HOSPITAL AUTHORITY OF MILLER COUNTY

FINANCIAL STATEMENTS

for the years ended June 30, 2019 and 2018

C O N T E N T S

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Hospital Authority of Miller County
Colquitt, Georgia

Report on the Financial Statements

We have audited the accompanying financial statements of Hospital Authority of Miller County (Authority), which comprise the balance sheets as of June 30, 2019 and 2018, the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

Continued

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hospital Authority of Miller County as of June 30, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2019, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Draffin & Tucker, LLP

Atlanta, Georgia
October 22, 2019

HOSPITAL AUTHORITY OF MILLER COUNTY

Balance Sheets
June 30, 2019 and 2018

	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	$ 6,938,000	$ 8,768,000
Short-term investments	131,000	30,000
Patient accounts receivable, net of estimated uncollectibles of $962,000 in 2019 and $1,388,000 in 2018	4,465,000	3,616,000
Estimated third-party payor settlements	3,127,000	1,381,000
Health insurance reinsurance receivable	419,000	-
Supplies, at lower of cost (first-in, first-out) or market	844,000	664,000
Prepaid expenses	269,000	220,000
Total current assets	16,193,000	14,679,000
Noncurrent cash and cash equivalents:		
Restricted for loan reserve	265,000	203,000
Capital assets:		
Land	1,077,000	778,000
Construction-in-progress	4,819,000	4,465,000
Depreciable capital assets, net of accumulated depreciatio	21,250,000	14,563,000
Total capital assets, net of accumulated depreciation	27,146,000	19,806,000
Other assets:		
Other investment	23,000	139,000
Total assets	$ 43,627,000	$ 34,827,000

	2019	2018
Liabilities and Net Position:		
Current liabilities:		
Current maturities of long-term debt	$ 363,000	$ 191,000
Accounts payable	1,728,000	1,476,000
Accrued expenses	2,826,000	2,229,000
Estimated third-party payor settlements	306,000	404,000
Total current liabilities	5,223,000	4,300,000
Long-term liabilities:		
Long-term debt, net of current maturities	7,057,000	6,715,000
Total liabilities	12,280,000	11,015,000
Net position:		
Net investment in capital assets	27,147,000	12,901,000
Restricted for loan reserve	265,000	203,000
Unrestricted	3,935,000	10,708,000
Total net position	31,347,000	23,812,000
Total liabilities and net position	$ 43,627,000	$ 34,827,000

See accompanying notes to financial statements.

HOSPITAL AUTHORITY OF MILLER COUNTY

Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2019 and 2018

	2019	2018
Operating revenues:		
Net patient service revenue (net of provision for bad debts of $2,051,000 in 2019 and $2,098,000 in 2018	$ 51,565,000	$ 47,385,000
Retail pharmacy revenue	1,895,000	2,009,000
Management fee revenue	388,000	-
EHR meaningful use incentive revenue	-	59,000
Other revenue	246,000	200,000
Total operating revenues	54,094,000	49,653,000
Operating expenses:		
Salaries and wages	24,036,000	21,909,000
Employee benefits	5,077,000	4,667,000
Purchased services and professional fees	4,321,000	3,899,000
Supplies and drugs	5,770,000	5,109,000
Depreciation and amortization	1,849,000	1,591,000
Other	6,029,000	4,862,000
Total operating expenses	47,082,000	42,037,000
Operating income	7,012,000	7,616,000
Nonoperating revenues (expenses):		
Interest income	48,000	54,000
Interest expense	(241,000)	(369,000)
Rural hospital tax credit contributions	209,000	69,000
Loss on other investment	(116,000)	(220,000)
Noncapital grants and donations	170,000	468,000
Hurricane Michael insurance recovery and grant	453,000	-
Loss on disposal of capital asset	-	(114,000)
Total nonoperating revenues (expenses)	523,000	(112,000)
Excess revenues over expenses	7,535,000	7,504,000
Net position, beginning of year	23,812,000	16,308,000
Net position, end of year	$ 31,347,000	$ 23,812,000

See accompanying notes to financial statements.

HOSPITAL AUTHORITY OF MILLER COUNTY

Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Receipts from and on behalf of patients	$ 48,813,000	$ 47,735,000
Payments to suppliers and contractors	(16,128,000)	(13,849,000)
Payments to employees	(28,935,000)	(26,361,000)
Retail pharmacy receipts	1,895,000	2,009,000
Management fee receipts	388,000	-
EHR meaningful use incentive receipts	59,000	-
Other receipts	246,000	200,000
Net cash provided by operating activities	6,338,000	9,734,000
Cash flows from noncapital financing activities:		
Rural hospital tax credit contributions	209,000	69,000
Noncapital grants and donations	170,000	629,000
Hurricane Michael insurance recovery and grant	453,000	-
Net cash provided by noncapital financing activities	832,000	698,000
Cash flows from capital and related financing activities:		
Proceeds from long-term debt	731,000	-
Principal paid on long-term debt	(217,000)	(3,165,000)
Interest paid on long-term debt	(241,000)	(369,000)
Purchase of capital assets	(9,158,000)	(5,737,000)
Net cash used by capital and related financing activities	(8,885,000)	(9,271,000)
Cash flows from investing activities:		
Interest income	48,000	54,000
Purchase of short-term investments	(101,000)	(30,000)
Capital contributions to other investment	-	(70,000)
Net cash used by investing activities	(53,000)	(46,000)
Net increase (decrease) in cash and cash equivalents	(1,768,000)	1,115,000
Cash and cash equivalents, beginning of year	8,971,000	7,856,000
Cash and cash equivalents, end of year	$ 7,203,000	$ 8,971,000

Continued

Statements of Cash Flows, Continued
Years Ended June 30, 2019 and 2018

	2019	2018
Reconciliation of cash and cash equivalents to the balance sheet:		
Cash and cash equivalents - current	$ 6,938,000	$ 8,768,000
Cash and cash equivalents - noncurrent	265,000	203,000
Total cash and cash equivalents	$ 7,203,000	$ 8,971,000
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 7,012,000	$ 7,616,000
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	1,849,000	1,591,000
Provision for bad debts	2,051,000	2,098,000
Changes in:		
Patient accounts receivable	(2,900,000)	(2,009,000)
Estimated third-party payor settlements	(1,844,000)	202,000
Health insurance reinsurance receivable	(419,000)	-
Supplies	(180,000)	14,000
Prepaid expenses	(49,000)	(95,000)
Accounts payable	221,000	102,000
Accrued expenses	597,000	215,000
Net cash provided by operating activities	$ 6,338,000	$ 9,734,000
Noncash capital financing activities:		
Capital assets acquired through accounts payable	$ 800,000	$ 769,000

See accompanying notes to financial statements.

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

Reporting entity. The Hospital Authority of Miller County (Authority) is a public body corporate and politic organized under the Hospital Authorities Law of the State of Georgia. The Authority was created by the Board of County Commissioners of Miller County, Georgia (County) to operate, control, and manage all matters concerning the County's health care functions. The Board of County Commissioners nominate the Board of Trustee members of the Authority and the County previously guaranteed debt of the Authority. For these reasons, the Authority was considered to be a component unit of Miller County, Georgia through April 1, 2010. After April 1, 2010, the County has not guaranteed any debt of the Authority and no financial burden or benefit exists between the County and the Authority. Therefore, after April 1, 2010, the Authority is not a component unit of the County.

The Authority operates Miller County Hospital, a twenty-five (25) bed acute care facility, Miller Nursing Home, a one-hundred thirty-one (131) bed long-term care facility, Calhoun Nursing Home, a sixty (60) bed long-term care facility, Miller County Medical Center, a rural health clinic, and R. E. Jennings Clinic, a rural health clinic.

The accompanying financial statements include all of the aforementioned facilities.

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 disclosures 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 reserves for employee health claims. 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 certain investments in highly liquid debt instruments with an original maturity of three months or less.

Short-term investments. Short-term investments consist of certificates of deposit with maturities of 12 months. The certificates of deposit are recorded at cost plus accrued interest.

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

Continued

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

Noncurrent cash and cash equivalents. Noncurrent cash and cash equivalents consist of assets held in a reserve fund as required by the USDA loan agreement.

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

Land improvements	15 To 20 Years
Buildings and building improvements	20 To 40 Years
Equipment, computers and furniture	3 To 10 Years

The Authority evaluates capital assets regularly for impairment under the provisions of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. If circumstances suggest that assets may be impaired, an assessment of recoverability is performed prior to any write-down of assets. An impairment charge is recorded on those assets for which the estimated fair value is below its carrying value. The Authority has not recorded any impairment charges during 2019 or 2018.

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

Costs incurred in connection with the issuance of loans are expensed.

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

Compensated absences. The Authority's employees earn paid time off at varying rates depending on years of service. Employees may accumulate paid time off up to a specified maximum. Employees who have completed six month's employment and who leave in good standing are entitled to payment of accumulated paid time off upon their resignation. The accumulated paid time off is reported as a current liability in 2019 and 2018.

Continued

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

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 grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Net patient service revenue. The Authority has agreements with third-party payors that provide for payments to the Authority at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity care. The Authority provides care to patients who meet certain criteria under its financial assistance plan without charge or at amounts less than its established rates. Because the Authority does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Grants and contributions. From time to time, the Authority receives grants from Miller County and the State of Georgia as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Restricted resources. When the Authority has both restricted and unrestricted resources available to finance a particular program, it is the Authority's policy to use restricted resources before unrestricted resources.

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 as discussed in Note 10. The Authority incurred property damage and business interruption from Hurricane Michael during 2019 as discussed in Note 15.

Continued

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

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 considered in the accompanying financial statements.

Recently adopted accounting pronouncement. In March 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* (GASB 88). GASB 88 clarifies which liabilities should be included when disclosing information related to debt, requires additional essential information related to debt be disclosed, and requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. GASB 88 is effective for fiscal years beginning after June 15, 2018. The adoption of GASB 88 had no material impact on the financial statements of the Authority.

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 is effective for fiscal years beginning after December 15, 2018. The Authority is currently evaluating the impact GASB 84 will have on its financial statements.

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interest - An Amendment of GASB Statements* No. 14 and No. 61 (GASB 90).MI GASB 90 defines majority equity interest and specifies that a majority equity interest in a legally separate entity should be reported as an investment and measured using the equity method, if the government's holding of the equity interest meets the definition of an investment. All other holdings of a majority equity interest in a legally separate entity should be reported as a component unit. GASB 90 is effective for fiscal years beginning after December 15, 2018. The Authority is currently evaluating the impact GASB 90 will have on its financial statements.

Prior year reclassifications. Certain reclassifications have been made to the fiscal year 2018 financial statements to conform to the fiscal year 2019 presentation. These reclassifications had no impact on the change in net position in the accompanying financial statements.

2. Net Patient Service Revenue

The Authority has agreements with third-party payors that provide for payments to the Authority at amounts different from its established rates. The Authority does not believe that there are any significant credit risks associated with receivables due from third-party payors. A summary of the payment arrangements with major third-party payors follows:

Continued

2. Net Patient Service Revenue, Continued

- *Medicare.* Effective February 24, 2000, the Authority was granted Critical Access Hospital (CAH) designation by the Medicare program. The CAH designation places certain restrictions on daily inpatient census and an annual, average length of stay of inpatients. Inpatient and outpatient services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology. The Authority is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare Administrative Contractor (MAC).

  Long-term care services rendered to Medicare program beneficiaries are paid at a prospectively determined per diem rate. The per diem rate varies according to a patient classification system. The Authority's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Authority. The Authority's Medicare cost reports have been audited by the MAC through June 30, 2016. Revenue from the Medicare program accounted for approximately 33% and 31% of the Authority's net patient service revenue for the years ended June 30, 2019 and 2018, respectively.

- *Medicaid.* Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Outpatient services rendered to the Medicaid program beneficiaries are generally paid based on a cost reimbursement methodology. The Authority is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicaid fiscal intermediary. Long-term care services rendered to Medicaid program beneficiaries are paid at a prospectively determined per diem rate. The per diem is determined by the facility's historical allowable operating costs adjusted for certain incentives and inflation factors. The Authority's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through June 30, 2015. Revenue from the Medicaid program accounted for approximately 60% and 62% of the Authority's net patient service revenue for the years ended June 30, 2019 and 2018, respectively.

  The Authority also contracts with certain care management organizations (CMO's) to receive reimbursement for providing services to select 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 Georgia Indigent Care Trust Fund (ICTF) program. The Authority receives ICTF payments for treating a disproportionate number of Medicaid and uninsured patients. ICTF payments are based on the Authority's estimated uncompensated cost of services to Medicaid and uninsured patients. The net amount of ICTF payments recognized in net patient service revenues was approximately $124,000 and $122,000 for the years ended June 30, 2019 and 2018, respectively.

Continued

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 approximately $7,550,000 and $7,177,000 for the years ended June 30, 2019 and 2018, respectively.

- *Uninsured and charity.* The Authority provides emergency and other medically necessary care regardless of a patient's ability to pay. The Authority has a Financial Assistance Plan (FAP) to assist those patients who cannot pay for all or part of their care. Based on the FAP, uninsured patients will not be charged more than the Amounts Generally Billed (AGB) to patients with insurance covering their care. AGB is calculated by reviewing claims that have been paid in full (including deductibles and coinsurance paid by the patient) for medically necessary care by Medicare and private health insurers during a 12-month look-back period. The Authority provides services without charge (full charity) or at amounts less than its established rates (partial charity) to patients that are approved for charity care under the FAP. Patient household income in relation to the federal poverty guidelines and certain special circumstances criteria are included in the determination of charity care qualification.

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

Compliance with Medicare and Medicaid laws and regulations are subject to government review and interpretation. The Centers for Medicare and Medicaid Services (CMS) created the Recovery Audit Contractor (RAC) program and the Medicaid Integrity Contractor (MIC) program to perform audits of providers to identify overpayments and to ultimately decrease the payment of inappropriate Medicare and Medicaid claims. Noncompliance with Medicare and Medicaid laws and regulations can lead to fines, penalties and exclusion from the Medicare and Medicaid programs.

Continued

3. Uncompensated Services

The Authority was compensated for services at amounts less than its established rates (gross patient charges).

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

	2019	2018
Gross patient charges	$ 68,057,000	$ 66,274,000
Uncompensated services:		
Medicare	10,256,000	9,309,000
Medicaid	275,000	2,656,000
Blue Cross	428,000	557,000
Other insurance	2,740,000	3,759,000
Uninsured	573,000	356,000
Charity/Indigent	169,000	154,000
Bad debts	2,051,000	2,098,000
Total uncompensated care	16,492,000	18,889,000
Net patient service revenue	$ 51,565,000	$ 47,385,000

4. Deposits

State law requires collateralization of all deposits with federal depository insurance and other acceptable collateral in specific amounts. As of June 30, 2019 and 2018, the Authority's deposits were entirely insured or collateralized.

Continued

5. Other Investment

A schedule of changes in the Authority's other investment for 2019 and 2018 follows:

	Balance June 30, 2018	Capital Contributions	Gain (Loss)	Balance June 30, 2019
Pedernales Dialysis, LLC	$ 139,000	$ -	$ (116,000)	$ 23,000

	Balance June 30, 2017	Capital Contributions	Gain (Loss)	Balance June 30, 2018
Pedernales Dialysis, LLC	$ 289,000	$ 70,000	$ (220,000)	$ 139,000

Pedernales Dialysis, LLC (Perdernales) is a joint venture formed for the purpose of developing, establishing, leasing, and operating a licensed outpatient dialysis and renal care service center. The Authority owns approximately 10% of Pedernales and accounts for its investment in Pedernales on the equity method.

6. Accounts Receivable and Payable

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

	2019	2018
Patient accounts receivable:		
Receivable from patients and their insurance carriers	$ 1,628,000	$ 1,944,000
Receivable from Medicare	2,203,000	1,874,000
Receivable from Medicaid	1,596,000	1,186,000
Total patient accounts receivable	5,427,000	5,004,000
Less allowance for uncollectible accounts	962,000	1,388,000
Patient accounts receivable, net	$ 4,465,000	$ 3,616,000
Accounts payable and accrued expenses:		
Payable to employees (including payroll taxes)	$ 2,826,000	$ 2,229,000
Payable to suppliers	1,728,000	1,476,000
Total accounts payable and accrued expenses	$ 4,554,000	$ 3,705,000

Continued

7. Capital Assets

Capital asset additions, retirements, transfers and balances for the years ended June 30, 2019 and 2018 are as follows:

	Balance June 30, 2018	Additions	Retirements	Transfers	Balance June 30, 2019
Land	$ 778,000	$ 299,000	$ -	$ -	$ 1,077,000
Construction-in-progress	4,465,000	6,685,000	-	(6,331,000)	4,819,000
Total nondepreciable capital assets	5,243,000	6,984,000	-	(6,331,000)	5,896,000
Land improvements	555,000	-	-	-	555,000
Buildings and improvements	17,828,000	1,314,000	-	6,056,000	25,198,000
Equipment	8,993,000	891,000	-	275,000	10,159,000
Total depreciable capital assets at historical cost	27,376,000	2,205,000	-	6,331,000	35,912,000
Less accumulated depreciation for:					
Land improvements	(275,000)	(48,000)	-	-	(323,000)
Buildings and improvements	(6,838,000)	(938,000)	-	-	(7,776,000)
Equipment	(5,700,000)	(863,000)	-	-	(6,563,000)
Total accumulated depreciation	(12,813,000)	(1,849,000)	-	-	(14,662,000)
Net depreciable capital assets	14,563,000	356,000	-	6,331,000	21,250,000
Capital assets, net	$ 19,806,000	$ 7,340,000	$ -	$ -	$ 27,146,000

Continued

7. Capital Assets, Continued

	Balance June 30, 2017	Additions	Retirements	Transfers	Balance June 30, 2018
Land	$ 636,000	$ 142,000	$ -	$ -	$ 778,000
Construction-in-progress	1,260,000	5,085,000	(27,000)	(1,853,000)	4,465,000
Total nondepreciable capital assets	1,896,000	5,227,000	(27,000)	(1,853,000)	5,243,000
Land improvements	552,000	3,000	-	-	555,000
Buildings and improvements	15,761,000	374,000	(160,000)	1,853,000	17,828,000
Equipment	8,827,000	560,000	(394,000)	-	8,993,000
Total depreciable capital assets at historical cost	25,140,000	937,000	(554,000)	1,853,000	27,376,000
Less accumulated depreciation for:					
Land improvements	(227,000)	(48,000)	-	-	(275,000)
Buildings and improvements	(6,160,000)	(735,000)	57,000	-	(6,838,000)
Equipment	(5,286,000)	(808,000)	394,000	-	(5,700,000)
Total accumulated depreciation	(11,673,000)	(1,591,000)	451,000	-	(12,813,000)
Net depreciable capital assets	13,467,000	(654,000)	(103,000)	1,853,000	14,563,000
Capital assets, net	$ 15,363,000	$ 4,573,000	$ (130,000)	$ -	$ 19,806,000

Construction contracts of approximately $7,264,000 exist for the expansion of the Authority's facilities. At June 30, 2019, the remaining commitment on these contracts approximated $2,459,000.

Continued

8. Short-Term Direct Borrowings

A schedule of changes in the Authority's short-term direct borrowings for 2019 follows:

	Balance June 30, 2018	Additions	Reductions	Balance June 30, 2019
First State Bank:				
$3M Line-of-credit	$ -	$ 720,000	$ (720,000)	$ -
UPL Transfer	-	3,325,000	(3,325,000)	-
Total	$ -	$ 4,045,000	$(4,045,000)	$ -

The Authority has a line-of-credit agreement in the aggregate principal amount of $3,000,000 with a financial institution. The line-of-credit bears interest at 3.50%, is used for operating purposes, is secured by real estate, and has a maturity date of December 31, 2019.

During 2019, the Authority borrowed funds to make the intergovernmental transfer related to the Medicaid UPL funding. The loan was repaid once the Medicaid UPL funds were received.

There were no short-term direct borrowing transactions during 2018.

9. Long-Term Debt

A schedule of changes in the Authority's long-term debt for 2019 and 2018 follows:

	Balance June 30, 2018	Additions	Reductions	Balance June 30, 2019	Amounts Due Within One Year
Notes from direct borrowings:					
USDA:					
Refinance and expansion	$ 6,906,000	$ -	$ (191,000)	$ 6,715,000	$197,000
First State Bank:					
Rental house	-	191,000	(26,000)	165,000	165,000
City of Colquitt:					
Storm Water Project	-	540,000	-	540,000	1,000
Total notes payable	$ 6,906,000	$ 731,000	$ (217,000)	$ 7,420,000	$363,000

Continued

9. Long-Term Debt, Continued

	Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018	Amounts Due Within One Year
Notes from direct borrowings:					
USDA:					
Refinance and expansion	$ 7,090,000	$ -	$ (184,000)	$ 6,906,000	$191,000
First State Bank:					
Calhoun Nursing Home	1,462,000	-	(1,462,000)	-	-
Dialysis building	1,031,000	-	(1,031,000)	-	-
Total notes payable	9,583,000	-	(2,677,000)	6,906,000	191,000
Capital Lease Obligations:					
First American:					
Equipment	488,000	-	(488,000)	-	-
Total	$10,071,000	$ -	$(3,165,000)	$ 6,906,000	$191,000

Long-term debt. The terms and due dates of the Authority's long-term debt at June 30, 2019 and 2018, follows:

United States Department of Agriculture (USDA)

- **Refinance and Expansion Loan** – Note payable, interest at 3.375%, payable in monthly installments of $35,000, due June 2042, collateralized by revenues and property and equipment. The Authority must also make monthly payments of approximately $4,000 to a reserve fund until a balance of approximately $421,000 is accumulated in the reserve fund. The note payable contains a provision that in an event of default, outstanding amounts may become immediately due and payable.

First State Bank

- **Rental House** – Note payable, interest at 4.25%, payable in monthly installments of $5,000 with a balloon payment for the remaining balance due January 2020, collateralized by real estate.

Continued

9. Long-Term Debt, Continued

Clean Water State Revolving Fund, administered by Georgia Environmental Finance Authority (City of Colquitt)

- **Storm Water Project** – Assumption of note payable, interest at 1.25%, payable in monthly installments of $3,000, due April 2020. The note payable contains a provision that in an event of default, outstanding amounts may become immediately due and payable.

Scheduled principal and interest payments on long-term debt are as follows:

	Notes from Direct Borrowings	
Year Ending June 30:	Principal	Interest
2020	$ 363,000	$ 234,000
2021	228,000	224,000
2022	236,000	216,000
2023	243,000	209,000
2024	250,000	201,000
2025–2029	1,380,000	879,000
2030–2034	1,618,000	641,000
2035–2039	1,899,000	360,000
2040-2042	1,203,000	62,000
Total	$ 7,420,000	$ 3,026,000

10. Contingencies

Litigation and regulatory investigations. The Authority is subject to litigation and regulatory investigations 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.

Insurance arrangements. The Authority has claims-made insurance coverage for professional liability and occurrence insurance coverage for general liability. The insurance policies have limits of $1,000,000 per claim/occurrence and $3,000,000 annual aggregate. The Authority is self-insured to cover the deductible portion of its general and professional insurance policy. The Authority's deductible is $25,000 for individual claims and $100,000 annual aggregate.

Continued

10. Contingencies, Continued

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 $50,000 annually. The Authority incurred expenses related to this plan of approximately $2,533,000 and $2,444,000 in 2019 and 2018, respectively. Estimated accruals for claims incurred but not reported have been recorded in accrued expenses on the balance sheet. Estimated accruals were approximately $630,000 and $276,000 at June 30, 2019 and 2018, respectively. Additionally, certain claims incurred during the year met the requirement to be reimbursed through the stop-loss policy. Amounts due under the policy were $419,000 and $-0- at June 30, 2019 and 2018, respectively.

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

11. Retirement Plan

The Authority provides retirement benefits for its employees through the Miller County Hospital and Nursing Home 403(b) Plan (Plan), a defined contribution plan. Miller County Hospital and Nursing Home administers the Plan. Plan provisions and contribution requirements are established and may be amended by the Authority's Board of Trustees. Employees must work 20 or more hours per week to be eligible to participate in the Plan. Employees are eligible to participate in the elective deferral portion of the Plan on his/her first day of employment. Employees are eligible to participate in the matching contributions portion of the Plan upon attainment of age 21 and six months of service. Employees may make contributions (elective deferrals) to the Plan such that total contributions do not exceed the maximum annual amount as set periodically by the Internal Revenue Service. Employee contributions to the Plan were approximately $914,000 and $750,000 for the years ended June 30, 2019 and 2018, respectively. The Authority makes a matching contribution equal to 100% of the elective deferrals up to a maximum of 3% of the employee's compensation. The Authority's contributions to the Plan were approximately $441,000 and $408,000 for the years ended June 30, 2019 and 2018, respectively. Employees are vested in their contributions immediately and vested in the Authority’s matching contributions based on a 6-year grade. Matching forfeitures are used to reduce matching contributions.

Continued

12. Concentration of Credit Risk

The Authority grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2019 and 2018, was as follows:

	2019	2018
Medicare	49%	51%
Medicaid	36%	33%
Blue Cross	6%	5%
Other third-party payors	7%	8%
Patients	2%	3%
Total	100%	100%

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 contributions to certain qualified rural hospital organizations during the calendar years 2017 through 2021. The Authority submitted the necessary documentation and was approved by the State to participate in the rural hospital tax credit program for 2017, 2018 and 2019. Contributions received under the program approximated $209,000 and $69,000 during 2019 and 2018, respectively. The Authority will have to be approved by the State to participate in the program in each subsequent year.

14. Management Agreement

Effective August 1, 2018, the Authority entered into a Management Services Agreement with the Hospital Authority of Clinch County (Clinch). The Authority will provide Clinch with management services in the form of certain business, operational, quality, and other support. The term of the agreement is for two (2) years and shall automatically renew for one (1) year unless notice of termination is given. The Authority will receive an annual management fee of $423,000.

Continued

15. Hurricane Michael

In October 2018, Hurricane Michael hit Miller County causing approximately $333,000 in property damage and approximately $416,000 in business interruption losses to the Authority. The Authority received the following funds related to the damage caused by Hurricane Michael:

	2019
Insurance recovery for property damage	$ 86,000
Insurance recovery for business interruption	116,000
Grant from State of Georgia	251,000
Total	$ 453,000

The Authority has an insurance claim pending to recover additional amounts for its property damage. Any amount received from this pending claim will be recognized in the year of receipt.

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

The Board of Trustees
Hospital Authority of Miller County
Colquitt, Georgia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Hospital Authority of Miller County (Authority) as of and for the year ended June 30, 2019, and the related notes to the financial statements, and have issued our report thereon dated October 22, 2019.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Continued

Let's Think Together.

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did identify a deficiency in internal control that we consider to be a material weakness which is described in the accompanying schedule of findings and responses as material weakness (2019–001).

Compliance and Other Matters

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

Hospital Authority of Miller County's Response to Finding

The Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Draffin & Tucker, LLP

Atlanta, Georgia
October 22, 2019

Schedule of Findings and Responses
June 30, 2019

Material Weakness (2019–001)

Condition:	The assumption of the loan for the Storm Water project from the City of Colquitt was not recorded.
Criteria:	Internal controls should be in place to ensure that all loans are properly recorded when entered into.
Effect:	Liabilities will be understated if loans are not properly recorded.
Cause:	Loan was assumed near year-end and was not recorded.
Recommendation:	The Authority should record all new loan agreements when entered into.
Views of Responsible Officials and Planned Corrective Actions:	Responsible Officials for the Authority understand that loans should be properly recorded. Based on conversation with other Authority responsible officials, it was understood that the Authority would pay this amount for the City of Colquitt in one payment and there would be no indebtedness for the Authority to assume. A clearer understanding of the process should have been sought by the responsible officials which would have avoided this error. In the future, a more definitive understanding of matters with other agencies will be required, thereby ensuring that transactions are properly recorded in the time period in which they occurred.