 30, 2020

Exhibit 1

<u>Assets</u>	<u>Amount</u>
Current Assets	
Cash	<u>\$ 2,940</u>
Total Current Assets	<u>2,940</u>
Other Assets	
Building and land	<u>3,800,000</u>
Other Assets	<u>3,800,000</u>
Total Assets	<u><u>\$ 3,802,940</u></u>
 <u>Liabilities and Net Position</u>	
Current Liabilities	
Accounts payable	\$ -
Current portion of debt	<u>50,000</u>
Total Current Liabilities	50,000
Long Term Liabilities	
Notes payable	<u>3,800,000</u>
Total Liabilities	3,850,000
Net Position	
Invested in capital assets, net of related debt	-
Unrestricted	<u>(47,060)</u>
Total Net Position	<u>(47,060)</u>
Total Liabilities and Net Position	<u><u>\$ 3,802,940</u></u>

The Notes to Financial Statements are an integral part of this statement.

Lee County Hospital Authority
A Component Unit of Lee County, Virginia
Statement of Revenues, Expenditures,
And Changes in Net Position
For the Year Ended June 30, 2020

Exhibit 2

	<u>Amount</u>
Operating Revenues:	
Grants and donations	\$ 1,500
Other income	<u>6,930</u>
Total Operating Revenues	<u>8,430</u>
Operating Expenses	
Insurance	667
Permits & Fees	25
Professional and other fees	3,000
Utilities	<u>3,712</u>
Total Operating Expenses	<u>7,404</u>
Change in net position	1,026
Net position at beginning of year	<u>(48,086)</u>
Net position at end of year	<u><u>\$ (47,060)</u></u>

The Notes to the Financial Statements are an integral part of this statement

Lee County Hospital Authority
A Component Unit of Lee County, Virginia
Statement of Cash Flows
For the Year Ended June 30, 2020

Exhibit 3

	<u>Amount</u>
Cash Flows from Operating Activities	
Cash received from contributions	\$ 1,500
Cash received from other income	-
Cash payments to suppliers for goods and services	<u>(7,404)</u>
Net Cash Flows Provided (Used) By Operating Activities	(5,904)
Cash Flows From Capital and Related Financing Activities	
Proceeds from debt	-
Interest paid on debt	-
Proceeds from sale of property	<u>-</u>
Net Cash Flows Provided (Used) By Capital And Related Financing Activities	<u>-</u>
Increase In Cash and Cash Equivalents	(5,904)
Cash and Cash Equivalents At Beginning of Year	<u>8,844</u>
Cash and Cash Equivalents At End of Year	<u><u>\$ 2,940</u></u>
Reconciliation Of Operating Income to Net Cash Provided By Operating Activities	
Net income (loss) from operations	\$ 1,026
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Noncash income	(6,930)
Changes in operating assets and liabilities	
Accounts receivable	-
Accounts payable	<u>-</u>
Net Cash Flows Provided (Used) By Operating Activities	<u><u>\$ (5,904)</u></u>

The Notes to the Financial Statements are an integral part of this statement

LEE COUNTY HOSPITAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The Financial Statements of the Lee County Hospital Authority have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Proprietary Fund Type

Proprietary Funds account for operations that are financed in a manner similar to private business enterprises. The proprietary fund measurement focus is upon determination of net income, financial position, and cash flows. The proprietary fund of the Authority is an Enterprise Fund which includes all of the Authority's operations.

Enterprise Fund

The Enterprise Fund accounts for the financing of services to the general public where all or most of the operating expenses involved are recovered in the form of charges to users of such services.

Reporting Entity

The Authority has been included in the general purpose financial statements of Lee County, Virginia as a component unit, in accordance with Statement 61 of the Governmental Accounting Standards Board.

Basis of Accounting

The Enterprise Fund uses the accrual basis of accounting. Under this method revenues are recognized in the accounting period in which they are earned, while expenses are recognized in the accounting period in which the related liability is incurred.

Cash and Cash Equivalent

Lee County Hospital Authority considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Estimates

The preparation of financial statements, in conformity with generally accepted accounting

LEE COUNTY HOSPITAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

principles, includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from these estimates.

Property, Plant, and Equipment

Property, plant, and equipment purchased are stated at cost or estimated cost. Donated property is recorded at market value prevailing at date of donation. Depreciation for fixed assets has been provided over the following estimated useful lives using the straight-line method:

Buildings.....	30-40 years
Improvements other than buildings	15-25 years
Equipment.....	5-20 years

Net Position

Net position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

NOTE 2 - CASH AND INVESTMENTS

Deposits

All cash of the Authority is covered by federal depository insurance. The Authority has no investments as of or for the year ended June 30, 2020.

NOTE 3 – OTHER ASSETS

On April 28, 2015 the Authority purchased the Lee County Hospital property. In December 2017 the Hospital was sold. In the 2018-2019 year, the Hospital was re-purchased from Americore for \$3,800,000. The property will be leased by Mountain States Health Alliance under a lease agreement dated October 1, 2019. The lease does not begin until the Hospital has received all government approvals and is opened as a Critical Access Hospital. Depreciation will begin at this time.

LEE COUNTY HOSPITAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 4 – NOTES PAYABLE

Payee	Interest Rate	Balance 7/1/2019	Loans	Payments	Balance 6/30/2020	Short- term	Long- Term
Merida Natural Resources, LLC	0.00%	\$ 50,000	\$ -	\$ -	\$ 50,000	\$ 50,000	\$ -
Lee County, VA	0.00%	1,500,000	-	-	1,500,000	-	1,500,000
Ballad Health	0.00%	2,100,000	-	-	2,100,000	-	2,100,000
Lee County, VA	0.00%	200,000	-	-	200,000	-	200,000
Total		<u>\$ 3,850,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$3,850,000</u>	<u>\$ 50,000</u>	<u>\$ 3,800,000</u>

On January 16, 2019, the Authority entered into a loan with Merida Natural Resources, LLC. The loan was in the amount of \$150,000, of which \$50,000 has been drawn, the interest rate was 0.00% and was due October 31, 2019 and is in default.

On February 20, 2019 the Authority entered into agreements to repurchase the Hospital property. This was financed with three loans, the loans were revised and amended on October 2019:

1. Note 1 is a note payable from Lee County, Virginia in the amount of \$1,500,000. This loan is 0.00% interest and will be paid first using the entire rent income from the Hospital lease. It is anticipated it will be paid in over a four-year period.
2. Note 2 is a note from Ballad Health in the amount of \$2,100,000. This loan is 4.00% interest and payments will begin once the Lee County note of \$1,500,000 is satisfied. This loan will be paid using the entire rent income for the Hospital lease. It is anticipated it will be paid over a five-year period.
3. Note 3 is a note from Lee County, Virginia in the amount of \$200,000. This loan is 0.00% interest and payments will begin once the Ballad Health note of \$2,100,000 is satisfied. The loan will be paid using the entire rent income from the Hospital lease. It is anticipated it will be paid in over a two-year period.

LEE COUNTY HOSPITAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 4 – NOTES PAYABLE (Continued)

Contingent Payback Agreement:

The above three loans will be paid using the entire rent revenue from the lease of the Hospital. The lease does not begin until the Hospital has received all government approvals and is opened as a Critical Access Hospital. Payback of all three loans will be over a nine-year period, beginning the month after opening as a Critical Care Hospital, as follows:

Year	Principal	Interest	Total
1	\$ 488,738	\$ -	\$ 488,738
2	488,738	-	488,738
3	498,513	-	498,513
4	414,513	84,000	498,513
5	440,103	68,380	508,483
6	457,707	50,776	508,483
7	486,184	32,468	518,652
8	505,632	13,020	518,652
9	19,872	-	19,872
Total	<u>\$ 3,800,000</u>	<u>\$ 248,644</u>	<u>\$ 4,048,644</u>

NOTE 5 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 6, 2020, the date which the financial statements were available to be issued.

NOTE 6 - AGREEMENTS

On October 1, 2019 the Authority entered into a lease with Mountain States Health Alliance. The lease will commence the month after the Hospital has received all government approvals and is opened as a Critical Access Hospital. The initial lease term is 10 years with two renewal terms of ten years each. The initial rent will be \$488,738 for two years, with a 2% increase in the third year, and another 2% increase in the odd number years of the lease term (i.e. the fifth, seventh, ninth, etc.). The entire amount of the rent will be used to pay the debt as described in Note 4.

On October 1, 2019 a Master Agreement was entered into with Mountain States Health Alliance and Ballard Health. This agreement set the loans payback as described in Note 4 and also provides that Ballard pays the Authority \$25,000 annually for administrative expenses during each lease year. The agreement also has an option for MSHA to purchase the property, termination clauses, and Authority operational clauses.

LEE COUNTY HOSPITAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 7 – GOING CONCERN

Over the last several years, the Authority has suffered funding cuts and currently has no source of revenue. The lease agreement and Master Agreement noted in Note 6 provides for a long-term lease of the property and an income stream for loan payments and a provision for operating expenses. However, the agreements are contingent upon the opening of the Hospital as a Critical Access Hospital. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Hospital not be able to open.

NOTE 8 – RISKS AND UNCERTAINTIES

As a result of the spread of CIVID -19 in early 2020, economic uncertainties have arisen, which are likely to negatively impact grant and operating revenues of the Authority. Other financial impacts could occur, through such potential impacts is unknown at this time.

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November 6, 2020

To the Board
Lee County Hospital Authority

We have audited the financial statements of Lee County Hospital Authority (the Authority) for the year ended June 30, 2020 and have issued our report thereon dated November 6, 2020. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated November 2, 2020, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you during our fieldwork beginning on November 2, 2020.

Significant Audit Findings

Audit Opinion

We issued an unmodified audit opinion, however, an Emphasis of Matter paragraph was included to report a going concern finding.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Lee County Hospital Authority are described in Note 1 to the financial statements. No new accounting policies were adopted during year ended June 30, 2020. We noted no transactions entered into by the Authority during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no sensitive estimates affecting the financial statements.

The disclosures in the financial statements are neutral, consistent, and clear.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached material adjustment detected as a result of audit procedures were corrected by management.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 6, 2020.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Authority's financial statements or determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Authority's auditors. However, these discussions occurred in the normal course of our professional relations and our responses were not a condition to our retention.

This information is intended solely for the use of Lee County Hospital Authority's management and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Hicok, Brown & Company

Hicok, Brown & Company
Certified Public Accountants

Thomas M. Hicok, CPA, CVA, MAFF¹
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To the Board
Lee County Hospital Authority
Pennington Gap, Virginia

In planning and performing our audit of the financial statements of Lee County Hospital Authority (the Authority) for the year ended June 30, 2020, we considered the Authority's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. This letter does not affect our report, dated November 6, 2020, on the financial statements of Lee County Hospital Authority.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Authority personnel, and we will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

This report is intended solely for the information and use of the board, management, and others within the Authority and is not intended to be and should not be used by anyone other than these specific parties.

OBSERVATION

In our receipt test, we found that support was not maintained for the amounts deposited.

RECOMMENDATION

We recommend that support, such as check stubs, letter, etc. be maintained for all deposits.

OBSERVATION

Bank reconciliations are not being reviewed or physically approved by anyone.

RECOMMENDATION

We recommend that another Board member review, approve and sign off on all bank reconciliations.

GENERAL RECOMMENDATION

As a small organization we understand there are limits on the ability to segregate duties within your accounting function. However, we recommend you segregate financial duties as much as possible. For example, someone independent of check writing and the deposit function should receive, open, and reconcile the bank statement; pre-numbered receipts should be issued for funds collected; controls should be present for who is allowed to take donations; invoices should be reviewed and approved before payment; expense payment and receipt collections should be separated, etc.

If you have any questions or would like to discuss these in more detail, please do not hesitate to contact us.

Hicok, Brown & Company

Hicok, Brown & Company
Certified Public Accountants

November 6, 2020