

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

FINANCIAL STATEMENTS

for the years ended June 30, 2022 and 2021



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INDEPENDENT AUDITOR'S REPORT

Board Members
Morgan County Hospital Authority
Madison, Georgia

Report on the Audit of the Financial Statements

Opinions

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, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the Authority as of June 30, 2022 and 2021, 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Change in Accounting Principle

As described in Note 1 to the financial statements, in 2022 the Authority adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

Continued

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Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement of a reasonable user based on these financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Continued

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 19, 2022, 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 Authority's internal control over financial reporting and compliance.

Draffin & Tucker, LLP

Atlanta, Georgia
December 19, 2022

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

Balance Sheets
June 30, 2022 and 2021

	2022		Restated 2021	
	<u>Authority</u>	<u>Foundation</u>	<u>Authority</u>	<u>Foundation</u>
Assets:				
Current assets:				
Cash and cash equivalents	\$ 3,195,000	\$ 28,000	\$ 6,716,000	\$ 176,000
Patient accounts receivable, net of estimated uncollectibles of \$3,805,000 in 2022 and \$2,874,000 in 2021	3,323,000	-	3,047,000	-
Estimated third-party payor settlements	955,000	-	511,000	-
Supplies, at lower of cost (first-in, first-out) or market	629,000	-	497,000	-
Other current assets	<u>154,000</u>	<u>-</u>	<u>186,000</u>	<u>-</u>
Total current assets	<u>8,256,000</u>	<u>28,000</u>	<u>10,957,000</u>	<u>176,000</u>
Noncurrent cash and investments:				
Held by trustee for debt service	528,000	-	342,000	-
Restricted by contributors	186,000	-	209,000	-
Other cash and investments	<u>3,566,000</u>	<u>-</u>	<u>3,936,000</u>	<u>-</u>
Total noncurrent cash and investments	<u>4,280,000</u>	<u>-</u>	<u>4,487,000</u>	<u>-</u>
Capital assets:				
Land	1,955,000	-	1,955,000	-
Construction-in-progress/deposit	310,000	-	183,000	-
Depreciable capital assets, net of accumulated depreciation and amortization	<u>33,476,000</u>	<u>-</u>	<u>35,323,000</u>	<u>-</u>
Total capital assets, net	<u>35,741,000</u>	<u>-</u>	<u>37,461,000</u>	<u>-</u>
Other assets:				
Notes receivable	<u>41,000</u>	<u>-</u>	<u>59,000</u>	<u>-</u>
Total assets	\$ <u>48,318,000</u>	\$ <u>28,000</u>	\$ <u>52,964,000</u>	\$ <u>176,000</u>

Continued

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

Balance Sheets, Continued
June 30, 2022 and 2021

	<u>2022</u>		<u>Restated 2021</u>	
	<u>Authority</u>	<u>Foundation</u>	<u>Authority</u>	<u>Foundation</u>
Liabilities and Net Position:				
Current liabilities:				
Current maturities of long-term debt	\$ 1,726,000	\$ -	\$ 1,698,000	\$ -
Accounts payable	1,426,000	-	2,533,000	-
Accrued expenses	940,000	-	846,000	-
Estimated third-party payor settlements	619,000	-	70,000	-
Unearned CARES Act funding	<u>-</u>	<u>-</u>	<u>373,000</u>	<u>-</u>
Total current liabilities	<u>4,711,000</u>	<u>-</u>	<u>5,520,000</u>	<u>-</u>
Long-term debt, net of current maturities	<u>32,789,000</u>	<u>-</u>	<u>34,401,000</u>	<u>-</u>
Net position:				
Net investment in capital assets	1,226,000	-	1,362,000	-
Restricted:				
For debt service	528,000	-	342,000	-
By contributors	186,000	-	209,000	-
Unrestricted	<u>8,878,000</u>	<u>28,000</u>	<u>11,130,000</u>	<u>176,000</u>
Total net position	<u>10,818,000</u>	<u>28,000</u>	<u>13,043,000</u>	<u>176,000</u>
 Total liabilities and net position	 \$ <u>48,318,000</u>	 \$ <u>28,000</u>	 \$ <u>52,964,000</u>	 \$ <u>176,000</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, 2022 and 2021

	<u>2022</u>		<u>Restated 2021</u>	
	<u>Authority</u>	<u>Foundation</u>	<u>Authority</u>	<u>Foundation</u>
Operating revenues:				
Net patient service revenue (net of provision for bad debts of \$3,416,000 in 2022 and \$3,577,000 in 2021)	\$ 24,954,000	\$ -	\$ 22,302,000	\$ -
Outreach lab, net	531,000	-	2,343,000	-
Contributions	-	52,000	-	58,000
Other	<u>479,000</u>	<u>-</u>	<u>434,000</u>	<u>-</u>
Total operating revenues	<u>25,964,000</u>	<u>52,000</u>	<u>25,079,000</u>	<u>58,000</u>
Operating expenses:				
Salaries and wages	9,140,000	-	8,334,000	-
Employee benefits	3,503,000	-	2,527,000	-
Purchased services and professional fees	6,901,000	-	6,219,000	-
Supplies and drugs	2,637,000	-	1,867,000	-
Depreciation and amortization	3,479,000	-	3,019,000	-
Contribution to the Authority	-	200,000	-	-
Other	<u>3,958,000</u>	<u>-</u>	<u>3,812,000</u>	<u>5,000</u>
Total operating expenses	<u>29,618,000</u>	<u>200,000</u>	<u>25,778,000</u>	<u>5,000</u>
Operating income (loss)	<u>(3,654,000)</u>	<u>(148,000)</u>	<u>(699,000)</u>	<u>53,000</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, 2022 and 2021

	<u>2022</u>		<u>Restated 2021</u>	
	<u>Authority</u>	<u>Foundation</u>	<u>Authority</u>	<u>Foundation</u>
Nonoperating revenues				
(expenses):				
County contributions	\$ 1,000,000	\$ -	\$ 1,000,000	\$ -
Rural hospital tax credit				
contributions	1,067,000	-	767,000	-
CARES Act funding	-	-	3,061,000	-
PPP loan and interest forgiven				
by SBA	-	-	1,533,000	-
Other noncapital contributions	10,000	-	10,000	-
Investment income	20,000	-	56,000	-
Interest expense	(845,000)	-	(895,000)	-
 Total nonoperating				
revenues (expenses)	<u>1,252,000</u>	<u>-</u>	<u>5,532,000</u>	<u>-</u>
 Excess revenues				
(expenses)	(2,402,000)	(148,000)	4,833,000	53,000
 Capital contributions and				
restricted income:				
Contribution from Foundation				
for capital acquisition	200,000	-	-	-
Income (loss) on investments				
restricted by contributors	(23,000)	-	36,000	-
 Change in net position	(2,225,000)	(148,000)	4,869,000	53,000
 Net position, beginning of year	<u>13,043,000</u>	<u>176,000</u>	<u>8,174,000</u>	<u>123,000</u>
 Net position, end of year	\$ <u>10,818,000</u>	\$ <u>28,000</u>	\$ <u>13,043,000</u>	\$ <u>176,000</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, 2022 and 2021

	<u>2022</u>	Restated <u>2021</u>
<u>Authority</u>		
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 24,783,000	\$ 21,969,000
Payments to suppliers and contractors	(14,685,000)	(11,078,000)
Payments to employees	(12,549,000)	(10,645,000)
Outreach lab receipts	531,000	2,343,000
Other receipts	<u>479,000</u>	<u>434,000</u>
Net cash provided (used) by operating activities	(<u>1,441,000</u>)	<u>3,023,000</u>
Cash flows from noncapital financing activities:		
County contributions	1,000,000	1,000,000
Rural hospital tax credit contributions	1,067,000	767,000
Repayment of CARES Act funding	(373,000)	-
Other noncapital contributions	<u>10,000</u>	<u>10,000</u>
Net cash provided by noncapital financing activities	<u>1,704,000</u>	<u>1,777,000</u>
Cash flows from capital and related financing activities:		
Contribution from Foundation for capital acquisition	200,000	-
Principal paid on long-term debt	(1,699,000)	(1,681,000)
Interest paid on long-term debt	(845,000)	(887,000)
Purchase of capital assets	<u>(1,644,000)</u>	<u>(2,015,000)</u>
Net cash used by capital and related financing activities	(<u>3,988,000</u>)	(<u>4,583,000</u>)
Cash flows from investing activities:		
Investment income (loss)	(3,000)	92,000
Sale of investments	<u>23,000</u>	<u>161,000</u>
Net cash provided by investing activities	<u>20,000</u>	<u>253,000</u>
Change in cash and cash equivalents	(3,705,000)	470,000
Cash and cash equivalents, beginning of year	<u>11,001,000</u>	<u>10,531,000</u>
Cash and cash equivalents, end of year	\$ <u>7,296,000</u>	\$ <u>11,001,000</u>

Continued

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

Statements of Cash Flows, Continued
Years Ended June 30, 2022 and 2021

	<u>2022</u>	Restated <u>2021</u>
<u>Authority, Continued</u>		
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash and cash equivalents	\$ 3,195,000	\$ 6,716,000
Noncurrent cash and cash equivalents:		
Held by trustee for debt service	528,000	342,000
Restricted by contributors	7,000	7,000
Other cash and investments	<u>3,566,000</u>	<u>3,936,000</u>
Total cash and cash equivalents	\$ <u>7,296,000</u>	\$ <u>11,001,000</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$(3,654,000)	\$(699,000)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation and amortization	3,479,000	3,019,000
Provision for bad debts	3,416,000	3,577,000
Changes in:		
Patient accounts receivable	(3,692,000)	(4,760,000)
Estimated third-party payor settlements	105,000	850,000
Supplies	(132,000)	(220,000)
Other current assets	32,000	(111,000)
Notes receivable	18,000	(27,000)
Accounts payable	(1,107,000)	1,178,000
Accrued expenses	<u>94,000</u>	<u>216,000</u>
Net cash provided (used) by operating activities	\$ <u>(1,441,000)</u>	\$ <u>3,023,000</u>
Noncash capital financing activities:		
Capital assets acquired through leases	\$ <u>1,000</u>	\$ <u>-</u>
Capital assets acquired through subscription-based information technology arrangements	\$ <u>114,000</u>	\$ <u>259,000</u>
Noncash noncapital financing activities:		
PPP loan and interest forgiven by SBA	\$ <u>-</u>	\$ <u>1,533,000</u>

See accompanying notes to financial statements.

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

Notes To Financial Statements
June 30, 2022 and 2021

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. As such, certain revenue recognition criteria and presentation features are different from Governmental Accounting Standards Board (GASB) standards. The Foundation's financial statement formats are modified to make them compatible with the Authority's financial statement format.

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.

Continued

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

Notes To Financial Statements, Continued
June 30, 2022 and 2021

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

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. Right-to-use lease assets are recorded at the present value of payments expected to be made during the lease term. All capital assets other than land are depreciated or amortized (in the case of 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 15 Years
Right-to-use lease assets	3 to 15 Years

Continued

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

Notes To Financial Statements, Continued
June 30, 2022 and 2021

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 2022 or 2021.

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

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.

Leases. The Authority is a lessee for noncancellable lease assets. The Authority recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in its financial statements. At the commencement of a lease, the Authority initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Continued

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

Notes To Financial Statements, Continued
June 30, 2022 and 2021

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

Leases, continued. Key estimates and judgments related to leases include how the Authority determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The Authority uses the implicit interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided or cannot be imputed, the Authority generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the Authority is reasonably certain to exercise.

The Authority monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with capital assets and lease liabilities are reported with long-term debt on the balance sheets.

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.

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.

Continued

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

Notes To Financial Statements, Continued
June 30, 2022 and 2021

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

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.

Recently adopted accounting pronouncement. On July 1, 2021, the Authority adopted Statement No. 87, *Leases* (GASB 87). GASB 87 establishes standards of accounting and financial reporting by lessees and lessors. GASB 87 will requires a lessee to recognize a lease liability and an intangible right-to-use lease asset at the commencement of the lease term, with certain exceptions, and will requires a lessor to recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions. The Authority retroactively implemented this statement effective July 1, 2020. The adoption of this statement resulted in an increase in lease obligations and related right-to-use assets of approximately \$2,550,000 as of July 1, 2020.

Continued

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

Notes To Financial Statements, Continued
June 30, 2022 and 2021

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, 2019. Revenue from the Medicare program accounted for approximately 54% and 56% of the Authority's net patient service revenue for the years ended June 30, 2022 and 2021, respectively.
- *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, 2018. Revenue from the Medicaid program accounted for approximately 12% and 10% of the Authority's net patient service revenue for the years ended June 30, 2022 and 2021, 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 \$19,000 and \$44,000 during 2022 and 2021, respectively.

Continued

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

Notes To Financial Statements, Continued
June 30, 2022 and 2021

2. Net Patient Service Revenue, Continued

- *Medicaid, continued.* 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 \$746,000 and \$933,000 during 2022 and 2021, 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.

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.

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

Notes To Financial Statements, Continued
June 30, 2022 and 2021

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 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Gross patient charges	\$ <u>44,886,000</u>	\$ <u>37,304,000</u>
Uncompensated services:		
Medicare	2,843,000	2,392,000
Medicaid	3,689,000	2,597,000
Blue Cross	2,981,000	2,024,000
Other insurance	4,740,000	4,179,000
Uninsured discount	2,472,000	553,000
Charity/indigent	556,000	657,000
Bad debts	3,416,000	3,577,000
ICTF and UPL	(<u>765,000</u>)	(<u>977,000</u>)
Total uncompensated care	<u>19,932,000</u>	<u>15,002,000</u>
Net patient service revenue	\$ <u>24,954,000</u>	\$ <u>22,302,000</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, 2022 and 2021, 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, 2022 and 2021

4. Deposits and Investments, Continued

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

	<u>2022</u>	<u>2021</u>
Deposits	\$ 7,292,000	\$ 10,997,000
Investments	<u>183,000</u>	<u>206,000</u>
Total	\$ <u>7,475,000</u>	\$ <u>11,203,000</u>

Included in the following balance sheet captions:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 3,195,000	\$ 6,716,000
Held by trustee for debt service	528,000	342,000
Restricted by contributors	186,000	209,000
Other cash and investments	<u>3,566,000</u>	<u>3,936,000</u>
Total	\$ <u>7,475,000</u>	\$ <u>11,203,000</u>

The Authority's investments were comprised of the following at June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Restricted by contributors:		
Money market fund	\$ 7,000	\$ 7,000
Equity exchange-traded funds	74,000	70,000
Equity mutual funds	33,000	52,000
Bond mutual funds	<u>69,000</u>	<u>77,000</u>
Total	\$ <u>183,000</u>	\$ <u>206,000</u>

The fair value of the investments restricted by contributors are measured using Level 1 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, 2022 and 2021

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 16 days and 28 days at June 30, 2022 and 2021, 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, 2022 and 2021 consisted of these amounts:

	<u>2022</u>	<u>Restated 2021</u>
Patient accounts receivable:		
Receivable from patients and their insurance carriers	\$ 4,782,000	\$ 3,821,000
Receivable from Medicare	2,118,000	1,985,000
Receivable from Medicaid	<u>228,000</u>	<u>115,000</u>
Total patient accounts receivable	7,128,000	5,921,000
Less allowance for uncollectible amounts	<u>3,805,000</u>	<u>2,874,000</u>
Patient accounts receivable, net	\$ <u>3,323,000</u>	\$ <u>3,047,000</u>
Accounts payable and accrued expenses:		
Payable to employees (including payroll taxes)	\$ 940,000	\$ 846,000
Payable to suppliers	<u>1,426,000</u>	<u>2,533,000</u>
Total accounts payable and accrued expenses	\$ <u>2,366,000</u>	\$ <u>3,379,000</u>

Continued

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

Notes To Financial Statements, Continued
June 30, 2022 and 2021

6. Capital Assets

A schedule of changes in the Authority's capital assets for 2022 and 2021 follows:

	Restated Balance <u>June 30, 2021</u>	<u>Additions</u>	Retirements/ <u>Transfers</u>	Balance <u>June 30, 2022</u>
Land	\$ 1,955,000	\$ -	\$ -	\$ 1,955,000
Construction-in-progress/deposit	183,000	293,000	(166,000)	310,000
Buildings	32,693,000	793,000	-	33,486,000
Equipment	8,329,000	528,000	166,000	9,023,000
Leased equipment	2,921,000	1,000	(162,000)	2,760,000
Subscription-based IT	<u>1,298,000</u>	<u>144,000</u>	<u>-</u>	<u>1,442,000</u>
 Total capital assets at historical cost	 <u>47,379,000</u>	 <u>1,759,000</u>	 <u>(162,000)</u>	 <u>48,976,000</u>
Less accumulated depreciation for:				
Buildings	(5,650,000)	(1,650,000)	-	(7,300,000)
Equipment	(3,636,000)	(1,008,000)	-	(4,644,000)
Leased equipment	(455,000)	(559,000)	162,000	(852,000)
Subscription-based IT	<u>(177,000)</u>	<u>(262,000)</u>	<u>-</u>	<u>(439,000)</u>
 Total accumulated depreciation	 <u>(9,918,000)</u>	 <u>(3,479,000)</u>	 <u>162,000</u>	 <u>(13,235,000)</u>
 Capital assets, net	 <u>\$ 37,461,000</u>	 <u>\$(1,720,000)</u>	 <u>\$ -</u>	 <u>\$ 35,741,000</u>

Continued

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

Notes To Financial Statements, Continued
June 30, 2022 and 2021

6. Capital Assets, Continued

	Restated Balance <u>June 30, 2020</u>	<u>Additions</u>	Retirements/ <u>Transfers</u>	Restated Balance <u>June 30, 2021</u>
Land	\$ 1,955,000	\$ -	\$ -	\$ 1,955,000
Deposit	-	183,000	-	183,000
Buildings	32,658,000	35,000	-	32,693,000
Equipment	6,808,000	1,521,000	-	8,329,000
Leased equipment	2,921,000	-	-	2,921,000
Subscription-based IT	<u>763,000</u>	<u>535,000</u>	<u>-</u>	<u>1,298,000</u>
 Total capital assets at historical cost	 <u>45,105,000</u>	 <u>2,274,000</u>	 <u>-</u>	 <u>47,379,000</u>
Less accumulated depreciation for:				
Buildings	(4,011,000)	(1,639,000)	-	(5,650,000)
Equipment	(2,888,000)	(748,000)	-	(3,636,000)
Leased equipment	-	(455,000)	-	(455,000)
Subscription-based IT	<u>-</u>	<u>(177,000)</u>	<u>-</u>	<u>(177,000)</u>
 Total accumulated depreciation	 <u>(6,899,000)</u>	 <u>(3,019,000)</u>	 <u>-</u>	 <u>(9,918,000)</u>
 Capital assets, net	 <u>\$ 38,206,000</u>	 <u>\$ (745,000)</u>	 <u>\$ -</u>	 <u>\$ 37,461,000</u>

Construction-in-progress consists of architect and other fees related to planning a facility expansion. No construction contracts have been executed.

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 \$17,000 and \$15,000 in 2022 and 2021, respectively.

Continued

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

Notes To Financial Statements, Continued
June 30, 2022 and 2021

8. Long-Term Debt

A schedule of changes in the Authority's long-term debt for 2022 and 2021 follows:

	<u>Restated Balance June 30, 2021</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2022</u>	<u>Amounts Due Within One Year</u>
USDA Loan	\$ 33,075,000	\$ -	\$(1,087,000)	\$ 31,988,000	\$ 1,113,000
Leases	2,448,000	1,000	(457,000)	1,992,000	430,000
Subscription-based IT	<u>576,000</u>	<u>114,000</u>	<u>(155,000)</u>	<u>535,000</u>	<u>183,000</u>
Total	<u>\$ 36,099,000</u>	<u>\$ 115,000</u>	<u>\$(1,699,000)</u>	<u>\$ 34,515,000</u>	<u>\$ 1,726,000</u>

	<u>Restated Balance June 30, 2020</u>	<u>Additions</u>	<u>Reductions</u>	<u>Restated Balance June 30, 2021</u>	<u>Amounts Due Within One Year</u>
USDA Loan	\$ 34,136,000	\$ -	\$(1,061,000)	\$ 33,075,000	\$ 1,087,000
PPP Loan	1,525,000	-	(1,525,000)	-	-
Leases	2,921,000	-	(473,000)	2,448,000	456,000
Subscription-based IT	<u>464,000</u>	<u>259,000</u>	<u>(147,000)</u>	<u>576,000</u>	<u>155,000</u>
Total	<u>\$ 39,046,000</u>	<u>\$ 259,000</u>	<u>\$(3,206,000)</u>	<u>\$ 36,099,000</u>	<u>\$ 1,698,000</u>

The terms and due dates of the Authority's long-term debt, including lease obligations and subscription-based information technology arrangements, at June 30, 2022 and 2021, follow:

- *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.
- *Leases* - Leases of equipment, terms vary by lease, each lease provides for a monthly lease payment. None of the leases contain provisions for variable payments or residual value guarantees. Additionally, there are no other payments such as residual value guarantees or termination penalties, not previously included in the measurement of the lease liability reflected as outflows of resources.

Continued

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

Notes To Financial Statements, Continued
June 30, 2022 and 2021

8. Long-Term Debt, Continued

- *Subscription-Based Information Technology Arrangements* - Imputed interest at 0%, secured by subscription assets. 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 1, 2019, the Authority obtained loans totaling \$35,000,000 through the United States Department of Agriculture's Community Facilities Direct Loan Program (USDA Loan). Proceeds from the USDA Loan were used to pay off the 2017 Bonds, which were used to finance the construction and equipping of a replacement facility. Under the terms of the USDA Loan, the Authority must maintain a debt service coverage ratio of not less than 1.10 and is required to maintain certain deposits with a trustee. Such deposits are included in the balance sheet as held by trustee. The Authority did not meet the debt service coverage ratio for 2022. Due to the Authority not meeting the required ratio, the Authority will be required to provide the USDA with quarterly financial reports and a fiscal strategy report which documents how the debt service requirement will be achieved.

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 and applied for forgiveness. The Authority accounts for the PPP loan as debt and recognizes any forgiveness at the time the Authority is legally released from the debt. On November 2, 2020, the Authority received notice from the Small Business Administration that the loan and interest had been forgiven. PPP loan and interest forgiveness is recognized as nonoperating revenue in the statements of revenues, expenses and changes in net position.

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

Notes To Financial Statements, Continued
June 30, 2022 and 2021

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>Leases</u>		<u>Subscription- Based IT</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>
2023	\$ 1,113,000	\$ 748,000	\$ 430,000	\$ 58,000	\$ 183,000
2024	1,138,000	723,000	288,000	47,000	177,000
2025	1,167,000	694,000	293,000	37,000	61,000
2026	1,195,000	666,000	278,000	28,000	61,000
2027	1,224,000	637,000	269,000	19,000	25,000
2028-2032	6,570,000	2,733,000	434,000	12,000	28,000
2033-2037	7,400,000	1,903,000	-	-	-
2038-2042	8,331,000	971,000	-	-	-
2043-2045	<u>3,850,000</u>	<u>100,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	\$ <u>31,988,000</u>	\$ <u>9,175,000</u>	\$ <u>1,992,000</u>	\$ <u>201,000</u>	\$ <u>535,000</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 \$2,605,000 and \$1,752,000 during 2022 and 2021, respectively. Estimated accruals for claims incurred, but not reported of \$160,000 and \$197,000 at June 30, 2022 and 2021, respectively, have been recorded.

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 2022 and 2021 were \$398,000 and \$271,000, respectively. No Authority contributions are made to the 457(b) Plan.

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

Notes To Financial Statements, Continued
June 30, 2022 and 2021

10. Retirement Plans, Continued

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) Plan 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 3% of the employee's annual compensation. The Authority's matching contributions during 2022 and 2021 were \$162,000 and \$89,000, respectively. No employee contributions are made to the 401(a) Plan. The Authority had no liability outstanding related to the 401(a) Plan at June 30, 2022 or 2021.

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 2022 or 2021.

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 2022 and 2021.

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 2022. Contributions received under the program approximated \$1,067,000 and \$767,000 during the Authority's fiscal years 2022 and 2021, respectively. The Authority will have to be approved by the State to participate in the program in calendar years 2023 and 2024.

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

Notes To Financial Statements, Continued
June 30, 2022 and 2021

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, 2022 and 2021, was as follows:

	<u>2022</u>	<u>2021</u>
Medicare	57%	55%
Medicaid	6%	4%
Blue Cross	7%	9%
Other third-party payors	22%	25%
Patients	<u>8%</u>	<u>7%</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, 2022 and 2021

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, exchange traded 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:* 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 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 \$3,490,000 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, 2022 and 2021

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.

In September 2021, the Authority reported to HHS on its use of phase1 Provider Relief Funds and returned approximately \$373,000 of unused phase 1 funds to HHS.

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 and extended to March 31, 2022 with subsequent legislation. Beginning April 1, 2022, the suspension is phased out through June 30, 2022.

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 (Authority) as of and for the year ended June 30, 2022, 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, 2022.

Report on 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) as a basis for designing 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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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. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2022-01, 2022-002, and 2022-003 to be material weaknesses.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2022-004 to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

Morgan County Hospital Authority's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Authority's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. The Authority's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 19, 2022

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

Schedule of Findings and Responses
June 30, 2022

Material Weakness (2022-001)

2022-001 Implementation of GASB 87, Leases

Condition:	New accounting standard GASB 87, <i>Leases</i> , was not implemented on its effective date of July 1, 2021. The recording of lease right-of use assets and lease liabilities was done after year-end through audit adjustments.
Criteria:	The GASB issues new accounting standards updates periodically. Management should implement any new standard on its effective date.
Cause:	A review of lease contracts and the implementation of the new standard did not occur until after year-end.
Effect:	Interim (monthly/quarterly) financial statements did not reflect lease right-of-use assets and lease liabilities as required by the new accounting standard.
Recommendation:	Management should track the implementation date of all new accounting standards to ensure the new standards are implemented timely.
Views of Responsible Officials and Planned Corrective Actions:	The Authority has engaged consultants to provide guidance on GASB 87, <i>Leases</i> . Authority employees will be trained on the lease software, LeaseCrunch, in January 2023 and will produce a monthly journal entry and reconciliation going forward.

Continued

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

Schedule of Findings and Responses, Continued
June 30, 2022

Material Weakness (2022-002)

2022-002 Cash Reconciliation

Condition:	The money market cash account was not reconciled.
Criteria:	Internal controls should be in place to properly account for all cash transactions and balances.
Cause:	Monthly reconciliations that reconcile from the bank balance to the general ledger balance were not performed.
Effect:	Cash may be misappropriated and not discovered if timely and accurate cash reconciliations are not performed.
Recommendation:	Timely preparation of complete and accurate bank reconciliations is key to maintaining adequate control over both cash receipts and disbursements. We recommend that the money market account be reconciled each month prior to preparation of the monthly financial statements. Unreconciled amounts should be investigated and not allowed to carry over from month to month.
Views of Responsible Officials and Planned Corrective Actions:	The Authority has engaged consultants to provide guidance on reconciliation of the Money Market Cash Account. Authority employee will post deposits and track via a Daily Cash Posting Summary. Accounting will use the Reconcile Bank Statement function in Microsoft Dynamics GP to reconcile the Money Market Cash Account each month. Any necessary journal entries will be made and workpapers and support will be maintained in the appropriate Month End Close folder.

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

Schedule of Findings and Responses, Continued
June 30, 2022

Material Weakness (2022-003)

2022-003 Accrued Purchases Reconciliation

Condition:	The accrued purchases accounts payable account was not reconciled and a detail was not maintained.
Criteria:	Internal controls should be in place to maintain subsidiary ledger/detail and reconcile the subsidiary ledger/detail to the general ledger.
Cause:	Monthly reconciliations that reconcile from the subsidiary ledger/detail to the general ledger were not performed.
Effect:	Payables and expenses may be misstated if timely reconciliations are not performed.
Recommendation:	The accrued purchases accounts payable account should be reconciled monthly so that any errors can be identified and corrected timely.
Views of Responsible Officials and Planned Corrective Actions:	The Materials Management Manager and Accounts Payable Accountant will review the Received Not Invoiced Report each month and reconcile to the general ledger.

Continued

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

Schedule of Findings and Responses, Continued
June 30, 2022

Significant Deficiency (2022-004)

2022-004 Inventory Adjustment to Year-End Count

Condition:	Inventory was not adjusted to the year-end inventory count.
Criteria:	Internal controls should be in place to ensure that inventory balances are adjusted timely.
Cause:	Inventory balances were not updated in a timely manner.
Effect:	Inventory and supplies expense were misstated.
Recommendation:	The Authority should obtain inventory details in a timely manner and adjust the general ledger to the details.
Views of Responsible Officials and Planned Corrective Actions:	The Authority will engage a vendor to perform a physical inventory count as close to year end as possible. Once the physical inventory report is received corrections will be made and inventory will be adjusted as part of the June month end close.