HOSPITAL AUTHORITY OF CLINCH COUNTY

FINANCIAL STATEMENTS

for the years ended June 30, 2019 and 2018

C O N T E N T S

Draffin Tucker

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Hospital Authority of Clinch County, Georgia
Homerville, Georgia

Report on the Financial Statements

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

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

Continued

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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 Clinch County, Georgia as of June 30, 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.

Required Supplementary Information

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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2019, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Draffin & Tucker, LLP
Atlanta, Georgia
October 28, 2019

HOSPITAL AUTHORITY OF CLINCH COUNTY

BALANCE SHEETS
June 30, 2019 and 2018

	2019	2018
ASSETS		
Current assets:		
Cash	$ 2,149,000	$ 1,658,000
Short-term investments designated for debt service	59,000	47,000
Patient accounts receivable, net of estimated uncollectibles of $2,005,000 in 2019 and $1,946,000 in 2018	1,732,000	1,233,000
Estimated third-party payor settlements	-	70,000
Supplies, at lower of cost (first-in-first-out) or market	275,000	175,000
Other current assets	568,000	163,000
Total current assets	4,783,000	3,346,000
Noncurrent cash and investments:		
Restricted for reserve fund	830,000	830,000
Capital assets:		
Non-depreciable capital assets	268,000	272,000
Depreciable capital assets, net of accumulated depreciation	5,276,000	4,683,000
Total capital assets, net of accumulated depreciation	5,544,000	4,955,000
Total assets	$ 11,157,000	$ 9,131,000
LIABILITIES AND NET POSITION		
Current liabilities:		
Current maturities of long-term debt	$ 425,000	$ 399,000
Accounts payable	1,080,000	377,000
Accrued expenses	563,000	429,000
Estimated third-party payor settlements	331,000	-
Total current liabilities	2,399,000	1,205,000
Long-term debt, net of current maturities	10,038,000	10,394,000
Total liabilities	12,437,000	11,599,000
Net position:		
Net investment in capital assets	(4,919,000)	(5,838,000)
Restricted	830,000	830,000
Unrestricted	2,809,000	2,540,000
Total net position	(1,280,000)	(2,468,000)
Total liabilities and net position	$ 11,157,000	$ 9,131,000

See accompanying notes to financial statements.

HOSPITAL AUTHORITY OF CLINCH COUNTY

STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
for the years ended June 30, 2019 and 2018

	2019	2018
Operating revenues:		
Net patient service revenue (net of provision for bad debts of $1,685,000 in 2019 and $1,796,000 in 2018)	$ 11,529,000	$ 8,644,000
Other	1,929,000	1,776,000
Total operating revenues	13,458,000	10,420,000
Operating expenses:		
Salaries and wages	5,359,000	3,870,000
Employee health and welfare	1,399,000	1,102,000
Supplies and other	3,051,000	2,223,000
Professional services	1,975,000	1,746,000
Contracted services	159,000	145,000
Depreciation	514,000	505,000
Total operating expenses	12,457,000	9,591,000
Operating gain	1,001,000	829,000
Nonoperating revenues (expense):		
Unrestricted gifts and bequests	519,000	292,000
Investment income	20,000	11,000
Other	7,000	97,000
Interest expense	(444,000)	(454,000)
Total nonoperating revenues (expenses)	102,000	(54,000)
Excess of revenues over expenses	1,103,000	775,000
Capital grants and contributions	85,000	-
Increase in net position	1,188,000	775,000
Net position, beginning of year	(2,468,000)	(3,243,000)
Net position, end of year	$(1,280,000)	$(2,468,000)

See accompanying notes to financial statements.

HOSPITAL AUTHORITY OF CLINCH COUNTY

STATEMENTS OF CASH FLOWS
for the years ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Cash received from patients and payors	$ 13,360,000	$ 10,583,000
Cash payments to vendors and other suppliers	(4,987,000)	(4,119,000)
Cash payments to employees	(6,624,000)	(4,941,000)
Net cash provided by operating activities	1,749,000	1,523,000
Cash flows from noncapital financing activities:		
Unrestricted gifts and bequests	519,000	292,000
Cash flows from capital and related financing activities:		
Capital grants and contributions	85,000	-
Principal paid on long-term debt	(401,000)	(379,000)
Interest paid on long-term debt	(444,000)	(454,000)
Purchase of property and equipment	(1,034,000)	(44,000)
Proceeds from sale of property and equipment	-	150,000
Net cash used by capital and related financing activities	(1,794,000)	(727,000)
Cash flows from investing activities:		
Interest on investments	20,000	11,000
Purchase of investments	(7,000)	(9,000)
Rental income	7,000	29,000
Net cash provided by investing activities	20,000	31,000
Net increase in cash	494,000	1,119,000
Cash, beginning of year	1,872,000	753,000
Cash, end of year	$ 2,366,000	$ 1,872,000

Continued

HOSPITAL AUTHORITY OF CLINCH COUNTY

STATEMENTS OF CASH FLOWS, Continued
for the years ended June 30, 2019 and 2018

	2019	2018
Reconciliation of cash to the balance sheets:		
Cash in current assets	$ 2,149,000	$ 1,658,000
Cash in noncurrent cash and investments:		
Restricted for reserve fund	217,000	214,000
Total cash	$ 2,366,000	$ 1,872,000
Reconciliation of operating gain to net cash flows from operating activities:		
Operating gain	$ 1,001,000	$ 829,000
Adjustments to reconcile operating gain to net cash provided by operating activities:		
Depreciation	514,000	505,000
Provision for bad debts	1,685,000	1,796,000
Changes in:		
Net patient accounts receivable	(2,184,000)	(1,560,000)
Third-party payor settlements	401,000	(73,000)
Supplies	(100,000)	(59,000)
Other current assets	(405,000)	(13,000)
Accounts payable	703,000	67,000
Other accrued expenses	134,000	31,000
Net cash provided by operating activities	$ 1,749,000	$ 1,523,000

Supplemental disclosure of cash flow information:

- The Authority entered into capital lease obligations of approximately $71,000 and $9,000 respectively, for new equipment in 2019 and 2018.

See accompanying notes to financial statements.

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

Reporting Entity

The Hospital Authority of Clinch County (Authority) is a public corporation which operates Clinch Memorial Hospital, a 25 bed Critical Access Hospital. The Authority is comprised of a Board of Directors, which has the right to approve major expenditures and long-term borrowings.

Use of Estimates

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

Enterprise Fund Accounting

The 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).

Cash and Cash Equivalents

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

Investments

Investments include certificates of deposit recorded at cost which approximate fair market value.

Allowance for Doubtful Accounts

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

Continued

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

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; and employee health and accident benefits. Commercial insurance coverage, with the exception of employee health and accident benefits, is purchased for claims arising from such matters. Settled claims did not exceed commercial coverage in any of the three preceding years.

Impairment of Long-Lived Assets

The Authority evaluates on an ongoing basis the recoverability of its assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The impairment loss to be recognized is the amount by which the carrying value of the long-lived asset exceeds the asset's fair value. In most instances, the fair value is determined by discounted estimated future cash flows using an appropriate interest rate. The Authority has not recorded any impairment charges in the accompanying statements of revenues, expenses and changes in net position for the years ended June 30, 2019 and 2018.

Noncurrent Cash and Investments

Noncurrent cash and investments include assets restricted for the USDA loan reserve fund.

Grants and Contributions

From time to time, the Authority receives grants from Clinch County and the State of Georgia 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.

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. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. The estimated useful life is assigned using AHA Useful Lives Guidelines listed below.

Continued

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

Capital Assets, Continued

Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements.

Land improvements	15 To 20 Years
Buildings and improvements	20 To 40 Years
Equipment	3 To 7 Years

Costs of Borrowing

Interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Net Position

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

Financing Cost

Costs incurred in connection with the issuance of debt are expensed in the period in which they are incurred.

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.

Compensated Absences

The Authority's employees earn vacation days at varying rates depending on years of service. Employees may accumulate vacation leave up to 275 hours. Employees also earn sick leave benefits based on varying rates depending on years of service. Employees may accumulate sick leave up to 205 hours. Employees are not paid for accumulated sick leave if they leave

Continued

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

Compensated Absences, Continued

before retirement. However, employees who retire from the Authority may convert accumulated sick leave to termination payments at varying rates, depending on the employee's contract. The estimated amount of compensated absences is reported as a current liability in both 2019 and 2018.

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 revenues.

Income Taxes

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

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.

Continued

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

Fair Value Measurements, Continued

- *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.

Recently Adopted Accounting Pronouncement

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, 2018. The Authority has adopted the provisions for all periods presented.

Accounting Pronouncement Not Yet Adopted

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities* (GASB 84). GASB 84 establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. GASB 84 is effective for fiscal years beginning after December 15, 2018. The Authority is currently evaluating the impact GASB 84 will have on its financial statements.

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.

Revenue from the Medicare and Medicaid programs accounted for approximately 75% and 1%, respectively, of the Authority's net patient revenue for the year ended 2019, and 66% and 5%, respectively, of the Authority's net patient revenue for the year ended 2018. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Continued

2. Net Patient Service Revenue, Continued

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

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

- Medicare

  Effective July 21, 2000, the Authority was granted Critical Access Hospital (CAH) designation by the Medicare program. The CAH designation places certain restrictions on daily acute care inpatient census and an annual, average length of stay of acute care inpatients. Inpatient acute care and outpatient services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology.

  The Authority is reimbursed for certain reimbursable items 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 classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Authority. The Authority's Medicare cost reports have been audited by the MAC through June 30, 2016.

- Medicaid

  Inpatient acute care services rendered to Medicaid program beneficiaries are paid at a prospectively determined rate per admission. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology.

  The Authority is reimbursed 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 audited by the Medicaid fiscal intermediary through June 30, 2016.

Continued

2. Net Patient Service Revenue, Continued

- Medicaid, Continued

The Authority has also entered into contracts with certain managed care organizations to receive reimbursement for providing services to selected enrolled Medicaid beneficiaries. Payment arrangements with these managed care organizations consist primarily of prospectively determined rates per discharge, discounts from established charges, or prospectively determined per diems.

The Authority participates in the Georgia 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 amount of ICTF payments recognized in net patient service revenue was approximately $336,000 and $630,000 for the years ended June 30, 2019 and 2018.

The Medicare, Medicaid and SCHIP Benefits Improvement and Protection Act of 2000 (BIPA) provides for payment adjustments to certain facilities based on the Medicaid Upper Payment Limit (UPL). 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 $79,000 and $90,000 for the years ended June 30, 2019 and 2018.

- Other Arrangements

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

Continued

3. Uncompensated Services

The Authority was compensated for services at amounts less than its established rates. Charges for uncompensated services for 2019 and 2018 were approximately $6,116,000 and $4,346,000, respectively.

Uncompensated care includes charity and indigent care services of approximately $373,000 and $349,000 in 2019 and 2018, respectively. The cost of charity and indigent care services provided during 2019 and 2018 was approximately $263,000 and $258,000, respectively computed by applying a total cost factor to the charges forgone.

The following is a summary of uncompensated services and a reconciliation of gross patient charges to net patient service revenue for 2019 and 2018.

	2019	2018
Gross patient charges	$ 17,645,000	$ 12,990,000
Uncompensated services:		
Charity and indigent care	373,000	349,000
Medicare	2,627,000	996,000
Medicaid	799,000	529,000
Other allowances	632,000	676,000
Bad debts	1,685,000	1,796,000
Total uncompensated care	6,116,000	4,346,000
Net patient service revenue	$ 11,529,000	$ 8,644,000

Continued

4. Deposits and Investments

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to them. The Authority does not have a deposit policy for custodial credit risk. The Authority's bank deposits at June 30, 2019 and 2018 are entirely insured or collateralized with securities held by the pledging financial institutions designated trustee in the Authority's name.

As discussed in Note 1, the Authority's investments approximate fair value. Deposits and investments as of June 30, 2019 and 2018 are classified in the accompanying financial statements as follows:

	2019	2018
Balance sheets:		
Cash	$ 2,149,000	$ 1,658,000
Short-term investments	59,000	47,000
Noncurrent cash and investments:		
Restricted for reserve fund	830,000	830,000
Total	$ 3,038,000	$ 2,535,000
Deposits and investments consist of the following:		
Deposits with financial institutions	$ 2,153,000	$ 1,663,000
Money market accounts	213,000	209,000
Subtotal deposits	2,366,000	1,872,000
Certificate of deposit	672,000	663,000
Total deposits and investments	$ 3,038,000	$ 2,535,000

Continued

4. Deposits and Investments, Continued

Investments

As of June 30, 2019:

Investment Type	Amount	Maturity
Certificate of deposit	$ 672,000	March 27, 2020

As of June 30, 2018:

Investment Type	Amount	Maturity
Certificate of deposit	$ 663,000	March 27, 2020

5. Accounts Receivable and Payable

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Authority at June 30, 2019 and 2018 consisted of these amounts:

	2019	2018
Patient accounts receivable:		
Receivable from patients and their insurance carriers	$ 1,886,000	$ 1,942,000
Receivable from Medicare	1,682,000	1,044,000
Receivable from Medicaid	169,000	193,000
Total patient accounts receivable	3,737,000	3,179,000
Less allowance for uncollectible amounts and contractual adjustments	2,005,000	1,946,000
Patient accounts receivable, net	$ 1,732,000	$ 1,233,000
Accounts payable and accrued expenses:		
Payable to employees (including payroll taxes)	$ 563,000	$ 429,000
Payable to suppliers	1,080,000	377,000
Total accounts payable and accrued expenses	$ 1,643,000	$ 806,000

Continued

6. Capital Assets

A summary of capital assets at June 30, 2019 and 2018 follows:

	Balance June 30, 2018	Additions	Retirements	Balance June 30, 2019
Land	$ 268,000	$ -	$ -	$ 268,000
Construction-in-progress	4,000	121,000	(125,000)	-
Total capital assets not being depreciated	272,000	121,000	(125,000)	268,000
Land improvements	733,000	7,000	-	740,000
Buildings and improvements	10,555,000	290,000	-	10,845,000
Equipment	4,847,000	810,000	-	5,657,000
Total capital assets being depreciated	16,135,000	1,107,000	-	17,242,000
Land improvements	730,000	1,000	-	731,000
Buildings and improvements	6,328,000	330,000	-	6,658,000
Equipment	4,394,000	183,000	-	4,577,000
Total accumulated depreciation	11,452,000	514,000	-	11,966,000
Capital assets being depreciated, net	4,683,000	593,000	-	5,276,000
Total capital assets, net	$ 4,955,000	$ 714,000	$(125,000)	$ 5,544,000

Continued

6. Capital Assets, Continued

	Balance June 30, 2017	Additions	Retirements	Balance June 30, 2018
Land	$ 268,000	$ -	$ -	$ 268,000
Construction-in-progress	50,000	4,000	(50,000)	4,000
Total capital assets not being depreciated	318,000	4,000	(50,000)	272,000
Land improvements	733,000	-	-	733,000
Buildings and improvements	10,740,000	-	(185,000)	10,555,000
Equipment	4,748,000	99,000	-	4,847,000
Total capital assets being depreciated	16,221,000	99,000	(185,000)	16,135,000
Land improvements	729,000	1,000	-	730,000
Buildings and improvements	6,092,000	340,000	(104,000)	6,328,000
Equipment	4,229,000	165,000	-	4,394,000
Total accumulated depreciation	11,050,000	506,000	(104,000)	11,452,000
Capital assets being depreciated, net	5,171,000	(407,000)	(81,000)	4,683,000
Total capital assets, net	$ 5,489,000	$(403,000)	$(131,000)	$ 4,955,000

Depreciation expense for the years ended June 30, 2019 and 2018 amounted to approximately $514,000 and $505,000, respectively. Accumulated amortization for equipment under capital lease obligations at June 30, 2019 and 2018 was approximately $129,000 and $106,000, respectively.

Continued

7. Long-Term Debt

A schedule of changes in the Authority's long-term debt for the years ended June 30, 2019 and 2018 follows:

	Balance June 30, 2018	Additions	Reductions	Balance June 30, 2019	Amounts Due Within One Year
Direct borrowing:					
Note payable - USDA	$ 10,787,000	$ -	$(393,000)	$ 10,394,000	$ 409,000
Capital leases:					
DeMott	6,000	-	(6,000)	-	-
Mindray	-	71,000	(2,000)	69,000	16,000
Total long-term debt	$ 10,793,000	$ 71,000	$(401,000)	$ 10,463,000	$ 425,000

	Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018	Amounts Due Within One Year
Direct borrowing:					
Note payable - USDA	$ 11,163,000	$ -	$(376,000)	$ 10,787,000	$ 393,000
Capital lease:					
DeMott	-	9,000	(3,000)	6,000	6,000
Total long-term debt	$ 11,163,000	$ 9,000	$(379,000)	$ 10,793,000	$ 399,000

The terms and due dates of the Authority's long-term debt, including capital lease obligations, at June 30, 2019 and 2018 follows:

- 4.125% note payable, USDA loan for construction of new hospital, collateralized by new building and equipment, due February 2037.
- 7.500% capital lease, DeMott Tractor Co., due February 2019.
- 6.350% capital lease, Mindray DS USA, Inc., due April 2023.

Under the terms of the USDA note payable, the Authority is required to maintain certain deposits in reserve. Such deposits are included with restricted cash and investments in the balance sheet. The note payable contains a provision that in an event of default, outstanding amounts may become immediately due and payable.

Continued

7. Long-Term Debt, Continued

Scheduled principal and interest repayments on long-term debt, including capital lease payments, are as follows:

	Long-Term Debt and Capital Leases	
Year Ending June 30	Principal	Interest
2020	$ 425,000	$ 425,000
2021	443,000	407,000
2022	462,000	387,000
2023	479,000	368,000
2024	482,000	348,000
2025-2029	2,732,000	1,418,000
2030-2034	3,357,000	793,000
2035-2037	2,083,000	120,000
Total	$ 10,463,000	$ 4,266,000

8. 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.

9. Concentrations of Credit Risk

The Authority grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. See Note 5 for the mix of receivables from patients and third-party payors at year end.

10. Malpractice Insurance

The Authority is covered by a claims-made general and professional liability insurance policy with a $10,000 deductible per incident and excess coverage on a claims-made basis. Liability limits related to this policy in 2019 and 2018 are $1 million per occurrence and $3 million in aggregate.

Various claims and assertions may be made against the Authority in its normal course of providing services. In addition, other claims may be asserted arising from services provided to patients in the past. In the opinion of management, adequate provision has been made for losses which may occur from such asserted and unasserted claims that are not covered by liability insurance.

Continued

11. Retirement Plan

The Authority offers an employee benefit plan created in accordance with Internal Revenue Code Section 403(b) and is administered by MetLife. The plan is available to all employees who have completed one year and more than 1,000 hours of service. The Authority matched contributions of 3% of the employee's salary in 2019 and 2018. Participant's interest in amounts contributed by the participant vest immediately. Participant's interest in amounts contributed by the Authority vest under the plan at rates of 0% under 2 years of service, 25% after 2 years of service, 50% after 3 years of service, 75% after 4 years of service, 100% after 5 or more years of service. Forfeited nonvested accounts may be used by the Authority to reduce the fees associated with the plan. The Authority recognized no forfeitures in pension expense during 2019 or 2018.

The Authority's contributions are invested in accordance with the investment elections made by the participant. The Authority contributed approximately $104,000 and $102,000, respectively, for the years ended June 30, 2019 and 2018.

12. Compliance Plan

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

13. County Support

The Authority receives funds from Clinch County, Georgia primarily for operations of the Hospital. Funds received for the years ended June 30, 2019 and 2018 were approximately $887,000 and $1,493,000, respectively. Effective July 1, 2018 until June 30, 2019, the County has agreed to continue payment to the Authority an amount equal to 4 tax mills. In August 2019, the County Commissioners issued a resolution to continue to provide the 4 tax mills for calendar year 2019 taxable property revenues.

Continued

14. Rural Hospital Tax Credit Contributions

The State of Georgia (State) passed legislation which will 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 2021. The Authority submitted the necessary documentation and was approved by the State to participate in the rural hospital tax credit program for 2019 and 2018. Contributions received under the program approximated $481,000 and $205,000 during 2019 and 2018, respectively. The Authority will have to be approved by the State to participate in the program in each subsequent year. Amounts received under the program are recorded as unrestricted gifts and bequests in the statements of revenues, expenses, and changes in net position.

15. Management Agreement

Effective August 1, 2018, the Authority entered into a Management Services Agreement with the Hospital Authority of Miller County (Miller). Miller will provide Clinch with management services in the form of certain business, operational, quality, and other support. The term of the agreement is for two (2) years and shall automatically renew for one (1) year unless notice of termination is given. The Authority paid approximately $388,000 in 2019 for management fees.

16. Operational Improvement Plan

The Authority began a thorough strategic direction initiative in 2016, prompted by the Hospital's declining utilization, financial limitations, and limited leverage as a stand-alone, independent rural community hospital. Certain outcomes of the national healthcare reform (Affordable Care Act) remain unknown today.

The Authority conducted a complete operational assessment during fiscal year 2016 and has continued to reassess through 2019. They derived from that assessment a highly detailed action plan identifying opportunities for improved operational efficiency, cost savings, and growth in revenue.

The following items below outline action points implemented or under consideration:

(1) In August 2016, the Hospital Authority approached the County Commission requesting additional funding from the County. After several meetings, the Commissioners voted to increase the mills payable to the Hospital from 2.6 to 4.0. The additional 1.4 mills equate to approximately $300,000, annually. Tax monies received are reported as other operating revenues. The County Commissioners have agreed to provide the 4.0 mills through calendar year 2019. A request must be made annually. See Note 13 for additional information.

(2) To increase swing-bed volume, the Authority, in August of 2018, partnered with Miller County in Colquitt, Georgia, to provide care for patients that are in need of long-term ventilators and or trachs. The goal is to provide care for an average of 10 swing bed patients per day. The Authority has also increased its ability to admit more swing bed patients to the Hospital by having a Hospital employed physician.

Continued

16. Operational Improvement Plan, Continued

(3) During the 2016 Georgia General Assembly, Senate Bill 258 was passed which will allow an individual or corporation to receive a state tax credit for making a donation to certain qualified rural hospital organizations. In 2017, Senate Bill 180 was passed which enhanced the previously passed Senate Bill 258. The total amount of tax credits available in the State are as follows:

- Calendar year 2017 – $60 million
- Calendar year 2018 – $60 million
- Calendar year 2019 – $60 million
- Calendar year 2020 – $60 million
- Calendar year 2021 – $60 million

For each calendar year of the credit, no more than $4 million shall be approved for any individual rural hospital organization. See Note 14 for amounts received during fiscal years 2018 and 2019.

The Authority has partnered with Georgia Heart and is pursuing donations through the rural hospital tax credit. The donations received through the credit did increase in 2017 and 2018 but have not been as fruitful for calendar year 2019. The Authority continues to seek donations through education provided on social media, advertising in local newspapers and by mailing educational boxes to CPA firms in Atlanta and Glynn County. There is no guarantee for these donations.

(4) The Authority has hired an Internist, Dr. Igor Ancor who started practice in August of 2019, in addition to two other Family Nurse Practitioners. Together, these three providers will see patients in the newly renovated Clinch Memorial Family Practice, provide hospitalist services at the hospital and oversee care in the anticipated outpatient wound care clinic that is slated to open in January 2020.

(5) Management has established new service lines at the hospital that include a Medical Stabilization program and have partnered with Miller County Hospital to care for underserved patients on ventilators. The Authority will provide transition care through the swing-bed program until the patient is placed in a nursing facility. There are plans to open a geriatric intensive outpatient program, wellness center, and an outpatient wound care clinic.

(6) The Authority anticipates hiring a caseworker to manage unneeded ER visits, who will identify those with high utilization in the ER and direct them to the Hospital owned family practice for non-emergent issues. This case manager will work to educate them on proper utilization and help identify any social services that they may need.

Continued

16. Operational Improvement Plan, Continued

(7) Management has hired a consultant that is assisting them in creating a captive health insurance plan with local industries to generate more business for the hospital in the forms of chronic care management, Occupational Medicine including DOT physicals and Workers Compensation Assessments. The Authority is evaluating the benefits of becoming partially self-funded to assist in reducing costs and generating more business for the Hospital and practice by giving the employees the option to utilize the Hospital. Currently, employees who subscribe to the Hospital's insurance plan have to utilize other lab facilities and pharmacies to obtain in-network benefits.

(8) The Authority terminated a long-standing contract with their previous pharmacy provider and has hired Pharm D for pharmacy management. They have on behalf of the Hospital, applied for a retail pharmacy license in hopes to increase revenue through a meds to the bed program. They have also applied to participate in the 340B drug program.

(9) The Authority terminated the Physical Therapy contract and has hired a new provider. Revenue has increased in this department in addition to assisting in growing the swing bed services by providing occupational therapy.

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

Draffin Tucker

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

Board of Directors
Hospital Authority of Clinch County
Homerville, Georgia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Hospital Authority of Clinch County (Authority), which comprise the balance sheet as of June 30, 2019, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 28, 2019.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Continued

Internal Control Over Financial Reporting, Continued

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

Compliance and Other Matters

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

Purpose of this Report

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

Draffin & Tucker, LLP
Atlanta, Georgia
October 28, 2019