

HOSPITAL AUTHORITY OF BEN HILL COUNTY
D/B/A DORMINY MEDICAL CENTER
(A Component Unit of Ben Hill County, Georgia)

FINANCIAL STATEMENTS

for the years ended July 31, 2020 and 2019



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Hospital Authority of Ben Hill County,
D/B/A Dorminy Medical Center
Fitzgerald, Georgia

We have audited the accompanying financial statements of the Hospital Authority of Ben Hill County, D/B/A Dorminy Medical Center (Authority), which comprise the balance sheets as of July 31, 2020 and 2019, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Continued

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects the financial position of the Hospital Authority of Ben Hill County, D/B/A Dorminy Medical Center as of July 31, 2020 and 2019, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Substantial Doubt about the Authority's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Authority will continue as a going concern. As discussed in Note 17 to the financial statements, the Authority has suffered recurring operating losses and has a net position deficiency (total liabilities exceed total assets). These issues raise substantial doubt about the Authority's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 17. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that 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.

DRAFTIN + Tucker, LLP

Albany, Georgia
May 24, 2021

HOSPITAL AUTHORITY OF BEN HILL COUNTY
D/B/A DORMINY MEDICAL CENTER
(A Component Unit of Ben Hill County, Georgia)

BALANCE SHEETS
July 31, 2020 and 2019

| | <u>2020</u> | <u>2019</u> |
|--|----------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 13,900,000 | \$ 454,000 |
| Short-term investments | 75,000 | 75,000 |
| Patient accounts receivable, net of estimated uncollectibles of \$11,303,000 in 2020 and \$13,571,000 in 2019 | 3,334,000 | 3,265,000 |
| Other receivables | 313,000 | 275,000 |
| Estimated third-party settlements | 385,000 | - |
| Supplies, at lower of cost (first-in, first-out) or market | 323,000 | 352,000 |
| Other current assets | <u>376,000</u> | <u>310,000</u> |
| Total current assets | <u>18,706,000</u> | <u>4,731,000</u> |
| Noncurrent cash and investments: | | |
| Restricted by bond indenture for debt service | 39,000 | 13,000 |
| Restricted by donor for indigent care | 37,000 | 37,000 |
| Restricted by donor for hospice care | 95,000 | 94,000 |
| Designated by board | <u>300,000</u> | <u>-</u> |
| Total noncurrent cash and investments | <u>471,000</u> | <u>144,000</u> |
| Capital assets: | | |
| Land | 85,000 | 85,000 |
| Construction-in-progress | 142,000 | 76,000 |
| Depreciable capital assets, net of accumulated depreciation | <u>6,879,000</u> | <u>8,005,000</u> |
| Total capital assets, net of accumulated depreciation | <u>7,106,000</u> | <u>8,166,000</u> |
| Other assets: | | |
| Other assets | <u>24,000</u> | <u>24,000</u> |
| Total assets | <u>\$ 26,307,000</u> | <u>\$ 13,065,000</u> |

| | <u>2020</u> | <u>2019</u> |
|--|----------------------|----------------------|
| LIABILITIES AND NET POSITION | | |
| Current liabilities: | | |
| Current installments of long-term debt | \$ 678,000 | \$ 679,000 |
| Current portion of capital lease obligation | 84,000 | 82,000 |
| Accounts payable | 2,234,000 | 2,497,000 |
| Accrued expenses | 1,658,000 | 1,421,000 |
| CARES Act unearned revenue | 11,615,000 | - |
| Estimated third-party settlements | 473,000 | 567,000 |
| Current portion of Medicare advance payments | <u>391,000</u> | <u>-</u> |
| Total current liabilities | <u>17,133,000</u> | <u>5,246,000</u> |
| Noncurrent liabilities: | | |
| Physician note payable, excluding current portion | 95,000 | - |
| Medicare advance payments, excluding current portion | 1,954,000 | - |
| Due to Phoebe Putney Health System, Inc. | <u>22,493,000</u> | <u>22,493,000</u> |
| Total noncurrent liabilities | <u>24,542,000</u> | <u>22,493,000</u> |
| Long-term debt: | | |
| Long-term debt, excluding current installments | 10,038,000 | 8,690,000 |
| Capital lease obligations, excluding current portion | <u>152,000</u> | <u>221,000</u> |
| Total long-term debt | <u>10,190,000</u> | <u>8,911,000</u> |
| Total liabilities | <u>51,865,000</u> | <u>36,650,000</u> |
| Net position: | | |
| Net investment in capital assets | (2,312,000) | (1,909,000) |
| Restricted: | | |
| Expendable for debt service | 39,000 | 13,000 |
| Expendable for indigent care | 37,000 | 37,000 |
| Expendable for hospice care | 95,000 | 94,000 |
| Unrestricted | <u>(23,417,000)</u> | <u>(21,820,000)</u> |
| Total net position | <u>(25,558,000)</u> | <u>(23,585,000)</u> |
| Total liabilities and net position | <u>\$ 26,307,000</u> | <u>\$ 13,065,000</u> |

The accompanying notes are an integral part of these financial statements.

HOSPITAL AUTHORITY OF BEN HILL COUNTY
D/B/A DORMINY MEDICAL CENTER
(A Component Unit of Ben Hill County, Georgia)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
for the years ended July 31, 2020 and 2019

| | <u>2020</u> | <u>2019</u> |
|--|------------------------|------------------------|
| Operating revenues: | | |
| Net patient service revenue (net of provision for bad debts of \$8,865,000 in 2020 and \$9,263,000 in 2019) | \$ 20,669,000 | \$ 25,237,000 |
| Other revenue | <u>856,000</u> | <u>1,151,000</u> |
| Total operating revenues | <u>21,525,000</u> | <u>26,388,000</u> |
| Operating expenses: | | |
| Salaries and wages | 11,543,000 | 11,771,000 |
| Employee health and welfare | 2,108,000 | 2,128,000 |
| Medical supplies and other | 5,229,000 | 6,035,000 |
| Professional fees | 2,022,000 | 1,596,000 |
| Purchased services | 4,016,000 | 5,105,000 |
| Depreciation and amortization | <u>1,161,000</u> | <u>1,162,000</u> |
| Total operating expenses | <u>26,079,000</u> | <u>27,797,000</u> |
| Operating loss | <u>(4,554,000)</u> | <u>(1,409,000)</u> |
| Nonoperating revenues (expenses): | | |
| Interest expense | (385,000) | (461,000) |
| Rural hospital tax credit contributions | 2,745,000 | 1,058,000 |
| Noncapital contributions | 70,000 | - |
| Investment income | 14,000 | 13,000 |
| Gain on disposal of fixed assets | <u>29,000</u> | <u>7,000</u> |
| Total nonoperating revenues | <u>2,473,000</u> | <u>617,000</u> |
| Excess expenses before capital grants and contributions | (2,081,000) | (792,000) |
| Capital grants and contributions | <u>108,000</u> | <u>108,000</u> |
| Decrease in net position | (1,973,000) | (684,000) |
| Net position, beginning of year | <u>(23,585,000)</u> | <u>(22,901,000)</u> |
| Net position, end of year | <u>\$ (25,558,000)</u> | <u>\$ (23,585,000)</u> |

The accompanying notes are an integral part of these financial statements.

HOSPITAL AUTHORITY OF BEN HILL COUNTY
D/B/A DORMINY MEDICAL CENTER
(A Component Unit of Ben Hill County, Georgia)

STATEMENTS OF CASH FLOWS
for the years ended July 31, 2020 and 2019

| | <u>2020</u> | <u>2019</u> |
|---|----------------------|--------------------|
| Cash flows from operating activities: | | |
| Receipts from patients and payors | \$ 20,939,000 | \$ 26,719,000 |
| Receipts from Medicare advanced payments | 2,345,000 | - |
| Payments to vendors and other suppliers | (11,588,000) | (12,805,000) |
| Payments to employees | (13,319,000) | (13,781,000) |
| Net cash provided (used) by operating activities | <u>(1,623,000)</u> | <u>133,000</u> |
| Cash flows from noncapital financing activities: | | |
| Rural hospital tax credit contributions | 2,745,000 | 1,058,000 |
| CARES Act Funding | 11,615,000 | - |
| Proceeds from issuance of long-term debt | 1,938,000 | - |
| Noncapital contributions | 70,000 | - |
| Net cash provided by noncapital financing activities | <u>16,368,000</u> | <u>1,058,000</u> |
| Cash flows from capital and related financing activities: | | |
| Interest paid on long-term debt | (385,000) | (464,000) |
| Purchase of property and equipment | (54,000) | (435,000) |
| Principal paid on long-term debt | (588,000) | (606,000) |
| Payments on capital lease | (67,000) | (72,000) |
| Capital contributions | 108,000 | 108,000 |
| Net cash used by capital and related financing activities | <u>(986,000)</u> | <u>(1,469,000)</u> |
| Cash flows from investing activities: | | |
| Interest earned on investments | 14,000 | 13,000 |
| Purchase of investments | - | (75,000) |
| Net cash provided (used) by investing activities | <u>14,000</u> | <u>(62,000)</u> |
| Net increase (decrease) in cash and cash equivalents | 13,773,000 | (340,000) |
| Cash and cash equivalents, beginning of year | <u>598,000</u> | <u>938,000</u> |
| Cash and cash equivalents, end of year | <u>\$ 14,371,000</u> | <u>\$ 598,000</u> |

Continued

HOSPITAL AUTHORITY OF BEN HILL COUNTY
D/B/A DORMINY MEDICAL CENTER
(A Component Unit of Ben Hill County, Georgia)

STATEMENTS OF CASH FLOWS, Continued
for the years ended July 31, 2020 and 2019

| | <u>2020</u> | <u>2019</u> |
|--|-----------------------|-------------------|
| Reconciliation of cash and cash equivalents to the balance sheets: | | |
| Cash and cash equivalents in current assets | \$ 13,900,000 | \$ 454,000 |
| Restricted by bond indenture for debt service | 39,000 | 13,000 |
| Restricted by donor for indigent care | 37,000 | 37,000 |
| Restricted by donor for hospice care | 95,000 | 94,000 |
| Designated by board | <u>300,000</u> | <u>-</u> |
| Total cash and cash equivalents | <u>\$ 14,371,000</u> | <u>\$ 598,000</u> |
| Reconciliation of operating loss to net cash flows from operating activities: | | |
| Operating loss | \$ (4,554,000) | \$ (1,409,000) |
| Adjustments to reconcile operating loss to net cash provided (used) by operating activities: | | |
| Gain on disposal of fixed assets | (29,000) | - |
| Depreciation and amortization | 1,161,000 | 1,162,000 |
| Provision for bad debts | 8,865,000 | 9,263,000 |
| Changes in: | | |
| Receivables | (8,934,000) | (8,865,000) |
| Supplies | 29,000 | (7,000) |
| Amounts due from third-party payors | (479,000) | (268,000) |
| Other current and noncurrent assets | (104,000) | 157,000 |
| Medicare advance payments | 2,345,000 | - |
| Accounts payable | (255,000) | (18,000) |
| Accrued expenses | <u>332,000</u> | <u>118,000</u> |
| Net cash provided (used) by operating activities | <u>\$ (1,623,000)</u> | <u>\$ 133,000</u> |

Noncash investing, capital and financing activities:

- Purchases of capital assets in accounts payable as of July 31, 2020 and 2019 were \$14,000 and \$6,000, respectively.

The accompanying notes are an integral part of these financial statements.

HOSPITAL AUTHORITY OF BEN HILL COUNTY
D/B/A DORMINY MEDICAL CENTER
(A Component Unit of Ben Hill County, Georgia)

NOTES TO FINANCIAL STATEMENTS
July 31, 2020 and 2019

1. Summary of Significant Accounting Policies

Reporting Entity

The accompanying financial statements include the operations of the Hospital Authority of Ben Hill County (Authority). The Authority owns and operates Dorminy Medical Center, an acute care hospital as well as the DMC Physician Group, LLC (Group), a wholly-owned subsidiary of the Authority. All significant intercompany accounts and transactions have been eliminated.

The County Commissioners nominate persons from whom the Board selects its members and the County guarantees debt of the Authority related to the Series 2007 Revenue Certificates. For these reasons, the Authority is considered to be a component unit of Ben Hill County, Georgia.

Use of Estimates

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

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 money market funds.

The Authority routinely invests its surplus operating funds in money market mutual funds. These funds generally invest in highly liquid U.S. government and agency obligations.

Continued

HOSPITAL AUTHORITY OF BEN HILL COUNTY
D/B/A DORMINY MEDICAL CENTER
(A Component Unit of Ben Hill County, Georgia)

NOTES TO FINANCIAL STATEMENTS

July 31, 2020 and 2019

1. Summary of Significant Accounting Policies, Continued

Allowance for Doubtful Accounts

The Authority provides an allowance for doubtful accounts based on an evaluation of the overall collectability 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 restricted by bond indenture for debt service, and assets restricted by donors for indigent care and hospice care. Assets have also been internally designated by the Board for the payment of legal fees related to the ongoing litigation with Phoebe Putney Health System, Inc., over which the Board retains control and may at its discretion subsequently use for other purposes.

Investments in Debt and Equity Securities

Investments in debt and equity securities are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating revenue when earned.

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. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. The estimated useful life is assigned using AHA Useful Lives Guidelines listed below. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements.

| | |
|----------------------------|----------------|
| Land improvements | 15 to 20 Years |
| Buildings and improvements | 20 to 40 Years |
| Equipment | 3 to 7 Years |

Financing Cost

Costs incurred in connection with the issuance of long-term debt are expensed in the period in which they are incurred.

Continued

HOSPITAL AUTHORITY OF BEN HILL COUNTY
D/B/A DORMINY MEDICAL CENTER
(A Component Unit of Ben Hill County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

1. Summary of Significant Accounting Policies, Continued

Compensated Absences

Employees earn vacation days at varying rates depending on years of service. Vacation time not used at fiscal year-end can be carried over to the next year up to a maximum of 360 hours. Employees who are terminated can be paid for vacation hours not used pending certain criteria. Physicians employed by the Group are advanced the maximum annual hours allowed at the start of each contract year. These hours are varied by physician and are lost if not used.

The estimated amount of vacation payable is reported as an accrued expense in both 2020 and 2019.

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 18 for additional information.

Net Position

Net position of the Authority is classified into three components. *Net investment in capital assets* consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net position* is noncapital assets reduced by liabilities related to those assets that must be used for a particular purpose, as specified by grantors or contributors external to the Authority, including amounts deposited with trustees as required by revenue bond indentures, discussed in Note 7. *Unrestricted net position* is the remaining net amount of assets and liabilities that does not meet the definition of *net investment in capital assets* or *restricted net position*.

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

HOSPITAL AUTHORITY OF BEN HILL COUNTY
D/B/A DORMINY MEDICAL CENTER
(A Component Unit of Ben Hill County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

1. Summary of Significant Accounting Policies, Continued

Charity Care

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

Operating Revenues and Expenses

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

Grants and Contributions

From time to time, the Authority receives grants from Ben Hill County and the State of Georgia as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses. See Note 18 for additional information regarding CARES Act funding.

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.

Income Taxes

The Authority is a governmental entity and is exempt from income taxes. Accordingly, no provision for income taxes has been considered in the accompanying financial statements.

Continued

HOSPITAL AUTHORITY OF BEN HILL COUNTY
D/B/A DORMINY MEDICAL CENTER
(A Component Unit of Ben Hill County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

1. Summary of Significant Accounting Policies, Continued

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; 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. See Note 13 for additional information related to the Authority's general and professional coverage.

Estimated Insurance Costs

The provisions for estimated medical claims under the health insurance plan include estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Impairment of Long-Lived Assets

The Authority evaluates on an ongoing basis the recoverability of its assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The impairment loss to be recognized is the amount by which the carrying value of the long-lived asset exceeds the asset's fair value. In most instances, the fair value is determined by discounted estimated future cash flows using an appropriate interest rate. The Authority has not recorded any impairment charges in the accompanying statements of revenues, expenses and changes in net position for the years ended July 31, 2020 and 2019.

Fair Value Measurements

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

Continued

HOSPITAL AUTHORITY OF BEN HILL COUNTY
D/B/A DORMINY MEDICAL CENTER
(A Component Unit of Ben Hill County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

1. Summary of Significant Accounting Policies, Continued

Fair Value Measurements, Continued

GASB 72 describes the following three levels of inputs that may be used:

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

2. Net Patient Service Revenue

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

Revenue from the Medicare and Medicaid programs accounted for approximately 51% and 8%, respectively, of the Authority's net patient revenue for the year ended July 31, 2020, and 47% and 19%, respectively, of the Authority's net patient revenue for the year ended July 31, 2019. 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 will change by a material amount in the near term.

The Authority believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. There has been an increase in regulatory initiatives at the state and federal levels including the initiation of the Recovery Audit Contractor (RAC) program and the Medicaid Integrity Contractor (MIC) program. These programs were created to review Medicare and Medicaid claims for medical necessity and coding appropriateness. The RAC's have authority to pursue improper payments with a three year look back from the date the claim was paid. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medicaid programs.

Continued

HOSPITAL AUTHORITY OF BEN HILL COUNTY
D/B/A DORMINY MEDICAL CENTER
(A Component Unit of Ben Hill County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

2. Net Patient Service Revenue, Continued

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

- Medicare

Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

Inpatient psychiatric services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge.

The Authority is reimbursed for certain reimbursable items 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 classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Authority. The Authority's Medicare cost reports have been audited by the MAC through July 31, 2016.

- Medicaid

Inpatient acute care services rendered to Medicaid program beneficiaries are paid at a prospectively determined rate per admission. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Outpatient services rendered to Medicaid program beneficiaries are reimbursed under 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 July 31, 2017.

The Authority has also entered into contracts with certain managed care organizations to receive reimbursement for providing services to selected enrolled Medicaid beneficiaries. Payment arrangements with these managed care organizations consist primarily of prospectively determined rates per discharge, discounts from established charges, or prospectively determined per diems.

Continued

HOSPITAL AUTHORITY OF BEN HILL COUNTY
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(A Component Unit of Ben Hill County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

2. Net Patient Service Revenue, Continued

- Medicaid, Continued

The Authority participates in the Georgia Indigent Care Trust Fund (ICTF) Program. The Authority receives ICTF payments for treating a disproportionate number of Medicaid and other indigent patients. ICTF payments are based on the Authority's estimated uncompensated cost of services to Medicaid and uninsured patients. The amount of ICTF payments recognized in net patient service revenue was approximately \$497,000 and \$870,000 for the years ended July 31, 2020 and 2019, respectively.

The Medicare, Medicaid and SCHIP Benefits Improvement and Protection Act of 2000 (BIPA) provides for payment adjustments to certain facilities based on the Medicaid Upper Payment Limit (UPL). 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 \$235,000 and \$140,000 for the years ended July 31, 2020 and 2019, respectively.

During 2010, the state of Georgia enacted legislation known as the Provider Payment Agreement Act (Act) whereby hospitals in the state of Georgia are assessed a "provider payment" in the amount of 1.45% of their net patient revenue. The Act became effective July 1, 2010, the beginning of state fiscal year 2011. The provider payments are due on a quarterly basis to the Department of Community Health (DCH). The payments are to be used for the sole purpose of obtaining federal financial participation for medical assistance payments to providers on behalf of Medicaid recipients. The provider payment will result in an increase in hospital payments on Medicaid services of approximately 11.88%. Approximately \$272,000 and \$273,000 relating to the Act are included in medical supplies and other in the accompanying statement of revenues, expenses and changes in net position for the years ended July 31, 2020 and 2019, respectively.

- Other Arrangements

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

Continued

HOSPITAL AUTHORITY OF BEN HILL COUNTY
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(A Component Unit of Ben Hill County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

3. Uncompensated Services

The Authority was compensated for services at amounts less than its established rates. Charges for uncompensated services for 2020 and 2019 were approximately \$62,284,000 and \$79,541,000, respectively.

Uncompensated care includes charity and indigent care services of approximately \$2,890,000 and \$3,867,000 in 2020 and 2019, respectively. The cost of charity and indigent care services provided during 2020 and 2019 was approximately \$882,000 and \$1,000,000, respectively computed by applying a total cost factor to the charges forgone.

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 | \$ 82,953,000 | \$ 104,778,000 |
| Uncompensated services: | | |
| Charity and indigent care | 2,890,000 | 3,867,000 |
| Medicare | 25,450,000 | 30,563,000 |
| Medicaid | 10,850,000 | 11,250,000 |
| Other allowances | 14,229,000 | 24,598,000 |
| Bad debts | <u>8,865,000</u> | <u>9,263,000</u> |
| Total uncompensated care | <u>62,284,000</u> | <u>79,541,000</u> |
| Net patient service revenue, net of provisions for bad debts | <u>\$ 20,669,000</u> | <u>\$ 25,237,000</u> |

Continued

HOSPITAL AUTHORITY OF BEN HILL COUNTY
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(A Component Unit of Ben Hill County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

4. Bank Deposits and Investments

As discussed in Note 1, the Authority's investments are generally carried at fair value. The Authority's investments are measured using Level 1 inputs. Level 1 inputs are quoted prices in active markets for identical assets. Deposits and investments as of July 31, 2020 and 2019 are classified in the accompanying financial statements as follows:

| | <u>2020</u> | <u>2019</u> |
|--|--------------------------|-----------------------|
| Deposits and investments consist of the following: | | |
| Deposits with financial institutions | \$ 2,864,000 | \$ 36,000 |
| Certificates of deposit | 75,000 | 75,000 |
| Investments | <u>11,507,000</u> | <u>562,000</u> |
| Total | <u>\$ 14,446,000</u> | <u>\$ 673,000</u> |
| Balance sheets: | | |
| Cash and cash equivalents | \$ 13,900,000 | \$ 454,000 |
| Short-term investments | 75,000 | 75,000 |
| Noncurrent cash and investments: | | |
| Restricted by bond indenture for debt service | 39,000 | 13,000 |
| Restricted by donor for indigent care | 37,000 | 37,000 |
| Restricted by donor for hospice care | 95,000 | 94,000 |
| Designated by Board | <u>300,000</u> | <u>-</u> |
| Total | <u>\$ 14,446,000</u> | <u>\$ 673,000</u> |

At July 31, 2020 and 2019, the Authority had \$11,507,000 and \$562,000 of cash and cash equivalents, all of which were held in the Authority's name by a brokerage firm that is an agent of the Authority.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Authority will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Authority's bylaws require that all bank balances be insured or collateralized by U.S. Government securities held by the pledging financial institution's trust department in the name of the Authority. The Authority's bank deposits at July 31, 2020 and 2019 are entirely insured or collateralized with securities held by the pledging financial institution's designated trustee in the Authority's name.

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HOSPITAL AUTHORITY OF BEN HILL COUNTY
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(A Component Unit of Ben Hill County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

4. Bank Deposits and Investments, Continued

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Authority does not have an investment policy for custodial credit risk. At July 31, 2020 and 2019, the Authority owned \$11,507,000 and \$562,000, respectively, in cash and cash equivalents that were uninsured and held by the Authority's brokerage firm in the Authority's name. However, cash and securities held in the Authority's brokerage account are protected by insurance coverage in the amount of \$500,000, which includes a \$250,000 limit for cash, through the Securities Investor Protection Corporation (SIPC).

The Authority's short-term investments as of July 31, 2020 consists of a 12 month certificate of deposit of \$75,000 with a maturity date of May 3, 2021.

5. Accounts Receivable and Payable

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Authority consisted of the following amounts at July 31, 2020 and 2019:

| | <u>2020</u> | <u>2019</u> |
|---|---------------------|---------------------|
| Patient accounts receivable: | | |
| Receivable from patients and their insurance carriers | \$ 11,127,000 | \$ 12,147,000 |
| Receivable from Medicare | 2,968,000 | 3,683,000 |
| Receivable from Medicaid | <u>542,000</u> | <u>1,006,000</u> |
| Total patient accounts receivable | 14,637,000 | 16,836,000 |
| Less allowance for uncollectible amounts and contractual allowances | <u>11,303,000</u> | <u>13,571,000</u> |
| Patient accounts receivable, net | <u>\$ 3,334,000</u> | <u>\$ 3,265,000</u> |
| Accounts payable and accrued expenses: | | |
| Payable to employees (including payroll taxes) | \$ 975,000 | \$ 877,000 |
| Payable to suppliers | 2,366,000 | 2,497,000 |
| Other | <u>551,000</u> | <u>544,000</u> |
| Total accounts payable and accrued expenses | <u>\$ 3,892,000</u> | <u>\$ 3,918,000</u> |

Continued

HOSPITAL AUTHORITY OF BEN HILL COUNTY
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(A Component Unit of Ben Hill County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

6. Capital Assets

A summary of capital assets at July 31, 2020 and 2019 follows:

| | <u>2019 Balance</u> | <u>Additions</u> | <u>Transfers and Retirements</u> | <u>2020 Balance</u> |
|---|-------------------------|---------------------------|--------------------------------------|-------------------------|
| Land | \$ 85,000 | \$ - | \$ - | \$ 85,000 |
| Construction-in-progress | <u>76,000</u> | <u>66,000</u> | <u>-</u> | <u>142,000</u> |
| Total capital assets not being depreciated | <u>161,000</u> | <u>66,000</u> | <u>-</u> | <u>227,000</u> |
| Land improvements | 283,000 | - | - | 283,000 |
| Buildings and improvements | 20,299,000 | - | - | 20,299,000 |
| Equipment | <u>11,241,000</u> | <u>35,000</u> | <u>8,000</u> | <u>11,284,000</u> |
| Total capital assets being depreciated | <u>31,823,000</u> | <u>35,000</u> | <u>8,000</u> | <u>31,866,000</u> |
| Less accumulated depreciation for: | | | | |
| Land improvements | 283,000 | - | - | 283,000 |
| Buildings and improvements | 13,968,000 | 695,000 | - | 14,663,000 |
| Equipment | <u>9,567,000</u> | <u>466,000</u> | <u>8,000</u> | <u>10,041,000</u> |
| Total accumulated depreciation | <u>23,818,000</u> | <u>1,161,000</u> | <u>8,000</u> | <u>24,987,000</u> |
| Capital assets being depreciated, net | <u>8,005,000</u> | <u>(1,126,000)</u> | <u>-</u> | <u>6,879,000</u> |
| Total capital assets, net | <u>\$ 8,166,000</u> | <u>\$ (1,060,000)</u> | <u>\$ -</u> | <u>\$ 7,106,000</u> |

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HOSPITAL AUTHORITY OF BEN HILL COUNTY
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(A Component Unit of Ben Hill County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

6. Capital Assets, Continued

| | <u>2018 Balance</u> | <u>Additions</u> | <u>Transfers and Retirements</u> | <u>2019 Balance</u> |
|---|-------------------------|---------------------|--------------------------------------|-------------------------|
| Land | \$ 85,000 | \$ - | \$ - | \$ 85,000 |
| Construction-in-progress | <u>76,000</u> | <u>-</u> | <u>-</u> | <u>76,000</u> |
| Total capital assets not being depreciated | <u>161,000</u> | <u>-</u> | <u>-</u> | <u>161,000</u> |
| Land improvements | 283,000 | - | - | 283,000 |
| Buildings and improvements | 20,293,000 | 6,000 | - | 20,299,000 |
| Equipment | <u>11,456,000</u> | <u>422,000</u> | <u>(637,000)</u> | <u>11,241,000</u> |
| Total capital assets being depreciated | <u>32,032,000</u> | <u>428,000</u> | <u>(637,000)</u> | <u>31,823,000</u> |
| Less accumulated depreciation for: | | | | |
| Land improvements | 281,000 | 2,000 | - | 283,000 |
| Buildings and improvements | 13,273,000 | 695,000 | - | 13,968,000 |
| Equipment | <u>9,744,000</u> | <u>465,000</u> | <u>(642,000)</u> | <u>9,567,000</u> |
| Total accumulated depreciation | <u>23,298,000</u> | <u>1,162,000</u> | <u>(642,000)</u> | <u>23,818,000</u> |
| Capital assets being depreciated, net | <u>8,734,000</u> | <u>(734,000)</u> | <u>5,000</u> | <u>8,005,000</u> |
| Total capital assets, net | <u>\$ 8,895,000</u> | <u>\$ (734,000)</u> | <u>\$ 5,000</u> | <u>\$ 8,166,000</u> |

Continued

HOSPITAL AUTHORITY OF BEN HILL COUNTY
D/B/A DORMINY MEDICAL CENTER
(A Component Unit of Ben Hill County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

7. Long-Term Debt and Capital Lease Obligations

A summary of long-term debt and capital lease obligations at July 31, 2020 and 2019 follows:

| | <u>2020</u> | <u>2019</u> |
|--|----------------------|---------------------|
| Revenue Anticipation Certificates, 2007 Series, principal maturing in varying annual amounts beginning July 1, 2010 and ending July 1, 2032. Interest payable semi-annually beginning July 1, 2008, including unamortized bond premium. | \$ 6,372,000 | \$ 6,765,000 |
| 2.75% note payable, due in monthly installments of \$1,500 with final payment due December 2025, collateralized by equipment. | 90,000 | 106,000 |
| 3.25% note payable, due in monthly installments of \$7,471 with final payment due November 2021, collateralized by equipment. | 118,000 | 173,000 |
| 3.25% note payable, due in monthly installments of \$4,857 with final payment due November 2020, collateralized by equipment. | 25,000 | 62,000 |
| Variable interest rate note payable with an interest rate equal to the New York Prime rate plus 1.00% (3.25% at July 31, 2020), due in monthly installments of \$19,361 with final payment due March 2033, collateralized by equipment, furniture, and fixtures. | 2,156,000 | 2,234,000 |
| Paycheck Protection Program loan, with interest rate of 1.00%. | 1,938,000 | - |
| 5.50% note payable, due in monthly installments of \$1,242 with final payment due November 2021, collateralized by equipment. | 17,000 | 29,000 |
| | 10,716,000 | 9,369,000 |
| Less current portion of long-term debt | 678,000 | 679,000 |
| Long-term debt, net of current portion | <u>\$ 10,038,000</u> | <u>\$ 8,690,000</u> |

Continued

HOSPITAL AUTHORITY OF BEN HILL COUNTY
D/B/A DORMINY MEDICAL CENTER
(A Component Unit of Ben Hill County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

7. Long-Term Debt and Capital Lease Obligations, Continued

| | <u>2020</u> | <u>2019</u> |
|---|-------------------|-------------------|
| Capital lease obligations, at varying rates of interest, collateralized by leased equipment and software. | \$ 236,000 | \$ 303,000 |
| Less current portion of capital lease obligation | <u>84,000</u> | <u>82,000</u> |
| Capital lease obligation, net of current portion | <u>\$ 152,000</u> | <u>\$ 221,000</u> |

Under the terms of the 2007 Series Revenue Certificate Indenture, the Authority is required to maintain certain deposits with a trustee. The required deposit amount was not met as of July 31, 2020 or 2019. The deposit is included with noncurrent cash and investments in the balance sheets. The Certificates also require that the Authority produce a debt service coverage ratio equal to or exceeding 110% during each year. The Authority did not produce the required debt ratio in 2020 but met the required debt service coverage ratio in 2019. Due to the Certificates being backed by the County, no further action is currently being required of the Authority.

The Revenue Anticipation Certificates, Series 2007 were issued by the Authority for the purpose of financing the costs of making capital improvements to the Hospital. The Certificates bear an interest rate of 4.00% on the maturities through July 1, 2027 and 4.125% on the maturities after that date. The Certificates are collateralized by the gross operating revenues of the Authority. The Authority and Ben Hill County entered into a contract in which the Authority agreed to make the Hospital facilities and services available to the residents of Ben Hill County. The County agreed to make payments to the Authority in amounts sufficient to enable the Authority to pay the principal and interest on the Certificates to the extent the net operating revenues of the Authority are insufficient to make the payments, and the County agreed to levy an ad valorem tax on all taxable property within the County that may be necessary in each year to fulfill the County's obligation under the contract. Taxes received during fiscal years ended July 31, 2020 and 2019 were approximately \$108,000. These amounts are reported as capital grants and contributions in the statements of revenues, expenses and changes in net position.

The Series 2007 Certificates maturing on or before July 1, 2018, may not be called for optional redemption prior to maturity. The Certificates maturing on or after July 1, 2019 are subject to redemption prior to maturity at the option of the Authority on or after July 1, 2018, at a redemption price of 100% of principal plus accrued interest.

In 2018, the Authority obtained a loan from the Fitzgerald Water, Light and Bond Commission, an agency and instrumentality of the City of Fitzgerald, Georgia, for \$2,300,000. The debt was issued for the purpose of funding operations of the Authority. The debt has a variable interest

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HOSPITAL AUTHORITY OF BEN HILL COUNTY
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(A Component Unit of Ben Hill County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

7. Long-Term Debt and Capital Lease Obligations, Continued

rate equal to the New York Prime plus 1% and will be paid in monthly installments of \$19,361 with the final payment due March 2033. The debt is collateralized by the Authority's equipment, furniture, and fixtures.

In May of 2020, the Authority received loan proceeds in the amount of approximately \$1,938,000 under the Paycheck Protection Program (PPP). The PPP, established as part of the CARES Act, provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent, and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the covered period. The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1 percent, with a deferral of payments for the first ten months after the covered period. The Authority intends to use the proceeds for purposes consistent with the PPP and seek forgiveness. The Authority will recognize any forgiveness of the loan at the time the Authority is legally released from the debt. While the Authority currently believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan, no assurances can be provided.

The revenue certificate and notes payable contain provisions that in an event of default, the lenders may declare the debt due and payable immediately.

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

| Year Ending July 31, | Revenue Bonds | | Direct Borrowing/Placement | | Capital Lease Obligations | |
|-------------------------|---------------------|---------------------|----------------------------|-------------------|---------------------------|------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2021 | \$ 410,000 | \$ 258,000 | \$ 268,000 | \$ 112,000 | \$ 84,000 | \$ 15,000 |
| 2022 | 425,000 | 242,000 | 2,117,000 | 137,000 | 68,000 | 10,000 |
| 2023 | 445,000 | 225,000 | 152,000 | 98,000 | 61,000 | 5,000 |
| 2024 | 465,000 | 207,000 | 160,000 | 90,000 | 23,000 | - |
| 2025 | 485,000 | 188,000 | 176,000 | 82,000 | - | - |
| 2026-2030 | 2,805,000 | 628,000 | 885,000 | 277,000 | - | - |
| 2031-2033 | 1,320,000 | 82,000 | 587,000 | 44,000 | - | - |
| Total | 6,355,000 | <u>\$ 1,830,000</u> | <u>\$ 4,345,000</u> | <u>\$ 840,000</u> | <u>\$ 236,000</u> | <u>\$ 30,000</u> |
| Plus bond premium | <u>16,000</u> | | | | | |
| Total | <u>\$ 6,371,000</u> | | | | | |

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HOSPITAL AUTHORITY OF BEN HILL COUNTY
D/B/A DORMINY MEDICAL CENTER
(A Component Unit of Ben Hill County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

7. Long-Term Debt and Capital Lease Obligations, Continued

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

| | <u>2019 Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Amortization</u> | <u>2020 Balance</u> | <u>Current Portion</u> |
|--|-------------------------|---------------------|-------------------|---------------------|-------------------------|----------------------------|
| Revenue certificates, Series 2007: | | | | | | |
| Principal | \$ 6,745,000 | \$ - | \$ 390,000 | \$ - | \$ 6,355,000 | \$ 410,000 |
| Premium | 19,000 | - | - | 3,000 | 16,000 | - |
| Direct borrowings: | | | | | | |
| Notes payable | 2,605,000 | 1,938,000 | 198,000 | - | 4,345,000 | 268,000 |
| Capital leases | <u>303,000</u> | <u>-</u> | <u>67,000</u> | <u>-</u> | <u>236,000</u> | <u>84,000</u> |
| Total long-term debt | <u>\$ 9,672,000</u> | <u>\$ 1,938,000</u> | <u>\$ 655,000</u> | <u>\$ 3,000</u> | <u>\$ 10,952,000</u> | <u>\$ 762,000</u> |
| | | | | | | |
| | <u>2018 Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Amortization</u> | <u>2019 Balance</u> | <u>Current Portion</u> |
| Revenue certificates, Series 2007: | | | | | | |
| Principal | \$ 7,120,000 | \$ - | \$ 375,000 | \$ - | \$ 6,745,000 | \$ 390,000 |
| Premium | 22,000 | - | - | 3,000 | 19,000 | - |
| Direct borrowings: | | | | | | |
| Notes payable | 2,836,000 | - | 231,000 | - | 2,605,000 | 289,000 |
| Capital leases | <u>375,000</u> | <u>-</u> | <u>72,000</u> | <u>-</u> | <u>303,000</u> | <u>82,000</u> |
| Total long-term debt | <u>\$ 10,353,000</u> | <u>\$ -</u> | <u>\$ 678,000</u> | <u>\$ 3,000</u> | <u>\$ 9,672,000</u> | <u>\$ 761,000</u> |

Continued

HOSPITAL AUTHORITY OF BEN HILL COUNTY
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(A Component Unit of Ben Hill County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

8. Management Agreement

Phoebe Putney Health System, Inc. (System) notified the Authority of its intent to terminate the management agreement with the Authority on March 7, 2014. As a part of the notice, the System requested payment of amounts owed by the Authority. These amounts include two lines-of-credit, a note payable and amounts included in the monthly billings. See schedule of amounts below:

| | <u>2020</u> | <u>2019</u> |
|-----------------------------|----------------------|----------------------|
| Lines-of-credit | \$ 1,705,000 | \$ 1,705,000 |
| Note payable | 403,000 | 403,000 |
| Trade payable | <u>20,385,000</u> | <u>20,385,000</u> |
| Due to Phoebe Health System | <u>\$ 22,493,000</u> | <u>\$ 22,493,000</u> |

In response, the Authority has filed a complaint for breach of contract. As of the date of this report, there is no certainty of what the outcome of this issue will be. Management believes that the facts and circumstances surrounding the debt and the current status of the litigation support the presentation of reported amounts as a noncurrent liability on the balance sheet.

Effective July 18, 2014, the Authority entered into a management agreement with ER Hospital, Inc. for the purpose of providing management and administrative services. The initial term of this agreement is five years from the effective date. Management fees incurred under this agreement, including salaries and fringe benefits of certain management employees, was approximately \$1,777,000 and \$1,803,000 for 2020 and 2019, respectively.

9. Commitments and Contingencies

Compliance Plan

The healthcare industry has been subjected to increased scrutiny from governmental agencies at both the federal and state level with respect to compliance with regulations. Areas of noncompliance identified at the national level include Medicare and Medicaid, Internal Revenue Service, and other regulations governing the healthcare industry. In addition, the Reform Legislation includes provisions aimed at reducing fraud, waste, and abuse in the healthcare industry. These provisions allocate significant additional resources to federal enforcement agencies and expand the use of private contractors to recover potentially inappropriate Medicare and Medicaid payments. The Authority has implemented a compliance plan focusing on such issues. There can be no assurance that the Authority will not be subjected to future investigations with accompanying monetary damages.

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HOSPITAL AUTHORITY OF BEN HILL COUNTY
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(A Component Unit of Ben Hill County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

9. Commitments and Contingencies, Continued

Health Care Reform

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

Litigation

The Authority is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Authority's future financial position or results from operations. See malpractice insurance disclosures in Note 13.

10. Concentration of Credit Risk

The Authority grants credit without collateral to patients substantially all of whom are local residents of Ben Hill County and the immediate surrounding counties of Georgia and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at July 31, 2020 and 2019 was as follows:

| | <u>2020</u> | <u>2019</u> |
|--------------------------|-------------|-------------|
| Medicare | 21% | 30% |
| Medicaid | 2% | 8% |
| Other third-party payors | 61% | 37% |
| Patients | <u>16%</u> | <u>25%</u> |
| Total | <u>100%</u> | <u>100%</u> |

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HOSPITAL AUTHORITY OF BEN HILL COUNTY
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NOTES TO FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

11. Employee Health Insurance

Effective January 1, 2017, the Authority purchased health insurance coverage for employees under which monthly premiums are paid to Blue Cross Blue Shield. Blue Cross Blue Shield is then responsible for payment of all claims. Total expenses relative to this plan were approximately \$394,000 and \$971,000 for July 31, 2020 and 2019, respectively.

On January 1, 2020, the Authority changed to a self-insured health insurance policy with Meritain Health under which the claim expenses are paid monthly. The total expenses relative to this plan were approximately \$560,000 and \$0 for July 31, 2020 and 2019, respectively.

12. Retirement Plan

As of June 1, 2014, employees may participate in the Ben Hill County Hospital Authority, DBA Dorminy Medical Center 401(a) Plan, a defined contribution plan established by the Authority and administered by VALIC to provide benefits at retirement to substantially all employees of the Authority. Plan provisions and contribution requirements are established and may be amended by the Authority's Board of Directors.

Employees may make voluntary contributions to the Plan. The Authority matches employee contributions up to a maximum of 3% of the employees' annual compensation. The Authority's matching contributions during 2020 and 2019 were \$156,000 and \$144,000, respectively. The Authority had no liability outstanding related to the Plan at July 31, 2020 and 2019.

Employees are vested immediately in their contributions. Vesting in the Authority's contribution portion of their accounts is based on years of continuous services. Forfeited nonvested accounts may be used to pay Plan expenses. The Authority recognized no forfeitures in pension expense during 2020 or 2019.

13. Malpractice Insurance

The Authority is covered by a claims-made general and professional liability insurance policy with a specified deductible per incident and excess coverage on a claims-made basis. Liability limits related to this policy for July 31, 2020 and 2019 are \$ 1 million per occurrence and \$ 3 million in aggregate. The Authority uses a third-party administrator to review and analyze incidents that may result in a claim against the Authority.

Various claims and assertions have been made against the Authority in its normal course of providing services. In addition, other claims may be asserted arising from services provided to patients in the past.

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HOSPITAL AUTHORITY OF BEN HILL COUNTY
D/B/A DORMINY MEDICAL CENTER
(A Component Unit of Ben Hill County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

14. 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, short-term investments, accounts payable, accrued expenses, and estimated third-party payor settlements, CARES Act unearned revenue, Medicare advance payments:* 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:* Amounts reported in the balance sheet are at fair value. See Notes 1 and 4 for fair value measurement disclosures.
- *Long-term debt:* The fair value of the Authority's Certificates is estimated based on the quoted market value for same or similar debt instruments. The fair value of the Authority's other long-term debt is estimated using discounted cash flow analyses, based on the Authority's current incremental borrowing rates for similar types of borrowing arrangements. The carrying amount of variable rate obligations approximates fair value.

The carrying amounts and estimated fair values of the Authority's long-term debt at July 31, 2020 and 2019 are as follows:

| | 2020 | | 2019 | |
|----------------|----------------------------|----------------------|----------------------------|---------------------|
| | <u>Carrying Amount</u> | <u>Fair Value</u> | <u>Carrying Amount</u> | <u>Fair Value</u> |
| Long-term debt | <u>\$ 10,716,000</u> | <u>\$ 10,802,000</u> | <u>\$ 9,369,000</u> | <u>\$ 9,599,000</u> |

16. Related Party Transactions

The Dorminy Medical Center Foundation (Foundation) was incorporated on November 4, 1985. The Foundation began operations during the year ended July 31, 1986, and received its determination letter approving its tax-exempt status from the Internal Revenue Service. The Foundation's tax-exempt status was revoked as of October 15, 2016. The purpose of the Foundation is to solicit contributions for the benefit of the Authority. Because of the existence of common directors and other factors, the Authority and the Foundation are related parties.

On September 6, 2018, the tax-exempt status was retroactively reinstated by the Internal Revenue Service from the date of revocation.

Continued

HOSPITAL AUTHORITY OF BEN HILL COUNTY
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NOTES TO FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

16. Related Party Transactions, Continued

A summary of the Foundation's financial position and changes in net assets as of July 31, 2020 and 2019 are as follows:

| | <u>2020</u> | <u>2019</u> |
|-------------------------------|------------------|------------------|
| Assets: | | |
| Cash and cash equivalents | \$ 49,052 | \$ 52,047 |
| Net assets: | | |
| Net assets | \$ 49,052 | \$ 52,047 |
| Support and revenue | \$ 4,401 | \$ 1,753 |
| Expenses | (7,396) | (27,831) |
| Net assets, beginning of year | <u>52,047</u> | <u>78,125</u> |
| Net assets, end of year | <u>\$ 49,052</u> | <u>\$ 52,047</u> |

16. Rural Hospital Tax Credit Contributions

The State of Georgia (State) passed legislation which allows individuals or corporations to receive a State tax credit for making a contribution to certain qualified rural hospital organizations. The Authority submitted the necessary documentation and was approved by the State to participate in the rural hospital tax credit program for calendar year 2020 and 2019. Contributions received under the program approximated \$2,745,000 and \$1,058,000 during fiscal years 2020 and 2019, respectively. The Authority will have to be approved by the State to participate in the program in each subsequent year.

17. Going Concern

The Authority reported a decrease in net position of \$1,973,000 and \$684,000 in 2020 and 2019, respectively. The Authority has a net position deficiency of \$25,558,000 at July 31, 2020 and \$23,585,000 at July 31, 2019. The Authority reported operating losses of \$4,554,000 and \$1,409,000 in 2020 and 2019, respectively. These issues raise substantial doubt about the Authority's ability to continue as a going concern.

Continuous operating losses and a negative net position – Management has developed a plan to improve the Authority's financial position which includes additional marketing to increase geriatric psychiatric patients.

Continued

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NOTES TO FINANCIAL STATEMENTS, Continued
July 31, 2020 and 2019

17. Going Concern, Continued

Rural hospital tax credit – The State of Georgia (State) passed legislation which allows individuals or corporations to receive a State tax credit for making a contribution to certain qualified rural hospital organizations. The Authority submitted the necessary documentation and was approved by the State to participate in the rural hospital tax credit program. Subsequent to fiscal year-end, the Authority has received and/or been approved by the State to receive approximately \$3,373,000 in donations.

Amounts owed to Phoebe Putney Health Systems, Inc. – These amounts are being disputed in an on-going lawsuit with the System as discussed in Note 8. It is not believed that this issue will be resolved by the end of the current operating cycle.

Coronavirus Aid, Relief and Economic Security Act (CARES Act) – On March 27, 2020, the President signed the CARES Act. Certain provisions of the CARES Act provide relief funds to hospitals and other healthcare providers. See disclosures in Note 18.

18. Coronavirus (COVID-19)

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

On March 27, 2020, the President signed the *Coronavirus Aid, Relief and Economic Security Act (CARES Act)*. Certain provisions of the CARES Act provide relief funds to hospitals and other healthcare providers. The funding will be used to support healthcare-related expenses or lost revenue attributable to COVID-19. The U.S. Department of Health and Human Services began distributing funds on April 10, 2020 to eligible providers in an effort to provide relief to both providers in areas heavily impacted by COVID-19 and those providers who are struggling to keep their doors open due to healthy patients delaying care and canceling elective services. On April 24, 2020, the *Paycheck Protection Program and Health Care Enhancement Act* was passed. This Act provides additional funding to replenish and supplement key programs under the CARES Act, including funds to health care providers for COVID-19 testing. Grant and contribution advance payments are reported as unearned revenue until all eligibility requirements are met. Recognized revenue is reported as nonoperating revenues in the statements of revenues, expenses and changes in net position. The Authority received \$11,615,000 in grant stimulus funding in fiscal year 2020.

Continued

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NOTES TO FINANCIAL STATEMENTS, Continued
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18. Coronavirus (COVID-19), Continued

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

The CARES Act also expanded the existing Medicare Accelerated and Advance Payment Program by allowing qualifying providers to receive an advanced Medicare payment. The advance payment will have to be repaid. Recoupment begins one year after the date of receipt of the advance payment. After that first year, Medicare will automatically recoup 25 percent of Medicare payments otherwise owed to the Authority for eleven months. At the end of the eleven-month period, recoupment will increase to 50 percent for another six months. If the total amount of advance payment has not been recouped during this time-period (a total of 29 months), CMS will issue a letter requiring repayment of any outstanding balance, subject to an interest rate of four percent. In April 2020, the Authority received \$2,345,000 in advanced payments.

The Authority has received the following program 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 \$416,000 in funding from this distribution.
- \$20 Billion General Distribution (2nd round) – On April 24, 2020, HHS distributed \$20 billion to Medicare fee-for-service providers based on revenues from cost report data or revenue submissions. The Authority received approximately \$378,000 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 \$3,660,000 in funding from this distribution.
- \$10 Billion Safety Net Hospitals Distribution – On June 12, 2020, HHS distributed \$10 billion to almost 800 providers that disproportionately serve Medicaid recipients and the uninsured. The Authority received approximately \$5,103,000 in funding from this distribution.
- \$10 Billion High-Impact Distribution (2nd round) – On July 17, 2020, HHS distributed \$10 billion to hospitals with over 160 COVID-19 admissions between January 1, 2020 and June 10, 2020, one admission per day, or a disproportionate intensity of COVID admissions. The Authority received approximately \$1,950,000 in funding from this distribution.

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18. Coronavirus (COVID-19), Continued

- \$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 grant.

In addition, the CARES Act 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 December 31, 2021 with subsequent legislation.
- Medicare Add-on for Inpatient Hospital COVID-19 Patients – Increased the Medicare payment for hospital patients admitted with COVID-19 by 20%.