

MORGAN COUNTY HOSPITAL AUTHORITY
(A Component Unit of Morgan County, Georgia)



FINANCIAL STATEMENTS

for the years ended June 30, 2019 and 2018

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Morgan County Hospital Authority
Madison, Georgia

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Morgan County Hospital Authority (Authority), a component unit of Morgan County, Georgia, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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

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

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

Continued

Let's Think Together.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of Morgan County Hospital Authority as of June 30, 2019 and 2018, and the respective changes in financial position, where applicable, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying schedule of expenditures of federal awards required by Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards (Uniform Guidance)*, as listed in the table of contents, 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 basic 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 is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 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
December 19, 2019

MORGAN COUNTY HOSPITAL AUTHORITY
(A Component Unit of Morgan County, Georgia)

Balance Sheets
June 30, 2019 and 2018

	2019		2018	
	Authority	Foundation	Authority	Foundation
Assets				
<i>Current assets:</i>				
Cash and cash equivalents	\$ 915,000	\$ 50,000	\$ 1,442,000	\$ 393,000
Patient accounts receivable, net of estimated uncollectibles of \$3,078,000 in 2019 and \$2,830,000 in 2018	2,183,000	-	1,752,000	-
Estimated third-party payor settlements	1,440,000	-	818,000	-
Supplies, at lower of cost (first-in, first-out) or market	273,000	-	204,000	-
Due from Foundation	458,000	-	-	-
Other current assets	<u>57,000</u>	<u>-</u>	<u>50,000</u>	<u>-</u>
Total current assets	<u>5,326,000</u>	<u>50,000</u>	<u>4,266,000</u>	<u>393,000</u>
<i>Noncurrent cash and investments:</i>				
Held by trustee for debt service	561,000	-	1,504,000	-
Held by trustee for capital acquisitions	2,254,000	-	18,019,000	-
Restricted by contributors	<u>173,000</u>	<u>-</u>	<u>164,000</u>	<u>-</u>
Total noncurrent cash and investments	<u>2,988,000</u>	<u>-</u>	<u>19,687,000</u>	<u>-</u>
<i>Capital assets:</i>				
Land	1,955,000	-	1,955,000	-
Construction-in-progress	-	-	21,268,000	-
Depreciable capital assets, net of accumulated depreciation	<u>34,564,000</u>	<u>-</u>	<u>1,406,000</u>	<u>-</u>
Total capital assets, net of accumulated depreciation	<u>36,519,000</u>	<u>-</u>	<u>24,629,000</u>	<u>-</u>
<i>Other assets:</i>				
Notes receivable	<u>24,000</u>	<u>-</u>	<u>15,000</u>	<u>-</u>
Total assets	<u>\$ 44,857,000</u>	<u>\$ 50,000</u>	<u>\$ 48,597,000</u>	<u>\$ 393,000</u>

	<u>2019</u>		<u>2018</u>	
	<u>Authority</u>	<u>Foundation</u>	<u>Authority</u>	<u>Foundation</u>
Liabilities and Net Position				
<i>Current liabilities:</i>				
Current maturities of long-term debt	\$ 960,000	\$ -	\$ 70,000	\$ -
Accounts payable	667,000	-	4,633,000	-
Accrued expenses	915,000	-	808,000	-
Estimated third-party payor settlements	<u>11,000</u>	<u>-</u>	<u>248,000</u>	<u>-</u>
Total current liabilities	<u>2,553,000</u>	<u>-</u>	<u>5,759,000</u>	<u>-</u>
Long-term debt, net of current maturities	<u>34,375,000</u>	<u>-</u>	<u>35,253,000</u>	<u>-</u>
<i>Net position:</i>				
Net investment in capital assets	3,526,000	-	7,325,000	-
Restricted:				
For debt service	240,000	-	1,183,000	-
By contributors	173,000	-	164,000	-
Unrestricted	<u>3,990,000</u>	<u>50,000</u>	<u>(1,087,000)</u>	<u>393,000</u>
Total net position	<u>7,929,000</u>	<u>50,000</u>	<u>7,585,000</u>	<u>393,000</u>
Total liabilities and net position	<u>\$ 44,857,000</u>	<u>\$ 50,000</u>	<u>\$ 48,597,000</u>	<u>\$ 393,000</u>

See accompanying notes to financial statements.

MORGAN COUNTY HOSPITAL AUTHORITY
(A Component Unit of Morgan County, Georgia)

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

	2019		2018	
	Authority	Foundation	Authority	Foundation
Operating revenues:				
Net patient service revenue (net of provision for bad debts of \$3,181,000 in 2019 and \$2,443,000 in 2018)	\$ 16,601,000	\$ -	\$ 14,916,000	\$ -
Contributions	-	125,000	-	538,000
Other	<u>321,000</u>	<u>-</u>	<u>124,000</u>	<u>-</u>
Total operating revenues	<u>16,922,000</u>	<u>125,000</u>	<u>15,040,000</u>	<u>538,000</u>
Operating expenses:				
Salaries and wages	6,909,000	-	6,559,000	-
Employee benefits	2,152,000	-	1,540,000	-
Purchased services and professional fees	4,739,000	-	3,821,000	-
Supplies and drugs	910,000	-	823,000	-
Depreciation and amortization	1,303,000	-	234,000	-
Contributions to the Authority	-	458,000	-	1,707,000
Other	<u>2,733,000</u>	<u>10,000</u>	<u>2,521,000</u>	<u>17,000</u>
Total operating expenses	<u>18,746,000</u>	<u>468,000</u>	<u>15,498,000</u>	<u>1,724,000</u>
Operating loss	<u>(1,824,000)</u>	<u>(343,000)</u>	<u>(458,000)</u>	<u>(1,186,000)</u>

Continued

MORGAN COUNTY HOSPITAL AUTHORITY
(A Component Unit of Morgan County, Georgia)

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

	2019		2018	
	<u>Authority</u>	<u>Foundation</u>	<u>Authority</u>	<u>Foundation</u>
Nonoperating revenues				
(expenses):				
County contributions	\$ 1,000,000	\$ -	\$ 833,000	\$ -
Rural hospital tax credit				
contributions	1,171,000	-	379,000	-
Other noncapital contributions	38,000	-	-	-
Investment income	83,000	-	19,000	-
Interest expense	(539,000)	-	(37,000)	-
Loss on disposal of capital				
assets	(52,000)	-	-	-
Debt issuance costs	<u>-</u>	<u>-</u>	<u>(1,297,000)</u>	<u>-</u>
Total nonoperating				
revenues (expenses)	<u>1,701,000</u>	<u>-</u>	<u>(103,000)</u>	<u>-</u>
Excess expenses	(123,000)	(343,000)	(561,000)	(1,186,000)
Capital contributions from				
Foundation for new facility	458,000	-	1,707,000	-
Net additions to assets restricted				
by contributors	<u>9,000</u>	<u>-</u>	<u>8,000</u>	<u>-</u>
Change in net position	344,000	(343,000)	1,154,000	(1,186,000)
Net position, beginning of year	<u>7,585,000</u>	<u>393,000</u>	<u>6,431,000</u>	<u>1,579,000</u>
Net position, end of year	<u>\$ 7,929,000</u>	<u>\$ 50,000</u>	<u>\$ 7,585,000</u>	<u>\$ 393,000</u>

See accompanying notes to financial statements.

MORGAN COUNTY HOSPITAL AUTHORITY
(A Component Unit of Morgan County, Georgia)

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

<u>Authority</u>	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 15,311,000	\$ 14,102,000
Payments to suppliers and contractors	(8,510,000)	(7,077,000)
Payments to employees	(8,954,000)	(8,132,000)
Other receipts	<u>321,000</u>	<u>124,000</u>
Net cash used by operating activities	<u>(1,832,000)</u>	<u>(983,000)</u>
Cash flows from noncapital financing activities:		
County contributions	1,000,000	833,000
Rural hospital tax credit contributions	1,171,000	379,000
Other noncapital contributions	<u>38,000</u>	<u>-</u>
Net cash provided by noncapital financing activities	<u>2,209,000</u>	<u>1,212,000</u>
Cash flows from capital and related financing activities:		
Capital contributions from Foundation for new facility	-	1,707,000
Proceeds from issuance of long-term debt	-	35,000,000
Principal paid on long-term debt	(85,000)	(169,000)
Interest paid on long-term debt	(989,000)	(443,000)
Debt issuance costs	-	(1,297,000)
Proceeds from sale of capital assets	4,000	-
Purchase of capital assets	<u>(16,625,000)</u>	<u>(14,475,000)</u>
Net cash provided (used) by capital and related financing activities	<u>(17,695,000)</u>	<u>20,323,000</u>
Cash flows from investing activities:		
Investment income	83,000	19,000
Sale of investments	<u>(4,000)</u>	<u>(7,000)</u>
Net cash provided by investing activities	<u>79,000</u>	<u>12,000</u>
Net increase (decrease) in cash and cash equivalents	(17,239,000)	20,564,000
Cash and cash equivalents, beginning of year	<u>20,972,000</u>	<u>408,000</u>
Cash and cash equivalents, end of year	<u>\$ 3,733,000</u>	<u>\$ 20,972,000</u>

Continued

MORGAN COUNTY HOSPITAL AUTHORITY
(A Component Unit of Morgan County, Georgia)

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

	<u>2019</u>	<u>2018</u>
<u>Authority, Continued</u>		
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash and cash equivalents	\$ 915,000	\$ 1,442,000
Noncurrent cash and cash equivalents:		
Held by trustee for debt service	561,000	1,504,000
Held by trustee for capital acquisitions	2,254,000	18,019,000
Restricted by contributors	<u>3,000</u>	<u>7,000</u>
Total cash and cash equivalents	<u>\$ 3,733,000</u>	<u>\$ 20,972,000</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$(1,824,000)	\$(458,000)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation and amortization	1,303,000	234,000
Provision for bad debts	3,181,000	2,443,000
Changes in:		
Patient accounts receivable	(3,612,000)	(2,961,000)
Estimated third-party payor settlements	(859,000)	(296,000)
Supplies	(69,000)	(11,000)
Other current assets	(7,000)	45,000
Notes receivable	(9,000)	11,000
Accounts payable	(43,000)	46,000
Accrued expenses	<u>107,000</u>	<u>(36,000)</u>
Net cash used by operating activities	<u>\$(1,832,000)</u>	<u>\$(983,000)</u>
Noncash capital financing activities:		
Capital assets acquired through accounts payable	\$ <u>-</u>	\$ <u>3,923,000</u>
Capital assets acquired through capital lease	\$ <u>97,000</u>	\$ <u>387,000</u>

See accompanying notes to financial statements.

MORGAN COUNTY HOSPITAL AUTHORITY
(A Component Unit of Morgan County, Georgia)

Notes To Financial Statements
June 30, 2019 and 2018

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

Reporting entity. The Morgan County Hospital Authority (Authority) is a public body corporate and politic organized under the Hospital Authorities Law of the State of Georgia. The Authority was established by the Board of County Commissioners of Morgan County, Georgia (County) to operate, control, and manage all matters concerning the County's health care functions. The Authority is governed by a nine-member board of trustees appointed by the County and the County provides an annual contribution to the Authority. For these reasons, the Authority is considered to be a component unit of the County.

The Authority owns and operates Morgan Medical Center, a twenty-five (25) bed acute care hospital.

Morgan Memorial Healthcare Foundation (Foundation) operates exclusively to promote the welfare of Morgan Medical Center and its patients. The Foundation solicits contributions for the Authority and, in the absence of donor restrictions, the Foundation's board of directors have discretionary control over the amounts to be distributed. The Foundation is reported on a basis consistent with the Authority's fiscal year and is discretely presented.

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

Continued

MORGAN COUNTY HOSPITAL AUTHORITY
(A Component Unit of Morgan County, Georgia)

Notes To Financial Statements, Continued
June 30, 2019 and 2018

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

Noncurrent cash and investments. Noncurrent cash and investments include assets held by trustee as required by revenue bond indentures and assets that are restricted for a particular purpose as specified by contributors.

Investments in debt and equity securities. Investments in debt and equity securities are reported at fair value. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating revenue when earned.

Fair value measurements. GASB Statement No. 72 – *Fair Value Measurement and Application* defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is an exit price at the measurement date from the perspective of a market participant that controls the asset or is obligated for the liability. GASB No. 72 also establishes a hierarchy of inputs to valuation techniques used to measure fair value. If a price for an identical asset or liability is not observable, a government should measure fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. GASB No. 72 describes the following three levels of inputs that may be used:

- *Level 1:* Quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date. The fair value hierarchy gives the highest priority to Level 1 inputs.
- *Level 2:* Observable inputs such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.
- *Level 3:* Unobservable inputs for an asset or liability. The fair value hierarchy gives the lowest priority to Level 3 inputs.

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.

Continued

MORGAN COUNTY HOSPITAL AUTHORITY
(A Component Unit of Morgan County, Georgia)

Notes To Financial Statements, Continued
June 30, 2019 and 2018

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

Costs of borrowing. Interest cost on borrowed funds, less any interest earned on the investment of the borrowed funds, during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Interest expense capitalized was approximately \$450,000 and \$727,000 during 2019 and 2018, respectively. Interest income capitalized was approximately \$128,000 and \$162,000 during 2019 and 2018, respectively.

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. Employees who voluntarily terminate their job may request full payment of their PTO. Employees may also convert PTO to cash under certain conditions. Generally, these employees will be paid 100% of PTO converted, with a minimum of 60 hours to be maintained in the PTO bank. A maximum of 60 hours may be cashed out at one time, with two cash out opportunities per year, once in May and once in November. Only a maximum of 270 hours may be maintained in an employee's PTO bank. Hours above maximum will be lost, unless cashed out during the May and or November cash out periods. The accrued PTO is reported as a current liability in 2019 and 2018.

The Authority's employees also earn extended illness bank (EIB) time to be used for absences lasting three days or longer due to illness or injury. Full time employees accrue EIB at the rate of six days per year and may accumulate a maximum of 65 days. Accrued EIB time is not subject to cash conversion and is not paid to employees upon termination. Therefore, no liability is recorded for accrued EIB.

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.

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.

Continued

MORGAN COUNTY HOSPITAL AUTHORITY
(A Component Unit of Morgan County, Georgia)

Notes To Financial Statements, Continued
June 30, 2019 and 2018

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.

Indigent and charity care. The Authority provides care to patients who meet certain criteria under its indigent and 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 indigent or charity care, they are not reported as revenue.

Grants and contributions. From time to time, the Authority and the Foundation receive grants from the 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 9.

Income taxes. The Authority is a governmental entity and is recognized as tax-exempt under the Internal Revenue Code.

The Foundation is a not-for-profit corporation and has been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. No provision for income taxes has been included in the accompanying financial statements. Further, should any penalties and interest be incurred, they would be recognized as operating expenses.

Continued

MORGAN COUNTY HOSPITAL AUTHORITY
(A Component Unit of Morgan County, Georgia)

Notes To Financial Statements, Continued
June 30, 2019 and 2018

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

Recently adopted accounting pronouncement. In 2019, the Authority adopted 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. The Authority has adopted the provisions for all periods presented and 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). 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.

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:

- *Medicare.* On December 20, 1999, the Authority was granted Critical Access Hospital designation by the Medicare program. 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 prospectively determined rates. The rates vary 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, 2015. Revenue from the Medicare program accounted for approximately 77% and 72% of the Authority's net patient service revenue for the years ended June 30, 2019 and 2018, respectively.

Continued

MORGAN COUNTY HOSPITAL AUTHORITY
(A Component Unit of Morgan County, Georgia)

Notes To Financial Statements, Continued
June 30, 2019 and 2018

2. Net Patient Service Revenue, Continued

- *Medicaid.* Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates. Outpatient services 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. 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 8% and 9% of the Authority's net patient service revenue for the years ended June 30, 2019 and 2018, respectively.

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 per discharge and discounts from established charges.

The Authority 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 \$24,000 and \$39,000 for the years ended June 30, 2019 and 2018, respectively.

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 revenue was approximately \$437,000 and \$608,000 for the years ended June 30, 2019 and 2018, respectively.

- *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, uninsured patients will not be charged more than the Amounts Generally Billed (AGB) to patients with Medicare covering that 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 during a 12-month lookback period. 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 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.

Continued

MORGAN COUNTY HOSPITAL AUTHORITY
(A Component Unit of Morgan County, Georgia)

Notes To Financial Statements, Continued
June 30, 2019 and 2018

2. Net Patient Service Revenue, Continued

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.

3. Uncompensated Care

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:

	<u>2019</u>	<u>2018</u>
Gross patient charges	\$ <u>26,431,000</u>	\$ <u>23,190,000</u>
Uncompensated services:		
Medicare	2,123,000	2,853,000
Medicaid	1,212,000	1,058,000
Blue Cross	973,000	945,000
Other insurance	1,899,000	940,000
Charity/indigent	442,000	35,000
Bad debts	<u>3,181,000</u>	<u>2,443,000</u>
Total uncompensated care	<u>9,830,000</u>	<u>8,274,000</u>
Net patient service revenue	\$ <u>16,601,000</u>	\$ <u>14,916,000</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.

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.

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

MORGAN COUNTY HOSPITAL AUTHORITY
(A Component Unit of Morgan County, Georgia)

Notes To Financial Statements, Continued
June 30, 2019 and 2018

4. Deposits and Investments, Continued

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

	<u>2019</u>	<u>2018</u>
Deposits	\$ 3,730,000	\$ 20,965,000
Investments	<u>173,000</u>	<u>164,000</u>
Total	<u>\$ 3,903,000</u>	<u>\$ 21,129,000</u>

Included in the following balance sheet captions:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 915,000	\$ 1,442,000
Held by trustee for debt service	561,000	1,504,000
Held by trustee for capital acquisitions	2,254,000	18,019,000
Restricted by contributors	<u>173,000</u>	<u>164,000</u>
Total	<u>\$ 3,903,000</u>	<u>\$ 21,129,000</u>

The Authority's investments were comprised of the following at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Restricted by contributors:		
Money market fund	\$ 10,000	\$ 7,000
Alternative equity	8,000	8,000
Equity income mutual fund	11,000	11,000
International equity	13,000	13,000
International mutual fund	13,000	13,000
Large cap equity	43,000	40,000
Mid-cap equity	3,000	3,000
Mid-cap mutual fund	3,000	2,000
Small cap equity	2,000	3,000
Small cap mutual fund	3,000	2,000
Intermediate-term domestic fixed income bond fund	46,000	44,000
Short-term domestic fixed income bond fund	5,000	5,000
High yield fixed income bond fund	<u>13,000</u>	<u>13,000</u>
Total	<u>\$ 173,000</u>	<u>\$ 164,000</u>

The fair value of all investments are measured using Level 1 inputs.

Continued

MORGAN COUNTY HOSPITAL AUTHORITY
(A Component Unit of Morgan County, Georgia)

Notes To Financial Statements, Continued
June 30, 2019 and 2018

4. Deposits and Investments, Continued

Interest rate risk. The Authority does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

Certain funds of the Authority's restricted by contributor's funds are invested in a money market fund with a weighted average maturity of 30 days and 23 days at June 30, 2019 and 2018, respectively.

Credit risk. The Authority places no limit on the amount it may invest in any one issuer.

5. Accounts Receivable and Payable

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

	<u>2019</u>	<u>2018</u>
Patient accounts receivable:		
Receivable from patients and their insurance carriers	\$ 3,586,000	\$ 2,987,000
Receivable from Medicare	1,503,000	1,508,000
Receivable from Medicaid	<u>172,000</u>	<u>87,000</u>
Total patient accounts receivable	5,261,000	4,582,000
Less allowance for uncollectible amounts	<u>3,078,000</u>	<u>2,830,000</u>
Patient accounts receivable, net	\$ <u>2,183,000</u>	\$ <u>1,752,000</u>
Accounts payable and accrued expenses:		
Payable to employees (including payroll taxes)	\$ 594,000	\$ 487,000
Payable to suppliers	667,000	710,000
Payable for capital assets	-	3,923,000
Payable to lenders (interest)	<u>321,000</u>	<u>321,000</u>
Total accounts payable and accrued expenses	\$ <u>1,582,000</u>	\$ <u>5,441,000</u>

Continued

MORGAN COUNTY HOSPITAL AUTHORITY
(A Component Unit of Morgan County, Georgia)

Notes To Financial Statements, Continued
June 30, 2019 and 2018

6. Capital Assets

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

	<u>Balance June 30, 2018</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance June 30, 2019</u>
Capital assets, not being depreciated:					
Land	\$ 1,955,000	\$ -	\$ -	\$ -	\$ 1,955,000
Construction-in-progress	<u>21,268,000</u>	<u>13,109,000</u>	<u>-</u>	<u>(34,377,000)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>23,223,000</u>	<u>13,109,000</u>	<u>-</u>	<u>(34,377,000)</u>	<u>1,955,000</u>
Capital assets, being depreciated:					
Land improvements	61,000	-	(61,000)	-	-
Buildings and improvements	3,681,000	-	(1,846,000)	30,823,000	32,658,000
Equipment	<u>5,858,000</u>	<u>140,000</u>	<u>(2,862,000)</u>	<u>3,554,000</u>	<u>6,690,000</u>
Total capital assets, being depreciated	<u>9,600,000</u>	<u>140,000</u>	<u>(4,769,000)</u>	<u>34,377,000</u>	<u>39,348,000</u>
Less accumulated depreciation for:					
Land improvements	(61,000)	-	61,000	-	-
Buildings and improvements	(3,115,000)	(851,000)	1,846,000	(253,000)	(2,373,000)
Equipment	<u>(5,018,000)</u>	<u>(452,000)</u>	<u>2,806,000</u>	<u>253,000</u>	<u>(2,411,000)</u>
Total accumulated depreciation	<u>(8,194,000)</u>	<u>(1,303,000)</u>	<u>4,713,000</u>	<u>-</u>	<u>(4,784,000)</u>
Total capital assets, being depreciated, net	<u>1,406,000</u>	<u>(1,163,000)</u>	<u>(56,000)</u>	<u>34,377,000</u>	<u>34,564,000</u>
Capital assets, net	\$ <u>24,629,000</u>	\$ <u>11,946,000</u>	\$ <u>(56,000)</u>	\$ <u>-</u>	\$ <u>36,519,000</u>

Continued

MORGAN COUNTY HOSPITAL AUTHORITY
(A Component Unit of Morgan County, Georgia)

Notes To Financial Statements, Continued
June 30, 2019 and 2018

6. Capital Assets, Continued

	<u>Balance June 30, 2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance June 30, 2018</u>
Capital assets, not being depreciated:					
Land	\$ 1,955,000	\$ -	\$ -	\$ -	\$ 1,955,000
Construction-in progress	<u>2,211,000</u>	<u>19,057,000</u>	<u>-</u>	<u>-</u>	<u>21,268,000</u>
Total capital assets, not being depreciated	<u>4,166,000</u>	<u>19,057,000</u>	<u>-</u>	<u>-</u>	<u>23,223,000</u>
Capital assets, being depreciated:					
Land improvements	61,000	-	-	-	61,000
Buildings and improvements	3,681,000	-	-	-	3,681,000
Equipment	<u>5,739,000</u>	<u>450,000</u>	<u>(331,000)</u>	<u>-</u>	<u>5,858,000</u>
Total capital assets, being depreciated	<u>9,481,000</u>	<u>450,000</u>	<u>(331,000)</u>	<u>-</u>	<u>9,600,000</u>
Less accumulated depreciation for:					
Land improvements	(61,000)	-	-	-	(61,000)
Buildings and improvements	(3,062,000)	(53,000)	-	-	(3,115,000)
Equipment	<u>(5,168,000)</u>	<u>(181,000)</u>	<u>331,000</u>	<u>-</u>	<u>(5,018,000)</u>
Total accumulated depreciation	<u>(8,291,000)</u>	<u>(234,000)</u>	<u>331,000</u>	<u>-</u>	<u>(8,194,000)</u>
Total capital assets, being depreciated, net	<u>1,190,000</u>	<u>216,000</u>	<u>-</u>	<u>-</u>	<u>1,406,000</u>
Capital assets, net	<u>\$ 5,356,000</u>	<u>\$ 19,273,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,629,000</u>

Continued

MORGAN COUNTY HOSPITAL AUTHORITY
(A Component Unit of Morgan County, Georgia)

Notes To Financial Statements, Continued
June 30, 2019 and 2018

7. Notes Receivable

Notes receivable consist of advances to physicians under employment agreements. The advances are for sign-on bonuses and liability insurance tail coverage. The advances are forgiven over a period in which the physicians work for the Authority. If the physicians leave Authority employment before the end of the period, the physicians would owe the Authority a pro-rata portion of the advances. Amounts forgiven and charged to expense were approximately \$16,000 and \$9,000 in 2019 and 2018, respectively.

8. Long-Term Debt

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

	<u>Balance</u> <u>June 30, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2019</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
2017 Bonds	\$ 35,000,000	\$ -	\$ -	\$ 35,000,000	\$ 864,000
Capital leases	<u>323,000</u>	<u>97,000</u>	<u>(85,000)</u>	<u>335,000</u>	<u>96,000</u>
Total	\$ <u>35,323,000</u>	\$ <u>97,000</u>	\$ <u>(85,000)</u>	\$ <u>35,335,000</u>	\$ <u>960,000</u>

	<u>Balance</u> <u>June 30, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2018</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
2017 Bonds	\$ -	\$ 35,000,000	\$ -	\$ 35,000,000	\$ -
1997 Bonds	105,000	-	(105,000)	-	-
Capital leases	<u>-</u>	<u>387,000</u>	<u>(64,000)</u>	<u>323,000</u>	<u>70,000</u>
Total	\$ <u>105,000</u>	\$ <u>35,387,000</u>	\$ <u>(169,000)</u>	\$ <u>35,323,000</u>	\$ <u>70,000</u>

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

- *Revenue Anticipation Certificates, Series 2017 (2017 Bonds)* – Interest at 2.75%, interest payable bi-annually and principal maturing on September 1, 2019, secured by proceeds to be received from a USDA loan, a lien on mortgaged property, a lien on all revenues, a debt service reserve fund, and an intergovernmental agreement with Morgan County. The 2017 Bonds contain a provision that in an event of default, the owners of 100% of the principal amount outstanding may declare the 2017 Bonds due and payable immediately.
- *Capital Leases* – imputed interest at 8.03% and 8.67%, collateralized by leased equipment with a cost of \$484,000 and \$387,000 and accumulated amortization of \$87,000 and \$77,000 at June 30, 2019 and 2018, respectively.

Continued

MORGAN COUNTY HOSPITAL AUTHORITY
(A Component Unit of Morgan County, Georgia)

Notes To Financial Statements, Continued
June 30, 2019 and 2018

8. Long-Term Debt, Continued

On September 29, 2017, the Authority issued \$35,000,000 Revenue Anticipation Certificates, Series 2017. Proceeds from the 2017 Bonds financed the construction and equipping of a replacement facility. The 2017 Bonds will be payable from the proceeds of a loan through the United States Department of Agriculture's Community Facilities Direct Loan Program (USDA Loan). The USDA Loan closed on September 1, 2019. The USDA Loan has an interest rate of 2.375% and a term of 25 years. Under the terms of the 2017 Bonds and the USDA Loan, the Authority must maintain a debt service coverage ratio of not less than 1.10. Under the terms of the 2017 Bonds, the Authority is required to maintain certain deposits with a trustee. Such deposits are included in the balance sheet as held by trustee.

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

<u>Year Ending June 30</u>	2017 Bonds		Capital Lease Obligations	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 864,000	\$ 1,168,000	\$ 96,000	\$ 22,000
2021	1,061,000	799,000	114,000	15,000
2022	1,087,000	774,000	106,000	6,000
2023	1,113,000	748,000	19,000	1,000
2024	1,138,000	723,000	-	-
2025-2029	6,120,000	3,183,000	-	-
2030-2034	6,891,000	2,412,000	-	-
2035-2039	7,760,000	1,543,000	-	-
2040-2044	8,736,000	566,000	-	-
2045	<u>230,000</u>	<u>1,000</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 35,000,000</u>	<u>\$ 11,917,000</u>	<u>\$ 335,000</u>	<u>\$ 44,000</u>

9. Insurance Arrangements

General and professional 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 and \$3,000,000 annual aggregate. The policies have a per event deductible of \$5,000.

Continued

MORGAN COUNTY HOSPITAL AUTHORITY
(A Component Unit of Morgan County, Georgia)

Notes To Financial Statements, Continued
June 30, 2019 and 2018

9. Insurance Arrangements, Continued

Self-insured health plan. The Authority is self-insured for employee health insurance. The Authority maintains reinsurance through a commercial excess coverage policy, which will reimburse the Authority for individual claims in excess of \$60,000 annually. The Authority incurred expenses related to the plan of approximately \$1,500,000 and \$928,000 for the years ended June 30, 2019 and 2018, respectively. Estimated accruals for claims incurred, but not reported of \$111,000 and \$60,000 at June 30, 2019 and 2018, respectively, have been recorded. Additionally, certain claims incurred met the requirement to be reimbursed through the Authority's excess coverage policy. Amounts due from the policy were approximately \$-0- and \$5,000 at June 30, 2019 and 2018.

10. Retirement Plan

The Morgan County Hospital Authority 401(a) Plan (Plan) is a defined contribution plan established and administered by the Authority to provide benefits at retirement to substantially all employees of the Authority. Plan provisions and contribution requirements are established and may be amended by the Authority's Board of Directors.

Employees may make voluntary contributions to the Plan. Employee voluntary contributions to the plan during 2019 and 2018 were \$260,000 and \$231,000, respectively. The Authority matches 50% of employee contributions up to a maximum of 2% of the employee's annual compensation. The Authority's matching contributions during 2019 and 2018 were \$77,000 and \$72,000, respectively. The Authority had no liability outstanding related to the Plan at June 30, 2019 or 2018.

Employees are vested immediately in their contributions. Vesting in the Authority's contribution portion of their accounts is based on years of continuous service on a 5-year cliff. Forfeited nonvested accounts may be used to pay Plan expenses. The Authority recognized no forfeitures in pension expense during 2019 or 2018.

11. County Contributions

In December 2015, the Authority and the County entered into an Intergovernmental Agreement (IGA). Under the IGA, the County shall provide the Authority \$1,000,000 annually for a term not to exceed 25 years and not to exceed \$25,000,000. Payments under the IGA became effective September 29, 2017. The Authority received payments of approximately \$1,000,000 and \$833,000 under the IGA in 2019 and 2018, respectively.

12. Rural Hospital Tax Credit Contributions

The State of Georgia (State) passed legislation which will allow individuals or corporations to receive a State tax credit for making a contribution to certain qualified rural hospital organizations during calendar years 2017 through 2021. The Authority submitted the necessary documentation and was approved by the State to participate in the rural hospital tax credit program for calendar years 2017 through 2019. Contributions received under the program approximated \$1,171,000 and \$379,000 during the Authority's fiscal years 2019 and 2018, respectively. The Authority will have to be approved by the State to participate in the program in calendar years 2020 and 2021.

Continued

MORGAN COUNTY HOSPITAL AUTHORITY
(A Component Unit of Morgan County, Georgia)

Notes To Financial Statements
June 30, 2019 and 2018

13. 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 June 30, 2019 and 2018, was as follows:

	<u>2019</u>	<u>2018</u>
Medicare	60%	74%
Medicaid	7%	4%
Blue Cross	12%	5%
Other third-party payors	18%	12%
Patients	<u>3%</u>	<u>5%</u>
Total	<u>100%</u>	<u>100%</u>

14. 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 estimates that such matters would not have a material adverse effect on the Authority's financial position or results from operations.

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. Federal legislation has been passed that included 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.

15. Fair Values of Financial Instruments

The following methods and assumptions were used by the Authority in estimating the fair value of its financial instruments:

- *Cash and cash equivalents, accounts payable, accrued expenses and estimated third-party payor settlements:* The carrying amount reported in the balance sheet approximates its fair value due to the short-term nature of these instruments.
- *Noncurrent cash and investments:* These assets consist primarily of money market funds and mutual funds. Fair value is based on quoted market prices, if available, or estimated using quoted market prices for similar securities. See Note 4 for fair value measurement disclosures.
- *Long-term debt:* Fair value is estimated based on quoted market value for same or similar debt instruments. The carrying amount reported in the balance sheet approximates fair value.

SUPPLEMENTARY INFORMATION



MORGAN COUNTY HOSPITAL AUTHORITY
(A Component Unit of Morgan County, Georgia)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
for the year ended June 30, 2019

<u>Grantor Agency</u>	<u>Program Title</u>	<u>CFDA Number</u>	<u>Project or Grant Number</u>	<u>Federal Expenditures</u>
U.S. Department of Agriculture:				
Rural Development	Community Facilities Loans and Grants	10.766	97.01 Through 97.04	\$ <u>35,000,000</u>

Notes to Schedule:

1. The accompanying schedule of expenditures of federal awards (Schedule) includes the federal award activity of Morgan County Hospital Authority (Authority) under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with requirements of Title 2 U.S. *Code of Federal Regulations*, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, change in financial position, or cash flows of the Authority.

Expenditures reported on the Schedule are reported on the accrual basis of accounting which is consistent with the preparation of the Authority's financial statements. Such expenditures are recognized following the cost principles contained in the *Uniform Guidance*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

2. The Authority did not have any non-cash awards during the fiscal year.

3. Federal expenditures under loan programs include any new loans made during the year and loans outstanding at the beginning of the year for which there are continuing compliance requirements. There were no new loans for the year ended June 30, 2019. Balances and transactions relating to this program are included in the Authority's basic financial statements. The balance of the loan outstanding at June 30, 2019 is \$35,000,000.

4. There were no awards passed through to subreceptients.

5. The Authority has elected to not use the 10% de minimis indirect cost rate allowed under the *Uniform Guidance*.

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



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

Board of Directors
Morgan County Hospital Authority
Madison, 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 business-type activities and the discretely presented component unit of Morgan County Hospital Authority (Authority), as of and for the year ended June 30, 2019, and the related notes to the financial statements which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 19, 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 opinions 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

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Let's Think Together.

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 have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2019-001 and 2019-002 that we consider to be significant deficiencies.

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*.

Morgan County Hospital Authority's Response to Findings

The Authority's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. 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
December 19, 2019

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE *UNIFORM GUIDANCE*



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE *UNIFORM GUIDANCE*

Board of Directors
Morgan County Hospital Authority
Madison, Georgia

Report on Compliance for Each Major Federal Program

We have audited Morgan County Hospital Authority's (Authority) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2019. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Those standards and the *Uniform Guidance* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Continued

Let's Think Together.

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the *Uniform Guidance*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the *Uniform Guidance*. Accordingly, this report is not suitable for any other purpose.

Draffin & Tucker, LLP

Atlanta, Georgia
December 19, 2019

MORGAN COUNTY HOSPITAL AUTHORITY
 (A Component Unit of Morgan County, Georgia)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 for the year ended June 30, 2019

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: unmodified

Internal control over financial reporting:

Material weakness(es) identified? _____ yes x no
 Significant deficiencies identified that are not
 considered to be material weakness(es)? x yes _____ none reported
 Noncompliance material to financial statements noted? _____ yes x no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ yes x no
 Significant deficiencies identified that are not
 considered to be material weakness(es)? _____ yes x none reported

Type of auditor’s report issued on compliance for major programs: unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a). _____ yes x no

Identification of major programs:

<u>CFDA Number</u>	<u>FHA Project Number</u>	<u>Name of Federal Program</u>
10.766	97.01 Through 97.04	Community Facilities Loans and Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee? _____ yes x no

MORGAN COUNTY HOSPITAL AUTHORITY
(A Component Unit of Morgan County, Georgia)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued
for the year ended June 30, 2019

Section II – Financial Statement Findings

Significant Deficiencies (2019–001)

Condition:	Accrual basis of accounting requires transactions to be recorded in the period incurred, regardless of when cash is received or paid. The Authority had certain transactions that occurred during 2019 that were not recorded.
Criteria:	Internal controls should be in place to ensure transactions are recorded in the proper period.
Effect:	The Authority could understate its assets, liabilities, revenues, or expenses if transactions are not recorded in the proper period.
Cause:	A review of vendor invoices at year end was not performed.
Recommendation:	The Authority should review its procedures to ensure all transactions are recorded in the proper period.
Views of Responsible Officials and Planned Corrective Actions:	See corrective action plan.

Continued

MORGAN COUNTY HOSPITAL AUTHORITY
(A Component Unit of Morgan County, Georgia)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued
for the year ended June 30, 2019

Section II – Financial Statement Findings, Continued

Significant Deficiencies (2019-002)

Condition:	The amount recorded for allowance for bad debts related to patient accounts receivable did not agree with management's calculation.
Criteria:	Internal controls should be in place to ensure general ledger accounts agree with management calculations after transactions are posted.
Effect:	The allowance for bad debts account did not agree with management's calculation by a prior year journal entry amount. Assets and revenue were overstated.
Cause:	A journal entry from prior year did not get reversed.
Recommendation:	Account balances should be reviewed after journal entries are posted to ensure the balances agree with the calculated amounts.
Views of Responsible Officials and Planned Corrective Actions:	See corrective action plan.

Section III – Federal Award Findings and Questioned Costs

None reported.



MORGAN COUNTY HOSPITAL AUTHORITY
(A Component Unit of Morgan County, Georgia)

CORRECTIVE ACTION PLAN
for the year ended June 30, 2019

Financial Statement Findings

2019-001

Corrective action: Policies will be implemented to ensure these items will be properly accrued and reported in the correct period in the future.

Date of completion: January 2020

Contact person: Mr. Kyle Wilkinson, CFO
Morgan Medical Center

2019-002

Corrective action: Policies will be implemented to review each general ledger account at month end to ensure balances agree with account reconciliations or calculated balances.

Date of completion: January 2020

Contact person: Mr. Kyle Wilkinson, CFO
Morgan Medical Center

MORGAN COUNTY HOSPITAL AUTHORITY
(A Component Unit of Morgan County, Georgia)

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
for the year ended June 30, 2019

Section II – Financial Statement Findings

Material Weakness (2018–001)

- Condition:** Accrual basis of accounting requires transactions to be recorded in the period incurred, regardless of when cash is received or paid. The Authority had certain construction-in-progress transactions that occurred during 2018 that were not recorded.
- Criteria:** Internal controls should be in place to ensure transactions are recorded in the proper period.
- Effect:** The Authority could understate its assets, liabilities, revenues, or expenses if transactions are not recorded in the proper period.
- Cause:** A review of construction invoices at year end was not performed.
- Recommendation:** The Authority should review its procedures to ensure all transactions are recorded in the proper period.
- Status:** As of June 30, 2019, management was still in the process of implementing its corrective action plan from 2018. See significant deficiency 2019-001.

Significant Deficiencies (2018–002)

- Condition:** A receivable was recorded for an amount that had already been received.
- Criteria:** Internal controls should be in place to properly reconcile cash accounts and ensure all cash transactions are properly posted.
- Effect:** A receivable was recorded for an amount that had already been received and deposited into the Authority's bank account. Assets and revenues were overstated.
- Cause:** The cash reconciliation and posting process did not recognize and record a payment properly.
- Recommendation:** The Authority should review its cash reconciliation and posting procedures.
- Status:** As of June 30, 2019, management has implemented its corrective action plan from 2018; therefore, the deficiency no longer exists.

Continued

MORGAN COUNTY HOSPITAL AUTHORITY
(A Component Unit of Morgan County, Georgia)

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, Continued
for the year ended June 30, 2019

Section II – Financial Statement Findings, Continued

Significant Deficiencies (2018–003)

- Condition:** The amount recorded for allowance for bad debts related to patient accounts receivable did not agree with management’s calculation.
- Criteria:** Internal controls should be in place to ensure general ledger accounts agree with management calculations after transactions are posted.
- Effect:** The allowance for bad debts account did not agree with management’s calculation by a prior year journal entry amount. Assets and revenue were overstated.
- Cause:** A journal entry from prior year did not get reversed.
- Recommendation:** Account balances should be reviewed after journal entries are posted to ensure the balances agree with the calculated amounts.
- Status:** As of June 30, 2019, management was still in the process of implementing its corrective action plan from 2018. See significant deficiency 2019-002.