

HOSPITAL AUTHORITY OF WASHINGTON COUNTY



FINANCIAL STATEMENTS

for the years ended August 31, 2016 and 2015

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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, 2016 and 2015, 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.

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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.

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, 2016 and 2015, and the results of its operations and changes in net 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 16 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 16 for additional details. Our opinion is not modified with respect to this matter.

Other Matters

Auditor's Updated Opinion of 2015 Financial Statements

In our report dated March 28, 2016, we expressed a qualified opinion that the 2015 financial statements did not fairly present financial position, results of operations, and cash flows in accordance with accounting principles generally accepted in the United States of America because (1) the Authority did not implement GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, (2) we were unable to obtain sufficient

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appropriate audit evidence about the carrying amount of the defined benefit pension plan liability because the Authority did not have an actuarial valuation performed to determine the liability, and (3) the financial statements did not contain the required disclosures regarding the defined benefit pension plan because the Authority did not have an actuarial valuation performed to calculate the required disclosures. As described in Note 11 to the financial statements, the Authority has (1) implemented GASB Statement No. 68, (2) obtained actuarial valuations for 2015 and 2014 necessary to provide sufficient appropriate audit evidence about the carrying amount of the defined benefit pension plan liability, and (3) obtained actuarial valuations for 2015 and 2014 to provide the required disclosures regarding the defined benefit pension plan, and has restated its 2015 financial statements to conform with accounting principles generally accepted in the United States of America. Accordingly, our present opinion on the 2015 financial statements, as presented herein, is different from that expressed in our previous report.

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 34 through 35, 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
December 12, 2017

HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Balance Sheets
August 31, 2016 and 2015

	<u>2016</u>	<u>Restated 2015</u>
Assets and Deferred Outflows of Resources		
<i>Current assets:</i>		
Cash and cash equivalents	\$ 1,539,000	\$ 1,374,000
Patient accounts receivable, net of estimated uncollectibles of \$4,848,000 in 2016 and \$5,800,000 in 2015	1,590,000	1,818,000
County contributions receivable	138,000	138,000
Supplies, at lower of cost (first-in, first-out) or market	390,000	429,000
Other current assets	<u>148,000</u>	<u>195,000</u>
Total current assets	<u>3,805,000</u>	<u>3,954,000</u>
<i>Noncurrent cash and investments:</i>		
Restricted for scholarships and education	14,000	14,000
Internally designated	57,000	57,000
Other long-term investments	<u>70,000</u>	<u>59,000</u>
Total noncurrent cash and investments	<u>141,000</u>	<u>130,000</u>
<i>Capital assets:</i>		
Land	117,000	117,000
Depreciable capital assets, net of accumulated depreciation	<u>3,108,000</u>	<u>3,665,000</u>
Total capital assets, net of accumulated depreciation	<u>3,225,000</u>	<u>3,782,000</u>
<i>Other assets:</i>		
Physician receivable, net	<u>53,000</u>	<u>1,000</u>
Total assets	7,224,000	7,867,000
<i>Deferred outflows of resources:</i>		
Pension deferrals	<u>56,000</u>	<u>180,000</u>
Total assets and deferred outflows of resources	<u>\$ 7,280,000</u>	<u>\$ 8,047,000</u>

	<u>2016</u>	Restated <u>2015</u>
Liabilities, Deferred Inflows of Resources and Net Position		
<i>Current liabilities:</i>		
Short-term obligations	\$ 477,000	\$ 4,071,000
Current maturities of long-term debt	57,000	84,000
Accounts payable	2,920,000	2,861,000
Accrued expenses	1,163,000	1,033,000
Estimated third-party payor settlements	563,000	402,000
Unearned County contributions revenue	<u>25,000</u>	<u>25,000</u>
Total current liabilities	5,205,000	8,476,000
Long-term debt, net of current maturities	3,635,000	98,000
Net pension liability	<u>1,501,000</u>	<u>1,492,000</u>
Total liabilities	10,341,000	10,066,000
Deferred inflows of resources:		
Pension deferrals	<u>132,000</u>	<u>142,000</u>
Total liabilities and deferred inflows of resources	<u>10,473,000</u>	<u>10,208,000</u>
<i>Net position:</i>		
Net investment in capital assets	3,127,000	3,600,000
Restricted for scholarships and education	14,000	14,000
Unrestricted	<u>(6,334,000)</u>	<u>(5,775,000)</u>
Total net position	<u>(3,193,000)</u>	<u>(2,161,000)</u>
Total liabilities, deferred inflows of resources and net position	\$ <u>7,280,000</u>	\$ <u>8,047,000</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, 2016 and 2015

	<u>2016</u>	<u>Restated 2015</u>
Operating revenues:		
Net patient service revenue (net of provision for bad debts of \$3,781,000 in 2016 and \$3,794,000 in 2015)	\$ 19,189,000	\$ 21,413,000
EHR meaningful use incentive revenue	-	172,000
Other revenue	<u>352,000</u>	<u>395,000</u>
Total operating revenues	<u>19,541,000</u>	<u>21,980,000</u>
Operating expenses:		
Salaries and wages	10,006,000	10,886,000
Employee benefits	2,228,000	2,571,000
Purchased services and professional fees	3,189,000	3,259,000
Supplies and drugs	2,677,000	2,921,000
Depreciation and amortization	602,000	694,000
Other expense	<u>2,978,000</u>	<u>3,232,000</u>
Total operating expenses	<u>21,680,000</u>	<u>23,563,000</u>
Operating loss	(<u>2,139,000</u>)	(<u>1,583,000</u>)

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HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Statements of Revenues, Expenses, and Changes in Net Position, Continued
 Years Ended August 31, 2016 and 2015

	<u>2016</u>	Restated <u>2015</u>
Nonoperating revenues (expenses):		
Investment income	\$ 28,000	\$ 40,000
Interest expense	(194,000)	(151,000)
Noncapital grants from Washington County	1,119,000	544,000
Other noncapital grants	<u>55,000</u>	<u>9,000</u>
Total nonoperating revenues	<u>1,008,000</u>	<u>442,000</u>
Excess expenses before capital grants and contributions	(1,131,000)	(1,141,000)
Sales tax proceeds from Washington County for capital acquisitions	<u>99,000</u>	<u>140,000</u>
Change in net position	<u>(1,032,000)</u>	<u>(1,001,000)</u>
Net position, beginning of year, as originally reported	(2,488,000)	(1,607,000)
Implementation of GASB Statement No. 68	<u>327,000</u>	<u>447,000</u>
Net position, beginning of year, restated	<u>(2,161,000)</u>	<u>(1,160,000)</u>
Net position, end of year	<u>\$(3,193,000)</u>	<u>\$(2,161,000)</u>

See accompanying notes to financial statements.

HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Statements of Cash Flows
Years Ended August 31, 2016 and 2015

	<u>2016</u>	<u>Restated 2015</u>
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 19,531,000	\$ 21,326,000
Payments to suppliers and contractors	(8,751,000)	(9,218,000)
Payments to employees	(11,981,000)	(13,464,000)
EHR meaningful use incentive receipts	47,000	204,000
Other receipts	<u>352,000</u>	<u>395,000</u>
Net cash used by operating activities	(802,000)	(757,000)
Cash flows from noncapital financing activities:		
Proceeds from issuance of short-term obligation	-	2,579,000
Principal paid on short-term obligations	-	(908,000)
Interest paid on short-term obligations	(168,000)	(128,000)
Noncapital grants from Washington County	1,119,000	395,000
Other noncapital grants	<u>55,000</u>	<u>9,000</u>
Net cash provided by noncapital financing activities	<u>1,006,000</u>	<u>1,947,000</u>
Cash flows from capital and related financing activities:		
Sales tax proceeds from Washington County for capital acquisitions	99,000	140,000
Principal paid on long-term debt	(84,000)	(352,000)
Interest paid on long-term debt	(26,000)	(23,000)
Purchase of capital assets	<u>(45,000)</u>	<u>(261,000)</u>
Net cash used by capital and related financing activities	(56,000)	(496,000)
Cash flows from investing activities:		
Investment income	<u>17,000</u>	<u>42,000</u>
Net change in cash and cash equivalents	165,000	736,000
Cash and cash equivalents, beginning of year	<u>1,431,000</u>	<u>695,000</u>
Cash and cash equivalents, end of year	\$ <u>1,596,000</u>	\$ <u>1,431,000</u>

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HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Statements of Cash Flows, Continued
 Years Ended August 31, 2016 and 2015

	<u>2016</u>	<u>Restated 2015</u>
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash and cash equivalents in current assets	\$ 1,539,000	\$ 1,374,000
Cash and cash equivalents in noncurrent cash and investments:		
Internally designated	<u>57,000</u>	<u>57,000</u>
Total cash and cash equivalents	\$ <u>1,596,000</u>	\$ <u>1,431,000</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$(2,139,000)	\$(1,583,000)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation and amortization	602,000	694,000
Provision for bad debts	3,781,000	3,794,000
Pension activity	123,000	(35,000)
Changes in:		
Patient accounts receivable	(3,553,000)	(3,971,000)
Supplies	39,000	26,000
Other current assets	47,000	2,000
Physician receivable	(52,000)	8,000
Accounts payable	59,000	158,000
Accrued expenses	130,000	28,000
Estimated third-party payor settlements	<u>161,000</u>	<u>122,000</u>
Net cash used by operating activities	\$(<u>802,000</u>)	\$(<u>757,000</u>)

- As discussed in Note 8, certain short-term obligations were refinanced and are classified as long-term debt at August 31, 2016.

See accompanying notes to financial statements.

HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements August 31, 2016 and 2015

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.

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.

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HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements
August 31, 2016 and 2015

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

Noncurrent cash and investments. Noncurrent cash and investments include restricted contributions that are to be used for providing educational scholarships, assets internally designated for capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes, and stock received as payment on a receivable.

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 2016 or 2015.

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 2016 or 2015.

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

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HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements

August 31, 2016 and 2015

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

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 2016 and 2015.

Deferred inflows of resources. Deferred inflows of resources consist of the unamortized pension items not yet charged to pension expense. See Note 11 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 11 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.

Continued

HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements

August 31, 2016 and 2015

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

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.

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. 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.

Recently adopted accounting pronouncements. In 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*, which improves financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. The Authority adopted this GASB Statement in fiscal year 2016.

Correction of GAAP departure. In 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and in 2013, the GASB issued GASB Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, which require enhanced note disclosure and required supplementary information for both defined benefit and defined contribution pension plans as well as provided standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses for pension plans. GASB Statements No. 68 and No. 71 were adopted by the Authority in 2016. Accordingly, the 2015 statement of revenues, expenses, and changes in net position has been adjusted to include \$120,000 of pension expense not previously reported. The 2015 balance sheet has been adjusted to reflect \$180,000 of deferred outflows of resources, and \$142,000 of deferred inflows of resources. Also, the 2015 accrued pension cost was adjusted from \$1,781,000 to \$1,492,000. See Note 11 for additional information.

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HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements

August 31, 2016 and 2015

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

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.

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, 2014. Revenue from the Medicare program accounted for approximately 46% and 50% of the Authority's net patient service revenue for the years ended August 31, 2016 and 2015, respectively.

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HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements

August 31, 2016 and 2015

2. Net Patient Service Revenue, Continued

- *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, 2013. 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. Revenue from the Medicaid program accounted for approximately 31% and 32% of the Authority's net patient service revenue for the years ended August 31, 2016 and 2015, respectively.

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 \$530,000 and \$659,000 for the years ended August 31, 2016 and 2015, respectively.

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 \$346,000 and \$449,000 for the years ended August 31, 2016 and 2015, respectively.

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HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements August 31, 2016 and 2015

2. Net Patient Service Revenue, Continued

- *Medicaid, continued.* During 2010, the State of Georgia enacted legislation known as the Provider Payment Agreement Act (Act) whereby hospitals in the State of Georgia are assessed a “provider payment” in the amount of 1.45% of their net patient revenue. The Act became effective July 1, 2010. The provider payments are due on a quarterly basis to the State of Georgia. 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 will result 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 \$234,000 and \$221,000 in 2016 and 2015, 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.

3. Charity Care

Charges excluded from revenue under the Authority’s charity care policy were approximately \$457,000 and \$533,000 for the years ended August 31, 2016 and 2015, respectively.

4. Restricted and Designated Net Position

The Authority has received restricted contributions that are to be used for providing educational scholarships.

The Authority’s Board of Trustees has designated \$57,000 in 2016 and 2015 of the unrestricted net position for capital acquisitions. Designated funds remain under the control of the Board of Trustees who may at its discretion later use the funds for other purposes.

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HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements
August 31, 2016 and 2015

5. Deposits and Investments

State law requires collateralization of all deposits with federal depository insurance and other acceptable collateral in specific amounts. At August 31, 2016 and 2015, the Authority's deposits were entirely insured or collateralized.

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

	<u>2016</u>	<u>2015</u>
Deposits	\$ 1,610,000	\$ 1,445,000
Investments	<u>70,000</u>	<u>59,000</u>
Total	\$ <u>1,680,000</u>	\$ <u>1,504,000</u>

Included in the following balance sheet captions:

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 1,539,000	\$ 1,374,000
Restricted for scholarships and education	14,000	14,000
Internally designated	57,000	57,000
Other long-term investments	<u>70,000</u>	<u>59,000</u>
Total	\$ <u>1,680,000</u>	\$ <u>1,504,000</u>

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

The Authority's investments are reported at fair value as discussed in Note 10. At August 31, 2016 and 2015, the Authority's investments consisted of the following:

	<u>2016</u>	<u>2015</u>
The Southern Company common stock	\$ <u>70,000</u>	\$ <u>59,000</u>

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HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements
August 31, 2016 and 2015

6. 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, 2016 and 2015 consisted of these amounts:

	<u>2016</u>	<u>2015</u>
Patient accounts receivable:		
Receivable from patients and their insurance carriers	\$ 5,314,000	\$ 6,385,000
Receivable from Medicare	846,000	933,000
Receivable from Medicaid	<u>278,000</u>	<u>300,000</u>
Total patient accounts receivable	6,438,000	7,618,000
Less allowance for uncollectible amounts	<u>4,848,000</u>	<u>5,800,000</u>
Patient accounts receivable, net	\$ <u>1,590,000</u>	\$ <u>1,818,000</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>2016</u>	<u>2015</u>
Accounts payable and accrued expenses:		
Payable to employees (including payroll taxes)	\$ 1,163,000	\$ 1,033,000
Payable to suppliers	<u>2,920,000</u>	<u>2,861,000</u>
Total accounts payable and accrued expenses	\$ <u>4,083,000</u>	\$ <u>3,894,000</u>

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HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements
August 31, 2016 and 2015

7. Capital Assets

Capital asset additions, retirements, and balances for the years ended August 31, 2016 and 2015 are as follows:

	<u>Balance</u> <u>August 31, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>August 31, 2016</u>
Land	\$ <u>117,000</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>117,000</u>
Total nondepreciable capital assets	<u>117,000</u>	<u>-</u>	<u>-</u>	<u>117,000</u>
Land improvements	381,000	-	-	381,000
Buildings and improvements	12,485,000	-	-	12,485,000
Equipment	<u>15,459,000</u>	<u>45,000</u>	<u>-</u>	<u>15,504,000</u>
Total depreciable capital assets at historical cost	<u>28,325,000</u>	<u>45,000</u>	<u>-</u>	<u>28,370,000</u>
Less accumulated depreciation for:				
Land improvements	(371,000)	-	-	(371,000)
Buildings and improvements	(9,895,000)	(190,000)	-	(10,085,000)
Equipment	<u>(14,394,000)</u>	<u>(412,000)</u>	<u>-</u>	<u>(14,806,000)</u>
Total accumulated depreciation	<u>(24,660,000)</u>	<u>(602,000)</u>	<u>-</u>	<u>(25,262,000)</u>
Net depreciable capital assets	<u>3,665,000</u>	<u>(557,000)</u>	<u>-</u>	<u>3,108,000</u>
Total capital assets, net	\$ <u>3,782,000</u>	\$ <u>(557,000)</u>	\$ <u>-</u>	\$ <u>3,225,000</u>

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HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements
August 31, 2016 and 2015

7. Capital Assets, Continued

	Balance <u>August 31, 2014</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>August 31, 2015</u>
Land	\$ <u>117,000</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>117,000</u>
Total nondepreciable capital assets	<u>117,000</u>	<u>-</u>	<u>-</u>	<u>117,000</u>
Land improvements	381,000	-	-	381,000
Buildings and improvements	12,455,000	30,000	-	12,485,000
Equipment	<u>15,237,000</u>	<u>231,000</u>	<u>(9,000)</u>	<u>15,459,000</u>
Total depreciable capital assets at historical cost	<u>28,073,000</u>	<u>261,000</u>	<u>(9,000)</u>	<u>28,325,000</u>
Less accumulated depreciation for:				
Land improvements	(371,000)	-	-	(371,000)
Buildings and improvements	(9,703,000)	(192,000)	-	(9,895,000)
Equipment	<u>(13,901,000)</u>	<u>(502,000)</u>	<u>9,000</u>	<u>(14,394,000)</u>
Total accumulated depreciation	<u>(23,975,000)</u>	<u>(694,000)</u>	<u>9,000</u>	<u>(24,660,000)</u>
Net depreciable capital assets	<u>4,098,000</u>	<u>(433,000)</u>	<u>-</u>	<u>3,665,000</u>
Total capital assets, net	\$ <u>4,215,000</u>	\$ <u>(433,000)</u>	\$ <u>-</u>	\$ <u>3,782,000</u>

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HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements
August 31, 2016 and 2015

8. Short-Term Obligations

A schedule of changes in the Authority's short-term obligations for 2016 and 2015 follows:

	<u>Balance</u> <u>August 31, 2015</u>	<u>Additions</u>	<u>Payments</u>	<u>Refinance</u>	<u>Balance</u> <u>August 31, 2016</u>
Citizens	\$ 1,094,000	\$ -	\$ -	\$ (1,094,000)	\$ -
University	477,000	-	-	-	477,000
Warthen	<u>2,500,000</u>	<u>-</u>	<u>-</u>	<u>(2,500,000)</u>	<u>-</u>
Total	<u>\$ 4,071,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$(3,594,000)</u>	<u>\$ 477,000</u>

	<u>Balance</u> <u>August 31, 2014</u>	<u>Additions</u>	<u>Payments</u>	<u>Refinance</u>	<u>Balance</u> <u>August 31, 2015</u>
Citizens	\$ 400,000	\$ 1,602,000	\$(908,000)	\$ -	\$ 1,094,000
University	-	477,000	-	-	477,000
Warthen	<u>2,000,000</u>	<u>500,000</u>	<u>-</u>	<u>-</u>	<u>2,500,000</u>
Total	<u>\$ 2,400,000</u>	<u>\$ 2,579,000</u>	<u>\$(908,000)</u>	<u>\$ -</u>	<u>\$ 4,071,000</u>

The terms and purposes of the Authority's short-term obligations at August 31, 2016 and 2015, follow:

- Citizens Bank of Washington County (b) – Promissory note issued April 2015 in the amount of \$1,097,000. The note bears interest at 4.00% and is collateralized by property. The note was issued to refinance: (1) a note payable originally issued in December 2008 to fund intergovernmental transfer related to ICTF funding, (2) a note payable entered into in January 2015 to fund operations, and (3) a long-term note (see Note 9). The note was renewed on October 20, 2015, May 11, 2016, and again on November 21, 2016. Subsequent to year-end, the note was refinanced over a five-year term with monthly payments of \$8,000 and a balloon payment at maturity, bearing interest at 3.65%. Due to the refinance, the note is reflected as long-term debt on the balance sheet at August 31, 2016 (See Note 9).
- University Health, Inc. – Line-of-credit in the amount of \$1,000,000 used to fund operations. The line-of-credit bears interest at 5.00%.

Continued

HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements
August 31, 2016 and 2015

8. Short-Term Obligations, Continued

- Geo. D. Warthen Bank – Line-of-credit used to fund operations, with a principal amount of \$2,000,000 and an interest rate of 3.75%, collateralized by all accounts and chattel paper. The line-of-credit was renewed on September 2, 2014, with a maturity date of March 2, 2015. The line-of-credit was replaced on November 5, 2014 with a maturity date of May 5, 2015, and an increase in the credit limit to \$2,500,000. The line-of-credit was renewed on May 11, 2015, November 5, 2015 and again on May 5, 2016. Subsequent to year-end, the line-of-credit was refinanced to a note with a five-year term with monthly payments of \$15,000 and a balloon payment at maturity, bearing interest at 4.25%. Due to the refinance, the line-of-credit is reflected as long-term debt on the balance sheet at August 31, 2016 (See Note 9).

9. Long-Term Debt

A schedule of changes in the Authority’s long-term debt for 2016 and 2015 follows:

	Balance August 31, <u>2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Refinance</u>	Balance August 31, <u>2016</u>	Amounts Due Within <u>One Year</u>
Notes payable:						
Citizens (b)	\$ -	\$ -	\$ -	\$ 1,094,000	\$ 1,094,000	\$ 6,000
Warthen	-	-	-	2,500,000	2,500,000	-
Capital lease obligations	<u>182,000</u>	<u>-</u>	<u>(84,000)</u>	<u>-</u>	<u>98,000</u>	<u>51,000</u>
Total long-term debt	<u>\$ 182,000</u>	<u>\$ -</u>	<u>\$(84,000)</u>	<u>\$ 3,594,000</u>	<u>\$ 3,692,000</u>	<u>\$ 57,000</u>
	Balance August 31, <u>2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>Refinance</u>	Balance August 31, <u>2015</u>	Amounts Due Within <u>One Year</u>
Notes payable:						
Citizens (a)	\$ 208,000	\$ -	\$(208,000)	\$ -	\$ -	\$ -
Capital lease obligations	<u>326,000</u>	<u>-</u>	<u>(144,000)</u>	<u>-</u>	<u>182,000</u>	<u>84,000</u>
Total long-term debt	<u>\$ 534,000</u>	<u>\$ -</u>	<u>\$(352,000)</u>	<u>\$ -</u>	<u>\$ 182,000</u>	<u>\$ 84,000</u>

Continued

HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements
August 31, 2016 and 2015

9. Long-Term Debt, Continued

The terms and due dates of the Authority's long-term debt at August 31, 2016 and 2015, follows:

- Notes payable – see Note 8 for information on notes payable.
- Citizens Bank of Washington County (a) – 4.00% note payable, payable in monthly installments of \$3,000 and balance due at maturity, due February 20, 2016, collateralized by equipment.
- Capital lease obligations, at varying rates of imputed interest from 2.96% to 4.41%, collateralized by leased equipment with a cost of \$243,000 and accumulated amortization of \$166,000 at August 31, 2016.

Scheduled payments on capital lease obligations are as follows:

<u>Year Ending August 31:</u>	<u>Notes Payable</u>		<u>Capital Lease Obligations</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 6,000	\$ 129,000	\$ 51,000	\$ 3,000
2018	137,000	143,000	47,000	1,000
2019	143,000	138,000	-	-
2020	148,000	132,000	-	-
2021	155,000	126,000	-	-
2022	<u>3,005,000</u>	<u>112,000</u>	<u>-</u>	<u>-</u>
Total	\$ <u>3,594,000</u>	\$ <u>780,000</u>	\$ <u>98,000</u>	\$ <u>4,000</u>

10. Fair Value Measurement

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs and Level 3 inputs are significant unobservable inputs.

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HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements
August 31, 2016 and 2015

10. Fair Value Measurement, Continued

The Authority has the following recurring fair value measurements as of August 31, 2016 and 2015.

	<u>Fair Value</u>	<u>Fair Value Measurements at Reporting Date Using</u>		
		<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
<u>August 31, 2016</u>				
Assets:				
Common stock	\$ <u>70,000</u>	\$ <u>70,000</u>	\$ <u>-</u>	\$ <u>-</u>
<u>August 31, 2015</u>				
Assets:				
Common stock	\$ <u>59,000</u>	\$ <u>59,000</u>	\$ <u>-</u>	\$ <u>-</u>

Common stock classified in Level 1 of the fair value hierarchy is valued using prices quoted in active markets for those securities.

11. 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 2016 and 2015 were approximately \$107,000 and \$123,000, 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 2016 and 2015, the Authority made matching contributions to the Plan of approximately \$24,000 and \$29,000, respectively. The Authority did not make any non-elective contributions to the Plan in 2016 or 2015.

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HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements
August 31, 2016 and 2015

11. 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, 2015 and 2014.

	<u>2015</u>	<u>2014</u>
Active participants	79	93
Inactives with deferred benefits	58	58
Inactives receiving payment	<u>6</u>	<u>6</u>
Total participants	<u>143</u>	<u>157</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>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 246,000	\$ 237,000
Contributions made in relation to the actuarially determined contribution	<u>155,000</u>	<u>5,000</u>
Contribution deficiency	\$ <u>91,000</u>	\$ <u>232,000</u>
Covered – employee payroll	N/A	N/A
Contributions as a percentage of payroll	N/A	N/A

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HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements
August 31, 2016 and 2015

11. Employee Retirement Plans, Continued

Contribution requirements, continued. The actuarial valuation of the plan was performed as of December 31, 2015 and 2014 and the measurement date of the net pension liability is as of December 31, 2015 and 2014.

Assumptions and other inputs. The following summarizes the significant assumptions used in the valuation as of December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Inflation	2.25%	2.25%
Salary increase	N/A	N/A
Expected rate of return	6.75%	6.75%
Mortality table	2016 IRS Prescribed Mortality	2015 IRS Prescribed Mortality
Discount rate	6.75%	6.75%

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	31.74%	7.45% - 8.80%
Real estate investment trusts	5.43%	6.55% - 8.35%
Real estate (direct property)	14.62%	5.95% - 6.30%
Core bond	48.21%	4.25% - 4.15%

The discount rate used to measure the total pension liability was 6.75%. 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.

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HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements

August 31, 2016 and 2015

11. 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, 2016 and 2015:

	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>
Balance recognized at August 31, 2014	\$ <u>2,320,000</u>	\$ <u>859,000</u>	\$ <u>1,461,000</u>
Changes recognized for the fiscal year:			
Service cost	40,000	-	40,000
Interest cost	130,000	-	130,000
Differences between expected and actual experience	24,000	-	24,000
Changes in assumptions	(97,000)	-	(97,000)
Contributions from the employer	-	5,000	(5,000)
Net investment income	-	90,000	(90,000)
Benefit payments	(333,000)	(333,000)	-
Administrative expense	<u>-</u>	<u>(29,000)</u>	<u>29,000</u>
Net changes	<u>(236,000)</u>	<u>(267,000)</u>	<u>31,000</u>
Balance recognized at August 31, 2015	<u>2,084,000</u>	<u>592,000</u>	<u>1,492,000</u>
Changes recognized for the fiscal year:			
Service cost	25,000	-	25,000
Interest cost	128,000	-	128,000
Differences between expected and actual experience	49,000	-	49,000
Changes in assumptions	(57,000)	-	(57,000)
Contributions from the employer	-	155,000	(155,000)
Net investment income	-	14,000	(14,000)
Benefit payments	(395,000)	(395,000)	-
Administrative expense	<u>-</u>	<u>(33,000)</u>	<u>33,000</u>
Net changes	<u>(250,000)</u>	<u>(259,000)</u>	<u>9,000</u>
Balance recognized at August 31, 2016	\$ <u>1,834,000</u>	\$ <u>333,000</u>	\$ <u>1,501,000</u>

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HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements
August 31, 2016 and 2015

11. 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, 2016 and 2015:

	2016		
	1% Decrease <u>5.75%</u>	Current Rate <u>6.75%</u>	1% Increase <u>7.75%</u>
Net pension liability	\$ <u>1,603,000</u>	\$ <u>1,501,000</u>	\$ <u>1,403,000</u>
	2015		
	1% Decrease <u>5.75%</u>	Current Rate <u>6.75%</u>	1% Increase <u>7.75%</u>
Net pension liability	\$ <u>1,621,000</u>	\$ <u>1,492,000</u>	\$ <u>1,373,000</u>

Pension expense recognized during 2016 and 2015 totaled \$123,000 and \$121,000, respectively.

The following table presents components of deferred inflows and deferred outflows of resources for the years ended August 31, 2016 and 2015:

	2016		2015	
	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
Differences between expected and actual experience	\$ 54,000	\$ -	\$ 22,000	\$ -
Effects of changes in assumptions	2,000	(100,000)	3,000	(76,000)
Net differences between expected and net investment income	-	(32,000)	-	(66,000)
Contributions made subsequent to measurement date	<u>-</u>	<u>-</u>	<u>155,000</u>	<u>-</u>
Total	\$ <u>56,000</u>	\$ <u>(132,000)</u>	\$ <u>180,000</u>	\$ <u>(142,000)</u>

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

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HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements
August 31, 2016 and 2015

11. 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>
2017	\$(31,000)
2018	(31,000)
2019	(18,000)
2020	<u>3,000</u>
Total	<u>\$(77,000)</u>

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 year 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, 2016 and 2015.

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, 2016</u>					
Pooled separate accounts:					
Large Cap Equity	\$ 136,000	Daily	None	None	\$ -
Small-Mid Cap Equity	9,000	Daily	None	None	-
Fixed Income	<u>188,000</u>	Daily	None	None	<u>-</u>
Total investments measured at NAV	\$ <u>333,000</u>				\$ <u>-</u>

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HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements
August 31, 2016 and 2015

11. Employee Retirement Plans, Continued

Investments included in fiduciary net position, continued.

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, 2015</u>					
Pooled separate accounts:					
Large Cap Equity	\$ 225,000	Daily	None	None	\$ -
Small-Mid Cap Equity	35,000	Daily	None	None	-
Fixed Income	<u>332,000</u>	Daily	None	None	<u>-</u>
Total investments measured at NAV	\$ <u>592,000</u>				\$ <u>-</u>

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.

12. 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 \$12,000 and \$8,000 in 2016 and 2015, respectively.

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HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements August 31, 2016 and 2015

13. Contingencies

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

Insurance arrangements. The Authority has claims-made insurance coverage for professional liability and occurrence insurance coverage for general liability. 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 \$-0- for each claim or occurrence. The Authority has also purchased excess liability insurance coverage with a policy limit of \$1,000,000 per claim and \$1,000,000 annual aggregate. Estimated accruals for claims incurred but not reported have been recorded.

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.

14. EHR Meaningful Use Incentives

Under certain provisions of the American Recovery and Reinvestment Act of 2009, federal incentive payments are available to hospitals (Providers) when they adopt certified electronic health record (EHR) technology or become "meaningful users" of EHRs in ways that demonstrate improved quality, safety, and effectiveness of care. Providers can become eligible for annual Medicare incentive payments by demonstrating meaningful use of EHR technology in each period over four periods. Medicaid Providers can receive their initial incentive payment by adopting, implementing or upgrading certified EHR technology, but must demonstrate meaningful use of EHRs in subsequent years in order to qualify for additional payments. Hospitals may be eligible for both Medicare and Medicaid EHR incentive payments.

The Authority recognizes income related to Medicare and Medicaid incentive payments using a contingency model. Under this model, the income from incentive payments would be recorded entirely in the period in which the last remaining contingency is resolved.

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HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements August 31, 2016 and 2015

14. EHR Meaningful Use Incentives, Continued

During 2015, the Authority attested that it met all requirements to receive Medicare and Medicaid incentive payments. The Authority's attestations were approved by Medicare and Medicaid, and the accompanying financial statements reflect Medicare incentive revenue for 2015 of approximately \$100,000, and Medicaid incentive revenue for 2015 of \$72,000. These amounts are included with total operating revenues on the statements of revenues, expenses and changes in net position. The amounts received in 2015 represent the final Medicare and Medicaid incentive payments under the EHR programs. Therefore, no incentive revenue is reported in the accompanying financial statements for 2016.

15. Contributions from Washington County

On September 4, 2015, the Authority entered into an Intergovernmental Agreement (Original Agreement) with Washington County. Under the terms of the Original Agreement, Washington County will provide the following to the Authority:

- Sales tax funds of \$1,000,000 over a six (6) year period to be used for facilities and equipment.
- Supplement funding of \$834,000 per year to use for operations.

On December 8, 2016, the Authority entered into an Intergovernmental Agreement (Replacement Agreement) with Washington County. The Replacement Agreement replaces the Original Agreement. Under the terms of the Replacement Agreement, Washington County will provide the following to the Authority:

- Operating funds of up to \$5,085,000, of which \$2,756,000 was paid subsequent to year end.
- Capital renovation/equipment funds of up to \$9,029,000, of which \$1,840,000 was paid subsequent to year end.

The Authority must meet certain financial performance measures to receive the remaining funds.

In addition, the County also provides approximately \$295,000 per year to subsidize the ambulance operations of the Authority.

Continued

HOSPITAL AUTHORITY OF WASHINGTON COUNTY

Notes to Financial Statements

August 31, 2016 and 2015

16. Economic Dependency

The Authority has experienced recurring operating losses, has a net position deficiency, has current liabilities that exceed its current assets, and is not in compliance with the funding requirements of its defined benefit pension plan. As discussed in Note 15, the Authority has entered into intergovernmental agreements 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.

17. Hospital Management Agreement

Subsequent to year-end, the Authority entered into a management agreement with ER Hospital, LLC (ERH) for the purpose of providing management and administrative services. The agreement originated as of November 1, 2017 and 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 the 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.

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 are billed monthly based on each hospital's pro rata share of the total cost incurred by Shared Services.

REQUIRED SUPPLEMENTARY INFORMATION



HOSPITAL AUTHORITY OF WASHINGTON COUNTY

SCHEDULE OF CHANGES IN NET PENSION
LIABILITY AND RELATED RATIOS

August 31, 2016, 2015 and 2014

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability:			
Service cost	\$ 25,000	\$ 40,000	\$ 53,000
Interest cost	128,000	130,000	145,000
Differences between expected and actual experiences	49,000	24,000	5,000
Changes in assumptions	(57,000)	(97,000)	5,000
Benefit payments	(395,000)	(333,000)	(455,000)
Net change in total pension liability	(250,000)	(236,000)	(247,000)
Total pension liability (beginning)	<u>2,084,000</u>	<u>2,320,000</u>	<u>2,567,000</u>
Total pension liability (ending)	<u>1,834,000</u>	<u>2,084,000</u>	<u>2,320,000</u>
Plan fiduciary net position:			
Contributions – employer	155,000	5,000	350,000
Net investment income	14,000	90,000	111,000
Benefit payments	(395,000)	(333,000)	(455,000)
Administrative expense	(33,000)	(29,000)	(30,000)
Net changes in plan fiduciary net position	(259,000)	(267,000)	(24,000)
Plan fiduciary net position (beginning)	<u>592,000</u>	<u>859,000</u>	<u>883,000</u>
Plan fiduciary net position (ending)	<u>333,000</u>	<u>592,000</u>	<u>859,000</u>
Net pension liability (ending)	\$ <u>1,501,000</u>	\$ <u>1,492,000</u>	\$ <u>1,461,000</u>
Net position as a percentage of pension liability	<u>18.16%</u>	<u>28.41%</u>	<u>37.03%</u>
Covered employee payroll	N/A	N/A	N/A
Net pension liability as a percentage of payroll	N/A	N/A	N/A

- *Changes in assumptions.* In 2016 and 2015, 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, 2016, 2015 and 2014

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 246,000	\$ 237,000	\$ 261,000
Contributions made in relation to the actuarially determined contribution	<u>155,000</u>	<u>5,000</u>	<u>350,000</u>
Contribution deficiency (excess)	\$ <u>91,000</u>	\$ <u>232,000</u>	\$ (<u>89,000</u>)
Covered – employee payroll	N/A	N/A	N/A
Contributions as a percentage of payroll	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: 6.75% 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 2016, mortality rates were based on the 2016 IRS Prescribed Mortality – Optional combined Table for Small Plans, male and female. In 2015, mortality rates were based on the 2015 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.