

HOSPITAL AUTHORITY OF WASHINGTON COUNTY

FINANCIAL STATEMENTS

for the years ended August 31, 2019 and 2018



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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Hospital Authority of Washington County
Sandersville, Georgia

Report on the Financial Statements

We have audited the accompanying financial statements of Hospital Authority of Washington County (Authority), which comprise the balance sheets as of August 31, 2019 and 2018, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hospital Authority of Washington County as of August 31, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Economic Dependency

As discussed in Note 12 to the financial statements, the Authority is facing financial difficulty and recurring operating losses. The Authority has become economically dependent on Washington County. See Note 12 for additional details. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of Changes in Net Pension Liability and Related Ratios and Schedule of Pension Contributions on pages 28 through 30, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require 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 the 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.

Draffin & Tucker, LLP

Atlanta, Georgia
April 18, 2022

HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Balance Sheets
August 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets and Deferred Outflows of Resources:		
Current assets:		
Cash and cash equivalents	\$ 4,135,000	\$ 2,655,000
Patient accounts receivable, net of estimated uncollectibles of \$7,236,000 in 2019 and \$4,717,000 in 2018	2,901,000	2,197,000
Estimated third party payor settlements	175,000	353,000
Supplies, at lower of cost (first-in, first-out) or market	459,000	370,000
Other current assets	<u>186,000</u>	<u>75,000</u>
Total current assets	<u>7,856,000</u>	<u>5,650,000</u>
Noncurrent cash and investments:		
Restricted for scholarships and education	10,000	10,000
Restricted for capital purchases	2,227,000	2,500,000
Other long-term investments	<u>79,000</u>	<u>60,000</u>
Total noncurrent cash and investments	<u>2,316,000</u>	<u>2,570,000</u>
Capital assets:		
Land	117,000	117,000
Depreciable capital assets, net of accumulated depreciation	<u>3,810,000</u>	<u>4,147,000</u>
Total capital assets, net of accumulated depreciation	<u>3,927,000</u>	<u>4,264,000</u>
Total assets	14,099,000	12,484,000
Deferred outflows of resources:		
Pension deferrals	<u>341,000</u>	<u>455,000</u>
Total assets and deferred outflows of resources	<u>\$ 14,440,000</u>	<u>\$ 12,939,000</u>

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HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Balance Sheets, Continued
August 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Liabilities, Deferred Inflows of Resources, and Net Position:		
Current liabilities:		
Current maturities of long-term debt	\$ 307,000	\$ 412,000
Accounts payable	3,149,000	2,068,000
Accrued expenses	842,000	1,087,000
Unearned County contributions revenue	2,250,000	2,525,000
Credit balances in accounts receivable	501,000	617,000
Accounts payable to AU Medical Associates	2,246,000	2,283,000
Accounts payable to University Health Services, Inc.	389,000	389,000
Note and accrued interest payable to University Health, Inc.	<u>595,000</u>	<u>568,000</u>
Total current liabilities	<u>10,279,000</u>	<u>9,949,000</u>
Noncurrent liabilities:		
Long-term debt, net of current maturities	3,839,000	4,178,000
Net pension liability	<u>1,892,000</u>	<u>1,833,000</u>
Total noncurrent liabilities	<u>5,731,000</u>	<u>6,011,000</u>
Total liabilities	16,010,000	15,960,000
Deferred inflows of resources:		
Pension deferrals	<u>6,000</u>	<u>42,000</u>
Total liabilities and deferred inflows of resources	<u>16,016,000</u>	<u>16,002,000</u>
Net position:		
Net investment in capital assets	3,071,000	3,123,000
Restricted for scholarships and education	10,000	10,000
Unrestricted	<u>(4,657,000)</u>	<u>(6,196,000)</u>
Total net position	<u>(1,576,000)</u>	<u>(3,063,000)</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 14,440,000</u>	<u>\$ 12,939,000</u>

See accompanying notes to financial statements.

HOSPITAL AUTHORITY OF WASHINGTON COUNTY

**Statements of Revenues, Expenses, and Changes in Net Position
Years Ended August 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
Operating revenues:		
Net patient service revenue (net of provision for bad debts of \$6,337,000 in 2019 and \$5,398,000 in 2018)	\$ 20,811,000	\$ 19,944,000
Other revenue	<u>217,000</u>	<u>324,000</u>
Total operating revenues	<u>21,028,000</u>	<u>20,268,000</u>
Operating expenses:		
Salaries and wages	9,802,000	9,674,000
Employee benefits	2,635,000	2,515,000
Purchased services and professional fees	5,441,000	4,670,000
Supplies and drugs	2,081,000	2,088,000
Depreciation and amortization	668,000	475,000
Other expense	<u>2,799,000</u>	<u>3,413,000</u>
Total operating expenses	<u>23,426,000</u>	<u>22,835,000</u>
Operating loss	(<u>2,398,000</u>)	(<u>2,567,000</u>)
Nonoperating revenues (expenses):		
Investment income	28,000	1,000
Interest expense	(165,000)	(175,000)
Noncapital grants from Washington County	2,037,000	1,545,000
Rural hospital tax credit contributions	448,000	702,000
Other noncapital grants	<u>64,000</u>	<u>296,000</u>
Total nonoperating revenues	<u>2,412,000</u>	<u>2,369,000</u>
Excess revenues (expenses) before capital grants and contributions	14,000	(198,000)
Capital grants and contributions:		
Sales tax proceeds from Washington County for capital acquisitions	-	79,000
Capital grants from Washington County	<u>1,473,000</u>	<u>331,000</u>
Change in net position	1,487,000	212,000
Net position, beginning of year	(<u>3,063,000</u>)	(<u>3,275,000</u>)
Net position, end of year	\$(<u>1,576,000</u>)	\$(<u>3,063,000</u>)

See accompanying notes to financial statements.

HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Statements of Cash Flows
Years Ended August 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 20,169,000	\$ 19,698,000
Payments to suppliers and contractors	(9,477,000)	(8,878,000)
Payments to employees	(12,545,000)	(12,379,000)
Other receipts	<u>217,000</u>	<u>324,000</u>
Net cash used by operating activities	<u>(1,636,000)</u>	<u>(1,235,000)</u>
Cash flows from noncapital financing activities:		
Noncapital grants from Washington County	2,035,000	1,790,000
Rural hospital tax credit contributions	448,000	702,000
Other noncapital grants	<u>64,000</u>	<u>296,000</u>
Net cash provided by noncapital financing activities	<u>2,547,000</u>	<u>2,788,000</u>
Cash flows from capital and related financing activities:		
Sales tax proceeds from Washington County for capital acquisitions	-	79,000
Capital grants from Washington County	1,200,000	1,600,000
Principal paid on long-term debt	(444,000)	(182,000)
Interest paid on long-term debt	(138,000)	(147,000)
Purchase of capital assets	<u>(331,000)</u>	<u>(331,000)</u>
Net cash provided by capital and related financing activities	<u>287,000</u>	<u>1,019,000</u>
Cash flows from investing activities:		
Investment income	<u>9,000</u>	<u>7,000</u>
Net cash provided by investing activities	<u>9,000</u>	<u>7,000</u>
Net change in cash and cash equivalents	1,207,000	2,579,000
Cash and cash equivalents, beginning of year	<u>5,155,000</u>	<u>2,576,000</u>
Cash and cash equivalents, end of year	<u>\$ 6,362,000</u>	<u>\$ 5,155,000</u>

Continued

HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Statements of Cash Flows, Continued
Years Ended August 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash and cash equivalents in current assets	\$ 4,135,000	\$ 2,655,000
Cash and cash equivalents in noncurrent cash and investments:		
Restricted for capital purchases	<u>2,227,000</u>	<u>2,500,000</u>
Total cash and cash equivalents	<u>\$ 6,362,000</u>	<u>\$ 5,155,000</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$(2,398,000)	\$(2,567,000)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation and amortization	668,000	475,000
Provision for bad debts	6,337,000	5,398,000
Pension activity	137,000	(52,000)
Changes in:		
Patient accounts receivable	(7,041,000)	(5,341,000)
Supplies	(89,000)	12,000
Other current assets	(111,000)	99,000
Physician receivable	-	22,000
Accounts payable	1,081,000	(149,000)
Accrued expenses	(245,000)	(138,000)
Estimated third-party payor settlements	178,000	(449,000)
Credit balances in accounts receivable	(116,000)	146,000
Accounts payable to AU Medical Associates	<u>(37,000)</u>	<u>1,309,000</u>
Net cash used by operating activities	<u>\$ (1,636,000)</u>	<u>\$ (1,235,000)</u>
Noncash capital financing activities:		
Capital assets acquired through a financed purchase	\$ _____ -	\$ <u>1,141,000</u>

See accompanying notes to financial statements.

HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements August 31, 2019 and 2018

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

Reporting entity. The Hospital Authority of Washington County (Authority), is a public body corporate and politic organized under the Hospital Authorities Law of the State of Georgia. It was created on March 4, 1957 by the Commissioners of Washington County, Georgia to operate, control, and manage all matters concerning the county's health care functions. The Authority owns and operates Washington County Regional Medical Center, a fifty-six (56) bed acute care hospital, and Washington County Extended Care Facility, a sixty (60) bed long-term care facility, and physician practices.

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

Significant items subject to such estimates and assumptions include the determination of the allowances for uncollectible accounts and contractual adjustments, estimated third-party payor settlements, and actuarially determined benefit liabilities. In particular, laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates associated with these programs will change by a material amount in the near term.

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

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

Risk management. The Authority 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.

Cash and cash equivalents. Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less.

Allowance for doubtful accounts. The Authority provides an allowance for doubtful accounts based on an evaluation of the overall collectibility of the patient accounts receivable. As accounts are known to be uncollectible, the account is charged against the allowance.

Noncurrent cash and investments. Noncurrent cash and investments include restricted contributions that are to be used for providing educational scholarships, restricted contributions from Washington County for capital purchases, and stock received as payment on a receivable.

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HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements, Continued August 31, 2019 and 2018

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

Investments in debt and equity securities. Investments in debt and equity securities are reported at fair value. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating revenue when earned.

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

Capital assets. The Authority's capital assets are reported at historical cost. Contributed capital assets are reported at their acquisition value at the time of their donation. All capital assets other than land are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using these asset lives:

Land improvements	15 to 20 Years
Buildings and building improvements	20 to 40 Years
Equipment, computers and furniture	3 to 10 Years

The Authority evaluates capital assets regularly for impairment under the provisions of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. If circumstances suggest that assets may be impaired, an assessment of recoverability is performed prior to any write-down of assets. An impairment charge is recorded on those assets for which the estimated fair value is below its carrying value. The Authority has not recorded any impairment charges during 2019 or 2018.

Physician receivables. Physician receivables consist primarily of advances to physicians under recruiting arrangements. In general, the advances are forgiven over a period of time during which the physicians practice medicine in the Authority's service area. If the physician ceases to practice medicine in the Authority's service area, the outstanding balance becomes due immediately. The amount of physician receivables forgiven and charged to expense was approximately \$-0- and \$12,000 in 2019 and 2018, respectively.

Costs of borrowing. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. None of the Authority's interest cost was capitalized in either 2019 or 2018.

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

Compensated absences. The Authority's employees earn paid days off (PDO) at varying rates depending on years of service. Employees who retire or resign in good standing receive payment for accumulated PDO. Employees do not receive payment for extended illness bank hours upon retirement or resignation. The estimated amount of PDO's payable is reported as a current liability in 2019 and 2018.

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HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements, Continued August 31, 2019 and 2018

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

Net pension liability. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension items and pension expense, information about the fiduciary net position of the defined benefit plan and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred inflows of resources. Deferred inflows of resources consist of the unamortized pension items not yet charged to pension expense. See Note 9 for additional information.

Deferred outflows of resources. Deferred outflows of resources consist of pension contributions made subsequent to the measurement date and other pension items not yet charged to pension expense. See Note 9 for additional information.

Net position. Net position is classified into three components. *Net investment in capital assets* consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings that are attributable to the acquisition, construction, or improvement of those assets. The *restricted* component of net position consists of restricted assets reduced by liabilities related to those assets. The *unrestricted* component of net position is the amount of assets, deferred outflows of resources, liabilities and deferred inflows of resources that is not included in the determination of *net investment in capital assets* or the *restricted* component of net position.

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

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

Charity care. The Authority provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Authority does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Continued

HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements, Continued August 31, 2019 and 2018

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

Grants and contributions. From time to time, the Authority receives grants from Washington County, the State of Georgia and the Federal Government, as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Unearned revenue arises when assets are received before revenue recognition criteria has been satisfied. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Income taxes. The Authority is a governmental entity and is recognized as tax-exempt. Accordingly, no provision for income taxes has been provided.

Fair value measurements. GASB Statement No. 72 - *Fair Value Measurement and Application* defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is an exit price at the measurement date from the perspective of a market participant that controls the asset or is obligated for the liability. GASB No. 72 also establishes a hierarchy of inputs to valuation techniques used to measure fair value. If a price for an identical asset or liability is not observable, a government should measure fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. GASB No. 72 describes the following three levels of inputs that may be used:

- *Level 1:* Quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date. The fair value hierarchy gives the highest priority to Level 1 inputs.
- *Level 2:* Observable inputs such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.
- *Level 3:* Unobservable inputs for an asset or liability. The fair value hierarchy gives the lowest priority to Level 3 inputs.

Accounting pronouncement not yet adopted. In March 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* (GASB 88). GASB 88 clarifies which liabilities should be included when disclosing information related to debt, requires additional essential information related to debt be disclosed, and requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. GASB 88 is effective for fiscal years beginning after June 15, 2019, with GASB 95 deferral. The Authority is currently evaluating the impact GASB 88 will have on its financial statements.

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HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements, Continued August 31, 2019 and 2018

2. Net Patient Service Revenue

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

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

- *Medicare.* Inpatient services, outpatient services and long-term care services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Certain reimbursable items are reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare Administrative Contractor (MAC). The Authority's Medicare cost reports have been settled by the MAC through August 31, 2015.
- *Medicaid.* Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates. Outpatient services are generally paid under a cost reimbursement methodology. The Authority is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicaid fiscal intermediary. The Authority's Medicaid cost reports have been settled by the Medicaid fiscal intermediary through August 31, 2015. Long-term care services rendered to Medicaid program beneficiaries are reimbursed based on a prospectively determined per diem rate. The per diem rate is determined by the extended care facility's historical allowable operating costs adjusted for certain incentives, inflation factors, and patient acuity factors.

The Authority has also entered into contracts with certain care management organizations (CMO's) to receive reimbursement for providing services to selected enrolled Medicaid beneficiaries. Payment arrangements with these CMO's consist primarily of prospectively determined rates per discharge and discounts from established charges.

The Authority participates in the Indigent Care Trust Fund (ICTF) Program. The Authority receives ICTF payments for treating a disproportionate number of Medicaid and other indigent patients. ICTF payments are based on the Authority's estimated uncompensated cost of services to Medicaid and uninsured patients. The net amount of ICTF payments recognized in net patient service revenues was approximately \$748,000 and \$159,000 during 2019 and 2018, respectively.

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HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements, Continued August 31, 2019 and 2018

2. Net Patient Service Revenue, Continued

- *Medicaid, continued.* The Authority also participates in the Medicaid Upper Payment Limit (UPL) program. The UPL payment adjustments are based on a measure of the difference between Medicaid payments and the amount that could be paid based on Medicare payment principles. The net amount of UPL payment adjustments recognized in net patient service revenue was approximately \$696,000 and \$726,000 during 2019 and 2018, respectively.

The State of Georgia has legislation known as the Provider Payment Agreement Act (Act) whereby hospitals in Georgia are assessed a “provider payment” in the amount of 1.45% of their net patient revenue. The payments are to be used for the sole purpose of obtaining federal financial participation for medical assistance payments to providers on behalf of Medicaid recipients. The provider payment results in a corresponding increase in Medicaid payments for hospital services of approximately 11.88%. The Authority made provider payments to the State of Georgia of approximately \$167,000 and \$189,000 in 2019 and 2018, respectively. The payments are included in other expense in the accompanying statements of revenues, expenses, and changes in net position.

The State of Georgia also has legislation known as the Nursing Home Provider Fee Act whereby nursing homes in Georgia are assessed a daily provider fee for each bed occupied by a non-Medicaid patient. The provider fees are for the purpose of obtaining additional federal funding to supplement Medicaid payments made to nursing homes. The provider fees are returned to the nursing homes through both higher Medicaid rates and an add-on. The Authority made provider payments to the State of Georgia of approximately \$352,000 and \$351,000 in 2019 and 2018, respectively. The payments are included in other expense in the accompanying statements of revenues, expenses, and changes in net position.

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

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HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements, Continued August 31, 2019 and 2018

3. Uncompensated Care

The Authority was compensated for services at amounts less than its established rates (gross patient charges). The following is a summary of uncompensated services and a reconciliation of gross patient charges to net patient service revenue for 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Gross patient charges	<u>\$ 66,694,000</u>	<u>\$ 60,608,000</u>
Uncompensated care:		
Medicare	13,460,000	15,346,000
Medicaid	3,986,000	3,926,000
Insurance	21,084,000	14,940,000
Indigent and charity	1,016,000	1,054,000
Bad debts	<u>6,337,000</u>	<u>5,398,000</u>
Total uncompensated care	<u>45,883,000</u>	<u>40,664,000</u>
Net patient service revenue	<u>\$ 20,811,000</u>	<u>\$ 19,944,000</u>

4. Deposits and Investments

State law requires collateralization of all deposits with federal depository insurance and other acceptable collateral in specific amounts. At August 31, 2019 and 2018, the Authority had uninsured cash of approximately \$499,000 and \$442,000, respectively.

The carrying amounts of deposits and investments are included in the Authority's balance sheets as follows:

	<u>2019</u>	<u>2018</u>
Deposits	\$ 6,372,000	\$ 5,165,000
Investments	<u>79,000</u>	<u>60,000</u>
Total	<u>\$ 6,451,000</u>	<u>\$ 5,225,000</u>

Included in the following balance sheet captions:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 4,135,000	\$ 2,655,000
Restricted for scholarships and education	10,000	10,000
Restricted for capital purchases	2,227,000	2,500,000
Other long-term investments	<u>79,000</u>	<u>60,000</u>
Total	<u>\$ 6,451,000</u>	<u>\$ 5,225,000</u>

Continued

HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements, Continued August 31, 2019 and 2018

4. Deposits and Investments, Continued

The Authority's certificates of deposit are measured at amortized cost.

At August 31, 2019 and 2018, the Authority's investments consisted of the following:

	<u>2019</u>	<u>2018</u>
The Southern Company common stock	\$ <u>79,000</u>	\$ <u>60,000</u>

The Southern Company common stock is classified in Level 1 of the fair value hierarchy and is valued using prices quoted in active markets for the stock.

5. Accounts Receivable and Payable

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Authority at August 31, 2019 and 2018 consisted of these amounts:

	<u>2019</u>	<u>2018</u>
Patient accounts receivable:		
Receivable from patients and their insurance carriers	\$ <u>9,174,000</u>	\$ <u>6,287,000</u>
Receivable from Medicare	405,000	208,000
Receivable from Medicaid	<u>558,000</u>	<u>419,000</u>
Total patient accounts receivable	10,137,000	6,914,000
Less allowance for uncollectible amounts	<u>7,236,000</u>	<u>4,717,000</u>
Patient accounts receivable, net	<u>\$ 2,901,000</u>	<u>\$ 2,197,000</u>

The Authority grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor settlements.

	<u>2019</u>	<u>2018</u>
Accounts payable and accrued expenses:		
Payable to employees (including payroll taxes)	\$ <u>842,000</u>	\$ <u>1,087,000</u>
Payable to suppliers	3,149,000	2,068,000
Payable to AU Medical Associates	2,246,000	2,283,000
Payable to University Health Services, Inc.	<u>389,000</u>	<u>389,000</u>
Total accounts payable and accrued expenses	<u>\$ 6,626,000</u>	<u>\$ 5,827,000</u>

Continued

HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements, Continued
August 31, 2019 and 2018

6. Capital Assets

A schedule of changes in the Authority's capital assets for 2019 and 2018 follows:

	<u>Balance</u> <u>August 31, 2018</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>August 31, 2019</u>
Land	\$ 117,000	\$ -	\$ -	\$ 117,000
Land improvements	381,000	-	-	381,000
Buildings and improvements	13,630,000	94,000	-	13,724,000
Equipment	<u>16,005,000</u>	<u>237,000</u>	<u>-</u>	<u>16,242,000</u>
 Totals at historical cost	 <u>30,133,000</u>	 <u>331,000</u>	 <u>-</u>	 <u>30,464,000</u>
 Less accumulated depreciation for:				
Land improvements	(375,000)	(1,000)	-	(376,000)
Buildings and improvements	(10,450,000)	(367,000)	-	(10,817,000)
Equipment	<u>(15,044,000)</u>	<u>(300,000)</u>	<u>-</u>	<u>(15,344,000)</u>
 Total accumulated depreciation	 <u>(25,869,000)</u>	 <u>(668,000)</u>	 <u>-</u>	 <u>(26,537,000)</u>
 Total capital assets, net	 <u>\$ 4,264,000</u>	 <u>\$ (337,000)</u>	 <u>\$ -</u>	 <u>\$ 3,927,000</u>
	<u>Balance</u> <u>August 31, 2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>August 31, 2018</u>
Land	\$ 117,000	\$ -	\$ -	\$ 117,000
Land improvements	381,000	-	-	381,000
Buildings and improvements	12,489,000	1,141,000	-	13,630,000
Equipment	<u>15,790,000</u>	<u>331,000</u>	<u>(116,000)</u>	<u>16,005,000</u>
 Totals at historical cost	 <u>28,777,000</u>	 <u>1,472,000</u>	 <u>(116,000)</u>	 <u>30,133,000</u>
 Less accumulated depreciation for:				
Land improvements	(374,000)	(1,000)	-	(375,000)
Buildings and improvements	(10,270,000)	(180,000)	-	(10,450,000)
Equipment	<u>(14,866,000)</u>	<u>(294,000)</u>	<u>116,000</u>	<u>(15,044,000)</u>
 Total accumulated depreciation	 <u>(25,510,000)</u>	 <u>(475,000)</u>	 <u>116,000</u>	 <u>(25,869,000)</u>
 Total capital assets, net	 <u>\$ 3,267,000</u>	 <u>\$ 997,000</u>	 <u>\$ -</u>	 <u>\$ 4,264,000</u>

Continued

HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements, Continued August 31, 2019 and 2018

7. Payables to University Health, Inc., University Health Services, Inc., and AU Medical Associates

Note and accrued interest. A schedule of changes in the note and accrued interest payables to University Health, Inc. for 2019 and 2018 follows:

	<u>Balance</u> <u>August 31, 2018</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>August 31, 2019</u>
Note Interest	\$ 477,000 <u>91,000</u>	\$ - <u>27,000</u>	\$ - <u>—</u>	\$ 477,000 <u>118,000</u>
Total	<u>\$ 568,000</u>	<u>\$ 27,000</u>	<u>\$ —</u>	<u>\$ 595,000</u>
	<u>Balance</u> <u>August 31, 2017</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>August 31, 2018</u>
Note Interest	\$ 477,000 <u>63,000</u>	\$ - <u>28,000</u>	\$ - <u>—</u>	\$ 477,000 <u>91,000</u>
Total	<u>\$ 540,000</u>	<u>\$ 28,000</u>	<u>\$ —</u>	<u>\$ 568,000</u>

The Authority had a \$1,000,000 line-of-credit with University Health, Inc. to fund operations. The line-of-credit bears interest at 5.00% and is unsecured. Interest is payable beginning 6 months after the first draw and then monthly thereafter until maturity. Principal is due at maturity, which is the earlier of 6 months following the date the first interest payment is due or the termination date of the management agreement between the Authority and University Health, Inc. The management agreement terminated in December 2015. However, no payments have been made and interest has continued to accrue on the note.

Accounts payable. The Authority had a management agreement with University Health Services, Inc., an affiliate of University Health, Inc., during calendar year 2015. The Authority incurred management fees of approximately \$389,000 under the agreement. The Authority has made no payments on the management fees and continues to carry a liability for the unpaid invoices.

During 2017, the Authority contracted with AU Medical Associates to provide certain hospitalist and emergency physician coverage. The Authority incurred hospitalist and emergency physician fees under the agreement during 2018 and 2017. The Authority has made no payments for the services and continues to carry a liability for the unpaid invoices. As of August 31, 2019 and 2018, the Authority owed AU Medical Associates approximately \$2,246,000 and \$2,283,000, respectively, for the services.

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HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements, Continued
August 31, 2019 and 2018

8. Long-Term Debt

A schedule of changes in the Authority's long-term debt for 2019 and 2018 follows:

	<u>Balance</u> <u>August 31,</u> <u>2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>August 31,</u> <u>2019</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Notes payable:					
Citizens	\$ 1,038,000	\$ -	\$(67,000)	\$ 971,000	\$ 49,000
Warthen	2,411,000	-	(92,000)	2,319,000	83,000
Financed purchase	<u>1,141,000</u>	<u>-</u>	<u>(285,000)</u>	<u>856,000</u>	<u>175,000</u>
Total long-term debt	<u>\$ 4,590,000</u>	<u>\$ -</u>	<u>\$(444,000)</u>	<u>\$ 4,146,000</u>	<u>\$ 307,000</u>
	<u>Balance</u> <u>August 31,</u> <u>2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>August 31,</u> <u>2018</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Notes payable:					
Citizens	\$ 1,094,000	\$ -	\$(56,000)	\$ 1,038,000	\$ 58,000
Warthen	2,494,000	-	(83,000)	2,411,000	85,000
Financed purchase	-	1,141,000	-	1,141,000	269,000
Capital lease obligation	<u>43,000</u>	<u>-</u>	<u>(43,000)</u>	<u>-</u>	<u>-</u>
Total long-term debt	<u>\$ 3,631,000</u>	<u>\$ 1,141,000</u>	<u>\$(182,000)</u>	<u>\$ 4,590,000</u>	<u>\$ 412,000</u>

The terms and due dates of the Authority's long-term debt at August 31, 2019 and 2018, follows:

- Citizens Bank of Washington County - 3.65% note payable, payable in 59 monthly installments of \$8,000 and balloon payment of \$803,000 at maturity, due August 30, 2022, collateralized by property and equipment.
- Geo. D. Warthen Bank - 4.25% note payable, payable in 59 monthly installments of \$15,000 and balloon payment of \$2,071,000 at maturity, due July 5, 2022, collateralized by all accounts, chattel, equipment, and inventory.
- CPSI financed purchase - Computer software license agreement, payable in 72 monthly installments of \$16,000.

Continued

HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements, Continued August 31, 2019 and 2018

8. Long-Term Debt, Continued

Scheduled payments on long-term debt and capital lease obligation are as follows:

<u>Year Ending August 31:</u>	<u>Notes Payable</u>		<u>Financed Purchase</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>
2020	\$ 132,000	\$ 132,000	\$ 175,000
2021	155,000	126,000	190,000
2022	3,003,000	112,000	190,000
2023	-	-	190,000
2024	<u>-</u>	<u>-</u>	<u>111,000</u>
Total	<u>\$ 3,290,000</u>	<u>\$ 370,000</u>	<u>\$ 856,000</u>

9. Employee Retirement Plans

Defined contribution plan. Effective March 1, 2004, the Authority adopted the Hospital Authority of Washington County 403(b) Plan (Plan), a defined contribution plan. Employees must work 20 or more hours per week to be eligible to participate in the Plan. Employees must complete 1 hour of service to make elective deferrals to the Plan and must complete 3 months of service and attain the age of 18 to receive matching and non-elective contributions to the Plan. Employees are 100% vested in elective deferrals made to the Plan. For matching and non-elective contributions to the Plan, employees are 50% vested after one year of service and 100% vested after two years of service.

Employees may make elective deferrals to the Plan up to 100% of their compensation, except that elective deferrals for any calendar year cannot exceed the annual dollar limit permitted by the Internal Revenue Code. Employee elective deferrals to the Plan during 2019 and 2018 were approximately \$118,000 and \$109,000, respectively.

The Authority makes matching contributions to the Plan in an amount equal to \$.50 for each \$1.00 the employee elects to defer up to a maximum matching contribution of \$500. The Authority may also make additional non-elective contributions at its discretion. During 2019 and 2018, the Authority made matching contributions to the Plan of approximately \$9,000 and \$24,000, respectively. The Authority did not make any non-elective contributions to the Plan in 2019 or 2018.

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HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements, Continued August 31, 2019 and 2018

9. Employee Retirement Plans, Continued

Defined benefit plan. The Authority has a single employer defined benefit pension plan, the Washington County Regional Medical Center Retirement Plan (Plan). The Plan provides retirement, disability and death benefits to plan members and beneficiaries and is administered by Principal Life Insurance Company. For more information on the plan, contact Authority administration.

Effective March 15, 2004, the Authority elected to freeze the plan. Benefits will not accrue for wages and services subsequent to that date. Employees were eligible to participate in the Plan, provided they had attained the age of 21, worked 1,000 hours or more a year, and completed one year of service. Benefits are determined based on service and compensation to date and are payable at age 65 in the form of a monthly annuity. A reduced benefit is payable any time after early retirement requirements are met.

Participant data. The following is a summary of plan participants at December 31, 2018 and 2017.

	<u>2018</u>	<u>2017</u>
Active participants	52	58
Inactives with deferred benefits	60	61
Inactives receiving payment	<u>8</u>	<u>8</u>
Total participants	<u>120</u>	<u>127</u>

Contribution requirements. All contributions are made by the Authority based on a minimum recommended contribution determined by an actuarial valuation each year. The Authority is providing for the cost of this plan as benefits are accrued based upon actuarial determinations employing the entry age normal actuarial cost method. Contributions are intended to provide not only for benefits attributed to service-to-date, but also for those expected to be earned in the future.

	<u>2019</u>	<u>2018</u>
Actuarially determined contribution	\$ 292,000	\$ 264,000
Contributions made in relation to the actuarially determined contribution	<u>264,000</u>	<u>261,000</u>
Contribution deficiency	\$ <u>28,000</u>	\$ <u>3,000</u>
Covered payroll	N/A	N/A
Contributions as a percentage of payroll	N/A	N/A

The actuarial valuation of the plan was performed as of December 31, 2018 and 2017 and the measurement date of the net pension liability is as of December 31, 2018 and 2017.

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HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements, Continued August 31, 2019 and 2018

9. Employee Retirement Plans, Continued

Assumptions and other inputs. The following summarizes the significant assumptions used in the valuation as of December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Inflation	2.25%	2.00%
Salary increase	N/A	N/A
Expected rate of return	5.75%	5.75%
Mortality table	2019 IRS Prescribed Mortality	2018 IRS Prescribed Mortality
Discount rate	5.75%	5.75%

The long-term expected rate of return on Plan investments was determined based on the Authority's expectation of best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of rates of return of each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Expected Rate of Return</u>
U.S. Equity - Large Cap	39.91%	6.35% - 7.70%
Real estate investment trusts	0.61%	5.95% - 7.60%
Core bond	31.34%	3.90% - 4.00%
Real estate	28.14%	5.25% - 5.55%

The discount rate used to measure the total pension liability was 5.75%. The projection of cash flows used to determine the discount rate assumed that contributions from the employer will be made in an amount equal to the actuarially recommended contribution based on funding the unfunded liability over a 10-year period. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Continued

HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements, Continued
August 31, 2019 and 2018

9. Employee Retirement Plans, Continued

Changes in net pension liability. The following table presents the changes in the Total Pension Liability, Plan Fiduciary Net Position, and Net Pension Liability for the years ended August 31, 2019 and 2018:

	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>
Balance recognized at August 31, 2017	<u>\$ 1,793,000</u>	<u>\$ 27,000</u>	<u>\$ 1,766,000</u>
Changes recognized for the fiscal year:			
Service cost	25,000	-	25,000
Interest cost	116,000	-	116,000
Differences between expected and actual experience	5,000	-	5,000
Changes in assumptions	162,000	-	162,000
Contributions from the employer	-	261,000	(261,000)
Net investment income	-	19,000	(19,000)
Benefit payments	(77,000)	(77,000)	-
Administrative expense	<u>-</u>	<u>(39,000)</u>	<u>39,000</u>
Net changes	<u>231,000</u>	<u>164,000</u>	<u>67,000</u>
Balance recognized at August 31, 2018	<u>2,024,000</u>	<u>191,000</u>	<u>1,833,000</u>
Changes recognized for the fiscal year:			
Service cost	28,000	-	28,000
Interest cost	111,000	-	111,000
Differences between expected and actual experience	58,000	-	58,000
Changes in assumptions	89,000	-	89,000
Contributions from the employer	-	264,000	(264,000)
Net investment income	-	(2,000)	2,000
Benefit payments	(298,000)	(298,000)	-
Administrative expense	<u>-</u>	<u>(35,000)</u>	<u>35,000</u>
Net changes	<u>(12,000)</u>	<u>(71,000)</u>	<u>59,000</u>
Balance recognized at August 31, 2019	<u>\$ 2,012,000</u>	<u>\$ 120,000</u>	<u>\$ 1,892,000</u>

Continued

HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements, Continued August 31, 2019 and 2018

9. Employee Retirement Plans, Continued

Changes in net pension liability, continued. The following table illustrates the impact of interest rate sensitivity on the Net Pension Liability for fiscal years ended August 31, 2019 and 2018:

	2019		
	1% Decrease <u>4.75%</u>	Current Rate <u>5.75%</u>	1% Increase <u>6.75%</u>
Net pension liability	<u>\$ 2,007,000</u>	<u>\$ 1,892,000</u>	<u>\$ 1,783,000</u>
2018			
	1% Decrease <u>4.75%</u>	Current Rate <u>5.75%</u>	1% Increase <u>6.75%</u>
Net pension liability	<u>\$ 1,955,000</u>	<u>\$ 1,833,000</u>	<u>\$ 1,718,000</u>

Pension expense recognized during 2019 and 2018 totaled \$269,000 and \$212,000, respectively.

The following table presents components of deferred inflows and deferred outflows of resources for the years ended August 31, 2019 and 2018:

	2019		2018	
	Deferred <u>Outflows</u>	Deferred <u>Inflows</u>	Deferred <u>Outflows</u>	Deferred <u>Inflows</u>
Differences between expected and actual experience	\$ 55,000	\$ -	\$ 40,000	\$ -
Effects of changes in assumptions	146,000	(6,000)	150,000	(34,000)
Net differences between expected and net investment income	8,000	-	-	(8,000)
Contributions made subsequent to measurement date	<u>132,000</u>	<u>-</u>	<u>265,000</u>	<u>-</u>
Total	<u>\$ 341,000</u>	<u>\$(6,000)</u>	<u>\$ 455,000</u>	<u>\$(42,000)</u>

Contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the following year.

Continued

HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements, Continued August 31, 2019 and 2018

9. Employee Retirement Plans, Continued

Changes in net pension liability, continued. Other amounts recognized in the deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending</u>	<u>Amount</u>
2020	\$ 124,000
2021	\$ 70,000
2022	\$ 6,000
2023	\$ 2,000
2024	\$ -
Thereafter	\$ -

GASB No. 68 requires a schedule of changes in net pension liability and related ratios and a schedule of pension contributions for each of the last ten years to be presented as required supplementary information. However, certain prior years' information is not reasonably obtainable. Therefore, only information for the years available is presented.

Investments included in fiduciary net position. The Plan's investments are valued based on the investment's net asset value (NAV) per share. Such fair value measurements are as follows at August 31, 2019 and 2018.

Investments Measured at NAV					
	<u>Fair Value</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>	<u>Redemption Restrictions</u>	<u>Unfunded Commitments</u>
<u>August 31, 2019</u>					
Pooled separate accounts:					
Large Cap Equity	\$ 68,000	Daily	None	None	\$ -
Small-Mid Cap Equity	1,000	Daily	None	None	-
Fixed Income	<u>51,000</u>	Daily	None	None	<u>-</u>
Total investments measured at NAV	<u>\$ 120,000</u>				<u>\$ -</u>
<u>August 31, 2018</u>					
Pooled separate accounts:					
Large Cap Equity	\$ 60,000	Daily	None	None	\$ -
Small-Mid Cap Equity	13,000	Daily	None	None	-
Fixed Income	<u>118,000</u>	Daily	None	None	<u>-</u>
Total investments measured at NAV	<u>\$ 191,000</u>				<u>\$ -</u>

Continued

HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements, Continued August 31, 2019 and 2018

9. Employee Retirement Plans, Continued

Investments included in fiduciary net position, continued.

Large Cap Equity Pooled separate accounts: This type seeks long-term growth of capital and invests primarily in companies with large market capitalizations.

Small-Mid Cap Equity Pooled separate accounts: This type seeks total return and invests primarily in equity securities of companies principally engaged in the real-estate industry.

Fixed Income Pooled separate accounts: This type seeks to provide current income. The funds included in this type invest in fixed income securities, including but not limited to debt securities, including government, corporate, asset backed and mortgage backed securities with maturities of one year or more, public and private corporate bonds, and preferred stock securities.

10. Contingencies

Litigation. The Authority is subject to litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that any matters would be resolved without a material adverse effect on the Authority's future financial position or results from operations.

Insurance arrangements. The Authority has claims-made coverage for professional liability insurance and occurrence coverage for general liability insurance. The insurance policies have limits of \$1,000,000 per claim/occurrence and \$3,000,000 annual aggregate. The Authority's deductible for the professional and general liability policies is \$25,000 for each claim/occurrence.

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

11. Contributions from Washington County

On December 8, 2016, the Authority entered into an Intergovernmental Agreement with Washington County. Under the terms of the Intergovernmental Agreement, Washington County will provide the following to the Authority over a five-year period:

- Operating funds of up to \$5,085,000.
- Capital renovation/equipment funds of up to \$9,029,000.

The Authority must meet certain financial performance measures each year to receive the full amount of the funds. The Authority recognizes the operating funds as revenue in the year of receipt. The Authority recognizes the capital funds as revenue as capital expenditures are made.

Continued

HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements, Continued August 31, 2019 and 2018

11. Contributions from Washington County, Continued

In addition, Washington County also provides quarterly funding to subsidize the ambulance operations of the Authority. The funding is recognized as revenue evenly over the three months of each quarter.

Funding from Washington County during 2019 and 2018 was as follows:

	<u>2019</u>	<u>2018</u>
Recognized as revenue:		
Operating funds	\$ 1,750,000	\$ 1,250,000
Capital renovation/equipment funds	1,473,000	331,000
Ambulance funds	<u>287,000</u>	<u>295,000</u>
Total revenue	<u>\$ 3,510,000</u>	<u>\$ 1,876,000</u>
Unearned revenue:		
Capital renovation/equipment funds	\$ 2,227,000	\$ 2,500,000
Ambulance funds	<u>23,000</u>	<u>25,000</u>
Total unearned revenue	<u>\$ 2,250,000</u>	<u>\$ 2,525,000</u>

12. Economic Dependency

The Authority has experienced recurring operating losses, has a net position deficiency, has current liabilities that exceed its current assets, and has negative cash flows from operations. As discussed in Note 11, the Authority has entered into an intergovernmental agreement with Washington County whereby Washington County will provide funding for renovations, capital equipment, and operations. Alternative sources of financing would be necessary to maintain the Authority's operations should contributions from Washington County become unavailable.

13. Management Agreement

On November 1, 2017, the Authority entered into a management agreement with ER Hospital, LLC (ERH) for the purpose of providing management and administrative services. The management agreement is to remain in effect for five years, with an automatic renewal term of five years, unless either party provides written notice within 120 days prior to the end of the five-year term. Consideration for the management services provided by ERH is \$25,000 per month. The agreement also stipulates a quarterly performance bonus structure which is based on the financial measure of earnings before interest, taxes, depreciation, and amortization (EBITDA). A \$20,000, \$50,000, and \$100,000 bonus will be paid for positive EBITDA of \$100,000, \$200,000, and \$300,000, respectively. The calculation of EBITDA specifically excludes any bond funds provided by Washington County. The performance bonus will be determined on an annual basis but will be paid on a quarterly basis based on estimated annual results. Differences in quarterly bonus payments and the final calculated annual bonus will be settled at the end of each year. Management fees incurred during 2019 and 2018 were \$300,000 and \$250,000, respectively.

Continued

HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements, Continued August 31, 2019 and 2018

13. Management Agreement, Continued

The management agreement with ERH also provides for certain management and operational services to be provided by ERH Shared Services, LLC (Shared Services), a wholly owned subsidiary of ERH. Employees of Shared Services provide services to multiple hospitals under the management of ERH. The cost for these services is billed monthly based on each hospital's pro rata share of the total cost incurred by Shared Services. Shared service fees incurred during 2019 and 2018 were \$860,000 and \$311,000, respectively.

14. Rural Hospital Tax Credit Contributions

The State of Georgia (State) passed legislation which allow individuals or corporations to receive a State tax credit for making a contribution to certain qualified rural hospital organizations during calendar years 2017 through 2024. The Authority's submitted the necessary documentation and was approved by the State to participate in the rural hospital tax credit program. Contributions received under the program approximated \$448,000 and \$702,000 during fiscal years 2019 and 2018, respectively. The Authority will have to be approved by the State to participate in the program in each subsequent year.

15. Subsequent Events

In 2020, the COVID-19 coronavirus spread causing economic uncertainties. The outbreak is likely to put an unprecedented strain on the U.S. healthcare system, disrupt or delay production and delivery of materials and products in the supply chain, and cause staffing shortages. The extent of the impact of COVID-19 on the Authority's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and the impact on the Authority's patients, employees, and vendors, all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the Authority's financial position or results of operations is uncertain.

On March 27, 2020, the *Coronavirus, Aid, Relief, and Economic Security Act* was passed and on April 24, 2020, the *Paycheck Protection Program and Health Care Enhancement Act* was passed (collectively, CARES Act). Certain provisions of the CARES Act provide relief funds to healthcare providers. The funding is to be used to support healthcare-related expenses or lost revenue attributable to COVID-19. The U.S. Department of Health and Human Services (HHS) began distributing funds in April 2020 to eligible providers in an effort to provide relief to both providers in areas heavily impacted by COVID-19 and those providers who are struggling to remain open. In 2020, the Authority received approximately \$4,467,000 in CARES Act funding. The CARES Act funding is reported as unearned revenue until all eligibility requirements are met.

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

Continued

HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements, Continued August 31, 2019 and 2018

15. Subsequent Events, Continued

The CARES Act also expanded the Medicare Accelerated and Advance Payment (MAAP) program to increase cash flow to healthcare providers impacted by the COVID-19 pandemic. In April 2020, the Authority received approximately \$1,005,000 in MAAP payments. The MAAP payments must be repaid and recoupment begins one year after the date of receipt. Medicare will recoup 25% of Medicare payments owed to the Authority for eleven months. Medicare will then recoup 50% of Medicare payments owed to the Authority for the succeeding six months. Any outstanding balance must then be repaid.

In April 2020, the Authority received loan proceeds of approximately \$2,204,000 from the Paycheck Protection Program, established as part of the CARES Act and amended by the *Paycheck Protection Program Flexibility Act* (collectively, PPP). The PPP provides loans to qualifying businesses in amounts up 2.5 times the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable if the borrower uses the loan proceeds for eligible purposes, including payroll, mortgage interest, rent, and utilities, and maintains its payroll levels. The amount of forgiveness will be reduced if the borrower terminates employees or reduces salaries during the forgiveness period. The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first 10 months after the covered period. The Authority believes it will use the proceeds consistent with the PPP and intends to seek forgiveness. PPP loans greater than \$2 million are subject to review by the Small Business Administration. The Authority will recognize any forgiveness of the loan at the time the Authority is legally released from the debt. While the Authority currently believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan, no assurances can be provided.

REQUIRED SUPPLEMENTARY INFORMATION

HOSPITAL AUTHORITY OF WASHINGTON COUNTY

SCHEDULE OF CHANGES IN NET PENSION
LIABILITY AND RELATED RATIOS

August 31, 2019, 2018, 2017, 2016, 2015 and 2014

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability:						
Service cost	\$ 28,000	\$ 25,000	\$ 27,000	\$ 25,000	\$ 40,000	\$ 53,000
Interest cost	111,000	116,000	116,000	128,000	130,000	145,000
Differences between expected and actual experiences	58,000	5,000	33,000	49,000	24,000	5,000
Changes in assumptions	89,000	162,000	69,000	(57,000)	(97,000)	5,000
Benefit payments	(298,000)	(77,000)	(286,000)	(395,000)	(333,000)	(455,000)
Net change in total pension liability	(12,000)	231,000	(41,000)	(250,000)	(236,000)	(247,000)
Total pension liability (beginning)	<u>2,024,000</u>	<u>1,793,000</u>	<u>1,834,000</u>	<u>2,084,000</u>	<u>2,320,000</u>	<u>2,567,000</u>
Total pension liability (ending)	<u>2,012,000</u>	<u>2,024,000</u>	<u>1,793,000</u>	<u>1,834,000</u>	<u>2,084,000</u>	<u>2,320,000</u>
Plan fiduciary net position:						
Contributions - employer	264,000	261,000	-	155,000	5,000	350,000
Net investment income	(2,000)	19,000	12,000	14,000	90,000	111,000
Benefit payments	(298,000)	(77,000)	(286,000)	(395,000)	(333,000)	(455,000)
Administrative expense	(35,000)	(39,000)	(32,000)	(33,000)	(29,000)	(30,000)
Net changes in plan fiduciary net position	(71,000)	164,000	(306,000)	(259,000)	(267,000)	(24,000)
Plan fiduciary net position (beginning)	<u>191,000</u>	<u>27,000</u>	<u>333,000</u>	<u>592,000</u>	<u>859,000</u>	<u>883,000</u>
Plan fiduciary net position (ending)	<u>120,000</u>	<u>191,000</u>	<u>27,000</u>	<u>333,000</u>	<u>592,000</u>	<u>859,000</u>
Net pension liability (ending)	\$ <u>1,892,000</u>	\$ <u>1,833,000</u>	\$ <u>1,766,000</u>	\$ <u>1,501,000</u>	\$ <u>1,492,000</u>	\$ <u>1,461,000</u>
Net position as a percentage of pension liability	<u>5.97%</u>	<u>9.42%</u>	<u>1.51%</u>	<u>18.16%</u>	<u>28.41%</u>	<u>37.03%</u>

Continued

HOSPITAL AUTHORITY OF WASHINGTON COUNTY

SCHEDULE OF CHANGES IN NET PENSION
LIABILITY AND RELATED RATIOS, Continued
August 31, 2019, 2018, 2017, 2016, 2015 and 2014

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Covered payroll	N/A	N/A	N/A	N/A	N/A	N/A
Net pension liability as a percentage of payroll	N/A	N/A	N/A	N/A	N/A	N/A

Changes in assumptions. In 2019 and 2018, amounts reported as changes in assumptions resulted primarily from adjustments to assumed life expectancies as a result of using the most recent IRS Prescribed Mortality table available at the measurement date each year.

Information to present a 10-year history is not reasonably obtainable.

See independent auditor's report.

HOSPITAL AUTHORITY OF WASHINGTON COUNTY

SCHEDULE OF PENSION CONTRIBUTIONS
August 31, 2019, 2018, 2017, 2016, 2015 and 2014

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 292,000	\$ 264,000	\$ 273,000	\$ 246,000	\$ 237,000	\$ 261,000
Contributions made in relation to the actuarially determined contribution	<u>264,000</u>	<u>261,000</u>	<u>-</u>	<u>155,000</u>	<u>5,000</u>	<u>350,000</u>
Contribution deficiency (excess)	<u>\$ 28,000</u>	<u>\$ 3,000</u>	<u>\$ 273,000</u>	<u>\$ 91,000</u>	<u>\$ 232,000</u>	<u>\$(89,000)</u>
Covered payroll	N/A	N/A	N/A	N/A	N/A	N/A
Contributions as a percentage of payroll	N/A	N/A	N/A	N/A	N/A	N/A

Methods and assumptions used to determine contribution rates:

- Actuarial cost method: Entry age normal
- Asset valuation method: Market value method
- Salary increases: N/A - plan is frozen
- Investment rate of return: 5.75% per year, compounded annually
- Retirement age: Active and inactive participants are assumed to retire at the age of 65 based on the results of recent experience, analysis and anticipated future experience.
- In 2019, mortality rates were based on the 2019 IRS Prescribed Mortality - Optional combined Table for Small Plans, male and female. In 2018, mortality rates were based on the 2018 IRS Prescribed Mortality - Optional combined Table for Small Plans, male and female.

Information to present a 10-year history is not reasonably obtainable.

See independent auditor's report.