

CLINCH COUNTY HOSPITAL AUTHORITY



FINANCIAL STATEMENTS

for the years ended June 30, 2023 and 2022



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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Clinch County Hospital Authority
Homerville, Georgia

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Clinch County Hospital Authority, which comprise the balance sheets as of June 30, 2023 and 2022, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Clinch County Hospital Authority as of June 30, 2023 and 2022, 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Clinch County Hospital Authority and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As described in Note 1 to the financial statements, in 2023 Clinch County Hospital Authority adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 96, *Subscription-Based Information Technology Arrangements*. Our opinion is not modified with respect to this matter.

Continued

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Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Clinch County Hospital Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment of a reasonable user based on these financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Clinch County Hospital Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Clinch County Hospital Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Continued

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 November 30, 2023, 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

Albany, Georgia
November 30, 2023

CLINCH COUNTY HOSPITAL AUTHORITY

BALANCE SHEETS
June 30, 2023 and 2022

	<u>2023</u>	Restated <u>2022</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,064,000	\$ 3,451,000
Short-term investments designated for debt service	388,000	379,000
Patient accounts receivable, net of estimated uncollectibles of \$1,410,000 in 2023 and \$1,610,000 in 2022	1,466,000	1,502,000
Estimated third-party payor settlements	306,000	1,275,000
Supplies, at lower of cost (first-in-first-out) or market	779,000	683,000
Other current assets	<u>256,000</u>	<u>672,000</u>
Total current assets	<u>8,259,000</u>	<u>7,962,000</u>
Noncurrent cash and investments:		
Restricted for reserve fund	830,000	830,000
Restricted by contributors	<u>130,000</u>	<u>178,000</u>
Total noncurrent cash and investments	<u>960,000</u>	<u>1,008,000</u>
Capital assets:		
Non-depreciable capital assets	268,000	268,000
Depreciable capital assets, net of accumulated depreciation	5,974,000	6,308,000
Intangible right-to-use lease assets, net of accumulated amortization	100,000	51,000
Intangible right-to-use subscription IT asset, net of accumulated amortization	<u>438,000</u>	<u>851,000</u>
Total capital assets, net	<u>6,780,000</u>	<u>7,478,000</u>
Total assets	<u>\$ 15,999,000</u>	<u>\$ 16,448,000</u>

Continued

CLINCH COUNTY HOSPITAL AUTHORITY

BALANCE SHEETS, Continued
June 30, 2023 and 2022

	<u>2023</u>	Restated <u>2022</u>
LIABILITIES AND NET POSITION		
Current liabilities:		
Current maturities of long-term debt	\$ 598,000	\$ 644,000
Current maturities of lease liabilities	24,000	22,000
Current maturities of subscription IT liabilities	359,000	441,000
Medicare accelerated payments, current portion	-	914,000
Accounts payable	975,000	820,000
Accrued expenses	638,000	583,000
Unearned CARES and ARP Act funding	<u>-</u>	<u>775,000</u>
Total current liabilities	2,594,000	4,199,000
Lease liabilities, net of current maturities	78,000	30,000
Subscription IT liabilities, net of current maturities	90,000	419,000
Long-term debt, net of current maturities	<u>8,875,000</u>	<u>9,465,000</u>
Total liabilities	<u>11,637,000</u>	<u>14,113,000</u>
Net position:		
Net investment in capital assets	(3,243,000)	(3,393,000)
Restricted:		
Expendable	960,000	1,008,000
Unrestricted	<u>6,645,000</u>	<u>4,720,000</u>
Total net position	<u>4,362,000</u>	<u>2,335,000</u>
Total liabilities and net position	<u>\$ 15,999,000</u>	<u>\$ 16,448,000</u>

See accompanying notes to financial statements.

CLINCH COUNTY HOSPITAL AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
for the years ended June 30, 2023 and 2022

	<u>2023</u>	Restated <u>2022</u>
Operating revenues:		
Net patient service revenue (net of provision for bad debts of \$1,743,000 in 2023 and \$1,665,000 in 2022)	\$ 15,665,000	\$ 15,505,000
Other	<u>2,106,000</u>	<u>889,000</u>
Total operating revenues	<u>17,771,000</u>	<u>16,394,000</u>
Operating expenses:		
Salaries and wages	6,901,000	6,535,000
Employee health and welfare	1,315,000	1,800,000
Supplies and other	4,683,000	3,720,000
Professional services	2,418,000	2,243,000
Contracted services	1,377,000	2,122,000
Depreciation and amortization	<u>1,145,000</u>	<u>1,217,000</u>
Total operating expenses	<u>17,839,000</u>	<u>17,637,000</u>
Operating loss	(<u>68,000</u>)	(<u>1,243,000</u>)
Nonoperating revenues (expenses):		
Unrestricted gifts and bequests	514,000	299,000
CARES and ARP Act funding	775,000	-
Forgiveness of PPP Loan	-	1,138,000
Investment income and other	25,000	31,000
County tax revenues	1,183,000	1,184,000
Rural hospital stabilization grant	-	881,000
Noncapital restricted contributions	-	178,000
Interest expense	(<u>402,000</u>)	(<u>396,000</u>)
Total nonoperating revenues	<u>2,095,000</u>	<u>3,315,000</u>
Excess of revenues over expenses	2,027,000	2,072,000
Capital contributions	<u>-</u>	<u>28,000</u>
Increase in net position	2,027,000	2,100,000
Net position, beginning of year	<u>2,335,000</u>	<u>235,000</u>
Net position, end of year	\$ <u>4,362,000</u>	\$ <u>2,335,000</u>

See accompanying notes to financial statements.

CLINCH COUNTY HOSPITAL AUTHORITY

STATEMENTS OF CASH FLOWS
for the years ended June 30, 2023 and 2022

	<u>2023</u>	Restated <u>2022</u>
Cash flows from operating activities:		
Cash received from patients and payors	\$ 18,776,000	\$ 15,808,000
Cash payments to vendors and other suppliers	(8,003,000)	(8,375,000)
Cash payments to employees	(8,161,000)	(8,198,000)
Medicare accelerated payments	(914,000)	(2,023,000)
Net cash provided (used) by operating activities	<u>1,698,000</u>	(<u>2,788,000</u>)
Cash flows from noncapital financing activities:		
CARES and ARP Act funding	-	775,000
Rural hospital stabilization grant	-	881,000
County tax revenues	1,183,000	1,184,000
Noncapital grants and contributions	<u>514,000</u>	<u>477,000</u>
Net cash provided by noncapital financing activities	<u>1,697,000</u>	<u>3,317,000</u>
Cash flows from capital and related financing activities:		
Proceeds from long-term debt	-	530,000
Payments on line-of-credit	-	(44,000)
Principal paid on long-term debt	(646,000)	(610,000)
Interest paid on long-term debt	(368,000)	(360,000)
Principal paid on lease liabilities	(26,000)	(33,000)
Interest paid on lease liabilities	(2,000)	(2,000)
Principal paid on subscription IT liabilities	(445,000)	(435,000)
Interest paid on subscription IT liabilities	(22,000)	(34,000)
Purchase of property and equipment	(337,000)	(412,000)
Net cash used by capital and related financing activities	(<u>1,846,000</u>)	(<u>1,400,000</u>)
Cash flows from investing activities:		
Interest on investments	25,000	31,000
Purchase of investments	(9,000)	(3,000)
Net cash provided by investing activities	<u>16,000</u>	<u>28,000</u>
Net increase (decrease) in cash and cash equivalents	1,565,000	(843,000)
Cash and cash equivalents, beginning of year	<u>3,633,000</u>	<u>4,476,000</u>
Cash and cash equivalents, end of year	\$ <u>5,198,000</u>	\$ <u>3,633,000</u>

Continued

CLINCH COUNTY HOSPITAL AUTHORITY

STATEMENTS OF CASH FLOWS, Continued
for the years ended June 30, 2023 and 2022

	<u>2023</u>	<u>Restated 2022</u>
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash and cash equivalents in current assets	\$ 5,064,000	\$ 3,451,000
Cash and cash equivalents in noncurrent cash and investments:		
Restricted for reserve fund	4,000	4,000
Restricted by contributors	<u>130,000</u>	<u>178,000</u>
Total cash and cash equivalents	\$ <u>5,198,000</u>	\$ <u>3,633,000</u>
Reconciliation of operating loss to net cash flows from operating activities:		
Operating loss	\$(68,000)	\$(1,243,000)
Adjustments to reconcile operating loss to net cash (provided) used by operating activities:		
Depreciation and amortization	1,145,000	1,217,000
Provision for bad debts	1,743,000	1,665,000
Changes in:		
Net patient accounts receivable	(1,707,000)	(148,000)
Estimated third-party payor settlements	969,000	(2,103,000)
Supplies	(96,000)	64,000
Other current assets	416,000	(360,000)
Accounts payable	155,000	6,000
Other accrued expenses	55,000	137,000
Medicare accelerated payments	<u>(914,000)</u>	<u>(2,023,000)</u>
Net cash provided (used) by operating activities	\$ <u>1,698,000</u>	\$ <u>(2,788,000)</u>

Supplemental disclosure of cash flow information:

- The Authority entered into lease obligations of approximately \$76,000 and \$24,000 for new equipment in 2023 and 2022, respectively.
- The Authority entered into subscription-based IT obligations of approximately \$34,000 in 2023.
- The Authority received donated capital equipment with a value of \$-0- in 2023, and \$28,000 in 2022.
- See Note 8 for additional information regarding the forgiveness of the Authority's Paycheck Protection Program loan.

See accompanying notes to financial statements.

CLINCH COUNTY HOSPITAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2023 and 2022

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

Reporting Entity

The Clinch County Hospital Authority (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 accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities 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 self-insurance reserves. 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).

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

CLINCH COUNTY HOSPITAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

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. In January 2021, the Authority became self-insured for employee health insurance, see Note 13. See Note 12 for additional information related to the Authority's general and professional coverage.

Estimated Self-Insurance Costs

The provisions for estimated claims under self-insurance plans include estimates of the ultimate costs for both reported claims and claims incurred but not reported.

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, 2023 and 2022.

Noncurrent Cash and Investments

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

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.

Continued

CLINCH COUNTY HOSPITAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

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

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.

Equipment under leased assets is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Subscription-based information technology arrangements are amortized on the straight-line method over the shorter of the subscription term or the estimated useful life of the underlying IT asset. 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
Right-to-use lease assets	3 to 7 Years
Right-to-use subscription IT assets	3 to 7 Years

Costs of Borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets is expensed in the period the cost is incurred.

Subscription-Based Information Technology Arrangements

The Authority has subscription-based information technology arrangements (SBITAs). The Authority recognizes a subscription IT liability and an intangible right-to-use subscription asset (subscription IT asset) in its financial statements. At the commencement of the subscription term, which is when the subscription IT asset is placed into service, the Authority initially measures the subscription IT liability at the present value of subscription payments expected to be made during the subscription term. Subsequently, the subscription IT liability is reduced by the principal portion of subscription payments made. The subscription IT asset is initially measured as the initial amount of the subscription IT liability, adjusted for payments made at or before commencement of the subscription term, plus capitalizable implementation costs, less any incentives received from the SBITA vendor at or before the commencement of the subscription term. Subsequently, the subscription IT asset is amortized on a straight-line basis over its useful life.

Continued

CLINCH COUNTY HOSPITAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

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

Subscription-Based Information Technology Arrangements, Continued

Key estimates and judgments related to SBITAs include how the Authority determine (1) the discount rate it uses to discount the expected subscription payments to present value, (2) subscription term, and (3) subscription payments.

- The Authority uses the implicit interest rate charged by the SBITA vendor as the discount rate. When the interest rate charged by the SBITA vendor is not readily determinable, the Authority generally uses its estimated incremental borrowing rate as the discount rate. Amortization of the discount on the subscription IT liability is included in interest expense in the financial statements.
- The subscription term includes the noncancellable period. Subscription payments included in the measurement of the subscription IT liability are composed of fixed payments and other payments that are reasonably certain of being required.

The Authority monitors changes in circumstances that would require a remeasurement of its SBITA and will remeasure the subscription IT asset and subscription IT liability if certain changes occur that are expected to significantly affect the amount of the subscription IT liability.

Activities associated with a SBITA, other than making subscription payments, should be grouped into the following stages:

- Preliminary Project Stage - Outlays are expensed as incurred.
- Initial Implementation Stage - Outlays are generally capitalized as an addition to the subscription IT asset.
- Operation and Additional Implementation Stage - Outlays are expensed as incurred unless specific capitalization criteria is met.

Subscription IT assets are reported with capital assets and subscription IT liabilities are reported with current and noncurrent liabilities on the balance sheets.

Unearned Revenue

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. CARES and ARP Act advance payments are reported as unearned revenue until all applicable eligibility requirements are met. See Note 20 for additional information.

Continued

CLINCH COUNTY HOSPITAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

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

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 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 2023 and 2022.

Continued

CLINCH COUNTY HOSPITAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

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

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.
- *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.

Continued

CLINCH COUNTY HOSPITAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

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

Recently Adopted Accounting Pronouncement

In June 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB 96). GASB 96 provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). Under this Statement, a government generally should recognize a right-to-use subscription asset, an intangible asset, and a corresponding subscription liability at the commencement of the subscription term, which is when the subscription asset is placed into service. The Authority adopted GASB 96 July 1, 2022 and retroactively implemented the statement effective July 1, 2021. The adoption of this statement resulted in an increase SBITA obligations and related right-to-use subscription IT assets of approximately \$1,295,000 as of July 1, 2021. The adoption had no impact on net position.

Prior Year Reclassifications

Certain reclassifications have been made to the fiscal year 2022 financial statements to conform to the fiscal year 2023 presentation. These reclassifications had no impact on the change in net position in the accompanying 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 45% and 2%, respectively, of the Authority's net patient revenue for the year ended 2023, and 59% and 1%, respectively, of the Authority's net patient revenue for the year ended 2022. 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.

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 RACs 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.

Continued

CLINCH COUNTY HOSPITAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

2. Net Patient Service Revenue, Continued

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, 2021.

- 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, 2020.

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 \$1,031,000 and \$501,000 for the years ended June 30, 2023 and 2022, respectively.

Continued

CLINCH COUNTY HOSPITAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

2. Net Patient Service Revenue, Continued

• Medicaid, Continued

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 \$29,000 and \$117,000 for the years ended June 30, 2023 and 2022, respectively.

• 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.

3. Uncompensated Services

The Authority was compensated for services at amounts less than its established rates. Charges for uncompensated services for 2023 and 2022 were approximately \$1,728,000 and \$1,828,000, respectively.

Uncompensated care includes charity and indigent care services of approximately \$95,000 and \$167,000 in 2023 and 2022, respectively. The cost of charity and indigent care services provided during 2023 and 2022 was approximately \$167,000 and \$170,000, 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 2023 and 2022.

	<u>2023</u>	<u>2022</u>
Gross patient charges	\$ <u>17,347,000</u>	\$ <u>17,333,000</u>
Uncompensated services:		
Charity and indigent care	95,000	167,000
Medicare	(962,000)	(2,050,000)
Medicaid	206,000	918,000
Other allowances	600,000	1,128,000
Bad debts	<u>1,743,000</u>	<u>1,665,000</u>
Total uncompensated care	<u>1,682,000</u>	<u>1,828,000</u>
Net patient service revenue	\$ <u>15,665,000</u>	\$ <u>15,505,000</u>

Continued

CLINCH COUNTY HOSPITAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

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, 2023 and 2022 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, 2023 and 2022 are classified in the accompanying financial statements as follows:

	<u>2023</u>	<u>2022</u>
Balance sheets:		
Cash and cash equivalents	\$ 5,064,000	\$ 3,451,000
Short-term investments	388,000	379,000
Noncurrent cash and investments:		
Restricted for reserve fund	830,000	830,000
Restricted by contributors	<u>130,000</u>	<u>178,000</u>
Total	<u>\$ 6,412,000</u>	<u>\$ 4,838,000</u>
Deposits and investments consist of the following:		
Deposits with financial institutions	\$ 4,179,000	\$ 2,258,000
Money market accounts	<u>1,019,000</u>	<u>1,375,000</u>
Subtotal deposits	5,198,000	3,633,000
Certificates of deposit	<u>1,214,000</u>	<u>1,205,000</u>
Total deposits and investments	<u>\$ 6,412,000</u>	<u>\$ 4,838,000</u>

Continued

CLINCH COUNTY HOSPITAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

4. Deposits and Investments, Continued

Investments

As of June 30, 2023:

<u>Investment Type</u>	<u>Amount</u>	<u>Maturity</u>
Certificate of deposit	\$ 702,000	March 27, 2024
Certificate of deposit	<u>512,000</u>	August 17, 2023
Total	\$ <u>1,214,000</u>	

As of June 30, 2022:

<u>Investment Type</u>	<u>Amount</u>	<u>Maturity</u>
Certificate of deposit	\$ 699,000	March 27, 2024
Certificate of deposit	<u>506,000</u>	August 17, 2022
Total	\$ <u>1,205,000</u>	

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, 2023 and 2022 consisted of these amounts:

	<u>2023</u>	Restated <u>2022</u>
Patient accounts receivable:		
Receivable from patients and their insurance carriers	\$ 1,258,000	\$ 1,506,000
Receivable from Medicare	1,344,000	1,226,000
Receivable from Medicaid	<u>274,000</u>	<u>380,000</u>
Total patient accounts receivable	2,876,000	3,112,000
Less: allowance for uncollectible amounts and contractual adjustments	<u>1,410,000</u>	<u>1,610,000</u>
Patient accounts receivable, net	\$ <u>1,466,000</u>	\$ <u>1,502,000</u>
Accounts payable and accrued expenses:		
Payable to employees (including payroll taxes)	\$ 638,000	\$ 583,000
Payable to suppliers	<u>975,000</u>	<u>820,000</u>
Total accounts payable and accrued expenses	\$ <u>1,613,000</u>	\$ <u>1,403,000</u>

Continued

CLINCH COUNTY HOSPITAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

6. Capital Assets

A summary of capital assets at June 30, 2023 and 2022 follows:

	Restated Balance <u>June 30, 2022</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>June 30, 2023</u>
Capital assets not being depreciated:				
Land	\$ 268,000	\$ -	\$ -	\$ 268,000
Construction-in-progress	<u>-</u>	<u>217,000</u>	<u>(217,000)</u>	<u>-</u>
Total capital assets not being depreciated	<u>268,000</u>	<u>217,000</u>	<u>(217,000)</u>	<u>268,000</u>
Capital assets being depreciated:				
Land improvements	749,000	15,000	-	764,000
Buildings and improvements	12,776,000	183,000	-	12,959,000
Equipment	<u>6,723,000</u>	<u>138,000</u>	<u>-</u>	<u>6,861,000</u>
Total capital assets being depreciated	<u>20,248,000</u>	<u>336,000</u>	<u>-</u>	<u>20,584,000</u>
Less accumulated depreciation:				
Land improvements	735,000	2,000	-	737,000
Buildings and improvements	7,773,000	353,000	-	8,126,000
Equipment	<u>5,432,000</u>	<u>315,000</u>	<u>-</u>	<u>5,747,000</u>
Total accumulated depreciation	<u>13,940,000</u>	<u>670,000</u>	<u>-</u>	<u>14,610,000</u>
Capital assets being depreciated, net	<u>6,308,000</u>	<u>(334,000)</u>	<u>-</u>	<u>5,974,000</u>
Leased equipment	115,000	92,000	(86,000)	121,000
Less: accumulated amortization for leased equipment	<u>64,000</u>	<u>27,000</u>	<u>(70,000)</u>	<u>21,000</u>
Intangible right-to-use lease assets, net	<u>51,000</u>	<u>65,000</u>	<u>(16,000)</u>	<u>100,000</u>
Subscription IT assets	1,295,000	35,000	-	1,330,000
Less: accumulated amortization for subscription IT assets	<u>444,000</u>	<u>448,000</u>	<u>-</u>	<u>892,000</u>
Intangible right-to-use subscription IT assets, net	<u>851,000</u>	<u>(413,000)</u>	<u>-</u>	<u>438,000</u>
Total capital assets, net	\$ <u>7,478,000</u>	\$ <u>(465,000)</u>	\$ <u>(233,000)</u>	\$ <u>6,780,000</u>

Continued

CLINCH COUNTY HOSPITAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

6. Capital Assets, Continued

	Restated Balance June 30, 2021	Increases	Decreases	Restated Balance June 30, 2022
Capital assets not being depreciated:				
Land	\$ 268,000	\$ -	\$ -	\$ 268,000
Construction-in-progress	<u>699,000</u>	<u>133,000</u>	<u>(832,000)</u>	<u>-</u>
Total capital assets not being depreciated	<u>967,000</u>	<u>133,000</u>	<u>(832,000)</u>	<u>268,000</u>
Capital assets being depreciated:				
Land improvements	749,000	-	-	749,000
Buildings and improvements	11,767,000	1,009,000	-	12,776,000
Equipment	<u>6,593,000</u>	<u>130,000</u>	<u>-</u>	<u>6,723,000</u>
Total capital assets being depreciated	<u>19,109,000</u>	<u>1,139,000</u>	<u>-</u>	<u>20,248,000</u>
Less accumulated depreciation:				
Land improvements	734,000	1,000	-	735,000
Buildings and improvements	7,373,000	400,000	-	7,773,000
Equipment	<u>5,094,000</u>	<u>338,000</u>	<u>-</u>	<u>5,432,000</u>
Total accumulated depreciation	<u>13,201,000</u>	<u>739,000</u>	<u>-</u>	<u>13,940,000</u>
Capital assets being depreciated, net	<u>5,908,000</u>	<u>400,000</u>	<u>-</u>	<u>6,308,000</u>
Leased equipment	91,000	24,000	-	115,000
Less: accumulated amortization for leased equipment	<u>30,000</u>	<u>34,000</u>	<u>-</u>	<u>64,000</u>
Intangible right-to-use lease assets, net	<u>61,000</u>	<u>(10,000)</u>	<u>-</u>	<u>51,000</u>
Subscription IT assets	1,295,000	-	-	1,295,000
Less: accumulated amortization for subscription IT assets	<u>-</u>	<u>444,000</u>	<u>-</u>	<u>444,000</u>
Intangible right-to-use subscription IT assets, net	<u>1,295,000</u>	<u>(444,000)</u>	<u>-</u>	<u>851,000</u>
Total capital assets, net	<u>\$ 8,231,000</u>	<u>\$ 79,000</u>	<u>\$(832,000)</u>	<u>\$ 7,478,000</u>

Continued

CLINCH COUNTY HOSPITAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

7. Line-of-Credit

In August 2020, the Authority entered into a promissory note for a line-of-credit with a borrowing limit of \$500,125. The revolving line-of-credit incurs interest monthly at a fixed per annum rate of 2.00% with a maturity date on August 17, 2021. The line-of-credit was paid off on July 8, 2021. The line is secured by a portion of the Authority's certificates of deposit. Activity on the line-of-credit during the year ended June 30, 2022, was as follows:

	<u>Balance</u> <u>June 30, 2021</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2022</u>
Direct borrowing:				
Line-of-credit	\$ <u>44,000</u>	\$ <u>-</u>	\$(<u>44,000</u>)	\$ <u>-</u>

8. Long-Term Debt and SBITA

A schedule of changes in the Authority's long-term debt and subscription IT arrangements for the years ended June 30, 2023 and 2022 follows:

	<u>Balance</u> <u>June 30, 2022</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2023</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Direct borrowing:					
Note payable - USDA	\$ 9,117,000	\$ -	\$(463,000)	\$ 8,654,000	\$ 483,000
Note payable - SBA Disaster	150,000	10,000	(2,000)	158,000	3,000
Note payable - Slash Pine	773,000	-	(112,000)	661,000	112,000
Financed equipment:					
Mindray	17,000	-	(17,000)	-	-
Olympus	43,000	-	(43,000)	-	-
Marlin	9,000	-	(9,000)	-	-
Subscription IT liabilities	<u>860,000</u>	<u>34,000</u>	<u>(445,000)</u>	<u>449,000</u>	<u>359,000</u>
Total long-term debt and subscription IT arrangements	<u>\$ 10,969,000</u>	<u>\$ 44,000</u>	<u>\$(1,091,000)</u>	<u>\$ 9,922,000</u>	<u>\$ 957,000</u>

Continued

CLINCH COUNTY HOSPITAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

8. Long-Term Debt and SBITA, Continued

	Balance June 30, 2021	Additions	Reductions	Balance June 30, 2022	Amounts Due Within One Year
Direct borrowing:					
Note payable - USDA	\$ 9,559,000	\$ -	\$(442,000)	\$ 9,117,000	\$ 463,000
Note payable - SBA Disaster	150,000	-	-	150,000	-
Note payable - SBA					
Paycheck Protection	1,131,000	-	(1,131,000)	-	-
Note payable - Slash Pine	314,000	530,000	(71,000)	773,000	112,000
Financed equipment:					
Mindray	38,000	-	(21,000)	17,000	17,000
Olympus	110,000	-	(67,000)	43,000	43,000
Marlin	18,000	-	(9,000)	9,000	9,000
Subscription IT liabilities	<u>1,295,000</u>	<u>-</u>	<u>(435,000)</u>	<u>860,000</u>	<u>441,000</u>
Total long-term debt and subscription IT arrangements	<u>\$ 12,615,000</u>	<u>\$ 530,000</u>	<u>\$(2,176,000)</u>	<u>\$ 10,969,000</u>	<u>\$ 1,085,000</u>

The terms and due dates of the Authority's long-term debt, including subscription IT arrangements, at June 30, 2023 and 2022 follows:

- 4.125% note payable, USDA loan for construction of new hospital, collateralized by new building and equipment, due February 2037.
- On April 24, 2020, the Authority received loan proceeds in the amount of approximately \$1,131,000 under the Paycheck Protection Program (PPP). The PPP, established as part of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying businesses. The loans and accrued interest are forgivable after the covered period as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the covered period. The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first ten months after the covered period. During 2021, the Authority received final forgiveness approval from Small Business Administration (SBA). The gain on forgiveness is reported as nonoperating revenues in the statements of revenues, expenses and changes in net position.

Continued

CLINCH COUNTY HOSPITAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

8. Long-Term Debt and SBITA, Continued

- On February 11, 2021, the Authority received a 2nd draw with loan proceeds in the amount of approximately \$1,131,000 under the Paycheck Protection Program (PPP). The unforgiven portion of the PPP loan is payable over five years at an interest rate of 1%, with a deferral of payments for the first ten months after the covered period. During 2022, the Authority received final forgiveness approval from Small Business Administration (SBA). The gain on forgiveness is reported as nonoperating revenues in the statements of revenues, expenses and changes in net position.
- 2.750% SBA Disaster Loan - 30-year note payable with payments deferred until December 1, 2022, due November 2052.
- In January 2021, the Authority was approved for a \$1 million loan from the Rural Economic Development Loan and Grant (REDLG) program. Through the REDLG program, USDA provides zero-interest loans and grants to Rural Utilities Service Electric Program and Telecom Program borrowers who will use the funds to help local businesses finance projects that will create and retain jobs. The Authority's loan is administered through Slash Pine Electric Membership Corporation. As of June 30, 2022, the Authority has requested approximately \$861,000 with a maturity of May 2029.
- 6.350% financed equipment, Mindray DS USA, Inc., due April 2023.
- 0.220% financed equipment, Olympus America, Inc., due February 2023.
- 8.837% financed equipment, Marlin Capital Solutions, due March 2023.
- In 2023 and 2022, the Authority entered into Subscription-Based Information Technology Arrangements - Imputed interest ranging from 3.25% to 8.50% secured by subscription assets. The use of certain IT solutions over an annual encounter amount are subject to additional fees that will be expensed in the period incurred. None of the subscription-based information technology arrangements contain provisions for variable payments. Additionally, there are no other payments, such as termination penalties, not previously included in the measurement of the subscription IT liability.

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. All notes payable contain a provision that in the event of default, outstanding amounts may become immediately due and payable.

Continued

CLINCH COUNTY HOSPITAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

8. Long-Term Debt and SBITA, Continued

Scheduled principal and interest repayments on long-term debt, including subscription IT arrangements, are as follows:

<u>Year Ending June 30</u>	<u>Direct Borrowing</u>		<u>Subscription IT Liabilities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2024	\$ 598,000	\$ 352,000	\$ 359,000	\$ 9,000
2025	618,000	332,000	22,000	3,000
2026	639,000	311,000	21,000	3,000
2027	661,000	289,000	22,000	2,000
2028	684,000	265,000	23,000	1,000
2029-2033	3,341,000	947,000	2,000	-
2034-2038	2,834,000	237,000	-	-
2039-2043	27,000	11,000	-	-
2044-2048	31,000	7,000	-	-
2049-2053	<u>40,000</u>	<u>3,000</u>	<u>-</u>	<u>-</u>
Total	\$ <u>9,473,000</u>	\$ <u>2,754,000</u>	\$ <u>449,000</u>	\$ <u>18,000</u>

9. Leases

The Authority is a lessee for noncancellable lease assets. The Authority recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in its financial statements. At the commencement of a lease, the Authority initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases include how the Authority determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The Authority uses the implicit interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided or cannot be imputed, the Authority generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the Authority is reasonably certain to exercise.

Continued

CLINCH COUNTY HOSPITAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

9. Leases, Continued

The Authority monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with capital assets and lease liabilities are reported with current and noncurrent liabilities on the balance sheets.

None of the leases contain provisions for variable payments or residual value guarantees. Additionally, there are no other payments such as residual value guarantees or termination penalties, not previously included in the measurement of the lease liability reflected as outflows of resources.

A schedule of changes in the Authority's lease liabilities for 2023 and 2022 follows:

	<u>2022</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>2023</u> <u>Balance</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Lease liabilities	\$ <u>52,000</u>	\$ <u>76,000</u>	\$(<u>26,000</u>)	\$ <u>102,000</u>	\$ <u>24,000</u>
	<u>2021</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>2022</u> <u>Balance</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Lease liabilities	\$ <u>61,000</u>	\$ <u>24,000</u>	\$(<u>33,000</u>)	\$ <u>52,000</u>	\$ <u>22,000</u>

Scheduled principal and interest payments on lease liabilities are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2024	\$ 24,000	\$ 3,000
2025	24,000	2,000
2026	22,000	1,000
2027	20,000	1,000
2028	<u>12,000</u>	<u>-</u>
Total	\$ <u>102,000</u>	\$ <u>7,000</u>

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CLINCH COUNTY HOSPITAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

9. Leases, Continued

Expenses for the leasing activity of the Authority as the lessee for the years ended June 30, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Short-term lease expense	\$ -	\$ 228,000
Right-to-use lease asset amortization	27,000	34,000
Lease liability interest expense	<u>2,000</u>	<u>2,000</u>
Total lease cost	\$ <u>29,000</u>	\$ <u>264,000</u>

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

11. Concentration 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.

12. 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 2023 and 2022 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

CLINCH COUNTY HOSPITAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

13. Health Insurance

In January 2021, the Authority became self-insured for employee health claims. The self-insurance program has a third-party administrator to process and pay claims. The Authority reimburses the third-party administrator for claims incurred and paid and has purchased stop-loss insurance coverage for claims in excess of \$44,000 for each individual employee through a sponsored captive insurance company. Total health insurance expenses for the Authority were approximately \$923,000 and \$1,226,000 for 2023 and 2022, respectively.

14. 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 2023 and 2022. 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 2023 or 2022.

The Authority's contributions are invested in accordance with the investment elections made by the participant. The Authority contributed approximately \$38,000 and \$51,000 for the years ended June 30, 2023 and 2022, respectively.

15. 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.

16. County Support

The Authority receives funds from Clinch County, Georgia primarily for operations of the Hospital. Funds received for the years ended June 30, 2023 and 2022 were approximately \$1,183,000 and \$1,184,000, respectively. In August 2023, the County Commissioners issued a resolution to continue to provide the 4 tax mills for calendar year 2023 taxable property revenues. The revenues are recorded as nonoperating revenues in the statements of revenues, expenses and changes in net position.

Continued

CLINCH COUNTY HOSPITAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

17. 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 2024. The Authority submitted the necessary documentation and was approved by the State to participate in the rural hospital tax credit program for 2023 and 2022. Contributions received under the program approximated \$487,000 and \$284,000 during 2023 and 2022, 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.

18. 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 \$24,000 and \$295,000 in 2023 and 2022, respectively, for management fees. The Management Services Agreement expired effective July 31, 2022.

19. Coronavirus (COVID-19)

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen. The outbreak has put an unprecedented strain on the U.S. healthcare system, disrupted or delayed production and delivery of materials and products in the supply chain, and caused staffing shortages. The extent of the impact of COVID-19 on the Authority's operational and financial performance depends on certain developments, including the duration and spread of the outbreak, remedial actions and stimulus measures adopted by local, state, and federal governments, and impact on the Authority's patients, employees, and vendors, all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the Authority's financial position or results of operations is uncertain. The federal Public Health Emergency for COVID-19 expired on May 11, 2023.

20. CARES and ARP Act Funding

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

Continued

CLINCH COUNTY HOSPITAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

20. CARES and ARP Act Funding, Continued

The *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act) expanded the Medicare Accelerated and Advance Payment (MAAP) program to increase cash flow to healthcare providers impacted by the COVID-19 pandemic. In April 2020, the Authority received approximately \$3,162,000 in MAAP payments. The MAAP payments must be repaid and recoupment begins one year after the date of receipt. Medicare will recoup 25% of Medicare payments owed to the Authority for eleven months. Medicare will then recoup 50% of Medicare payments owed to the Authority for the succeeding six months. Any outstanding balance must then be repaid. During 2023 and 2022, the Authority repaid approximately \$914,000 and \$2,023,000, respectively.

The Authority has received the following CARES Act funding:

- \$30 Billion General Distribution (1st round) - On April 10, 2020, HHS distributed \$30 billion to nearly 320,000 Medicare fee-for-service providers based on their portion of 2019 Medicare fee-for-service payments. The Authority received and recognized approximately \$446,000 in funding from this distribution.
- \$10 Billion Rural Distribution - On May 6, 2020, HHS distributed \$10 billion to almost 4,000 rural health care providers including hospitals, health clinics, and health centers. The Authority received and recognized approximately \$3,360,000 in funding from this distribution.
- \$4.9 Million Georgia Hospital Association Research and Education Foundation, Inc. (GHAREF) Grant - The Assistant Secretary of Preparedness and Response (ASPR) of HHS allocated approximately \$350 million to state hospital associations and other entities to disburse to health care providers on the front lines of the COVID-19 pandemic. GHAREF received approximately \$4.9 million to disburse to hospitals in Georgia. The Authority received and recognized approximately \$5,000 in funding from this grant.
- \$4.9 Million Small Rural Hospital Improvement Program (SHIP) Grant - On April 22, 2020, HHS appropriated approximately \$4.9 million to the State of Georgia Department of Community Health, State Office of Rural Health to disburse to 58 rural hospitals in Georgia for the purpose of preventing, preparing for, and responding to COVID-19. The Authority received and recognized approximately \$84,000 in funding from this distribution.
- \$5 Million Rural Hospital Stabilization Operational Support Grant - The State of Georgia appropriated \$5 million for rural hospital stabilization grants and for additional emergency preparedness expenses. The grant was distributed based on data collected specific to COVID-19 inpatient admissions. The Authority received and recognized \$18,000 in funding from this grant.

Continued

CLINCH COUNTY HOSPITAL AUTHORITY

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2023 and 2022

20. CARES and ARP Act Funding, Continued

- \$17 Billion General Distribution (4th Round) - On December 16, 2021, HHS began distributing \$17 billion to providers based on changes in revenues and expenses as well as the amount and type of services provided to Medicare, Medicaid, and/or Children's Health Insurance Program patients. The Authority received approximately \$82,000 in funding from this distribution.
- \$398 Million Small Rural Hospital Improvement Program COVID-19 Testing and Mitigation Program - In July 2021, HHS appropriated \$398 million to state governments to distribute to rural hospitals. The State of Georgia Department of Community Health, State Office of Rural Health received \$13,436,000 to distribute to 52 rural hospitals. The Authority received approximately \$258,000 in funding from this distribution.

The CARES Act also did the following:

- Sequestration - Suspended the Medicare sequestration payment adjustment, which reduces payments to providers by 2%, for the period May 1, 2020 through December 2020, and extended to March 31, 2022, with subsequent legislation. Beginning April 1, 2022, the suspension is phased out through June 30, 2022.
- Medicare Add-on for Inpatient Hospital COVID-19 Patients - Increased the Medicare payment for hospital patients admitted with COVID-19 by 20%.

On March 11, 2021, the *American Rescue Plan Act (ARP)* was passed. This Act provides additional financial assistance for state and local governments, education, housing, food assistance, and additional grant programs. The Authority received the following program funding related to this Act:

- \$8.5 Billion American Rescue Plan Rural Payments - In November 2021, HHS distributed \$8.5 billion to 43,842 rural healthcare providers. The Authority received approximately \$435,000 in funding from this distribution.

CARES and ARP Act funding is reported as unearned revenue until all eligibility requirements are met. Recognized revenue is reported as nonoperating revenues in the statements of revenue, expenses, and changes in net position.

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

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*



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

The Board of Directors
Clinch County Hospital Authority
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 Clinch County Hospital Authority (Authority) which comprise the balance sheet as of June 30, 2023, 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 November 30, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Continued

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

Report on 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 financial statements. 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.

The image shows a handwritten signature in black ink that reads "Draffin & Tucker, LLP". The signature is written in a cursive, flowing style.

Albany, Georgia
November 30, 2023