

HOSPITAL AUTHORITY OF
STEPHENS COUNTY, GEORGIA
(A Component Unit of Stephens County, Georgia)

FINANCIAL STATEMENTS

for the years ended September 30, 2020 and 2019

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Hospital Authority of Stephens County, Georgia
Toccoa, Georgia

We have audited the accompanying financial statements of the Hospital Authority of Stephens County, Georgia (Authority), which comprise the balance sheets as of September 30, 2020 and 2019 and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital Authority of Stephens County, Georgia as of September 30, 2020 and 2019, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Adjustments to Prior Period Financial Statements

As discussed in Note 15 to the financial statements, certain errors were discovered by management during the current year. Accordingly, amounts reported for accrued expenses have been restated in the 2019 financial statements, and an adjustment has been made to net position as of October 1, 2018, for the effect of the statement on prior years. Our opinion is not modified with respect to that matter.

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

Supplemental Schedule Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Authority taken as a whole. The accompanying Combining Schedule of Revenue and Expenses information for Stephens County Hospital, Personal Care Facilities, and Stephens County Hospital Physician Group, is presented for purposes of additional analysis, and is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic 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 basic financial statements taken as a whole.

Draffin & Tucker, LLP

Albany, Georgia
April 5, 2021



163 Hospital Drive ~ Toccoa, Georgia 30577

HOSPITAL AUTHORITY OF STEPHENS COUNTY, GEORGIA
(A Component Unit of Stephens County, Georgia)

Management's Discussion and Analysis
September 30, 2020 and 2019

The Hospital Authority of Stephens County, Georgia (Authority) includes Stephens County Hospital, two personal care facilities, and physician practices. The Stephens County Hospital provides inpatient, outpatient, and emergency care services for residents of Stephens County, Georgia, and surrounding areas and is licensed for 96 inpatient beds. The two personal care facilities are licensed for a total of 92 beds and provide a level of care less than that of a nursing home.

FINANCIAL HIGHLIGHTS

- Assets increased \$3,573,654 (10%)
- Expenses increased \$397,019 (1%)
- Operating loss was \$6,446,310
- Operating margin was -16%

OVERVIEW OF THE FINANCIAL STATEMENTS

This Discussion and Analysis is intended to serve as an introduction to the Authority's financial statements. The financial statements are comprised of three components: 1) financial statements, 2) notes to the financial statements, and 3) supplemental schedule. The financial statements include the Balance Sheets, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows for the years ending September 30, 2020 and 2019. The Authority 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 Balance Sheet presents information on all of the Authority'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 Authority 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 Statements of Revenues, Expenses and Changes in Net position present information showing how the Authority's net position changed during the 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.

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HOSPITAL AUTHORITY OF STEPHENS COUNTY, GEORGIA
(A Component Unit of Stephens County, Georgia)

Management's Discussion and Analysis
September 30, 2020 and 2019

FINANCIAL ANALYSIS

Assets

Total assets of the Authority increased by \$3,573,654 (10%) due to increases in cash and cash equivalents by \$3,963,233 (196%), and noncurrent cash and investments internally designated for capital acquisitions by \$2,273,028 (152%) due mainly to funding received in response to COVID-19.

Table 1: Summary of Assets

	<u>2020</u>	Restated <u>2019</u>	Restated <u>2018</u>
Current and other assets	\$ 21,136,696	\$ 17,062,119	\$ 21,305,793
Capital assets	<u>18,122,238</u>	<u>18,623,161</u>	<u>18,284,591</u>
Total	\$ <u>39,258,934</u>	\$ <u>35,685,280</u>	\$ <u>39,590,384</u>

Liabilities and Net Position

Total liabilities of the Authority increased \$9,192,544 (38%) due mainly to unearned revenue associated with funding received in response to COVID-19.

Table 2: Summary of Liabilities and Net Position

	<u>2020</u>	Restated <u>2019</u>	Restated <u>2018</u>
Long-term debt	\$ 19,425,815	\$ 15,537,319	\$ 16,685,198
Other liabilities	<u>14,005,441</u>	<u>8,701,393</u>	<u>8,554,001</u>
Total liabilities	33,431,256	24,238,712	25,239,199
Net position	<u>5,827,678</u>	<u>11,446,568</u>	<u>14,351,185</u>
Total liabilities and net position	\$ <u>39,258,934</u>	\$ <u>35,685,280</u>	\$ <u>39,590,384</u>

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HOSPITAL AUTHORITY OF STEPHENS COUNTY, GEORGIA
(A Component Unit of Stephens County, Georgia)

Management's Discussion and Analysis
September 30, 2020 and 2019

Net Patient Service Revenue

Inpatient revenue increased \$2,117,127 (7%) and physicians revenue increased \$1,502,606 (28%). Uncompensated services (contractual adjustments and bad debts) decreased \$4,230,560 (6%).

Table 3: Summary of Net Patient Service Revenue

	<u>2020</u>	Restated <u>2019</u>	Restated <u>2018</u>
Gross patient service revenue:			
Inpatient	\$ 31,629,731	\$ 29,512,604	\$ 29,464,797
Outpatient	31,965,229	38,990,730	36,312,486
Emergency	29,700,251	34,552,758	31,445,417
Physicians	6,810,273	5,307,667	5,312,807
Personal care facilities	<u>2,470,035</u>	<u>2,457,900</u>	<u>2,514,723</u>
Gross patient service revenue	<u>102,575,519</u>	<u>110,821,659</u>	<u>105,050,230</u>
Uncompensated services:			
Medicare	34,559,343	36,952,795	33,812,432
Medicaid	4,994,827	8,478,661	7,272,129
Insurance	13,493,190	12,809,083	11,012,823
Charity/indigent	3,416,048	4,185,412	4,034,893
Bad debts	<u>8,588,051</u>	<u>6,856,068</u>	<u>7,723,474</u>
Total uncompensated care	<u>65,051,459</u>	<u>69,282,019</u>	<u>63,855,751</u>
Net patient service revenue	\$ <u>37,524,060</u>	\$ <u>41,539,640</u>	\$ <u>41,194,479</u>

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HOSPITAL AUTHORITY OF STEPHENS COUNTY, GEORGIA
(A Component Unit of Stephens County, Georgia)

Management's Discussion and Analysis
September 30, 2020 and 2019

Operating Expenses

Operating expenses increased \$397,019 (1%). The Authority started a swingbed program in 2019 and added \$413,000 in salaries.

Table 4: Summary of Operating Expenses

	<u>2020</u>	Restated <u>2019</u>	Restated <u>2018</u>
Salaries, wages, and employee benefits	\$ 25,663,736	\$ 25,721,872	\$ 23,152,603
Professional fees	8,194,824	7,886,793	8,370,536
Supplies	5,969,657	6,272,113	7,028,330
Depreciation and amortization	1,774,911	1,631,387	1,747,895
Other	<u>4,441,885</u>	<u>4,135,829</u>	<u>4,113,585</u>
Total operating expenses	\$ <u>46,045,013</u>	\$ <u>45,647,994</u>	\$ <u>44,412,949</u>

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2020, the Authority had \$18,122,238 invested in capital assets, net of accumulated depreciation, as detailed in Table 5.

Table 5: Capital Assets, net of accumulated depreciation

	<u>2020</u>	Restated <u>2019</u>	Restated <u>2018</u>
Land	\$ 348,788	\$ 348,788	\$ 348,788
Construction-in-progress	43,504	206,316	14,458
Land improvements	448,563	492,243	549,326
Buildings	13,837,195	14,235,025	14,853,682
Equipment	<u>3,444,188</u>	<u>3,340,789</u>	<u>2,518,337</u>
Total capital assets	\$ <u>18,122,238</u>	\$ <u>18,623,161</u>	\$ <u>18,284,591</u>

During 2020, the Authority had capital asset additions of \$1,273,988, of which \$612,684 was purchased with funds from the 2017 Bond Project Fund. Significant additions in 2020 were a server upgrade (\$150,103), an imaging machine (\$240,762), and an air handler (\$201,702).

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HOSPITAL AUTHORITY OF STEPHENS COUNTY, GEORGIA
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Management's Discussion and Analysis
September 30, 2020 and 2019

Long-Term Debt

At September 30, 2020, the Authority had \$19,425,815 in debt borrowings outstanding, as summarized in Table 6. The Authority entered into a new capital lease for equipment of \$513,578 in 2020. Also in 2020, the Authority received loan proceeds in the amount of \$4,643,400 under the Paycheck Protection Program. At September 30, 2020, the Authority had \$2,279,063 in unspent proceeds from the 2017 Series Certificates that will be used for future capital purchases.

Table 6: Long-Term Debt

	<u>2020</u>	Restated <u>2019</u>	Restated <u>2018</u>
2017 Series Certificates	\$ 13,155,000	\$ 14,000,000	\$ 14,620,000
Bank loans	5,759,122	1,262,049	1,752,639
Capital leases	<u>511,693</u>	<u>275,270</u>	<u>312,559</u>
 Total long-term debt	 \$ <u>19,425,815</u>	 \$ <u>15,537,319</u>	 \$ <u>16,685,198</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 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 large new businesses that have opened operations in Stephens County in the past years and has expanded their shifts and workforce. NIF-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. Other existing businesses have expanded over the past couple of years and we have seen the addition of a few new small businesses locating in Stephens County. The last Economic Impact report showed that Stephens County Hospital had a \$100 million impact on the regional economy.

The Authority 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 competition from the Northeast Georgia Healthcare System, the two hospitals located in Athens, Georgia (all approximately 45 minutes away) as well as a couple of small, rural hospitals close by 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 an increase in the pay scale for these positions. Stephens County Hospital will continue to keep abreast of the employment market in our region and strive to sustain a competitive compensation package. The 2020 strategic plan involved continued evaluation of all employee compensation and a systematic process to adjust up any pay scales that are not within market guidelines in an effort to remain competitive and an employer of choice for those in the area.

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HOSPITAL AUTHORITY OF STEPHENS COUNTY, GEORGIA
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Management's Discussion and Analysis
September 30, 2020 and 2019

2020 Operations Summary

FY 2020 has been a challenging year operationally due to the ongoing impact of the COVID-19 pandemic. The pandemic not only decreased outpatient volumes by nearly 75%, but created significant increases in costs due to PPE supply costs and crisis staffing needs. Fortunately, Stephens County Hospital (SCH) was awarded PPP and HHS stimulus funding, although the PPP was not recognized during FY 2020, it will be recognized in FY 2021. Administration has implemented strategic initiatives to ensure SCH remains financially viable and continues to expand services. These include emphasis on staffing to ensure proper utilization of human resources, and maximization of staff productivity and efficiency of operations. Administration is reevaluating all purchased service and other contracts. Recently, our Internal Medicine Clinic has been designated a Rural Health Clinic effective April 2021, which will allow the recognition of increased reimbursement in this fiscal year. Marketing efforts will be improved to increase awareness and growth of services provided by SCH. The addition of a 12-bed Adult Acute Behavioral Health Unit scheduled to open in September 2021, is projected to generate between \$750,000 and \$1,000,000 of profit to the bottom line. Recent market analysis indicated a community need for a 16-bed Acute Behavioral Unit.

In addition to service line enhancements, significant improvements have been made to the revenue cycle. With improved collection efforts and decreased denials, the system has recognized a total increase in collections of approximately 3% of YTD gross revenue.

In the first few months of FY 2021, overall profitability has improved over prior year by approximately \$1.7 million. It is anticipated that this improvement will be more significant over the remainder of the year as there were significant reductions in volume last year and significant adjustments to allowances that were understated through July 2020. In addition, we have made adjustments to the benefits program to bring us more in line with standard programs utilized at other hospital facilities. This will also result in improved profitability and less accumulated liabilities.

REQUESTS FOR INFORMATION

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

HOSPITAL AUTHORITY OF STEPHENS COUNTY, GEORGIA
(A Component Unit of Stephens County, Georgia)

Balance Sheets
September 30, 2020 and 2019

	<u>2020</u>	<u>Restated 2019</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,983,420	\$ 2,020,187
Current portion of funds held by trustee	521,255	605,017
Patient accounts receivable, net of estimated uncollectibles of \$18,689,780 in 2020 and \$16,220,760 in 2019	6,930,586	7,549,104
Estimated third-party payor settlements	197,939	546,129
Other receivables	94,656	73,392
Supplies, at lower of cost (first-in, first-out) or market	1,325,801	1,498,287
Prepaid expenses	<u>33,811</u>	<u>399,279</u>
Total current assets	<u>15,087,468</u>	<u>12,691,395</u>
Noncurrent cash and investments:		
Internally designated for capital acquisition	3,770,165	1,497,137
Restricted for capital acquisition under indenture agreement	2,279,063	2,873,587
Held by trustee under indenture agreement	<u>521,255</u>	<u>605,017</u>
	6,570,483	4,975,741
Less amount required to meet current obligations	(<u>521,255</u>)	(<u>605,017</u>)
Total noncurrent cash and investments	<u>6,049,228</u>	<u>4,370,724</u>
Capital assets:		
Land	348,788	348,788
Construction-in-progress	43,504	206,316
Depreciable capital assets, net of accumulated depreciation	<u>17,729,946</u>	<u>18,068,057</u>
Total capital assets, net of accumulated depreciation	<u>18,122,238</u>	<u>18,623,161</u>
Total assets	<u>\$ 39,258,934</u>	<u>\$ 35,685,280</u>

	<u>2020</u>	Restated <u>2019</u>
Liabilities and Net Position		
Current liabilities:		
Current maturities of long-term debt	\$ 2,688,124	\$ 1,192,310
Accounts payable	3,100,483	4,260,949
Accrued expenses	3,956,584	4,256,264
Estimated third-party payor settlements	384,975	184,180
Unearned revenue	3,806,693	-
Medicare advance payments, current portion	<u>897,076</u>	<u>-</u>
Total current liabilities	14,833,935	9,893,703
Long-term debt, net of current maturities	16,737,691	14,345,009
Medicare advance payments, net of current portion	<u>1,859,630</u>	<u>-</u>
Total liabilities	<u>33,431,256</u>	<u>24,238,712</u>
Net position:		
Net investment in capital assets	3,339,823	3,085,842
Restricted under indenture agreement	2,279,063	2,873,587
Unrestricted	<u>208,792</u>	<u>5,487,139</u>
Total net position	<u>5,827,678</u>	<u>11,446,568</u>
Total liabilities and net position	<u>\$ 39,258,934</u>	<u>\$ 35,685,280</u>

See accompanying notes to financial statements.

HOSPITAL AUTHORITY OF STEPHENS COUNTY, GEORGIA
(A Component Unit of Stephens County, Georgia)

Statements of Revenues, Expenses and Changes in Net Position
for the years ended September 30, 2020 and 2019

	<u>2020</u>	<u>Restated 2019</u>
Operating revenues:		
Net patient service revenue (net of provision for bad debts of \$8,588,051 in 2020 and \$6,856,068 in 2019)	\$ 37,524,060	\$ 41,539,640
Other revenue	<u>2,074,643</u>	<u>1,718,064</u>
Total operating revenues	<u>39,598,703</u>	<u>43,257,704</u>
Operating expenses:		
Salaries and wages	21,924,899	21,630,003
Employee benefits	3,738,837	4,091,869
Professional fees	8,194,824	7,886,793
Supplies	5,969,657	6,272,113
Utilities	1,061,310	1,191,996
Repairs and maintenance	2,042,757	1,809,741
Depreciation and amortization	1,774,911	1,631,387
Insurance	1,052,011	590,571
Rent	<u>285,807</u>	<u>543,521</u>
Total operating expenses	<u>46,045,013</u>	<u>45,647,994</u>
Operating loss	(<u>6,446,310</u>)	(<u>2,390,290</u>)
Nonoperating revenues (expenses):		
Investment income	32,449	86,490
Interest expense	(615,029)	(600,817)
Provider Relief Fund grants	<u>1,410,000</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>827,420</u>	(<u>514,327</u>)
Excess expenses	(<u>5,618,890</u>)	(<u>2,904,617</u>)
Net position, beginning of year, as previously reported	11,446,568	15,294,855
Adjustment - see Note 15	<u>-</u>	(<u>943,670</u>)
Net position, beginning of year, as restated	<u>11,446,568</u>	<u>14,351,185</u>
Net position, end of year	\$ <u>5,827,678</u>	\$ <u>11,446,568</u>

See accompanying notes to financial statements.

HOSPITAL AUTHORITY OF STEPHENS COUNTY, GEORGIA
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Statements of Cash Flows
for the years ended September 30, 2020 and 2019

	<u>2020</u>	<u>Restated 2019</u>
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 41,448,269	\$ 43,397,755
Payments to employees	(25,963,408)	(25,751,023)
Payments to suppliers and contractors	(19,250,142)	(18,044,602)
Other receipts	<u>2,074,643</u>	<u>1,718,064</u>
Net cash provided (used) by operating activities	<u>(1,690,638)</u>	<u>1,320,194</u>
Cash flows from noncapital financing activities:		
Cash received from Provider Relief Fund grants	5,216,693	-
Cash received from Paycheck Protection Program	<u>4,643,400</u>	<u>-</u>
Net cash provided by noncapital financing activities	<u>9,860,093</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Principal paid on long-term debt	(1,268,482)	(1,322,814)
Interest paid on long-term debt	(615,037)	(871,798)
Purchase of capital assets	<u>(760,410)</u>	<u>(1,795,022)</u>
Net cash used by capital and related financing activities	<u>(2,643,929)</u>	<u>(3,989,634)</u>
Cash flows from investing activities:		
Maturities of certificates of deposit	2,376,457	975,007
Investment income	32,449	86,490
Change in physician notes receivable	<u>-</u>	<u>15,044</u>
Net cash provided by investing activities	<u>2,408,906</u>	<u>1,076,541</u>
Net increase (decrease) in cash and cash equivalents	7,934,432	(1,592,899)
Cash and cash equivalents, beginning of year	<u>4,518,738</u>	<u>6,111,637</u>
Cash and cash equivalents, end of year	\$ <u>12,453,170</u>	\$ <u>4,518,738</u>

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HOSPITAL AUTHORITY OF STEPHENS COUNTY, GEORGIA
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Statements of Cash Flows, Continued
for the years ended September 30, 2020 and 2019

	<u>2020</u>	<u>Restated 2019</u>
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash and cash equivalents	\$ 5,983,420	\$ 2,020,187
Internally designated for capital acquisition	3,669,432	546,062
Restricted for capital acquisition under indenture agreement	2,279,063	1,347,472
Held by trustee under indenture agreement	<u>521,255</u>	<u>605,017</u>
Total cash and cash equivalents	<u>\$ 12,453,170</u>	<u>\$ 4,518,738</u>
Reconciliation of operating loss to net cash flows provided (used) by operating activities:		
Operating loss	\$ (6,446,310)	\$ (2,390,290)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	1,774,911	1,631,387
Provision for bad debts	8,588,051	6,856,068
Changes in:		
Patient accounts receivable	(7,969,533)	(4,877,199)
Estimated third-party payor settlements	548,985	(120,754)
Other receivables	(21,264)	87,555
Supplies	172,486	(38,244)
Prepaid expenses	365,468	(62,522)
Accounts payable	(1,160,466)	263,344
Accrued expenses	(299,672)	(29,151)
Medicare advanced payments	<u>2,756,706</u>	<u>-</u>
Net cash provided (used) by operating activities	<u>\$(1,690,638)</u>	<u>\$ 1,320,194</u>
Noncash capital financing activities:		
Capital assets acquired through capital lease	<u>\$ 513,578</u>	<u>\$ 174,935</u>

See accompanying notes to financial statements.

HOSPITAL AUTHORITY OF STEPHENS COUNTY, GEORGIA
(A Component Unit of Stephens County, Georgia)

Notes to Financial Statements
September 30, 2020 and 2019

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

Reporting entity. The Hospital Authority of Stephens County, Georgia (Authority) is a public body corporate and politic organized under the Hospital Authorities Law of the State of Georgia. The Authority was established on September 6, 1949 by the Board of Commissioners of Stephens County, Georgia. The Authority is governed by a seven-member board of trustees appointed by the Stephens County Commissioners and Stephens County has guaranteed debt of the Authority. For these reasons, the Authority is considered to be a component unit of Stephens County, Georgia.

The Authority owns and operates Stephens County Hospital, which provides short-term inpatient, outpatient, and emergency care to residents of Stephens County and the surrounding area. The Authority also owns and operates two personal care facilities, Clary Care Center and Wilkinson Center (collectively, Personal Care Facilities).

Stephens County Hospital Physician Group, LLC (SCHPG) is a not-for-profit organization whose sole member is the Authority. SCHPG operations consist of employing physicians and contracts with the Authority to provide physician services. SCHPG is a blended component unit of the Authority.

Stephens County Emergency Physicians, Inc. (SCEP) is a not-for-profit organization whose sole member is the Authority. SCEP has not had any operations since February 1, 2017. SCEP is a blended component unit of the Authority.

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

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.

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

Continued

HOSPITAL AUTHORITY OF STEPHENS COUNTY, GEORGIA
(A Component Unit of Stephens County, Georgia)

Notes to Financial Statements, Continued
September 30, 2020 and 2019

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

Noncurrent cash and investments. Noncurrent cash and investments include assets set aside by the Board for future capital improvements, over which the Board retains control and may, at its discretion, subsequently use for other purposes; assets held by trustee under indenture agreement; and assets serving as collateral under a loan agreement. Amounts required to meet current liabilities of the Authority have been reclassified to current assets in the Balance Sheet.

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 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 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.

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

Land improvements	5 to 25 Years
Buildings and building improvements	5 to 40 Years
Equipment, computers and furniture	3 to 20 Years

The Authority evaluates capital assets regularly for impairment under the provisions of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. If circumstances suggest that assets may be impaired, an assessment of recoverability is performed prior to any write-down of assets. An impairment charge is recorded on those assets for which the estimated fair value is below its carrying value. The Authority has not recorded any impairment charges during 2020 or 2019.

Continued

HOSPITAL AUTHORITY OF STEPHENS COUNTY, GEORGIA
(A Component Unit of Stephens County, Georgia)

Notes to Financial Statements, Continued
September 30, 2020 and 2019

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

Costs of borrowing. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Costs incurred in connection with the issuance of bonds and notes are expensed in the period incurred.

Compensated absences. The Authority's employees earn paid time off (PTO) at varying rates depending on years of service. PTO hours accumulate and may be carried over to the next year. However, an employee's PTO accrual may not exceed 480 hours. An employee may receive a pay out of PTO hours, subject to certain restrictions. Employees are also entitled to have their accrued PTO paid at the time of termination. The estimated amount of PTO payable is reported as a current liability in both 2020 and 2019.

Unearned revenue. Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Provider Relief Fund grants received through the CARES Act are reported as unearned revenue until all eligible requirements are met. See Note 14 for additional information.

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

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

Grants and contributions. From time to time, the Authority receives grants from Stephens County 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. See Note 14 for additional information regarding Provider Relief Fund grants.

Continued

HOSPITAL AUTHORITY OF STEPHENS COUNTY, GEORGIA
(A Component Unit of Stephens County, Georgia)

Notes to Financial Statements, Continued
September 30, 2020 and 2019

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 revenue.

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.

Risk Management. The Authority is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years. The Authority is self-insured for employee health insurance and for the deductible portion of its general and professional liability insurance policy as discussed in Note 10.

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

SCHPG and SCEP are not-for-profit organizations and have been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been provided.

Recently adopted accounting pronouncement. In May 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* (GASB 95). GASB 95's primary objective is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic by postponing the effective dates of certain provisions in the Statements and Implementation Guides. GASB 95 is effective immediately. Earlier application of provisions are permitted to the extent specified in each pronouncement as originally issued.

Continued

HOSPITAL AUTHORITY OF STEPHENS COUNTY, GEORGIA
(A Component Unit of Stephens County, Georgia)

Notes to Financial Statements, Continued
September 30, 2020 and 2019

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

Accounting pronouncements not yet adopted. In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities* (GASB 84). GASB 84 establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. GASB 84 was postponed with the issuance of GASB 95 and is now effective for fiscal years beginning after December 15, 2019. The Authority is currently evaluating the impact GASB 84 will have on its financial statements.

Prior year reclassifications. Certain reclassifications have been made to the fiscal year 2019 financial statements to conform to the fiscal year 2020 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 arrangements 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. 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 Medicaid Integrity Contractor (MIC) program. These programs were created to review Medicare and Medicaid claims for medical necessity and coding appropriateness. The RAC's have authority to pursue improper payments with a three year look back from the date the claim was paid. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medicaid programs.

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

- *Medicare.* The Authority has received Medicare dependent hospital (MDH) classification from Medicare. As an MDH, inpatient services rendered to Medicare program beneficiaries are paid at a blend of a hospital specific rate and a prospectively determined rate per discharge. The hospital specific rate is calculated for a base period and adjusted annually by an updating factor. The prospectively determined rate per discharge varies according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The inpatient services and certain other reimbursable items are paid 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).

Continued

HOSPITAL AUTHORITY OF STEPHENS COUNTY, GEORGIA
(A Component Unit of Stephens County, Georgia)

Notes to Financial Statements, Continued
September 30, 2020 and 2019

2. Net Patient Service Revenue, Continued

- *Medicare, continued.* The Authority has appealed the amount of Medicare inpatient reimbursement it was due for the years 2008 and 2012. The Authority appealed the methodology used to calculate the Volume Discharge Adjustment (VDA) payment. On July 25, 2019, the Provider Reimbursement Review Board (PRRB) ruled in the Authority's favor and found that the Authority should receive VDA payments of \$1,664,648 and \$1,461,660 for 2008 and 2012, respectively. The Medicare Administrator then had 60 days to reverse the PRRB's decision. The Medicare Administrator did reverse the PRRB's decision but beyond the 60-day deadline. The Authority then filed suit in federal court to uphold the PRRB's decision. Due to the uncertainty regarding receiving the VDA payments for 2008 and 2012, no accrual for the VDA payments has been made in the accompanying financial statements.

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 September 30, 2015. Revenue from the Medicare program accounted for approximately 47% and 50% of the Authority's net patient service revenue for the years ended September 30, 2020 and 2019.

- *Medicaid.* Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates. Outpatient services are generally paid under a cost reimbursement methodology. The Authority is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicaid fiscal intermediary. The Authority's Medicaid cost reports have been settled by the Medicaid fiscal intermediary through September 30, 2017. Revenue from the Medicaid program accounted for approximately 23% and 15% of the Authority's net patient service revenue for the years ended September 30, 2020 and 2019.

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

The Authority participates in the Indigent Care Trust Fund (ICTF) Program. The Authority receives ICTF payments for treating a disproportionate number of Medicaid and other indigent patients. ICTF payments are based on the Authority's estimated uncompensated cost of services to Medicaid and uninsured patients. The net amount of ICTF payments recognized in net patient service revenues was \$563,580 and \$2,239,071 for the years ended September 30, 2020 and 2019, respectively. The balance sheet reflects an overpayment of \$943,670 at September 30, 2020 and 2019, related to the 2018 ICTF payment. The liability is included in accrued expenses.

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HOSPITAL AUTHORITY OF STEPHENS COUNTY, GEORGIA
(A Component Unit of Stephens County, Georgia)

Notes to Financial Statements, Continued
September 30, 2020 and 2019

2. Net Patient Service Revenue, Continued

Medicaid, continued. The Authority also participates in the Medicaid Upper Payment Limit (UPL) Program. The UPL payment adjustments are based on a measure of the difference between Medicaid payments and the amount that could be paid based on Medicare payment principles. The net amount of UPL payment adjustments recognized in net patient service revenue was \$100,100 and \$179,685 for the years ended September 30, 2020 and 2019, respectively.

Hospitals in Georgia are assessed a “provider payment” in the amount of 1.45% of their net patient revenue. The provider payments are due on a quarterly basis to the State of Georgia. The payments are to be used for the sole purpose of obtaining federal financial participation for medical assistance payments to providers on behalf of Medicaid recipients. The provider payment results in a corresponding increase in Medicaid payments for hospital services of approximately 11.88%. The Authority made provider payments to the State of Georgia of \$441,130 and \$459,662 in 2020 and 2019, respectively. The payments are included in net patient service revenue in the accompanying statements of revenues, expenses and changes in net position.

- *Uninsured.* The Authority provides emergency and other medically necessary care regardless of a patient’s ability to pay. The Authority has a Financial Assistance Policy (FAP) to assist those patients who cannot pay for all or part of their care. Based on the FAP, the calculation of the discount for patients qualified for a partial charity care adjustment will be based on the Authority’s Medicare reimbursement rate (or amounts generally billed to individuals who have insurance coverage, or AGB). This discount is updated annually when new rates are received. AGB is calculated by reviewing claims that have been paid in full for medically necessary care by the Authority’s three best insurance payers. The Authority provides services without charge or at amounts less than its established rates to patients that are approved under the FAP. Patient household income in relation to the federal poverty guidelines and certain special circumstances criteria are included in the determination of qualification.
- *Other arrangements.* The Authority also has 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.

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HOSPITAL AUTHORITY OF STEPHENS COUNTY, GEORGIA
(A Component Unit of Stephens County, Georgia)

Notes to Financial Statements, Continued
September 30, 2020 and 2019

3. Uncompensated Care

The Authority was compensated for services at amounts less than its established rates (gross patient charges). Charges for uncompensated services for 2020 and 2019 were \$65,051,459 and \$69,282,019, respectively.

Uncompensated care includes charity and indigent care services of approximately \$3,416,000 and \$4,185,000 in 2020 and 2019, respectively. The cost of charity and indigent care services provided during 2020 and 2019 were approximately \$1,533,000 and \$1,724,000, respectively, computed by applying a total cost factor to the charges foregone. The following is a summary of uncompensated services and a reconciliation of gross patient charges to net patient service revenue for 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Gross patient service revenue	\$ <u>102,575,519</u>	\$ <u>110,821,659</u>
Uncompensated services:		
Medicare	34,559,343	36,952,795
Medicaid	4,994,827	8,478,661
Insurance	13,493,190	12,809,083
Charity/indigent	3,416,048	4,185,412
Bad debts	<u>8,588,051</u>	<u>6,856,068</u>
Total uncompensated care	<u>65,051,459</u>	<u>69,282,019</u>
Net patient service revenue	\$ <u>37,524,060</u>	\$ <u>41,539,640</u>

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. State law requires collateralization of all deposits with federal depository insurance (FDIC) and other acceptable collateral in specific amounts. The Authority's deposits are secured by FDIC, collateral posted by financial institutions, the State of Georgia Pledging Pool, and the Georgia Secure Deposit Program. As of September 30, 2020 and 2019, the Authority's deposits were entirely insured or collateralized.

Custodial credit risk – investments. For an investment, this is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Authority's investments are held in the Authority's name by a custodial bank that is the agent of the Authority.

Continued

HOSPITAL AUTHORITY OF STEPHENS COUNTY, GEORGIA
(A Component Unit of Stephens County, Georgia)

Notes to Financial Statements, Continued
September 30, 2020 and 2019

4. Deposits and Investments, Continued

Interest rate risks. The Authority 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. The Authority's held by trustee funds are invested in a money market fund with a weighted average maturity of 44 days at September 30, 2020 and 23 days at September 30, 2019.

Credit risk. The Authority's money market investment carried a rating of AAAM by Standard & Poor's at both September 30, 2020 and 2019.

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

	<u>2020</u>	<u>2019</u>
Deposits	\$ 12,032,648	\$ 6,390,911
Investments	<u>521,255</u>	<u>605,017</u>
Total	<u>\$ 12,553,903</u>	<u>\$ 6,995,928</u>

Included in the following balance sheet captions:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 5,983,420	\$ 2,020,187
Noncurrent cash and investments:		
Internally designated for capital acquisition	3,770,165	1,497,137
Restricted for capital acquisition under indenture agreement	2,279,063	2,873,587
Held by trustee under indenture agreement	<u>521,255</u>	<u>605,017</u>
Total	<u>\$ 12,553,903</u>	<u>\$ 6,995,928</u>

The Authority's investments consist of a money market fund. The fair value of the money market fund is measured using Level 1 inputs.

Continued

HOSPITAL AUTHORITY OF STEPHENS COUNTY, GEORGIA
(A Component Unit of Stephens County, Georgia)

Notes to Financial Statements, Continued
September 30, 2020 and 2019

5. Accounts Receivable and Payable

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Authority at September 30, 2020 and 2019 consisted of these amounts:

	<u>2020</u>	<u>2019</u>
Patient accounts receivable:		
Receivable from patients and their insurance carriers	\$ 17,348,503	\$ 15,165,338
Receivable from Medicare	5,538,408	6,706,206
Receivable from Medicaid	<u>2,733,455</u>	<u>1,898,320</u>
Total patient accounts receivable	25,620,366	23,769,864
Less allowance for uncollectible amounts	<u>18,689,780</u>	<u>16,220,760</u>
Patient accounts receivable, net	\$ <u>6,930,586</u>	\$ <u>7,549,104</u>
Accounts payable and accrued expenses:		
Payable to employees (including payroll taxes)	\$ 3,824,104	\$ 4,123,792
Payable to suppliers	2,949,510	4,260,949
Accrued interest payable	132,480	132,472
Patient refunds	<u>150,973</u>	<u>-</u>
Total accounts payable and accrued expenses	\$ <u>7,057,067</u>	\$ <u>8,517,213</u>

6. Concentrations of Credit Risk

The Authority grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at September 30, 2020 and 2019, was as follows:

	<u>2020</u>	<u>2019</u>
Medicare	23%	33%
Medicaid	15%	11%
Blue Cross	14%	11%
Other third-party payors	36%	18%
Patients	<u>12%</u>	<u>27%</u>
Total	<u>100%</u>	<u>100%</u>

Continued

HOSPITAL AUTHORITY OF STEPHENS COUNTY, GEORGIA
(A Component Unit of Stephens County, Georgia)

Notes to Financial Statements, Continued
September 30, 2020 and 2019

7. Capital Assets

Capital asset additions, retirements, and balances for the years ended September 30, 2020 and 2019 were as follows:

	Balance September 30, <u>2019</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	Balance September 30, <u>2020</u>
Land	\$ 348,788	\$ -	\$ -	\$ 348,788
Construction-in-progress	206,316	139,200	(302,012)	43,504
Land improvements	1,743,884	13	-	1,743,897
Buildings	33,617,773	113,529	246,406	33,977,708
Equipment	<u>35,126,507</u>	<u>1,021,246</u>	<u>55,606</u>	<u>36,203,359</u>
Totals at historical cost	<u>71,043,268</u>	<u>1,273,988</u>	<u>-</u>	<u>72,317,256</u>
Less accumulated depreciation for:				
Land improvements	(1,251,641)	(43,693)	-	(1,295,334)
Buildings	(19,382,748)	(757,765)	-	(20,140,513)
Equipment	<u>(31,785,718)</u>	<u>(973,453)</u>	<u>-</u>	<u>(32,759,171)</u>
Total accumulated depreciation	<u>(52,420,107)</u>	<u>(1,774,911)</u>	<u>-</u>	<u>(54,195,018)</u>
Capital assets, net	\$ <u>18,623,161</u>	\$(<u>500,923</u>)	\$ <u>-</u>	\$ <u>18,122,238</u>
	Balance September 30, <u>2018</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	Balance September 30, <u>2019</u>
Land	\$ 348,788	\$ -	\$ -	\$ 348,788
Construction-in-progress	14,458	191,858	-	206,316
Land improvements	1,743,884	-	-	1,743,884
Buildings	33,513,347	104,426	-	33,617,773
Equipment	<u>34,162,839</u>	<u>1,673,673</u>	<u>(710,005)</u>	<u>35,126,507</u>
Totals at historical cost	<u>69,783,316</u>	<u>1,969,957</u>	<u>(710,005)</u>	<u>71,043,268</u>
Less accumulated depreciation for:				
Land improvements	(1,194,558)	(57,083)	-	(1,251,641)
Buildings	(18,659,665)	(723,083)	-	(19,382,748)
Equipment	<u>(31,644,502)</u>	<u>(851,221)</u>	<u>710,005</u>	<u>(31,785,718)</u>
Total accumulated depreciation	<u>(51,498,725)</u>	<u>(1,631,387)</u>	<u>710,005</u>	<u>(52,420,107)</u>
Capital assets, net	\$ <u>18,284,591</u>	\$ <u>338,570</u>	\$ <u>-</u>	\$ <u>18,623,161</u>

Continued

HOSPITAL AUTHORITY OF STEPHENS COUNTY, GEORGIA
(A Component Unit of Stephens County, Georgia)

Notes to Financial Statements, Continued
September 30, 2020 and 2019

8. Long-Term Debt

A schedule of changes in the Authority's long-term debt for 2020 and 2019 follows:

	Balance September 30, <u>2019</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, <u>2020</u>	Amounts Due Within One <u>Year</u>
Direct borrowings/ placements:					
Series 2017A	\$ 8,940,000	\$ -	\$(570,000)	\$ 8,370,000	\$ 595,000
Series 2017B	5,060,000	-	(275,000)	4,785,000	290,000
Note payable-A	715,138	-	(95,455)	619,683	619,683
Note payable-B	546,911	-	(50,872)	496,039	51,482
Note payable-C	-	-	-	-	-
PPP loan	<u>-</u>	<u>4,643,400</u>	<u>-</u>	<u>4,643,400</u>	<u>984,859</u>
 Total direct borrowings/ placements	 15,262,049	 4,643,400	 (991,327)	 18,914,122	 2,541,024
 Capital leases	 <u>275,270</u>	 <u>513,578</u>	 (277,155)	 <u>511,693</u>	 <u>147,100</u>
 Total long-term debt	 \$ <u>15,537,319</u>	 \$ <u>5,156,978</u>	 \$(<u>1,268,482</u>)	 \$ <u>19,425,815</u>	 \$ <u>2,688,124</u>
	Balance September 30, <u>2018</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, <u>2019</u>	Amounts Due Within One <u>Year</u>
Direct borrowings/ placements:					
Series 2017A	\$ 9,290,000	\$ -	\$(350,000)	\$ 8,940,000	\$ 570,000
Series 2017B	5,330,000	-	(270,000)	5,060,000	275,000
Note payable-A	807,643	-	(92,505)	715,138	95,049
Note payable-B	594,996	-	(48,085)	546,911	51,689
Note payable-C	<u>350,000</u>	<u>-</u>	<u>(350,000)</u>	<u>-</u>	<u>-</u>
 Total direct borrowings/ placements	 16,372,639	 -	 (1,110,590)	 15,262,049	 991,738
 Capital leases	 <u>312,559</u>	 <u>174,935</u>	 (212,224)	 <u>275,270</u>	 <u>200,572</u>
 Total long-term debt	 \$ <u>16,685,198</u>	 \$ <u>174,935</u>	 \$(<u>1,322,814</u>)	 \$ <u>15,537,319</u>	 \$ <u>1,192,310</u>

Continued

HOSPITAL AUTHORITY OF STEPHENS COUNTY, GEORGIA
(A Component Unit of Stephens County, Georgia)

Notes to Financial Statements, Continued
September 30, 2020 and 2019

8. Long-Term Debt, Continued

The terms and due dates of the Authority's long-term debt at September 30, 2020 and 2019, follow:

- Series 2017A Certificates – \$9,500,000 Revenue Anticipation Certificates, Series 2017A, interest at 3.25%, principal maturing in varying annual amounts, due July 2032, secured by a pledge of the Authority's gross revenues. The Series 2017A Certificates contain a provision that in an event of default, the owners of more than 50% of the principal amount outstanding may declare the bonds due and payable immediately.
- Series 2017B Certificates – \$5,500,000 Revenue Anticipation Certificates, Federally Taxable Series 2017B, interest at 4.73%, principal maturing in varying annual amounts, due July 2032, secured by a pledge of the Authority's gross revenues. The Series 2017B Certificates contain a provision that in an event of default, the owners of more than 50% of the principal amount outstanding may declare the bonds due and payable immediately.
- Note payable-A – 3.16% note payable, payable in monthly installments of \$9,752 with a balloon payment of \$599,153 due at maturity, due July 2021, secured by an assignment of leases and rents on personal care facilities. In an event of default, the interest rate on the note shall increase an additional 6.00%.
- Note payable-B – 3.99% note payable, payable in monthly installments of \$6,010, due October 2028, secured by a deed to secure debt. In an event of default, the lender may demand immediate payment or may demand additional security.
- Note payable-C – 2.45% note payable, interest payable quarterly and principal due at maturity, due December 2019.
- Capital leases – interest at 7.99%, collateralized by leased equipment with a cost of \$1,451,563 and \$937,985 and accumulated amortization of \$645,554 and \$446,709 at September 30, 2020 and 2019, respectively.
- Paycheck Protection Program Loan – at an interest rate of 1.00%, unsecured. The Authority was not required to make any payments on this loan in 2020. The note payable contains a provision that in an event of default, outstanding obligations may become immediately due and payable.

In June 2017, the Authority issued \$9,500,000 Revenue Anticipation Certificates, Series 2017A (Series 2017A) and \$5,500,000 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 a term loan, and financing the costs of adding to, extending, improving, an equipping the Authority's existing hospital and related facilities. The refunding of the Series 2006 Certificates 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 Series 2017 Certificates require monthly deposits of at least one-twelfth of the principal and interest becoming due each January and July to a sinking fund. Such deposits are included in the balance sheet as held by trustee under indenture agreement.

Continued

HOSPITAL AUTHORITY OF STEPHENS COUNTY, GEORGIA
(A Component Unit of Stephens County, Georgia)

Notes to Financial Statements, Continued
September 30, 2020 and 2019

8. Long-Term Debt, Continued

Under the terms of an Intergovernmental Contract entered into simultaneously with the issuance of the Series 2017 Certificates, Stephens County agreed to provide funds to meet the annual principal and interest payments on the bonds should the Authority have insufficient funds in the sinking fund to make such payments. No such payments were made by Stephens County in 2020 or 2019.

On April 19, 2020, the Authority received loan proceeds in the amount of \$4,643,400 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 business. 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 percent, with a deferral of payments for the first ten months after the covered period. The Authority believes its use of the proceeds is consistent with the PPP and intends to seek forgiveness. The Authority will recognize any forgiveness of the loan at the time the Authority is legally released from the debt. While the Authority currently believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan, no assurances can be provided.

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

<u>Year Ending September 30,</u>	<u>Direct Borrowings/Placements</u>		<u>Capital Leases</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 2,541,024	\$ 587,998	\$ 147,100	\$ 33,150
2022	4,633,756	494,408	99,358	25,545
2023	1,017,490	445,439	107,594	17,309
2024	1,049,825	406,946	116,513	8,390
2025	1,092,325	367,017	41,128	689
2026-2030	5,964,703	1,182,749	-	-
2031-2033	<u>2,614,999</u>	<u>149,969</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 18,914,122</u>	<u>\$ 3,634,526</u>	<u>\$ 511,693</u>	<u>\$ 85,083</u>

Continued

HOSPITAL AUTHORITY OF STEPHENS COUNTY, GEORGIA
(A Component Unit of Stephens County, Georgia)

Notes to Financial Statements, Continued
September 30, 2020 and 2019

9. Employee Retirement Plan

The Authority provides retirement benefits for its employees through the Stephens County Hospital Defined Contribution Plan (Plan). The Plan is administered by Milliman, Inc. Plan provisions and contribution requirements are established and may be amended by the Authority's Board of Trustees. Employees are eligible on the first day of each Plan quarter immediately following or coincident with their employment date. The Authority may make discretionary nonelective contributions to the Plan. Employees are vested in the Authority's contributions based on a 3-year grade beginning with the third year of employment. Plan forfeitures reduce the Authority's nonelective contributions. The Authority incurred no costs related to the Plan in 2020 and 2019.

10. Insurance Arrangements

Liability insurance. The Authority has claims-made insurance coverage for professional liability and occurrence insurance coverage for general liability. The insurance policies have limits of \$1,000,000 per claim/occurrence and \$3,000,000 annual aggregate. The Authority's deductible for is \$25,000 for individual claims or \$75,000 annual aggregate. The Authority also has an umbrella policy with a limit of \$5,000,000 per claim and \$5,000,000 annual aggregate. The Authority's deductible for this policy is \$25,000.

Employee health insurance. The Authority has a self-insured health plan for its employees. The Authority has purchased stop loss insurance to supplement the health plan, which will reimburse the Authority for individual claims in excess of \$85,000 annually. The Authority incurred expenses related to this plan of approximately \$2,085,000 and \$2,592,000 for the years ended September 30, 2020 and 2019, respectively. Estimated accruals for claims incurred but not reported have been recorded in accrued expenses in the balance sheet. Estimated accruals were approximately \$232,000 and \$473,000 at September 30, 2020 and 2019, respectively.

11. Commitments and Contingencies

Operating leases. The Authority leases certain equipment under operating leases. Future minimum lease payments, by year, at September 30, 2020, are as follows:

2021	\$219,987
2022	\$101,832
2023	\$101,832
2024	\$ 8,487

Litigation. The Authority is subject to litigation and regulatory investigation arising in the course of business. After consultation with legal counsel, management believes no matters exist that would have a material adverse effect on the Authority's future financial position or results from operations.

Continued

HOSPITAL AUTHORITY OF STEPHENS COUNTY, GEORGIA
(A Component Unit of Stephens County, Georgia)

Notes to Financial Statements, Continued
September 30, 2020 and 2019

11. Commitments and Contingencies, Continued

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 Services, 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.

Health care reform. There has been increasing pressure on Congress and some state legislatures to control and reduce the cost of healthcare at the national and the state levels. Legislation has been passed that includes cost controls on healthcare providers, insurance market reforms, delivery system reforms and various individual and business mandates among other provisions. The costs of certain provisions 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.

12. Stephens County Contributions and Management Fees

In 2017, the Authority and Stephens County entered into an Intergovernmental Contract (IC). Under the IC, Stephens County shall annually pay the Authority seven-tenths (7/10) of one mill of the county's tax digest for indigent care. The IC continues until July 2032. The Authority received payments of \$413,072 and \$410,057 under the IC in 2020 and 2019, respectively. The payments are reported in net patient service revenue in the accompanying statements of revenues, expenses, and changes in net position.

The Authority and Stephens County entered into Agreements whereby Stephens County would pay the Authority a management fee for managing the provision of emergency medical services in Stephens County. The latest Agreement was entered into in July 2019 and has a term of five years. The management fee will be adjusted in each subsequent year by the Consumer Price Index. The Authority received management fees of \$730,737 and \$716,857 under these Agreements in 2020 and 2019, respectively. The management fees are reported in other revenue in the accompanying statements of revenues, expenses, and changes in net position.

13. 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 calendar years 2017, 2018, 2019, and 2020. Contributions received under the program were \$713,772 and \$256,572 during fiscal years 2020 and 2019, respectively. The Authority will have to be approved by the State to participate in the program in each subsequent year.

Continued

HOSPITAL AUTHORITY OF STEPHENS COUNTY, GEORGIA
(A Component Unit of Stephens County, Georgia)

Notes to Financial Statements, Continued
September 30, 2020 and 2019

14. 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 will depend 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.

On March 27, 2020, the President signed the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act). Certain provisions of the CARES Act provide relief funds to hospitals and other healthcare providers. The funding will 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 on April 10, 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 keep their doors open due to healthy patients delaying care and canceling elective services. On April 24, 2020, the *Paycheck Protection Program and Health Care Enhancement Act* was passed. This Act provides additional funding to replenish and supplement key programs under the CARES Act, including funds to healthcare providers for COVID-19 testing. Grant and contribution advance payments are reported as unearned revenue until all eligibility requirements are met. Recognized revenue is reported as nonoperating revenues in the statements of revenues, expenses, and changes in net position. The Authority received approximately \$5,200,000 in grant stimulus funding in FY 2020. The CARES Act funding may be subject to audits. While the Authority currently believes its use of the funds is in compliance with applicable terms and conditions, there is a possibility payments could be recouped based on changes in reporting requirements or audit results.

The CARES Act expanded the existing Medicare Accelerated and Advance Payment (MAAP) program by allowing qualifying providers to receive an advanced Medicare payment. The advanced payment will have to be repaid. Recoupment begins one year after the date of receipt of the advanced payment with 25% of each Medicare remittance advice withheld for the first 11 months of repayment, and 50% for the six months afterward. After the 29-month period, CMS will issue letters requiring repayment of any outstanding balance, subject to an interest rate of 4%. In April 2020, the Authority received approximately \$2,700,000 in MAAP payments.

15. Prior Period Adjustment

During the year ended September 30, 2020, management corrected balances to accurately reflect certain transactions in prior periods. Accrued expenses were increased by \$943,670 with respect to the 2018 ICTF payment, and net position as of October 1, 2018 was adjusted accordingly. The balance sheets and statements of revenues, expenses, and changes in net position, and related footnotes have been restated for these transactions.

SUPPLEMENTAL SCHEDULE

HOSPITAL AUTHORITY OF STEPHENS COUNTY, GEORGIA
(A Component Unit of Stephens County, Georgia)

Combining Schedule of Revenue and Expenses
For the Years Ended September 30, 2020 and 2019

	Stephens County Hospital		Personal Care Facilities		Stephens County Physician Group		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
Operating revenues:								
Net patient service revenue	\$ 33,327,576	\$ 36,945,039	\$ 1,706,699	\$ 2,457,900	\$ 2,489,785	\$ 2,136,701	\$ 37,524,060	\$ 41,539,640
Other revenue	<u>2,033,411</u>	<u>1,702,807</u>	<u>(25,063)</u>	<u>15,257</u>	<u>66,295</u>	<u>-</u>	<u>2,074,643</u>	<u>1,718,064</u>
Total operating revenues	<u>35,360,987</u>	<u>38,647,846</u>	<u>1,681,636</u>	<u>2,473,157</u>	<u>2,556,080</u>	<u>2,136,701</u>	<u>39,598,703</u>	<u>43,257,704</u>
Operating expenses:								
Salaries and wages	16,644,644	17,337,568	1,324,606	1,327,891	3,955,649	2,964,544	21,924,899	21,630,003
Employee benefits	2,804,812	3,987,480	242,385	95,885	691,640	8,504	3,738,837	4,091,869
Professional fees	7,829,166	7,713,267	116,137	6,616	249,521	166,910	8,194,824	7,886,793
Supplies	5,522,953	5,847,079	323,342	354,414	123,362	70,620	5,969,657	6,272,113
Utilities	886,551	1,046,431	148,993	145,565	25,766	-	1,061,310	1,191,996
Repairs and maintenance	2,006,509	1,766,907	27,543	35,369	8,705	7,465	2,042,757	1,809,741
Depreciation and amortization	1,608,053	1,478,349	166,858	153,038	-	-	1,774,911	1,631,387
Insurance	889,767	590,571	-	-	162,244	-	1,052,011	590,571
Rent	<u>223,264</u>	<u>499,499</u>	<u>-</u>	<u>-</u>	<u>62,543</u>	<u>44,022</u>	<u>285,807</u>	<u>543,521</u>
Total operating expenses	<u>38,415,719</u>	<u>40,267,151</u>	<u>2,349,864</u>	<u>2,118,778</u>	<u>5,279,430</u>	<u>3,262,065</u>	<u>46,045,013</u>	<u>45,647,994</u>
Operating income (loss)	<u>(3,054,732)</u>	<u>(1,619,305)</u>	<u>(668,228)</u>	<u>354,379</u>	<u>(2,723,350)</u>	<u>(1,125,364)</u>	<u>(6,446,310)</u>	<u>(2,390,290)</u>
Nonoperating revenues (expenses):								
Investment income	32,449	86,490	-	-	-	-	32,449	86,490
Interest expense	(593,463)	(575,813)	(21,566)	(25,004)	-	-	(615,029)	(600,817)
Provider Relief Fund grants	<u>1,410,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,410,000</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>848,986</u>	<u>(489,323)</u>	<u>(21,566)</u>	<u>(25,004)</u>	<u>-</u>	<u>-</u>	<u>827,420</u>	<u>(514,327)</u>
Excess revenues (expenses)	<u>\$ (2,205,746)</u>	<u>\$ (2,108,628)</u>	<u>\$ (689,794)</u>	<u>\$ 329,375</u>	<u>\$ (2,723,350)</u>	<u>\$ (1,125,364)</u>	<u>\$ (5,618,890)</u>	<u>\$ (2,904,617)</u>

See independent auditor's report.