

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



FINANCIAL STATEMENTS

for the years ended June 30, 2020 and 2019

CONTENTS

	<u>Pages</u>
Independent Auditor's Report	1-2
Financial Statements:	
Balance Sheets	3-4
Statements of Revenues, Expenses and Changes in Net Position	5-6
Statements of Cash Flows	7-8
Notes to Financial Statements	9-25
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 <i>Government Auditing Standards</i>	26-27



INDEPENDENT AUDITOR'S REPORT

Board Members
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, 2020 and 2019, 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

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, 2020 and 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

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

Other Matter

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2020, 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 21, 2020

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

Balance Sheets
June 30, 2020 and 2019

	2020		2019	
	Authority	Foundation	Authority	Foundation
Assets				
Current assets:				
Cash and cash equivalents	\$ 6,068,000	\$ 123,000	\$ 915,000	\$ 50,000
Patient accounts receivable, net of estimated uncollectibles of \$3,577,000 in 2020 and \$3,078,000 in 2019	1,864,000	-	2,183,000	-
Estimated third-party payor settlements	1,446,000	-	1,440,000	-
Supplies, at lower of cost (first-in, first-out) or market	277,000	-	273,000	-
Due from Foundation	-	-	458,000	-
Other current assets	<u>75,000</u>	<u>-</u>	<u>57,000</u>	<u>-</u>
Total current assets	<u>9,730,000</u>	<u>123,000</u>	<u>5,326,000</u>	<u>50,000</u>
Noncurrent cash and investments:				
Held by trustee for debt service	155,000	-	561,000	-
Held by trustee for capital acquisitions	-	-	2,254,000	-
Restricted by contributors	173,000	-	173,000	-
Other cash and investments	<u>4,498,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total noncurrent cash and investments	<u>4,826,000</u>	<u>-</u>	<u>2,988,000</u>	<u>-</u>
Capital assets:				
Land	1,955,000	-	1,955,000	-
Depreciable capital assets, net of accumulated depreciation	<u>33,701,000</u>	<u>-</u>	<u>34,564,000</u>	<u>-</u>
Total capital assets, net of accumulated depreciation	<u>35,656,000</u>	<u>-</u>	<u>36,519,000</u>	<u>-</u>
Other assets:				
Notes receivable	<u>32,000</u>	<u>-</u>	<u>24,000</u>	<u>-</u>
Total assets	<u>\$ 50,244,000</u>	<u>\$ 123,000</u>	<u>\$ 44,857,000</u>	<u>\$ 50,000</u>

Continued

	2020		2019	
	<u>Authority</u>	<u>Foundation</u>	<u>Authority</u>	<u>Foundation</u>
Liabilities and Net Position				
Current liabilities:				
Current maturities of long-term debt	\$ 1,307,000	\$ -	\$ 960,000	\$ -
Accounts payable	1,355,000	-	667,000	-
Accrued expenses	630,000	-	915,000	-
Estimated third-party payor settlements	155,000	-	11,000	-
Unearned CARES Act funding	<u>3,434,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total current liabilities	<u>6,881,000</u>	<u>-</u>	<u>2,553,000</u>	<u>-</u>
Long-term debt, net of current maturities	<u>35,189,000</u>	<u>-</u>	<u>34,375,000</u>	<u>-</u>
Net position:				
Net investment in capital assets	685,000	-	3,438,000	-
Restricted:				
For debt service	155,000	-	240,000	-
By contributors	173,000	-	173,000	-
Unrestricted	<u>7,161,000</u>	<u>123,000</u>	<u>4,078,000</u>	<u>50,000</u>
Total net position	<u>8,174,000</u>	<u>123,000</u>	<u>7,929,000</u>	<u>50,000</u>
Total liabilities and net position	\$ <u>50,244,000</u>	\$ <u>123,000</u>	\$ <u>44,857,000</u>	\$ <u>50,000</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, 2020 and 2019

	2020		2019	
	Authority	Foundation	Authority	Foundation
Operating revenues:				
Net patient service revenue (net of provision for bad debts of \$4,722,000 in 2020 and \$3,181,000 in 2019)	\$ 21,084,000	\$ -	\$ 16,601,000	\$ -
Contributions	-	90,000	-	125,000
Other	<u>447,000</u>	<u>-</u>	<u>321,000</u>	<u>-</u>
Total operating revenues	<u>21,531,000</u>	<u>90,000</u>	<u>16,922,000</u>	<u>125,000</u>
Operating expenses:				
Salaries and wages	7,464,000	-	6,909,000	-
Employee benefits	2,350,000	-	2,168,000	-
Purchased services and professional fees	6,157,000	-	4,739,000	-
Supplies and drugs	1,021,000	-	910,000	-
Depreciation and amortization	2,396,000	-	1,303,000	-
Contributions to the Authority	-	-	-	458,000
Other	<u>3,158,000</u>	<u>17,000</u>	<u>2,717,000</u>	<u>10,000</u>
Total operating expenses	<u>22,546,000</u>	<u>17,000</u>	<u>18,746,000</u>	<u>468,000</u>
Operating income (loss)	<u>(1,015,000)</u>	<u>73,000</u>	<u>(1,824,000)</u>	<u>(343,000)</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, 2020 and 2019

	2020		2019	
	Authority	Foundation	Authority	Foundation
Nonoperating revenues				
(expenses):				
County contributions	\$ 1,000,000	\$ -	\$ 1,000,000	\$ -
Rural hospital tax credit				
contributions	461,000	-	1,171,000	-
CARES Act funding	581,000	-	-	-
Other noncapital contributions	7,000	-	38,000	-
Investment income	84,000	-	83,000	-
Interest expense	(873,000)	-	(539,000)	-
Loss on disposal of capital				
assets	<u>-</u>	<u>-</u>	<u>(52,000)</u>	<u>-</u>
Total nonoperating				
revenues (expenses)	<u>1,260,000</u>	<u>-</u>	<u>1,701,000</u>	<u>-</u>
Excess revenues				
(expenses)	245,000	73,000	(123,000)	(343,000)
Capital contributions from				
Foundation for new facility	-	-	458,000	-
Net additions to assets restricted				
by contributors	<u>-</u>	<u>-</u>	<u>9,000</u>	<u>-</u>
Change in net position	245,000	73,000	344,000	(343,000)
Net position, beginning of year	<u>7,929,000</u>	<u>50,000</u>	<u>7,585,000</u>	<u>393,000</u>
Net position, end of year	<u>\$ 8,174,000</u>	<u>\$ 123,000</u>	<u>\$ 7,929,000</u>	<u>\$ 50,000</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, 2020 and 2019

<u>Authority</u>	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 21,541,000	\$ 15,311,000
Payments to suppliers and contractors	(9,678,000)	(8,510,000)
Payments to employees	(10,099,000)	(8,954,000)
Other receipts	<u>447,000</u>	<u>321,000</u>
Net cash provided (used) by operating activities	<u>2,211,000</u>	<u>(1,832,000)</u>
Cash flows from noncapital financing activities:		
County contributions	1,000,000	1,000,000
Rural hospital tax credit contributions	461,000	1,171,000
CARES Act funding	4,015,000	-
Other noncapital contributions	7,000	38,000
Proceeds from issuance of long-term debt	<u>1,525,000</u>	<u>-</u>
Net cash provided by noncapital financing activities	<u>7,008,000</u>	<u>2,209,000</u>
Cash flows from capital and related financing activities:		
Capital contributions from Foundation for new facility	458,000	-
Proceeds from issuance of long-term debt	35,000,000	-
Principal paid on long-term debt	(36,110,000)	(85,000)
Interest paid on long-term debt	(873,000)	(989,000)
Proceeds from sale of capital assets	-	4,000
Purchase of capital assets	<u>(787,000)</u>	<u>(16,625,000)</u>
Net cash used by capital and related financing activities	<u>(2,312,000)</u>	<u>(17,695,000)</u>
Cash flows from investing activities:		
Investment income	84,000	83,000
Purchase of investments	<u>(193,000)</u>	<u>(4,000)</u>
Net cash provided (used) by investing activities	<u>(109,000)</u>	<u>79,000</u>
Change in cash and cash equivalents	6,798,000	(17,239,000)
Cash and cash equivalents, beginning of year	<u>3,733,000</u>	<u>20,972,000</u>
Cash and cash equivalents, end of year	<u>\$ 10,531,000</u>	<u>\$ 3,733,000</u>

Continued

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

Statements of Cash Flows, Continued
Years Ended June 30, 2020 and 2019

Authority, Continued	<u>2020</u>	<u>2019</u>
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash and cash equivalents	\$ 6,068,000	\$ 915,000
Noncurrent cash and cash equivalents:		
Held by trustee for debt service	155,000	561,000
Held by trustee for capital acquisitions	-	2,254,000
Restricted by contributors	10,000	3,000
Other cash and investments	<u>4,298,000</u>	<u>-</u>
Total cash and cash equivalents	<u>\$ 10,531,000</u>	<u>\$ 3,733,000</u>
Reconciliation of operating loss to net cash provided (used) by operating activities:		
Operating loss	\$(1,015,000)	\$(1,824,000)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation and amortization	2,396,000	1,303,000
Provision for bad debts	4,722,000	3,181,000
Changes in:		
Patient accounts receivable	(4,403,000)	(3,612,000)
Estimated third-party payor settlements	138,000	(859,000)
Supplies	(4,000)	(69,000)
Other current assets	(18,000)	(7,000)
Notes receivable	(8,000)	(9,000)
Accounts payable	688,000	(43,000)
Accrued expenses	<u>(285,000)</u>	<u>107,000</u>
Net cash provided (used) by operating activities	<u>\$ 2,211,000</u>	<u>\$(1,832,000)</u>
Noncash capital financing activities:		
Capital assets acquired through capital lease	<u>\$ 166,000</u>	<u>\$ 97,000</u>
Capital assets acquired through subscription-based information technology arrangement	<u>\$ 580,000</u>	<u>\$ -</u>

See accompanying notes to financial statements.

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

Notes To Financial Statements
June 30, 2020 and 2019

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, Inc. (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 members 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.

The Foundation is a not-for-profit corporation that reports under Financial Accounting Standards Board (FASB) standards, including Topic 958. As such, certain revenue recognition criteria and presentation features are different from Governmental Accounting Standards Board (GASB) standards. The Foundation's financial statement formats were modified to make them compatible with the Authority's financial statement formats. In 2020, the Foundation adopted FASB ASU No. 2018-08, *Not-for-Profit Entities (Topic 958) Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Adoption did not have a material impact on the financial statements.

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).

Continued

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

Notes To Financial Statements, Continued
June 30, 2020 and 2019

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

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.

Noncurrent cash and investments. Noncurrent cash and investments include assets held by trustee as required by USDA loan and revenue bond indentures, assets that are restricted by contributors to support the operations of the Authority, and other long-term cash and investments.

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

Continued

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

Notes To Financial Statements, Continued
June 30, 2020 and 2019

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

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

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 \$-0- and \$450,000 during 2020 and 2019, respectively. Interest income capitalized was approximately \$-0- and \$128,000 during 2020 and 2019, 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 may accumulate PTO up to a maximum of 270 hours. Hours above the maximum will be lost. Employees who voluntarily terminate their job may request full payment of their PTO. Employees may also convert PTO to cash under certain hardship conditions. The accrued PTO is reported as a current liability.

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.

Unearned revenue. Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. CARES Act advance payments are reported as unearned revenue until all applicable eligibility requirements are met. See Note 16 for additional information.

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, 2020 and 2019

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

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

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, the State of Georgia, and the federal government 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, 2020 and 2019

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

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

In 2020, the Authority early adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB 96). GASB 96 requires recognition of subscription-based technology arrangements as a right-to-use subscription asset, an intangible asset, and a corresponding subscription liability.

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, 2019 with the GASB 95 deferral. The Authority is currently evaluating the impact GASB 84 will have on its financial statements.

Prior year reclassification. Certain reclassifications have been made to the fiscal year 2019 financial statements to conform to the fiscal year 2020 presentation. These reclassifications had no impact on the change in net position in the accompanying financial statements.

2. Net Patient Service Revenue

The Authority has 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.* The Authority is designated a Critical Access Hospital (CAH) by the Medicare program. The CAH designation places certain restrictions on daily inpatient census and an annual, average length of stay of inpatients. Inpatient, outpatient, and swing bed 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). The Authority's Medicare cost reports have been audited by the MAC through June 30, 2018. Revenue from the Medicare program accounted for approximately 68% and 77% of the Authority's net patient service revenue for the years ended June 30, 2020 and 2019, respectively.

Continued

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

Notes To Financial Statements, Continued
June 30, 2020 and 2019

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, 2017. Revenue from the Medicaid program accounted for approximately 7% and 8% of the Authority's net patient service revenue for the years ended June 30, 2020 and 2019, 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 \$20,000 and \$24,000 for the years ended June 30, 2020 and 2019, 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 \$521,000 and \$437,000 for the years ended June 30, 2020 and 2019, 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, 2020 and 2019

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 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Gross patient charges	\$ <u>33,976,000</u>	\$ <u>26,431,000</u>
Uncompensated services:		
Medicare	1,595,000	2,123,000
Medicaid	1,513,000	1,212,000
Blue Cross	1,651,000	973,000
Other insurance	2,858,000	1,899,000
Charity/indigent	553,000	442,000
Bad debts	<u>4,722,000</u>	<u>3,181,000</u>
Total uncompensated care	<u>12,892,000</u>	<u>9,830,000</u>
Net patient service revenue	\$ <u>21,084,000</u>	\$ <u>16,601,000</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, 2020 and 2019, the Authority's deposits were entirely insured or collateralized.

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

Continued

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

Notes To Financial Statements, Continued
June 30, 2020 and 2019

4. Deposits and Investments, Continued

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

	<u>2020</u>	<u>2019</u>
Deposits	\$ 10,524,000	\$ 3,730,000
Investments	<u>370,000</u>	<u>173,000</u>
Total	<u>\$ 10,894,000</u>	<u>\$ 3,903,000</u>

Included in the following balance sheet captions:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 6,068,000	\$ 915,000
Held by trustee for debt service	155,000	561,000
Held by trustee for capital acquisitions	-	2,254,000
Restricted by contributors	173,000	173,000
Other cash and investments	<u>4,498,000</u>	<u>-</u>
Total	<u>\$ 10,894,000</u>	<u>\$ 3,903,000</u>

The Authority's investments were comprised of the following at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Restricted by contributors:		
Money market fund	\$ 7,000	\$ 10,000
Equity exchange-traded funds	62,000	69,000
Equity mutual funds	38,000	30,000
Bond mutual funds	<u>63,000</u>	<u>64,000</u>
	<u>170,000</u>	<u>173,000</u>
Other cash and investments:		
Certificates of deposit	<u>200,000</u>	<u>-</u>
Total	<u>\$ 370,000</u>	<u>\$ 173,000</u>

The fair value of the investments restricted by contributors are measured using Level 1 inputs. The fair value of the other investments are measured using Level 2 inputs.

The Authority must maintain a minimum balance of \$100,000 of the funds restricted by contributors. The Authority may spend up to 20% of the funds annually to support operations, however no expenditure shall decrease the funds to less than \$100,000.

Continued

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

Notes To Financial Statements, Continued
June 30, 2020 and 2019

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 40 days and 30 days at June 30, 2020 and 2019, 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, 2020 and 2019 consisted of these amounts:

	<u>2020</u>	<u>2019</u>
Patient accounts receivable:		
Receivable from patients and their insurance carriers	\$ 4,174,000	\$ 3,586,000
Receivable from Medicare	1,195,000	1,503,000
Receivable from Medicaid	<u>72,000</u>	<u>172,000</u>
Total patient accounts receivable	5,441,000	5,261,000
Less allowance for uncollectible amounts	<u>3,577,000</u>	<u>3,078,000</u>
Patient accounts receivable, net	<u>\$ 1,864,000</u>	<u>\$ 2,183,000</u>
Accounts payable and accrued expenses:		
Payable to employees (including payroll taxes)	\$ 630,000	\$ 594,000
Payable to suppliers	1,355,000	667,000
Payable to lenders (interest)	<u>-</u>	<u>321,000</u>
Total accounts payable and accrued expenses	<u>\$ 1,985,000</u>	<u>\$ 1,582,000</u>

Continued

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

Notes To Financial Statements, Continued
June 30, 2020 and 2019

6. Capital Assets

A schedule of changes in the Authority's capital assets for 2020 and 2019 follows:

	<u>Balance</u> <u>June 30, 2019</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance</u> <u>June 30, 2020</u>
Land	\$ 1,955,000	\$ -	\$ -	\$ -	\$ 1,955,000
Buildings	32,658,000	-	-	-	32,658,000
Equipment	6,690,000	770,000	-	-	7,460,000
Subscription-based IT	<u>-</u>	<u>763,000</u>	<u>-</u>	<u>-</u>	<u>763,000</u>
 Total capital assets at historical cost	 <u>41,303,000</u>	 <u>1,533,000</u>	 <u>-</u>	 <u>-</u>	 <u>42,836,000</u>
 Less accumulated depreciation for:					
Buildings	(2,373,000)	(1,638,000)	-	-	(4,011,000)
Equipment	(2,411,000)	(758,000)	-	-	(3,169,000)
Subscription-based IT	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Total accumulated depreciation	 <u>(4,784,000)</u>	 <u>(2,396,000)</u>	 <u>-</u>	 <u>-</u>	 <u>(7,180,000)</u>
 Capital assets, net	 <u>\$ 36,519,000</u>	 <u>\$ (863,000)</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 35,656,000</u>
	 <u>Balance</u> <u>June 30, 2018</u>	 <u>Additions</u>	 <u>Retirements</u>	 <u>Transfers</u>	 <u>Balance</u> <u>June 30, 2019</u>
Land	\$ 1,955,000	\$ -	\$ -	\$ -	\$ 1,955,000
Construction-in-progress	21,268,000	13,109,000	-	(34,377,000)	-
Land improvements	61,000	-	(61,000)	-	-
Buildings	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 at historical cost	 <u>32,823,000</u>	 <u>13,249,000</u>	 <u>(4,769,000)</u>	 <u>-</u>	 <u>41,303,000</u>
 Less accumulated depreciation for:					
Land improvements	(61,000)	-	61,000	-	-
Buildings	(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>
 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, 2020 and 2019

7. Notes Receivable

Notes receivable consist of advances to physicians and employees under employment agreements. The advances are forgiven over a period in which the physicians and employees work for the Authority. If the physicians or employees leave Authority employment before the end of the period, the physicians and employees would owe the Authority a pro-rata portion of the advances. Amounts forgiven and charged to expense were approximately \$11,000 and \$16,000 in 2020 and 2019, respectively.

8. Long-Term Debt

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

	Balance June 30, <u>2019</u>	<u>Additions</u>	<u>Reductions</u>	Balance June 30, <u>2020</u>	Amounts Due Within <u>One Year</u>
2017 Bonds	\$ 35,000,000	\$ -	\$(35,000,000)	\$ -	\$ -
USDA Loan	-	35,000,000	(864,000)	34,136,000	1,061,000
PPP Loan	-	1,525,000	-	1,525,000	-
Capital leases	335,000	166,000	(130,000)	371,000	130,000
Subscription - based IT	<u>-</u>	<u>580,000</u>	<u>(116,000)</u>	<u>464,000</u>	<u>116,000</u>
Total	<u>\$ 35,335,000</u>	<u>\$ 37,271,000</u>	<u>\$(36,110,000)</u>	<u>\$ 36,496,000</u>	<u>\$ 1,307,000</u>

	Balance June 30, <u>2018</u>	<u>Additions</u>	<u>Reductions</u>	Balance June 30, <u>2019</u>	Amounts Due Within <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>

The terms and due dates of the Authority's long-term debt, including capital lease obligations and subscription-based information technology arrangements, at June 30, 2020 and 2019, 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.

Continued

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

Notes To Financial Statements, Continued
June 30, 2020 and 2019

8. Long-Term Debt, Continued

- *United States Department of Agriculture (USDA) Loan* – Direct borrowing, interest at 2.375%, payable in monthly installments of \$155,000, due August 2044, secured by revenues and property and equipment. The Authority must also make monthly payments of \$15,000 to a reserve fund until a balance of \$1,861,000 is accumulated in the reserve fund. The loan contains a provision that in an event of default, outstanding amounts may become immediately due and payable.
- *Paycheck Protection Program (PPP) Loan* – Direct borrowing, interest at 1.00%, principal and accrued interest forgiven by the SBA in November 2020, unsecured.
- *Capital Leases* – Imputed interest at 8.03% and 8.67%, collateralized by leased equipment with a cost of \$606,000 and \$484,000 and accumulated amortization of \$112,000 and \$90,000 at June 30, 2020 and 2019, respectively.
- *Subscription-based information technology arrangement* – Imputed interest at 0%, payable in annual installments of \$116,000, secured by subscription assets with a cost of \$763,000 and accumulated amortization of \$-0- at June 30, 2020. The use of certain IT solutions over an annual encounter amount are subject to additional fees that will be expensed in the period incurred.

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 were paid off 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. 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 and USDA Loan, the Authority is required to maintain certain deposits with a trustee. Such deposits are included in the balance sheet as held by trustee.

On May 1, 2020, the Authority received loan proceeds in the amount of \$1,525,000 from the Paycheck Protection Program, established as part of the CARES Act and amended by the Paycheck Protection Program Flexibility Act (collectively, PPP). The PPP provides loans to qualifying businesses in amounts up to 2.5 times the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable if the borrower uses the loan proceeds for eligible purposes, including payroll, mortgage interest, rent, and utilities, and maintains its payroll levels. The amount of forgiveness will be reduced if the borrower terminates employees or reduces salaries during the forgiveness period. The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for the first 10 months. The Authority believes it used the proceeds consistent with the PPP. On November 2, 2020, the Authority received notice from the Small Business Administration that the loan had been forgiven. The Authority will recognize the forgiveness in 2021.

Continued

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

Notes To Financial Statements, Continued
June 30, 2020 and 2019

8. Long-Term Debt, Continued

Scheduled principal and interest repayments on long-term debt and payments on capital lease obligations and subscription-based information technology arrangements are as follows:

<u>Year Ending June 30</u>	<u>Direct Borrowings</u>		<u>Capital Lease Obligations</u>		<u>Subscription - Based IT</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>
2021	\$ 1,061,000	\$ 799,000	\$ 130,000	\$ 20,000	\$ 116,000
2022	1,087,000	774,000	134,000	11,000	116,000
2023	1,113,000	748,000	84,000	3,000	116,000
2024	1,138,000	723,000	11,000	1,000	116,000
2025	1,167,000	694,000	12,000	-	-
2026-2030	6,267,000	3,036,000	-	-	-
2031-2035	7,057,000	2,246,000	-	-	-
2036-2040	7,945,000	1,358,000	-	-	-
2041-2045	<u>7,301,000</u>	<u>371,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
	34,136,000	\$ <u>10,749,000</u>	\$ <u>371,000</u>	\$ <u>35,000</u>	\$ <u>464,000</u>
PPP loan to be forgiven	<u>1,525,000</u>				
Total	\$ <u>35,661,000</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.

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 \$1,638,000 and \$1,500,000 during 2020 and 2019, respectively. Estimated accruals for claims incurred, but not reported of \$61,000 and \$111,000 at June 30, 2020 and 2019, respectively, have been recorded.

Continued

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

Notes To Financial Statements, Continued
June 30, 2020 and 2019

10. Retirement Plans

The Morgan County Hospital Authority Deferred Compensation Plan (457(b) Plan) is a 457(b) defined contribution plan established and administered by the Authority to provide benefits at retirement to substantially all employees of the Authority. Provisions and contribution requirements of the 457(b) Plan are established and may be amended by the Authority's board members. Employees may make voluntary contributions to the 457(b) Plan. Employee voluntary contributions to the 457(b) Plan during 2020 and 2019 were \$289,000 and \$260,000, respectively. No Authority contributions are made to the 457(b) Plan.

The Morgan County Hospital Authority 401(a) Plan (401(a) Plan) is a defined contribution plan established and administered by the Authority to provide benefits at retirement to substantially all employees of the Authority. Provisions and contribution requirements of the 401(a) are established and may be amended by the Authority's board members. The Authority makes contributions to the 401(a) Plan that matches 50% of employee contributions to the 457(b) Plan up to a maximum of 2% of the employee's annual compensation. The Authority's matching contributions during 2020 and 2019 were \$86,000 and \$77,000, respectively. No employee contributions are made to the 401(a) Plan. The Authority had no liability outstanding related to the Plan at June 30, 2020 or 2019.

Employees are vested immediately in their contributions to the 457(b) Plan. Vesting in the Authority's contributions to the 401(a) Plan is based on years of continuous service on a 5-year cliff. Forfeited nonvested accounts may be used to pay expenses of the Plans. The Authority recognized no forfeitures in pension expense during 2020 or 2019.

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 under the IGA in both 2020 and 2019.

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 2024. The Authority submitted the necessary documentation and was approved by the State to participate in the rural hospital tax credit program for calendar years 2017 through 2020. Contributions received under the program approximated \$461,000 and \$1,171,000 during the Authority's fiscal years 2020 and 2019, respectively. The Authority will have to be approved by the State to participate in the program in calendar years 2021 through 2024.

Continued

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

Notes To Financial Statements, Continued
June 30, 2020 and 2019

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, 2020 and 2019, was as follows:

	<u>2020</u>	<u>2019</u>
Medicare	55%	60%
Medicaid	3%	7%
Blue Cross	10%	12%
Other third-party payors	24%	18%
Patients	<u>8%</u>	<u>3%</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.

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

Continued

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

Notes To Financial Statements, Continued
June 30, 2020 and 2019

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, estimated third-party payor settlements and unearned revenue:* 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, certificates of deposit, 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.

16. CARES Act Funding

On March 27, 2020, the *Coronavirus, Aid, Relief, and Economic Security Act* (CARES Act) was passed. Certain provisions of the CARES Act provide relief funds to healthcare providers. The funding is to be used to support healthcare-related expenses or lost revenue attributable to COVID-19. The U.S. Department of Health and Human Services (HHS) began distributing funds in April 2020 to eligible providers in an effort to provide relief to both providers in areas heavily impacted by COVID-19 and those providers who are struggling to remain open. On April 24, 2020, the *Paycheck Protection Program and Health Care Enhancement Act* was passed. This Act provides additional funding to replenish and supplement key programs under the CARES Act, including funds to health care providers for COVID-19 testing. The Authority has received the following CARES Act funding:

- \$30 Billion General Distribution (1st round) - On April 10, 2020, HHS distributed \$30 billion to nearly 320,000 Medicare fee-for-service providers based on their portion of 2019 Medicare fee-for-service payments. The Authority received approximately \$436,000 in funding from this distribution.
- \$10 Billion Rural Distribution - On May 6, 2020, HHS distributed \$10 billion to almost 4,000 rural health care providers including hospitals, health clinics, and health centers. The Authority received approximately \$3,489,000 in funding from this distribution.
- \$4.9 Million Small Rural Hospital Improvement Program (SHIP) Grant - On April 22, 2020, HHS appropriated approximately \$4.9 million to the State of Georgia Department of Community Health, State Office of Rural Health to disburse to 58 rural hospitals in Georgia for the purpose of preventing, preparing for, and responding to COVID-19. The Authority received approximately \$84,000 in funding from this distribution.

Continued

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

Notes To Financial Statements, Continued
June 30, 2020 and 2019

16. CARES Act Funding, Continued

- \$4.9 Million Georgia Hospital Association Research and Education Foundation, Inc. (GHAREF) Grant - The Assistant Secretary of Preparedness and Response (ASPR) of HHS allocated approximately \$350 million to state hospital associations and other entities to disburse to health care providers on the front lines of the COVID-19 pandemic. GHAREF received approximately \$4.9 million to disburse to hospitals in Georgia. On April 30, 2020, the Authority received approximately \$5,000 in funding from this distribution.

The CARES Act also did the following:

- Sequestration - Suspended the Medicare sequestration payment adjustment, which reduces payments to providers by 2%, for the period May 1, 2020 through December 31, 2020.

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

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

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



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

Board Members
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 as of and for the year ended June 30, 2020, and the related notes to the financial statements, and have issued our report thereon dated December 21, 2020.

Internal Control Over Financial Reporting

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

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

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

Continued

Let's Think Together.®

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Draffin & Tucker, LLP

Atlanta, Georgia
December 21, 2020