

# **Hospital Authority of Stephens County**

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**Combined Financial Statements and Supplementary Information**

**Years Ended September 30, 2018 and 2017**

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## **Independent Auditors' Report**

Board of Trustees  
Hospital Authority of Stephens County  
Toccoa, Georgia

We have audited the accompanying combined financial statements of the Hospital Authority of Stephens County ("The Hospital"), which comprise the combined statements of assets, liabilities and net position as of September 30, 2018 and 2017, and the related combined statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the combined financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these combined 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

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

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

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

### ***Opinion***

In our opinion, based on our audits, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of September 30, 2018 and 2017, and the results of its operations, changes in net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 be presented to supplement the combined financial statements. Such information, although not a part of the combined financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the combined financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the combined financial statements, and other knowledge we obtained during our audit of the combined financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Supplemental Schedules Information***

Our audits were conducted for the purpose of forming an opinion on the combined financial statements of the Hospital taken as a whole. The accompanying combining schedules of revenue and expenses information for Stephens County Hospital, Personal Care Facilities, and Stephens County Hospital Physician Group, schedules of net patient service revenue information, and schedules of other revenue information are presented for purposes of additional analysis, and are not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information referred to above, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

*Dixon Hughes Goodman LLP*

**Atlanta, Georgia**  
**January 21, 2019**

## **Management’s Discussion and Analysis**

September 30, 2018 and 2017

The Hospital Authority of Stephens County (the “Hospital”) is a political subdivision of the State of Georgia and includes the Hospital, physician practices, and two Assisted Living Facilities. The Hospital provides inpatient, outpatient, occupational, and emergency care services for residents of Stephens County, Georgia, and surrounding areas and is licensed for 96 inpatient beds. The two Assisted Living Facilities are licensed for a total of 92 beds and provide a level of care less than that of a nursing home.

### **FINANCIAL HIGHLIGHTS**

The assets of the Hospital exceeded its liabilities at September 30, 2018 by \$15.3 million (net position). Total net position of the Hospital as of September 30, 2018 decreased \$.9 million compared to September 30, 2017.

### **OVERVIEW OF THE COMBINED FINANCIAL STATEMENTS**

This Discussion and Analysis is intended to serve as an introduction to the Hospital’s combined financial statements. The combined financial statements are comprised of three components: 1) combined financial statements, 2) notes to the combined financial statements and 3) supplemental schedules.

The combined financial statements include Combined Statements of Assets, Liabilities and Net Position, Combined Statements of Revenues, Expenses and Changes in Net Position, and Combined Statements of Cash Flows for the fiscal years ending September 30, 2018 and 2017. The Hospital operates similar to a private business and therefore utilizes the enterprise fund method of accounting. This method provides both long-term and short-term financial information and requires that revenue and expenses are recognized on the full accrual basis.

The Combined Statements of Assets, Liabilities and Net Position present information on all of the Hospital’s assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Hospital is improving or deteriorating. Short-term changes in total assets correlating with an inverse change in net liabilities may also serve as a useful indicator of an improving or deteriorating financial position.

The Combined Statements of Revenues, Expenses and Changes in Net position present information showing how the Hospital’s net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

### **FINANCIAL ANALYSIS**

#### Total Assets

Total assets of the Hospital decreased by approximately \$1.5 million in 2018 largely due to a decrease in non-current cash and investments of \$.9 million, a decrease in estimated third-party payor settlements of \$.2 million, , and a decrease in net capital assets of \$.7 million.

**Table 1:** Hospital Authority of Stephens County – Summary of Assets (in millions of dollars)

	<u>2018</u>	<u>2017</u>
Current and other assets	\$ 21.3	\$ 22.1
Capital assets	<u>18.3</u>	<u>19.0</u>
Total assets	<u>\$ 39.6</u>	<u>\$ 41.1</u>

**Hospital Authority of Stephens County  
Management’s Discussion and Analysis**

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Total Liabilities and Net position

Total liabilities of the Hospital decreased by \$.6 million during fiscal year 2018 made up of an increase in current liabilities of \$.3 million along with the decrease in long-term liabilities of \$.9 million. (See Table 2.)

**Table 2:** Hospital Authority of Stephens County – Summary of Liabilities and Net Assets (in millions of dollars)

	<u>2018</u>	<u>2017</u>
Current liabilities	\$ 8.9	\$ 8.6
Long-term liabilities	<u>15.4</u>	<u>16.3</u>
Total liabilities	\$ 24.3	\$ 24.9
Net position	<u>15.3</u>	<u>16.2</u>
Total liabilities and net position	<u>\$ 39.6</u>	<u>\$ 41.1</u>

Net Patient Service Revenue

In fiscal year 2018, inpatient revenue decreased 2.1% over 2017 while outpatient revenue decreased 6.9% compared to 2017. Total gross patient service revenue decreased 5.5% compared to fiscal year 2017. Deductions from revenue decreased 10.3% in 2018. (See Table 3.)

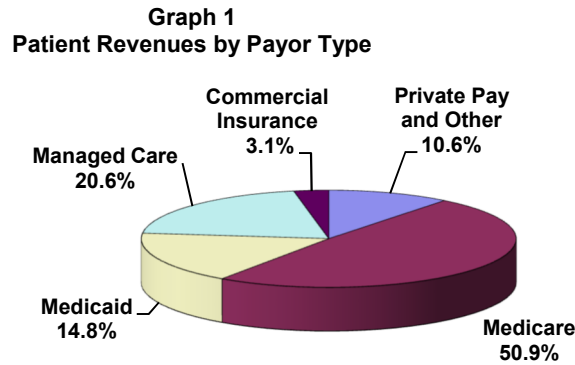
**Table 3:** Hospital Authority of Stephens County – Summary of Net Patient Service Revenue (in millions of dollars)

	<u>2018</u>	<u>2017</u>
Inpatient revenue	\$ 32.0	\$ 32.7
Outpatient revenue	<u>73.1</u>	<u>78.5</u>
Total gross patient service revenue	105.1	111.2
Contractual adjustments	44.7	48.9
Provision for bad debts	7.7	9.0
Other adjustments	<u>10.5</u>	<u>12.2</u>
Total revenue deductions	62.9	70.1
Net patient service revenue	<u>\$ 42.2</u>	<u>\$ 41.1</u>

# Hospital Authority of Stephens County Management's Discussion and Analysis

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The Hospital has third-party payor agreements that provide reimbursement to the Hospital. Graph 1 presents gross patient revenue by payor type for fiscal year 2018.



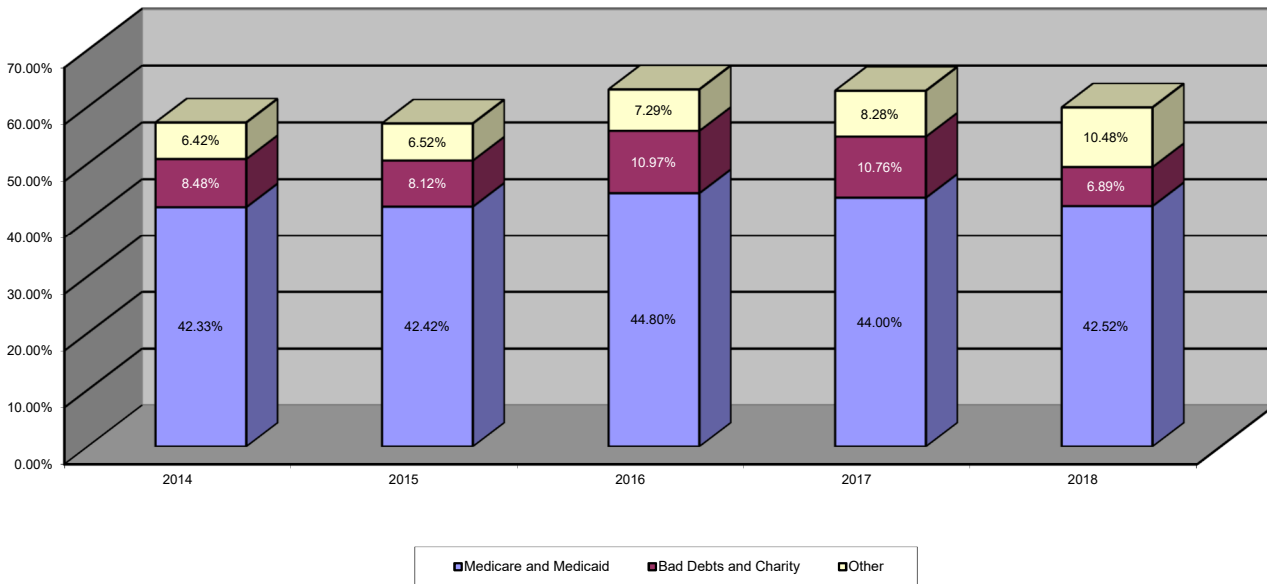
By far the largest consumers of healthcare services were Medicare and Medicaid beneficiaries, consuming 65.7% of gross total services. Managed care subscribers, commercially insured, uninsured (private pay, indigent, and others) comprise the balance of our customers, representing 20.6%, 3.1% and 10.6%, respectively.

The Medicare and Medicaid programs, commercial and managed care programs pay hospitals less than full charges. In addition, increases in reimbursement from these payors have been less than the Hospital's rate increases. The State of Georgia transferred the majority of the Medicaid program over to an HMO in September of 2007. This, as predicted, has had some negative impact on the reimbursement from Medicaid and with the state budget situation more reimbursement cuts are anticipated. The decision by the State of Georgia not to expand the State Medicaid program under the Affordable Care Act seems to have impacted the private pay. While those states that expanded Medicaid are showing lower private pay or uninsured, it has actually risen over the past year.

**Hospital Authority of Stephens County  
Management’s Discussion and Analysis**

Revenue deductions and provision for bad debts are presented as a percentage of gross revenue in Graph 2. Medicare and Medicaid contractual adjustments represent the largest components of this category.

**Graph 2  
REVENUE DEDUCTIONS AND PROVISION FOR BAD DEBTS AS A PERCENTAGE OF GROSS REVENUE**



***Operating Expenses***

In fiscal year 2018, total operating expenses were \$44.4 million, which equated to a decrease from 2017 of \$2.9 million or 6.2%. The largest category of expense, salaries and wages, decreased from 2017 by \$3 million or 13.2%. During the end of 2017, there was a large decrease in full time equivalents.

The largest category of expense is salaries and wages and professional fees at 43.7% and 18.9% respectively. The Hospital operates twenty-four hours a day with an array of specialized, highly skilled staff members. The Hospital has maintained salaries and wages to remain competitive with surrounding health care providers.

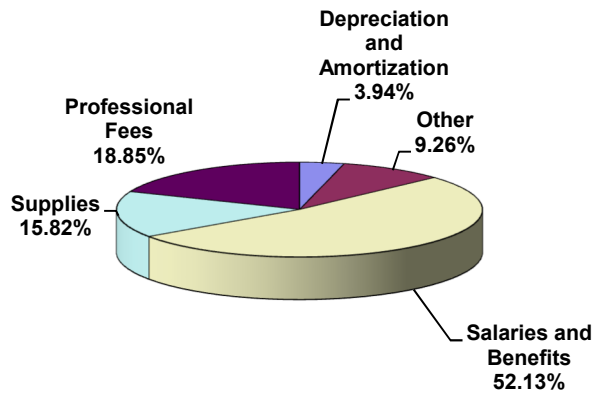


# Hospital Authority of Stephens County Management's Discussion and Analysis

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Supplies, which include medical, pharmaceutical and general supply items, account for 15.8% of operating expenses and represent both a concentrated effort to standardize supply usage throughout the facility and the result of a change in major purchasing GPO (Group Purchasing Organization.)

**Graph 3  
Composition of Expenses**



## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### ***Capital Assets***

At the end of 2018, the Hospital had a total net investment of \$18.3 million in land, buildings, furniture and equipment. (See Table 4) This amount represents a net decrease (including additions, depreciation and disposals) of \$.8 million, or 3.9% less than last year.

**Hospital Authority of Stephens County  
Management’s Discussion and Analysis**

**Table 4:** Hospital Authority of Stephens County – Capital Assets (net of depreciation, in millions of dollars)

	<u>2018</u>	<u>2017</u>
Land and improvements	\$ 0.9	\$ 1.0
Buildings	14.9	15.5
Furniture and equipment	2.5	2.2
Construction in process	0.0	0.3
Total capital assets	<u>\$ 18.3</u>	<u>\$ 19.0</u>

2018 additions totaled approximately \$997,000.

There should be no need for additional financing as there is an amount of money set aside from the 2017 Bond Issue to be used for any capital needs. This amount was approximately \$4.1 million dollars at September 30, 2018. Items currently being evaluated and considered for the coming year includes:

- New 3D Mammography Unit - \$400,000
- Bone Density - \$44,000
- Main EHR Server Upgrade - \$85,000
- Replacement of Air Handler - \$200,000
- Emergency Generator Upgrade - \$94,500
- Roofing Repairs & Replacements - \$250,000
- Underground piping replacement - \$125,000

***Long-term Debt***

At September 30, 2017, the Hospital had \$15.0 million in bonds payable, \$1.9 million in notes payable and \$.5 million in capital lease obligations, which is a 148.6% increase over last year (See Table 5). The Stephens County Hospital Authority issued a new Series 2017 A Issue (a \$9.5 million tax exempt offering) and Series 2017 B Issue (a \$5.5 million taxable offering) during the 2017 fiscal year. Both Series were sold in a private placement sale to a single financial institution. The proceeds from this were used to refinance the remaining \$3.8 million in Series 2006 Bonds, repay a \$5,000,000 working capital loan taken out during the year, payoff several financing notes and set aside approximately \$5 million dollars for future capital expenditures.

**Table 5:** Hospital Authority of Stephens County – Outstanding Debt (in millions of dollars)

	<u>2018</u>	<u>2017</u>
Current installments of long-term debt	\$ 1.1	\$ 0.9
Long-term debt, excluding current installments	15.3	16.0
Total	<u>\$ 16.4</u>	<u>\$ 16.9</u>

**ECONOMIC FACTORS AND NEXT YEAR’S BUDGET**

***Economic Factors***

The 2010 census, the latest available, indicated a 2.9% growth in the population of Stephens County from 25,435 to 26,175. The growth curve is expected to increase over the next decade. The Stephens County campus of North Georgia Technical College (“NGTC”) continues to grow and is an asset in the recruitment of industry and their healthcare oriented education building has been completed and is holding classes here at the local campus. Stephens County continues to attract a few small industrial businesses (employing 30 or less) to the area and Stephens County Development Authority successfully recruited two larger new businesses that have opened operations in Stephens County in the past couple years. One is a wire producer (Sark Wire) and the other, NIF-

## **Hospital Authority of Stephens County Management's Discussion and Analysis**

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CO KTW, a German automotive supplier of high quality injection molded components, constructed a new building over 160,000 square feet and will create 200 jobs and invest \$27 million in the first five years. The expansion of the sewer system by the City of Toccoa to state route 17 by-pass and beyond will assist in the attraction of new industry to the south of Toccoa. The Development Authority indicates expectation of a few more businesses with the opening of the long awaited expansion of state route 17 between Toccoa and Interstate 85 at Lavonia to provide complete four lane access to the major north/south interstate. This should provide a boost to the economy to help offset the loss of some textile industry over the past several years that were major employers in the area. The local economy continues to improve slightly each quarter.

The Hospital maintains an effective program of recruitment for the areas that are in current shortage such as radiology technicians, physical therapists and pharmacists, but has experienced trouble with the employment of nursing positions over the past years due to the opening of a new hospital in Brasleton, GA by the Northeast Georgia Healthcare System which has caused the slight shortage of registered nurses to swell. This has impacted both the recruitment and retention of RNs but also has caused the pay scale for these positions to grow as employers raise the pay offerings to attract employees. Stephens County Hospital will continue to keep abreast of the employment market in our region and strive to sustain a competitive compensation package. The 2019 strategic plan involves the evaluation of all employee compensation and a systematic process to adjust any pay scales that are not within market guidelines up in an effort to remain competitive and an employer of choice for those in the area.

### ***Next Year's Budget***

For fiscal year 2019, we have budgeted for all volumes to increase slightly over that of 2018. The Stephens County Hospital Physician Group, LLC lost a general surgeon beginning November 1, 2017, but the newly established OB/GYN practice has matured well ahead of schedule. Evaluations are underway to determine if there is need for recruitment of a replacement.

The Hospital's physician office operations, Stephens County Hospital Physician Group, LLC, replaced an Internal Medicine physician and added two internal medicine mid-levels and an orthopedic surgeon to the two Board Certified General Surgeons. The Group also brought on an OB/GYN physician who began practice on August 1, 2017 and is actively evaluating the need for a second OB/GYN physician as the initial practice has matured very quickly and showing months of profitability on the office practice alone. There are on-going evaluations of the need to add more physicians over the next couple of years including another internal medicine physician and a pediatrician. The Hospital is committed to the recruitment of physicians into Stephens County in whatever way necessary to provide the citizens of Stephens County with a sufficient number of local medical professionals. This is evident in the strategic plan for 2019 which includes the establishment of office space to allow specialists from surrounding tertiary care facilities to operate out of as little as 1 day a month up to a couple days a week to see patients in the County and surrounding area as well as perform surgery and order ancillary work locally if the service is offered to prevent the community from having to go out of town for these services.

The Hospital signed a contract with a well-known regional Emergency Room Physician group to manage and supply physicians and mid-levels to operate the Emergency Room effective February, 2018. This has provided stable and consistent physician presence in the Emergency Room and improved upon the service to the community. Emergency visits are increasing despite the decrease in non-emergent visits due to an enhanced collection effort on those screened to be non-emergent.

The Hospital also began a Hospitalist program in early 2014, partnering with a nationally known Hospitalist company which has had a very positive impact on the case mix index as well as the length of stay for inpatients. Results showed continued improvement in both areas for fiscal year 2015 with a slight fall off in 2016 as the program director departed. The Hospitalist practice was switched over to a new contract during 2018 to the same vendor currently providing physician staffing for the emergency room. This has allowed the new program director for Hospitalist services to work closely with the emergency physicians and orthopedic surgeon to look for protocols for the admission and management of those patients that can be seen by the orthopedist the next day and as medical issues are addressed and treated by the Hospitalist upon admission. Previously patients with any

## **Hospital Authority of Stephens County Management's Discussion and Analysis**

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orthopedic issue were transferred to a nearby facility if an orthopedic surgeon was not on-call at that time which not only inconvenienced the patient but the patient's family as well.

The Hospital also opened a Wound Care Center in late January of 2014 which has shown positive impact on a much needed service previously unavailable to the local market and is showing better than anticipated impact in the financial area.

Finally, during 2016, the Hospital expanded the personal care operations. A \$1,000,000 addition of six upscale apartments opened very early in fiscal 2017 on the personal care complex. These apartments have been rented and a waiting list still exists for the normal personal care home operations which is all on a private pay basis.

### **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Hospital's finances for all those with an interest in the Hospital's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Stephens County Hospital, Administration, 163 Hospital Drive, Toccoa, Georgia 30577.

**Hospital Authority of Stephens County**  
**Combined Statements of Assets, Liabilities and Net Position**  
**September 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 3,506,876	\$ 2,483,036
Current portion of funds held by trustee under indenture agreement	444,081	431,333
Patient accounts receivable, less allowance for uncollectible accounts of approximately \$9,584,000 and \$9,623,000 in 2018 and 2017, respectively	9,527,973	10,159,021
Estimated third-party payor settlements	241,195	475,387
Other receivables	160,947	51,319
Inventories	1,460,043	1,687,881
Prepaid expenses	336,757	249,690
	<u>15,677,872</u>	<u>15,537,667</u>
Total current assets		
Non-current cash and investments:		
Internally designated for capital improvements	1,553,808	1,635,864
Restricted for capital acquisitions under indenture agreement	4,059,069	4,875,532
Held by trustee under indenture agreement	444,081	431,333
	<u>6,056,958</u>	<u>6,942,729</u>
Total non-current cash and investments		
Less amount required to meet current obligations	<u>(444,081)</u>	<u>(431,333)</u>
Total non-current cash and investments		
	<u>5,612,877</u>	<u>6,511,396</u>
Capital assets, net		
Physician notes receivable, net	18,284,591	19,035,204
	<u>15,044</u>	<u>46,444</u>
Total assets		
	<u>\$ 39,590,384</u>	<u>\$ 41,130,711</u>

	<u>2018</u>	<u>2017</u>
<b>LIABILITIES AND NET POSITION</b>		
Current liabilities:		
Current installments of long-term debt	\$ 1,111,303	\$ 866,832
Current installments of capital lease obligation	141,214	139,763
Accounts payable	3,997,605	4,105,730
Accrued wages and employee benefits	2,826,160	2,718,863
Other accrued expenses	<u>786,566</u>	<u>798,810</u>
Total current liabilities	<b>8,862,848</b>	8,629,998
Long-term debt, excluding current installments	<b>15,261,336</b>	16,022,381
Capital lease obligation, excluding current installments	<u>171,345</u>	<u>325,367</u>
Total liabilities	<b><u>24,295,529</u></b>	<u>24,977,746</u>
Net position:		
Net investment in capital assets	<b>1,599,393</b>	1,680,861
Restricted under indenture agreement	<b>4,503,150</b>	5,306,865
Unrestricted	<u>9,192,312</u>	<u>9,165,239</u>
Net position	<b><u>15,294,855</u></b>	<u>16,152,965</u>
Total liabilities and net position	<b><u>\$ 39,590,384</u></b>	<b><u>\$ 41,130,711</u></b>

**Hospital Authority of Stephens County**  
**Combined Statements of Revenues, Expenses and Changes in Net Position**  
**For the years ended September 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Operating revenues:		
Net patient service revenue, net of provision for bad debts of approximately \$7,726,000 and \$8,955,000 in 2018 and 2017, respectively	\$ 42,138,149	\$ 41,077,025
Other revenue	<u>2,018,731</u>	<u>1,618,481</u>
Total operating revenues	<u>44,156,880</u>	<u>42,695,506</u>
Operating expenses:		
Salaries and wages	19,386,777	22,342,387
Employee benefits	3,765,826	4,251,885
Professional fees	8,370,536	6,866,604
Supplies	7,028,330	7,874,754
Utilities	1,129,471	1,134,779
Repairs and maintenance	1,835,018	1,668,948
Depreciation and amortization	1,747,895	2,007,620
Insurance	645,207	766,645
Rent	<u>503,889</u>	<u>433,583</u>
Total operating expenses	<u>44,412,949</u>	<u>47,347,205</u>
Operating loss	(256,069)	(4,651,699)
Non-operating revenues (expenses):		
Investment income	47,759	19,008
Interest expense	<u>(649,800)</u>	<u>(658,852)</u>
Net non-operating expenses	<u>(602,041)</u>	<u>(639,844)</u>
Revenues under expenses	(858,110)	(5,291,543)
Net position, beginning of year	<u>16,152,965</u>	<u>21,444,508</u>
Net position, end of year	<u>\$ 15,294,855</u>	<u>\$ 16,152,965</u>

**Hospital Authority of Stephens County**  
**Combined Statements of Cash Flows**  
**For the Years ended September 30, 2018 and 2017**

	<b>2018</b>	<b>2017</b>
Cash flows from operating activities:		
Cash flows from and on behalf of patients	\$ 43,003,389	\$ 41,168,994
Payments to employees for services	(23,045,306)	(27,737,872)
Payments to suppliers and contractors	(19,451,986)	(18,191,296)
Other receipts and payments, net	1,909,103	1,598,524
Net cash provided (used) by operating activities	<b>2,415,200</b>	(3,161,650)
Cash flows from investing activities:		
Change in non-current cash and investments	885,771	(4,665,330)
Change in physician notes receivable	31,400	60,500
Interest income	47,759	19,008
Net cash provided (used) by investing activities	<b>964,930</b>	(4,585,822)
Cash flows from capital and related financing activities:		
Proceeds from issuance of new debt	-	20,521,700
Principal payments on long-term debt	(516,574)	(9,507,478)
Principal payments on capital lease obligations	(152,571)	(700,082)
Interest paid on long-term debt and capital lease obligations	(689,863)	(560,098)
Purchase of capital assets	(997,282)	(806,458)
Net cash (used) provided by capital and related financing activities	<b>(2,356,290)</b>	8,947,584
Net increase in cash and cash equivalents	<b>1,023,840</b>	1,200,112
Cash and cash equivalents at beginning of year	<b>2,483,036</b>	1,282,924
Cash and cash equivalents at end of year	<b>3,506,876</b>	2,483,036



**Hospital Authority of Stephens County**  
**Combined Statements of Cash Flows, Continued**  
**For the Years ended September 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Reconciliation of operating loss to net cash provided (used) by operating activities:		
Operating loss	\$ (256,069)	\$ (4,651,699)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation and amortization	1,747,895	2,007,620
Provision for bad debts	7,725,640	8,955,014
Change in assets and liabilities:		
Patient accounts receivable	(7,094,592)	(9,181,518)
Other receivables	(109,628)	(19,957)
Inventories	227,838	16,406
Prepaid expenses	(87,067)	85,059
Accounts payable	(108,125)	131,506
Accrued wages and employee benefits	107,297	(1,150,343)
Other accrued expenses	27,819	327,789
Estimated third-party payor settlements	234,192	318,473
	<u>\$ 2,415,200</u>	<u>\$ (3,161,650)</u>

## **Notes to Combined Financial Statements**

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

#### ***Reporting Entity***

The Hospital Authority of Stephens County (the “Hospital” or the “Authority”) is a non-profit corporation created pursuant to the Hospital Authority Act of the State of Georgia and is a component unit of Stephens County, Georgia. In addition to providing inpatient, outpatient and emergency healthcare services, the Hospital has two personal care facilities: Wilkinson Center and Clary Care Center (collectively “Personal Care Facilities”).

Stephens County Emergency Physicians, Inc. (“SCEP”) is a not-for-profit organization whose sole member is the Hospital. SCEP operations consist of employing emergency room physicians and contracts with the Hospital to provide emergency room physician staffing. SCEP is a fully-blended component unit and is combined.

Stephens County Hospital Physician Group LLC (“SCHPG”) is a not-for-profit organization whose sole member is the Hospital. SCHPG operations consist of employing physicians and contracts with the Hospital to provide oncology and orthopedic services. SCHPG is a fully-blended component unit and is combined.

#### ***Basis of Presentation***

The accompanying combined financial statements of the Hospital include the operations of SCEP and SCHPG. The Hospital comprises approximately 96% of the assets and 89% of the revenues of the Authority. Upon combination, all significant intercompany accounts and transactions are eliminated.

#### ***Use of Estimates***

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

#### ***Enterprise Fund Accounting***

The Hospital is a special-purpose governmental entity engaged only in business-type activities that uses enterprise fund accounting in accordance with Governmental Accounting Standards Board (“GASB”). The Hospital is reported as an enterprise fund whereby revenues and expenses are recognized on the full accrual basis using the economic resources measurement focus. The Hospital applies the provisions of all relevant pronouncements of the GASB as well as those of the Financial Accounting Standards Board that do not conflict with or contradict GASB pronouncements.

#### ***Income Taxes***

The Hospital, SCEP, and SCHPG are not-for-profit organizations as described in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. Accordingly, no provision for state or federal income taxes has been presented in the accompanying combined financial statements.

The Hospital, SCEP, and SCHPG have evaluated their tax positions and have determined that they do not have any material unrecognized tax benefits obligations as of September 30, 2018.

#### ***Cash and Cash Equivalents***

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

**Hospital Authority of Stephens County  
Notes to Combined Financial Statements**

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***Inventories***

Inventories are valued at lower of cost or market on the first-in, first-out basis.

***Non-Current Cash and Investments***

Non-current cash and investments include assets set aside by the Board of Trustees (“Board”) for future capital improvements, over which the Board retains control and may, at its discretion, subsequently use for other purposes; assets held by trusts under revenue anticipation certificate agreements; and assets serving as collateral under loan agreement. Amounts required to meet current liabilities of the Hospital have been reclassified to current assets on the combined Statements of Assets, Liabilities and Net Position.

***Allowance for Uncollectible Accounts***

The Hospital provides an allowance for uncollectible accounts based on the evaluation of the overall collectibility of the accounts receivable. As accounts are known to be uncollectible, the account is charged against the allowance. These estimates are primarily based on the Hospital’s historical collection experience by payor class. The primary collection risk relates to uninsured patient accounts and patient accounts for which primary insurance has paid, but patient deductibles or co-insurance remain outstanding. As such, changes in general economic conditions or healthcare coverage provided by federal or state governments or private insurers may have a material impact on these estimates.

***Capital Assets***

Capital asset acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method. Equipment under capital leases 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 combined financial statements. Depreciation and amortization is calculated using the following asset lives:

Land improvements	5 to 25 years
Building and building improvements	5 to 40 years
Equipment, computers and furniture	4 to 20 years

***Costs of Borrowings***

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

***Net position***

Net position of the Hospital 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 expendable net position* are non-capital assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by indenture agreements. *Unrestricted net position* are remaining net position that do not meet the definition of *net investment in capital assets*.

***Net Patient Service Revenue***

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 and provision for bad debts. Retroactive and bad-debt 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.

**Hospital Authority of Stephens County  
Notes to Combined Financial Statements**

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***Charity Care***

The Hospital 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 Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

***Operating Revenues and Expenses***

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

***Compensated Absences***

The Hospital's employees earn paid time off ("PTO") at varying rates depending on years of service. PTO time accumulates based on years of service and generally, any days not used at year-end will carry over to the next fiscal year up to 480 hours. Eligible employees may receive payment for any PTO hours accrued any time during the employment year as long as that employee has actually taken off from work at least 80 PTO hours during the previous twelve months. Eligible employees are also entitled to have their PTO paid at the time of termination. At September 30, 2018 and 2017, the Hospital has accrued liabilities related to these compensated absences of approximately \$1,217,000 and \$1,230,000, respectively included in accrued wages and employee benefits.

***Physician and Other Revenue Guarantees***

The Hospital provides income guarantee agreements to either certain physicians who agree to relocate to the community to fill a need in the Hospital's service area and commit to remain in practice there or to other third-party groups. Under such agreements, the Hospital is required to make payments in excess of the amounts they earn in their practice up to the amount of the income guarantee. The income guarantee periods are typically one to three years. Such payments are recoverable from the physicians if they do not fulfill their commitment period, which is typically four years, or in some instances when an earning threshold is met.

***Risk Management***

The Hospital 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, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters.

***Reclassifications***

Certain reclassifications of the 2017 amounts have been made to conform to the presentation of the 2018 combined financial statements.

**2. Bank Deposits and Investments**

State law requires collateralization of all deposits with federal depository insurance or other acceptable collateral in specific amounts. The Hospital secures its deposits through federal deposit insurance, collateral posted by financial institutions and through a pool of pledged securities in the State of Georgia Pledging Pool. As of September 30, 2018, approximately \$94,000 of the Hospital's deposits were uncollateralized.

Investments include certificates of deposits, money market funds, and debt securities. Money market funds and debt securities are reported at fair value. Certificates of deposits are recorded at cost plus accrued interest.

**Hospital Authority of Stephens County**  
**Notes to Combined Financial Statements**

State statutes authorize the Hospital to invest in: obligations of the U.S. Treasury, agencies, and instrumentalities; bonds and obligations of indebtedness of the State of Georgia and of its agencies, and instrumentalities; and certificates of deposit.

Investment securities are exposed to various risks such as interest rate, market and credit risks. The Hospital does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates; however, the Hospital limits its credit risk by primarily investing in certificates of deposits and assets held by trustee under revenue certificate agreements that are invested in U.S. Government securities.

At September 30, 2018 and 2017, the Hospital had carrying amounts as follows:

	<u>2018</u>	<u>2017</u>
Carrying amount:		
Deposits	\$ 9,119,753	\$ 8,994,432
Investments	<u>444,081</u>	<u>431,333</u>
	<u>\$ 9,563,834</u>	<u>\$ 9,425,765</u>
Included in the following balance sheet captions:		
Cash and cash equivalents	\$ 3,506,876	\$ 2,483,036
Held by trustee under indenture agreement	<u>444,081</u>	<u>431,333</u>
Non-current cash and investments:		
Internally designated for capital improvements	1,553,808	1,635,864
Restricted for capital acquisitions under indenture agreement	<u>4,059,069</u>	<u>4,875,532</u>
	<u>\$ 9,563,834</u>	<u>\$ 9,425,765</u>

The composition of non-current cash and investments at September 30, 2018 and 2017, is summarized as follows:

	<u>2018</u>	<u>2017</u>
Internally designated for capital improvements:		
Money market funds	\$ 606,654	\$ 291,438
Certificates of deposit	946,993	1,343,081
Accrued interest receivable	<u>161</u>	<u>1,345</u>
	<u>\$ 1,553,808</u>	<u>\$ 1,635,864</u>
Held by trustee under indenture agreement including restricted cash and investments:		
Money market funds	<u>\$ 444,081</u>	<u>\$ 431,333</u>
Restricted for capital acquisitions under indenture agreement:		
Cash	<u>\$ 4,059,069</u>	<u>\$ 4,875,532</u>

The above certificates of deposit have maturities greater than 12 months and interest rates ranging from 0.1% to 0.5%.

The money market funds have credit ratings of AAA and Aaa-mf from Standard & Poor's and Moody's, respectively and are carried at fair market value.

**Hospital Authority of Stephens County  
Notes to Combined Financial Statements**

**3. Patient Accounts Receivable**

Patient accounts receivable reported as current assets by the Hospital are summarized by payor approximately as follows:

	<u>2018</u>	<u>2017</u>
Medicare	\$ 2,810,000	\$ 3,138,000
Medicaid	267,000	524,000
Patients and their insurance carriers	<u>16,035,000</u>	<u>16,120,000</u>
	<u>19,112,000</u>	<u>19,782,000</u>
Less allowance for uncollectible accounts	<u>9,584,000</u>	<u>9,623,000</u>
Patient accounts receivable, net	<u>\$ 9,528,000</u>	<u>\$ 10,159,000</u>

**4. Capital Assets, Net**

Capital asset additions, retirements, and balances for the years ended September 30, 2018 and 2017 are as follows:

	<u>2017</u>	<u>Additions</u>	<u>Retirements/ Transfers</u>	<u>2018</u>
Land and improvements	\$ 2,092,672	\$ -	\$ -	\$ 2,092,672
Buildings	33,417,886	35,906	59,555	33,513,347
Furniture and equipment	32,939,447	918,474	304,918	34,162,839
Construction in progress	336,029	42,902	(364,473)	14,458
Total historical cost	<u>68,786,034</u>	<u>997,282</u>	<u>-</u>	<u>69,783,316</u>
Less accumulated depreciation for:				
Land improvements	1,123,300	71,619	-	1,194,919
Buildings	17,937,484	718,425	-	18,655,909
Furniture and equipment	30,690,046	957,851	-	31,647,897
Total accumulated depreciation	<u>49,750,830</u>	<u>1,747,895</u>	<u>-</u>	<u>51,498,725</u>
Capital assets, net	<u>\$ 19,035,204</u>	<u>\$ (750,613)</u>	<u>\$ -</u>	<u>\$ 18,284,591</u>

**Hospital Authority of Stephens County  
Notes to Combined Financial Statements**

	<u>2016</u>	<u>Additions</u>	<u>Retirements/ Transfers</u>	<u>2017</u>
Land and improvements	\$ 2,089,672	\$ 3,000	\$ -	\$ 2,092,672
Buildings	32,308,772	83,669	1,025,445	33,417,886
Furniture and equipment	32,743,247	180,908	15,292	32,939,447
Construction in progress	902,177	538,881	(1,105,029)	336,029
Total historical cost	<u>68,043,868</u>	<u>806,458</u>	<u>(64,292)</u>	<u>68,786,034</u>
Less accumulated depreciation for:				
Land improvements	1,050,397	72,903	-	1,123,300
Buildings	17,236,524	700,960	-	17,937,484
Furniture and equipment	29,520,581	1,233,757	(64,292)	30,690,046
Total accumulated depreciation	<u>47,807,502</u>	<u>2,007,620</u>	<u>(64,292)</u>	<u>49,750,830</u>
Capital assets, net	<u>\$ 20,236,366</u>	<u>\$ (1,201,162)</u>	<u>\$ -</u>	<u>\$ 19,035,204</u>

Depreciation expense was approximately \$1,748,000 and \$2,008,000 for 2018 and 2017, respectively.

**5. Long-Term Debt and Capital Lease Obligations**

In June 2017, the Hospital issued two separate series of certificates, the first series in the aggregate principal amount of \$9,500,000, to be designated Stephens County Hospital Authority Revenue Anticipation Certificates, Series 2017A ("Series 2017A"), and the second series in the aggregate principal amount of \$5,500,000, to be designated Stephens County Hospital Authority Revenue Anticipation Certificates, Federally Taxable Series 2017B ("Series 2017B") (collectively, "Series 2017 Certificates"). The proceeds of the Series 2017 Certificates were used for the purpose of refunding the Series 2006 Certificates, refinancing the 2017 term loan, and financing the costs of adding to, extending, improving, and equipping the Authority's existing hospital and related facilities. The refunding of the bonds resulted in a decrease of total cash flows required to service the debt by approximately \$359,000 over the remaining life of the bonds and an economic gain of approximately \$138,000.

The Hospital's outstanding Series 2017 revenue bonds, are secured by all operating revenues of the Hospital.

The Series 2017 bonds require monthly payments of at least one-twelfth of the principal and interest becoming due each January and July to the Retirement of Indebtedness Fund, restricted to payment of principal and interest on the certificates and for agent fees. In addition, there are certain other operational covenants that the Hospital is required to meet in connection with the issuance of the certificates. As of September 30, 2018 and 2017, the Hospital was in compliance with these covenants.

Under the terms of agreements entered into simultaneously with the issuance of the Series 2017 bonds, Stephens County agreed to provide funds to meet the annual principal and interest payments on the certificates should the Hospital have insufficient funds to make such payments. No such payments by Stephens County were made during 2018 and 2017.

**Hospital Authority of Stephens County**  
**Notes to Combined Financial Statements**

Under the terms of the Revenue Anticipation Certificates, the Hospital is required to maintain certain deposits with a trustee. Such deposits are included in current portion of funds held by trustee under indenture agreement in the combined statements of assets, liabilities and net position. Deposits relating to the Revenue Anticipation Certificates at September 30 are as follows:

	<u>2018</u>	<u>2017</u>
Series 2017	<u>\$ 444,081</u>	<u>\$ 431,333</u>

During 2013, the Hospital entered into a note payable for use in operations. The total loan amount was \$800,000. For the years ended September 30, 2018 and 2017, principal amounts of approximately \$595,000 and \$642,000, respectively, were outstanding.

During 2016, the Hospital entered into a note payable for use in operations. The total loan amount was \$1,000,000. For the years ended September 30, 2018 and 2017, principal amounts of approximately \$807,000 and \$897,000, respectively, were outstanding.

During 2017, the Hospital entered into a note payable for use in operations. The total loan amount available to be drawn is \$750,000. For the years ended September 30, 2018 and 2017, \$350,000 of the loan had been drawn.

Long-term debt at September 30, 2018 and 2017 is summarized as follows:

	<u>2018</u>	<u>2017</u>
Series 2017A, interest at 3.25% payable semi-annually and various principal installments due annually beginning January 2018 through July 2032	\$ 9,290,000	\$ 9,500,000
Series 2017B, interest at 4.73% payable semi-annually and various principal installments due annually beginning January 2018 through July 2032	5,330,000	5,500,000
Note payable to bank, interest at 2.45% paid quarterly, Principal is due in full at time of maturity, matures December 2019	350,000	350,000
Note payable to bank, interest at 3.99%, interest only payments for three months beginning November 2013 and principal and interest of \$6,010 through October 2028	594,996	641,976
Note payable to bank, interest at 3.16%, interest only payments for three months beginning August 2016 and principal and interest of \$6,010 through July 2021	<u>807,643</u>	<u>897,237</u>
	<b>16,372,639</b>	16,889,213
Less current installments of long-term debt	<u>1,111,303</u>	<u>866,832</u>
Long-term debt, excluding current installments	<u>\$ 15,261,336</u>	<u>\$ 16,022,381</u>



**Hospital Authority of Stephens County  
Notes to Combined Financial Statements**

Capital lease obligation at September 30, 2018 and 2017 is summarized as follows:

	<u>2018</u>	<u>2017</u>
Capital lease obligation, interest at 1.6%, principal and interest of \$13,241 due monthly through October 2020, collateralized by leased equipment	\$ 312,559	\$ 465,130
Less current installments of capital lease obligation	<u>141,214</u>	<u>139,763</u>
Capital lease obligation, excluding current Installments	<u>\$ 171,345</u>	<u>\$ 325,367</u>

The equipment serving as collateral under capital lease obligations had a cost of approximately \$763,000 for both fiscal years ended September 30, 2018 and 2017, less accumulated depreciation of approximately \$334,000 and \$238,000 at September 30, 2018 and 2017, respectively.

A schedule of the changes in the Hospital's long-term debt and capital lease obligations for the years ended 2018 and 2017 follows:

	<u>2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>2018</u>	<u>Amounts Due Within One Year</u>
Bonds payable	\$ 15,000,000	\$ -	\$ 380,000	\$ 14,620,000	\$ 620,000
Notes payable	1,889,213	-	136,574	1,752,639	491,303
Capital lease obligations	<u>465,130</u>	<u>-</u>	<u>152,571</u>	<u>312,559</u>	<u>141,214</u>
	<u>\$ 17,354,343</u>	<u>\$ -</u>	<u>\$ 669,145</u>	<u>\$ 16,685,198</u>	<u>\$ 1,252,517</u>
	<u>2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>2017</u>	<u>Amounts Due Within One Year</u>
Bonds payable	\$ 4,000,000	\$ 15,000,000	\$ 4,000,000	\$ 15,000,000	\$ 380,000
Notes payable	1,874,991	5,521,700	5,507,478	1,889,213	486,832
Capital lease obligations	<u>1,165,212</u>	<u>-</u>	<u>700,082</u>	<u>465,130</u>	<u>139,763</u>
	<u>\$ 7,040,203</u>	<u>\$ 20,521,700</u>	<u>\$ 10,207,560</u>	<u>\$ 17,354,343</u>	<u>\$ 1,006,199</u>

**Hospital Authority of Stephens County  
Notes to Combined Financial Statements**

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

**Year Ending September 30:**

	<u>Long-term Debt</u>		<u>Capitalized Lease Obligations</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 1,111,303	\$ 594,841	\$ 141,214	\$ 4,074
2020	998,189	563,854	158,121	1,578
2021	1,552,151	524,012	13,224	18
2022	975,561	473,235	-	-
2023	1,017,819	436,071	-	-
2024 to 2028	5,667,616	1,565,751	-	-
Thereafter	<u>5,050,000</u>	<u>440,087</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 16,372,639</u>	<u>\$ 4,597,851</u>	<u>\$ 312,559</u>	<u>\$ 5,670</u>

**6. Retirement Plans**

The Hospital has established a tax deferred annuity program for all eligible employees pursuant to Section 403(b) of the Internal Revenue Code. Previously, the Hospital had agreed to match 50% of employee contributions to the program up to a maximum of \$600 per employee. This amount was reduced to \$300 during 2011 and eliminated during 2012.

The Hospital has instituted a qualified defined contribution retirement plan (the "Retirement Plan"). All employees are eligible on the first day of the calendar quarter coinciding with their date of employment or the first day of the following quarter for those that started in the middle of a quarter. Previously, the costs and contributions to the Retirement Plan were 5% of the covered employees' annual salaries as outlined in the Retirement Plan document. The percentage was reduced to 4% during 2011 and to 3% during 2012. During 2017, the Retirement Plan was frozen and converted to a discretionary profit sharing plan. The Hospital incurred costs, net of forfeitures of approximately \$11,000 and \$286,000 related to the Retirement Plan during 2018 and 2017, respectively.

**7. Employee Group Health Plan**

The Hospital has a self-insured employee group health plan. A provision for estimates of the ultimate costs for both reported claims and claims not reported was approximately \$590,000 and \$431,000, as of September 30, 2018 and 2017, respectively, included in accrued wages and employee benefits in the accompanying combined Statements of Assets, Liabilities and Net Position. The Hospital maintains stop-loss coverage for the Plan that limits the cost per employee to \$85,000. During 2018 and 2017, approximately \$122,000 and \$62,000, respectively of costs were covered by the coverage.

## **8. Net Patient Service Revenue**

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

### ***Medicare***

- Inpatient acute-care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors.
- Medicare reimbursement for outpatient services is under a prospective payment system called the Ambulatory Payment Classification System (“APCs”). Prospective payment rates are established for each group of services provided in hospital outpatient departments for the diagnosis or treatment of beneficiaries. This system categorizes payments according to clinical diagnosis and resource use. Services covered under other Medicare fee schedules are excluded and will continue to be paid using the fee schedules.

The Hospital is subject to various final settlements determined after submission of annual cost reports and audits by the Medicare fiscal intermediary for various components of reimbursement not incorporated into the prospective payment system. The Hospital’s classification of patients under the Medicare program and the appropriateness of their admissions are subject to an independent review by a peer review organization. The Hospital’s Medicare cost reports have been audited or desk reviewed by the Medicare fiscal intermediary through September 30, 2013.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 created the Recovery Audit Contractors (“RAC”) program to detect and correct improper payments in the Medicare program. The RAC reviews in Georgia were set to begin in earnest in late 2009 and in 2010, but nothing of significance has begun as of issuance of this report. Although management believes its billings policies do not result in overpayments, the RAC reviews could materially affect the operations of the Hospital.

### **Medicaid**

- Inpatient services rendered to Medicaid program beneficiaries are paid at a prospectively determined rate per discharge. 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 and/or fee schedule reimbursement methodology.

**Hospital Authority of Stephens County  
Notes to Combined Financial Statements**

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The Hospital is reimbursed at a tentative rate, with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary for various components of reimbursement not incorporated into the prospective payment system. The Hospital's Medicaid cost reports have been audited or desk reviewed by the Medicaid fiscal intermediary through September 30, 2015.

The Hospital has also entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The Hospital is reimbursed under these agreements at discounts from established charges.

Net patient service revenue decreased approximately \$320,000 in fiscal year 2018 and increased approximately \$1,136,000 in fiscal year 2017 due to prior year retroactive settlements being different from amounts previously estimated.

Laws and regulations governing Medicare and Medicaid programs are complex and subject to interpretation. Management 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 that would have a material effect on the Hospital's combined financial statements. 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 the Medicare and Medicaid programs.

**9. Charity Care, Georgia Indigent Care Trust Fund Act and Georgia Upper Payment Rate Adjustments**

***Charity Care***

The Hospital, under its financial assistance and uninsured discount policies, provides care without charge or at discounted rates to all uninsured patients, including any uninsured patient who experiences catastrophic-related illness or injury. Key elements used to determine eligibility for financial assistance include a patient's demonstrated inability to pay based on family size and household income relative to Federal income poverty guidelines. Amounts determined to qualify as financial assistance are not reported as net patient service revenue. Total charges for charity care were approximately \$4,208,000 and 4,629,000 for the years ended September 30, 2018 and 2017, respectively. The estimated cost of services provided under the Hospital's financial assistance policy based on applying an estimated cost to charge ratio to the amount of applicable charges foregone was approximately \$1,601,000 and \$1,805,000 for the years ended September 30, 2018 and 2017, respectively.

***Georgia Indigent Care Trust Fund Act ("ICTF")***

Under the provisions of the ICTF, Medicaid disproportionate share hospitals ("DSH") may contribute funds to be used by the State in the Medicaid program which may be supplemented by federal funds (combination dollars). The combination dollars are returned to DSH as additional Medicaid inpatient reimbursement.

A schedule summarizing the amounts recorded in the combined financial statements related to the ICTF during the years ended September 30, 2018 and 2017 follows:

	<u>2018</u>	<u>2017</u>
Contribution to ICTF	\$ (2,090,461)	\$ (774,318)
Amounts received	<u>6,617,911</u>	<u>2,411,454</u>
Excess received over contribution	<u>\$ 4,527,450</u>	<u>\$ 1,637,136</u>

**Hospital Authority of Stephens County  
Notes to Combined Financial Statements**

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***Georgia Upper Payment Limit Rate Adjustments (“UPL”)***

Under UPL provisions, government owned or operated hospitals and critical access eligible hospitals may contribute funds to be used by the State in the Medicaid program and may be supplemented by federal funds (combination dollars). The combination dollars are returned for UPL and are recorded as additional Medicaid inpatient and outpatient reimbursement. Net amounts received under the program are recorded within net patient service revenue. Approximately \$520,000 and \$0 was recorded as net patient service revenue relating to UPL for 2018 and 2017, respectively.

The federal government does not ensure future ICTF or UPL funding. Reduced ICTF or UPL funding may impact the Hospital’s operations.

In addition to receiving reimbursement for indigent care from the ICTF and UPL, the Hospital receives reimbursement from Stephens County. The Hospital received approximately \$415,000 and \$413,000 during the years ended September 30, 2018 and 2017, respectively, and recorded the reimbursement as net patient service revenue.

**10. Concentrations of Credit Risk**

In the course of providing healthcare through its inpatient and outpatient care facilities, the Hospital grants credit to patients and generally does not require collateral or other security in extending credit; however, it routinely obtains assignment of (or is otherwise entitled to receive) patient benefits under their health insurance programs, plans or policies (e.g. Medicare, Medicaid, Blue Cross, health maintenance organizations, preferred provider organizations and commercial insurance policies). For the years ended September 30, 2018 and 2017, approximately 51% and 52%, respectively, of the Hospital’s net patient service revenue was derived from the federal Medicare program or the Medicaid programs in the states in which the Hospital operates.

The mix of receivables from patients and third-party payors was as follows:

	<u>2018</u>	<u>2017</u>
Medicare	32%	33%
Medicaid	11%	10%
Blue Cross	6%	5%
Other third-party payors	16%	14%
Patients	<u>35%</u>	<u>38%</u>
	<u>100%</u>	<u>100%</u>

**Hospital Authority of Stephens County  
Notes to Combined Financial Statements**

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**11. Operating Leases**

The Hospital leases certain equipment under operating leases. Future minimum lease payments, by year, at September 30, 2018, are as follows:

2019	\$ 141,599
2020	<u>37,719</u>
Total	<u>\$ 179,318</u>

**12. Fair Value of Financial Instruments**

GASB Statement No. 72, Fair Value Measurements and Application, addresses accounting and financial reporting issues related to fair value measurements. The standard describes fair value as an exit price. The definition of fair value is 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. This standard provides guidance for determining a fair value measurement for financial reporting purposes. This standard also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

The standard establishes a three-level hierarchy of inputs to valuation techniques used to measure fair value. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets or liabilities, inputs that are observable for the asset or liability, and market-corroborated inputs. Level 3 inputs are unobservable inputs and take into account all information about market participant assumptions that are reasonably available. The Board categorizes its fair value measurements within the fair value hierarchy established by this standard.

The following summarizes the Hospital’s cash and investments:

	<u>As of September 30, 2018</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level			
Certificates of deposit	\$ 3,452,036	\$ -	\$ -

	<u>As of September 30, 2017</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments by fair value level			
Certificates of deposit	\$ 1,343,081	\$ -	\$ -

The above schedules exclude money market funds and cash of \$2,604,922 and \$5,599,648 at September 30, 2018 and 2017, respectively.

**13. Commitments and Contingencies**

The Hospital is involved in litigation in the ordinary course of business related to professional liability claims. Management believes all claims will be settled within the limits of insurance coverage. Other claims may be asserted arising from past services provided through September 30, 2017. Management believes these claims, if asserted, would be settled within the limits of insurance coverage. The Hospital's medical malpractice coverage is on a claims-made basis with insurance limits of \$1,000,000 per claim and \$3,000,000 in annual aggregate. The Hospital also has an umbrella policy with insurance limits of \$5,000,000 per claim and \$5,000,000 in annual aggregate. To the extent that any claims-made coverage is not renewed or replaced with equivalent insurance, claims based on occurrences during the term of such coverage, but reported subsequently, would be uninsured.

**14. Subsequent Events**

The Hospital evaluated the effect that subsequent events would have on the combined financial statements from October 1, 2018 through January 21, 2019, which is the date the combined financial statements were available to be issued.

**Hospital Authority of Stephens County**  
**Combining Schedules of Revenue and Expenses Information for Stephens**  
**County Hospital, Personal Care Facilities, and Stephens County Hospital Physician Group**  
**For the years ended September 30, 2018 and 2017**

	<b>Stephens County Hospital</b>	
	<b>2018</b>	<b>2017</b>
Operating revenues:		
Net patient service revenue (net of provision for bad debts)	<b>\$ 37,603,437</b>	\$ 36,950,950
Other revenue	<b>1,760,653</b>	1,362,234
Total operating revenues	<b>39,364,090</b>	38,313,184
Operating expenses:		
Salaries and wages	<b>15,709,377</b>	18,746,445
Employee benefits	<b>3,664,660</b>	4,153,367
Professional fees	<b>8,225,458</b>	6,768,691
Supplies	<b>6,359,206</b>	7,159,351
Utilities	<b>973,777</b>	974,687
Repairs and maintenance	<b>1,797,206</b>	1,636,003
Depreciation and amortization	<b>1,590,287</b>	1,863,588
Insurance	<b>645,207</b>	766,645
Rent	<b>454,769</b>	386,940
Total operating expenses	<b>39,419,947</b>	42,455,717
Operating (loss) income	<b>(55,857)</b>	(4,142,533)
Non-operating revenues (expenses):		
Investment income	<b>47,759</b>	19,008
Interest expense	<b>(622,372)</b>	(628,926)
Net non-operating expenses	<b>(574,613)</b>	(609,918)
Revenues (under) over expenses	<b>\$ (630,470)</b>	\$ (4,752,451)



Personal Care Facilities		Stephens County Physicians Group		Totals	
2018	2017	2018	2017	2018	2017
\$ 2,515,323	\$ 2,460,993	\$ 2,019,389	\$ 1,665,082	\$ 42,138,149	\$ 41,077,025
258,078	256,247	-	-	2,018,731	1,618,481
<b>2,773,401</b>	2,717,240	<b>2,019,389</b>	1,665,082	<b>44,156,880</b>	42,695,506
1,181,563	1,108,694	2,495,837	2,487,248	19,386,777	22,342,387
94,314	89,895	6,852	8,623	3,765,826	4,251,885
1,750	4,941	143,328	92,972	8,370,536	6,866,604
587,111	592,315	82,013	123,088	7,028,330	7,874,754
155,694	160,092	-	-	1,129,471	1,134,779
27,812	29,133	10,000	3,812	1,835,018	1,668,948
157,608	144,032	-	-	1,747,895	2,007,620
-	-	-	-	645,207	766,645
4,218	5,483	44,902	41,160	503,889	433,583
<b>2,210,070</b>	2,134,585	<b>2,782,932</b>	2,756,903	<b>44,412,949</b>	47,347,205
563,331	582,655	(763,543)	(1,091,821)	(256,069)	(4,651,699)
-	-	-	-	47,759	19,008
(27,428)	(29,926)	-	-	(649,800)	(658,852)
(27,428)	(29,926)	-	-	(602,041)	(639,844)
<b>\$ 535,903</b>	<b>\$ 552,729</b>	<b>\$ (763,543)</b>	<b>\$ (1,091,821)</b>	<b>\$ (858,110)</b>	<b>\$ (5,291,543)</b>

**Hospital Authority of Stephens County**  
**Schedules of Net Patient Service Revenue Information**  
**For the years ended September 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Gross patient service revenue:		
Inpatient services	\$ 31,980,122	\$ 32,742,494
Outpatient services	41,625,294	45,059,954
Emergency Room Services	<u>31,445,418</u>	<u>33,363,487</u>
Gross patient service revenue	<u>105,050,834</u>	<u>111,165,935</u>
Deductions from patient service revenue:		
Medicaid	10,855,909	13,272,673
Medicare	33,812,433	35,644,067
Other	10,518,703	12,217,156
Provision for bad debts	<u>7,725,640</u>	<u>8,955,014</u>
Deductions from patient service revenue	<u>62,912,685</u>	<u>70,088,910</u>
Net patient service revenue	<u>\$ 42,138,149</u>	<u>\$ 41,077,025</u>

**Hospital Authority of Stephens County**  
**Schedules of Other Revenue Information**  
**For the years ended September 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
Cafeteria sales	\$ 498,433	\$ 508,943
Vending machines	2,270	3,914
CPR program	4,172	8,880
Miscellaneous lab revenue	1,148	962
Medical records transcription fees	21,956	17,617
Nonpatient sales	110,715	143,783
Purchase discounts	52,262	98,846
Contributions	18,952	20,724
Gain on disposal of assets	500	1,935
Grant income	-	-
Miscellaneous revenues	608,927	125,430
Ambulance revenue - Stephens County	699,396	687,447
	<u>\$ 2,018,731</u>	<u>\$ 1,618,481</u>