

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

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FINANCIAL STATEMENTS

for the years ended July 31, 2018 and 2017

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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, 2018 and 2017, 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.

Continued

Let's Think Together.

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects the financial position of the Hospital Authority of Ben Hill County, D/B/A Dorminy Medical Center as of July 31, 2018 and 2017, 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.

### ***Going Concern***

The accompanying financial statements have been prepared assuming that the Authority will continue as a going concern. As discussed in Note 18 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 also are described in Note 18. 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.

DRAFTING & TUCKER, LLP

Albany, Georgia  
March 28, 2019

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

BALANCE SHEETS  
July 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 795,000	\$ 969,000
Patient accounts receivable, net of estimated uncollectibles of \$10,686,000 in 2018 and \$7,086,000 in 2017	3,663,000	2,868,000
Other receivables	476,000	460,000
Supplies, at lower of cost (first-in, first-out) or market	345,000	384,000
Other current assets	<u>266,000</u>	<u>238,000</u>
Total current assets	<u>5,545,000</u>	<u>4,919,000</u>
Noncurrent cash and investments:		
Restricted by bond indenture for debt service	13,000	12,000
Restricted by donor for indigent care	37,000	37,000
Restricted by donor for hospice care	93,000	93,000
Other long-term investments	<u>-</u>	<u>1,057,000</u>
Total noncurrent cash and investments	<u>143,000</u>	<u>1,199,000</u>
Capital assets:		
Land	85,000	85,000
Projects in progress	76,000	2,019,000
Depreciable capital assets, net of accumulated depreciation	<u>8,734,000</u>	<u>7,206,000</u>
Total capital assets, net of accumulated depreciation	<u>8,895,000</u>	<u>9,310,000</u>
Other assets:		
Other assets	<u>24,000</u>	<u>24,000</u>
Total assets	<u>\$ 14,607,000</u>	<u>\$ 15,452,000</u>

	<u>2018</u>	<u>2017</u>
<b>LIABILITIES AND NET POSITION</b>		
Current liabilities:		
Current installments of long-term debt	\$ 606,000	\$ 508,000
Current portion of capital lease obligation	75,000	122,000
Accounts payable	2,524,000	3,243,000
Accrued expenses	1,303,000	1,233,000
Estimated third-party settlements	<u>835,000</u>	<u>952,000</u>
Total current liabilities	<u>5,343,000</u>	<u>6,058,000</u>
Noncurrent liabilities:		
Due to Phoebe Putney Health System, Inc.	<u>22,493,000</u>	<u>22,493,000</u>
Long-term debt:		
Long-term debt, excluding current installments	9,372,000	7,639,000
Capital lease obligations, excluding current portion	<u>300,000</u>	<u>92,000</u>
Total long-term debt	<u>9,672,000</u>	<u>7,731,000</u>
Total liabilities	<u>37,508,000</u>	<u>36,282,000</u>
Net position:		
Net investment in capital assets	( 1,862,000)	546,000
Restricted:		
Expendable for debt service	13,000	12,000
Expendable for indigent care	37,000	37,000
Expendable for hospice care	93,000	93,000
Unrestricted	<u>(21,182,000)</u>	<u>(21,518,000)</u>
Total net position	<u>(22,901,000)</u>	<u>(20,830,000)</u>
Total liabilities and net position	<u>\$ 14,607,000</u>	<u>\$ 15,452,000</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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating revenues:		
Net patient service revenue (net of provision for bad debts of \$8,141,000 in 2018 and \$7,320,000 in 2017)	\$ 21,303,000	\$ 20,815,000
Other revenue	<u>382,000</u>	<u>617,000</u>
Total operating revenues	<u>21,685,000</u>	<u>21,432,000</u>
Operating expenses:		
Salaries and wages	10,677,000	8,567,000
Employee health and welfare	1,994,000	2,292,000
Medical supplies and other	5,486,000	5,723,000
Professional fees	1,809,000	2,501,000
Purchased services	3,523,000	3,325,000
Depreciation and amortization	<u>1,312,000</u>	<u>1,254,000</u>
Total operating expenses	<u>24,801,000</u>	<u>23,662,000</u>
Operating loss	( 3,116,000)	( 2,230,000)
Nonoperating revenues (expenses):		
Interest expense	( 443,000)	( 356,000)
Rural hospital tax credit contributions	1,344,000	-
Noncapital contributions	5,000	18,000
Investment income	16,000	45,000
Loss on disposal of fixed assets	<u>( 1,000)</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>921,000</u>	<u>( 293,000)</u>
Excess expenses before capital grants and contributions	( 2,195,000)	( 2,523,000)
Capital grants and contributions	<u>124,000</u>	<u>126,000</u>
Decrease in net position	( 2,071,000)	( 2,397,000)
Net position, beginning of year	<u>(20,830,000)</u>	<u>(18,433,000)</u>
Net position, end of year	\$( <u>22,901,000</u> )	\$( <u>20,830,000</u> )

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

HOSPITAL AUTHORITY OF BEN HILL COUNTY  
D/B/A DORMINY MEDICAL CENTER  
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STATEMENTS OF CASH FLOWS  
for the years ended July 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Cash received from patients and payors	\$ 20,757,000	\$ 21,859,000
Cash payments to vendors and other suppliers	(10,698,000)	(10,882,000)
Cash payments to employees	(12,602,000)	(10,772,000)
Net cash provided (used) by operating activities	( 2,543,000)	<u>205,000</u>
Cash flows from noncapital financing activities:		
Rural hospital tax credit contributions	1,344,000	-
Noncapital contributions	<u>5,000</u>	<u>18,000</u>
Net cash provided by noncapital financing activities	<u>1,349,000</u>	<u>18,000</u>
Cash flows from capital and related financing activities:		
Interest paid on long-term debt	( 446,000)	( 359,000)
Proceeds from long-term debt	2,353,000	-
Purchase of property and equipment	( 1,418,000)	( 1,255,000)
Principal paid on long-term debt	( 519,000)	( 488,000)
Payments on capital lease	( 146,000)	( 160,000)
Capital contributions	<u>124,000</u>	<u>126,000</u>
Net cash used by capital and related financing activities	( <u>52,000</u> )	( <u>2,136,000</u> )
Cash flows from investing activities:		
Interest earned on investments	16,000	45,000
Purchase of investments	( 4,000)	( 138,000)
Sale of investments	<u>1,061,000</u>	<u>1,286,000</u>
Net cash provided by investing activities	<u>1,073,000</u>	<u>1,193,000</u>
Net decrease in cash and cash equivalents	( 173,000)	( 720,000)
Cash and cash equivalents, beginning of year	<u>1,111,000</u>	<u>1,831,000</u>
Cash and cash equivalents, end of year	\$ <u><u>938,000</u></u>	\$ <u><u>1,111,000</u></u>

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HOSPITAL AUTHORITY OF BEN HILL COUNTY  
D/B/A DORMINY MEDICAL CENTER  
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STATEMENTS OF CASH FLOWS, Continued  
for the years ended July 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash and cash equivalents in current assets	\$ 795,000	\$ 969,000
Restricted by bond indenture for debt service	13,000	12,000
Restricted by donor for indigent care	37,000	37,000
Restricted by donor for hospice care	<u>93,000</u>	<u>93,000</u>
Total cash and cash equivalents	\$ <u>938,000</u>	\$ <u>1,111,000</u>
Reconciliation of operating loss to net cash flows from operating activities:		
Operating loss	\$(3,116,000)	\$(2,230,000)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation and amortization	1,312,000	1,254,000
Provision for bad debts	8,141,000	7,320,000
Changes in:		
Receivables	(8,936,000)	(7,050,000)
Supplies	39,000	105,000
Amounts due from third-party payors	( 117,000)	273,000
Other current and noncurrent assets	( 45,000)	( 62,000)
Accounts payable	109,000	508,000
Accrued expenses	<u>70,000</u>	<u>87,000</u>
Net cash provided (used) by operating activities	\$( <u>2,543,000</u> )	\$ <u>205,000</u>

Noncash investing, capital and financing activities:

- No investments were held by the Authority at July 31, 2018. The Authority held investments at July 31, 2017 with a fair value of \$1,057,000. During 2017, the net increase in the fair value of these investments was \$22,000.
- The Authority had additions of approximately \$307,000 and \$24,000 to its capital lease obligations for equipment in 2018 and 2017, respectively.
- Purchases of capital assets in accounts payable as of July 31, 2018 and 2017 were \$15,000 and \$843,000, 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, 2018 and 2017

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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.

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HOSPITAL AUTHORITY OF BEN HILL COUNTY  
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NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2018 and 2017

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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 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 restricted by bond indenture for debt service, and assets restricted by donors for indigent care and hospice care.

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.

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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, 2018 and 2017

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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 2018 and 2017.

Net Position

Net position of the Authority is classified into three components. *Net investment in capital assets* consist 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.

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HOSPITAL AUTHORITY OF BEN HILL COUNTY  
D/B/A DORMINY MEDICAL CENTER  
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NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2018 and 2017

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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.

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.

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HOSPITAL AUTHORITY OF BEN HILL COUNTY  
D/B/A DORMINY MEDICAL CENTER  
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NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2018 and 2017

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1. Summary of Significant Accounting Policies, Continued

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.

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, 2018 and 2017.

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

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HOSPITAL AUTHORITY OF BEN HILL COUNTY  
D/B/A DORMINY MEDICAL CENTER  
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NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2018 and 2017

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1. Summary of Significant Accounting Policies, Continued

Fair Value Measurements, Continued

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 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.

Accounting Pronouncement Not Yet Adopted

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

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.

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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, 2018 and 2017

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2. Net Patient Service Revenue, Continued

Revenue from the Medicare and Medicaid programs accounted for approximately 42% and 17%, respectively, of the Authority's net patient revenue for the year ended July 31, 2018, and 38% and 22%, respectively, of the Authority's net patient revenue for the year ended July 31, 2017. 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, except as disclosed in Note 9. 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.

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, 2015.

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HOSPITAL AUTHORITY OF BEN HILL COUNTY  
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NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2018 and 2017

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2. Net Patient Service Revenue, Continued

- 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, 2015.

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.

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 \$997,000 and \$1,349,000 for the years ended July 31, 2018 and 2017, 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 \$260,000 and \$516,000 for the years ended July 31, 2018 and 2017, respectively.

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HOSPITAL AUTHORITY OF BEN HILL COUNTY  
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NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2018 and 2017

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2. Net Patient Service Revenue, Continued

- Medicaid, Continued

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 \$258,000 and \$236,000 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, 2018 and 2017, 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.

3. Uncompensated Services

The Authority was compensated for services at amounts less than its established rates. Charges for uncompensated services for 2018 and 2017 were approximately \$64,494,000 and \$58,283,000, respectively.

Uncompensated care includes charity and indigent care services of approximately \$2,781,000 and \$3,612,000 in 2018 and 2017, respectively. The cost of charity and indigent care services provided during 2018 and 2017 was approximately \$818,000 and \$1,097,000, respectively computed by applying a total cost factor to the charges forgone.

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, 2018 and 2017

3. Uncompensated Services, Continued

The following is a summary of uncompensated services and a reconciliation of gross patient charges to net patient service revenue for 2018 and 2017.

	<u>2018</u>	<u>2017</u>
Gross patient charges	\$ <u>85,797,000</u>	\$ <u>79,098,000</u>
Uncompensated services:		
Charity and indigent care	2,781,000	3,612,000
Medicare	28,870,000	26,171,000
Medicaid	10,722,000	9,224,000
Other allowances	13,980,000	11,956,000
Bad debts	<u>8,141,000</u>	<u>7,320,000</u>
Total uncompensated care	<u>64,494,000</u>	<u>58,283,000</u>
Net patient service revenue	\$ <u>21,303,000</u>	\$ <u>20,815,000</u>

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, 2018 and 2017 are classified in the accompanying financial statements as follows:

	<u>2018</u>	<u>2017</u>
Deposits and investments consist of the following:		
Deposits with financial institutions	\$ 364,000	\$ 432,000
Investments	<u>574,000</u>	<u>1,736,000</u>
Total	\$ <u>938,000</u>	\$ <u>2,168,000</u>

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HOSPITAL AUTHORITY OF BEN HILL COUNTY  
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NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2018 and 2017

4. Bank Deposits and Investments, Continued

	<u>2018</u>	<u>2017</u>
Balance sheets:		
Cash and cash equivalents	\$ 795,000	\$ 969,000
Noncurrent cash and investments:		
Restricted by bond indenture for debt service	13,000	12,000
Restricted by donor for indigent care	37,000	37,000
Restricted by donor for hospice care	93,000	93,000
Other long-term investments	<u>-</u>	<u>1,057,000</u>
Total	\$ <u>938,000</u>	\$ <u>2,168,000</u>

The Authority's investment policy limits the maximum maturity date of any fixed income security to ten years or less. The only exception to the above policy is for fixed income securities with call dates less than ten years. At July 31, 2018 and 2017, the Authority had the following investments and maturities, if applicable, all of which were held in the Authority's name by a brokerage firm that is an agent of the Authority.

July 31, 2018

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Investment Maturities (In Years)</u>			
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
Cash and cash equivalents	\$ <u>574,000</u>				
Total	\$ <u>574,000</u>				

July 31, 2017

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Investment Maturities (In Years)</u>			
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
Cash and cash equivalents	\$ 679,000				
Mutual fund – equity	205,000				
Mutual fund – debt	<u>852,000</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>852,000</u>	\$ <u>-</u>
Total	\$ <u>1,736,000</u>				

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HOSPITAL AUTHORITY OF BEN HILL COUNTY  
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NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2018 and 2017

4. Bank Deposits and Investments, Continued

As of July 31, 2018, the Authority had no investments in debt securities and money market funds. As of July 31, 2017, the Authority's investments in debt securities and money market funds had the following ratings:

		Ratings as of July 31, 2017					
	<u>Amount</u>	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>BBB</u>	<u>BB</u>	<u>B</u>
Debt securities:							
Mutual funds	\$ <u>852,000</u>	\$ <u>767,000</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>53,000</u>	\$ <u>32,000</u>
Total debt securities	\$ <u>852,000</u>	\$ <u>767,000</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>53,000</u>	\$ <u>32,000</u>
Money market funds	\$ <u>19,000</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>19,000</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

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, 2018 and 2017 are entirely insured or collateralized with securities held by the pledging financial institution's designated trustee in the Authority's name.

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, 2018 and 2017, the Authority owned \$574,000 and \$1,736,000, respectively, in cash and securities 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).

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HOSPITAL AUTHORITY OF BEN HILL COUNTY  
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NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2018 and 2017

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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Patient accounts receivable:		
Receivable from patients and their insurance carriers	\$ 9,682,000	\$ 6,296,000
Receivable from Medicare	3,247,000	2,584,000
Receivable from Medicaid	<u>1,420,000</u>	<u>1,074,000</u>
Total patient accounts receivable	14,349,000	9,954,000
Less allowance for uncollectible amounts and contractual adjustments	<u>10,686,000</u>	<u>7,086,000</u>
Patient accounts receivable, net	\$ <u>3,663,000</u>	\$ <u>2,868,000</u>
Accounts payable and accrued expenses:		
Payable to employees (including payroll taxes)	\$ 750,000	\$ 679,000
Payable to suppliers	2,524,000	3,243,000
Other	<u>553,000</u>	<u>554,000</u>
Total accounts payable and accrued expenses	\$ <u>3,827,000</u>	\$ <u>4,476,000</u>

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HOSPITAL AUTHORITY OF BEN HILL COUNTY  
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NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2018 and 2017

6. Capital Assets

A summary of capital assets at July 31, 2018 and 2017 follows:

	<u>2017 Balance</u>	<u>Additions</u>	<u>Transfers and Retirements</u>	<u>2018 Balance</u>
Land	\$ 85,000	\$ -	\$ -	\$ 85,000
Projects in progress	<u>2,019,000</u>	<u>216,000</u>	<u>(2,159,000)</u>	<u>76,000</u>
Total capital assets not being depreciated	<u>2,104,000</u>	<u>216,000</u>	<u>(2,159,000)</u>	<u>161,000</u>
Land improvements	283,000	-	-	283,000
Buildings and improvements	18,096,000	321,000	1,876,000	20,293,000
Equipment	<u>11,105,000</u>	<u>363,000</u>	<u>( 12,000)</u>	<u>11,456,000</u>
Total capital assets being depreciated	<u>29,484,000</u>	<u>684,000</u>	<u>1,864,000</u>	<u>32,032,000</u>
Less accumulated depreciation for:				
Land improvements	272,000	9,000	-	281,000
Buildings and improvements	12,515,000	758,000	-	13,273,000
Equipment	<u>9,491,000</u>	<u>545,000</u>	<u>( 292,000)</u>	<u>9,744,000</u>
Total accumulated depreciation	<u>22,278,000</u>	<u>1,312,000</u>	<u>( 292,000)</u>	<u>23,298,000</u>
Capital assets, net	\$ <u>9,310,000</u>	\$( <u>412,000</u> )	\$( <u>3,000</u> )	\$ <u>8,895,000</u>

Continued

HOSPITAL AUTHORITY OF BEN HILL COUNTY  
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NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2018 and 2017

6. Capital Assets, Continued

	<u>2016</u> <u>Balance</u>	<u>Additions</u>	<u>Transfers and</u> <u>Retirements</u>	<u>2017</u> <u>Balance</u>
Land	\$ 85,000	\$ -	\$ -	\$ 85,000
Projects in progress	<u>124,000</u>	<u>1,895,000</u>	<u>-</u>	<u>2,019,000</u>
Total capital assets not being depreciated	<u>209,000</u>	<u>1,895,000</u>	<u>-</u>	<u>2,104,000</u>
Land improvements	283,000	-	-	283,000
Buildings and improvements	17,966,000	130,000	-	18,096,000
Equipment	<u>11,008,000</u>	<u>121,000</u>	<u>(24,000)</u>	<u>11,105,000</u>
Total capital assets being depreciated	<u>29,257,000</u>	<u>251,000</u>	<u>(24,000)</u>	<u>29,484,000</u>
Less accumulated depreciation for:				
Land improvements	261,000	11,000	-	272,000
Buildings and improvements	11,865,000	650,000	-	12,515,000
Equipment	<u>8,898,000</u>	<u>593,000</u>	<u>-</u>	<u>9,491,000</u>
Total accumulated depreciation	<u>21,024,000</u>	<u>1,254,000</u>	<u>-</u>	<u>22,278,000</u>
Capital assets, net	\$ <u>8,442,000</u>	\$ <u>892,000</u>	\$ <u>(24,000)</u>	\$ <u>9,310,000</u>

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HOSPITAL AUTHORITY OF BEN HILL COUNTY  
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NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2018 and 2017

7. Long-Term Debt and Capital Lease Obligations

A summary of long-term debt and capital lease obligations at July 31, 2018 and 2017 follows:

	<u>2018</u>	<u>2017</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.	\$ 7,142,000	\$ 7,505,000
2.75% note payable, due in monthly installments of \$1,500 with final payment due December 2025, collateralized by land and building.	121,000	135,000
3.25% note payable, due in monthly installments of \$7,471 with final payment due August 2021, collateralized by equipment.	256,000	336,000
3.25% note payable, due in monthly installments of \$4,857 with final payment due September 2020, collateralized by equipment.	117,000	171,000
Variable interest rate note payable with an interest rate equal to the New York Prime rate plus 1.00% (5.25% at July 31, 2018), due in monthly installments of \$19,361 with final payment due December 2032, collateralized by equipment, furniture and fixtures.	2,300,000	-
5.50% note payable, due in monthly installments of \$1,242 with final payment due August 2021, collateralized by equipment.	42,000	-
	<u>9,978,000</u>	<u>8,147,000</u>
Less current installments of long-term debt	<u>606,000</u>	<u>508,000</u>
Long-term debt excluding current installments	<u>\$ 9,372,000</u>	<u>\$ 7,639,000</u>

Continued

HOSPITAL AUTHORITY OF BEN HILL COUNTY  
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NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2018 and 2017

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

	<u>2018</u>	<u>2017</u>
Capital lease obligations, at varying rates of interest, collateralized by leased equipment and software.	\$ 375,000	\$ 214,000
Less current portion of capital lease obligation	<u>75,000</u>	<u>122,000</u>
Capital lease obligation, excluding current portion	\$ <u>300,000</u>	\$ <u>92,000</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, 2018 or 2017. 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 service coverage ratio in 2018 or 2017. 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 as may be necessary in each year to fulfill the County's obligation under the contract. Taxes received during fiscal years ended July 31, 2018 and 2017 were approximately \$124,000 and \$126,000, respectively. 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.

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HOSPITAL AUTHORITY OF BEN HILL COUNTY  
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NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2018 and 2017

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

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 rate equal to the New York Prime plus 1% and will be paid in monthly installments of \$19,361 with the final payment due December 2032. The debt is collateralized by the Authority's equipment, furniture, and fixtures.

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

	<u>Long-Term Debt</u>		<u>Capital Lease Obligations</u>	
<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 606,000	\$ 426,000	\$ 75,000	\$ 24,000
2020	679,000	397,000	79,000	20,000
2021	658,000	371,000	79,000	15,000
2022	573,000	345,000	56,000	10,000
2023	600,000	320,000	61,000	5,000
2024-2028	5,926,000	1,460,000	25,000	1,000
2029-2033	<u>914,000</u>	<u>112,000</u>	<u>-</u>	<u>-</u>
	9,956,000	\$ <u>3,431,000</u>	\$ <u>375,000</u>	\$ <u>75,000</u>
Plus bond premium	<u>22,000</u>			
Total	\$ <u>9,978,000</u>			

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HOSPITAL AUTHORITY OF BEN HILL COUNTY  
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NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2018 and 2017

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 2018 and 2017 follows:

	<u>2017 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Amortization</u>	<u>2018 Balance</u>	<u>Current Portion</u>
Revenue certificates, Series 2007:						
Principal	\$ 7,480,000	\$ -	\$ 360,000	\$ -	\$ 7,120,000	\$ 375,000
Premium	25,000	-	-	3,000	22,000	-
Notes payable	642,000	2,353,000	159,000	-	2,836,000	231,000
Capital leases	<u>214,000</u>	<u>307,000</u>	<u>146,000</u>	<u>-</u>	<u>375,000</u>	<u>75,000</u>
Total long-term obligations	<u>\$ 8,361,000</u>	<u>\$ 2,660,000</u>	<u>\$ 665,000</u>	<u>\$ 3,000</u>	<u>\$ 10,353,000</u>	<u>\$ 681,000</u>
	<u>2016 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Amortization</u>	<u>2017 Balance</u>	<u>Current Portion</u>
Revenue certificates, Series 2007:						
Principal	\$ 7,825,000	\$ -	\$ 345,000	\$ -	\$ 7,480,000	\$ 360,000
Premium	28,000	-	-	3,000	25,000	-
Notes payable	785,000	-	143,000	-	642,000	148,000
Capital leases	<u>350,000</u>	<u>24,000</u>	<u>160,000</u>	<u>-</u>	<u>214,000</u>	<u>122,000</u>
Total long-term obligations	<u>\$ 8,988,000</u>	<u>\$ 24,000</u>	<u>\$ 648,000</u>	<u>\$ 3,000</u>	<u>\$ 8,361,000</u>	<u>\$ 630,000</u>

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HOSPITAL AUTHORITY OF BEN HILL COUNTY  
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NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2018 and 2017

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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>2018</u>	<u>2017</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 \$1,719,000 and \$1,839,000 for 2018 and 2017, respectively.

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HOSPITAL AUTHORITY OF BEN HILL COUNTY  
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NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2018 and 2017

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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.

On October 14, 2014, the Authority filed a voluntary disclosure with the Office of Inspector General (OIG). In general, the disclosures are related to concerns regarding compliance with billing requirements related to hospice services provided by the Authority. The period covered in the self-disclosure is for January 1, 2010 through January 1, 2014. During fiscal year 2017, the Authority closed the Hospice and withdrew the disclosure. This matter has been closed.

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.

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NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2018 and 2017

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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, 2018 and 2017 was as follows:

	<u>2018</u>	<u>2017</u>
Medicare	28%	28%
Medicaid	10%	12%
Other third-party payors	42%	41%
Patients	<u>20%</u>	<u>19%</u>
Total	<u>100%</u>	<u>100%</u>

11. Employee Health Insurance

Effective January 1, 2015, the Authority entered into a self-insurance program for employee health insurance under which a third-party administrator processed and paid claims. The Authority reimbursed the third-party administrator for claims incurred and paid and purchased stop-loss insurance coverage for claims in excess of \$150,000 for each individual employee.

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 these plans were approximately \$863,000 and \$1,037,000 for July 31, 2018 and 2017, 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.

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HOSPITAL AUTHORITY OF BEN HILL COUNTY  
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NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2018 and 2017

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12. Retirement Plan, Continued

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 2018 and 2017 were \$108,000 and \$116,000, respectively. The Authority had no liability outstanding related to the Plan at July 31, 2018 and 2017.

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 2018 or 2017.

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, 2018 and 2017 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.

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, accounts payable, accrued expenses, and estimated third-party payor settlements:* The carrying amount reported in the balance sheet approximates its fair value due to the short-term nature of these instruments.
- *Noncurrent cash and investments:* Amounts reported in the balance sheet are at fair value. See Notes 1 and 4 for fair value measurement disclosures.

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NOTES TO FINANCIAL STATEMENTS, Continued  
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14. Fair Values of Financial Instruments, Continued

- *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, 2018 and 2017 are as follows:

	2018		2017	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Long-term debt	\$ <u>9,978,000</u>	\$ <u>9,824,000</u>	\$ <u>8,147,000</u>	\$ <u>7,992,000</u>

15. Electronic Health Records Incentive Payments

The Health Information Technology for Economic and Clinical Health Act (HITECH Act) was enacted into law on February 17, 2009, as part of the American Recovery and Reinvestment Act of 2009 (ARRA). The HITECH Act includes provisions designed to increase the use of Electronic Health Records (EHR) by both physicians and hospitals. Beginning with federal fiscal year 2011 and extending through federal fiscal year 2016, eligible hospitals participating in the Medicare and Medicaid programs are eligible for reimbursement incentives based on successfully demonstrating meaningful use of its certified EHR technology. Conversely, those hospitals that do not successfully demonstrate meaningful use of EHR technology are subject to reductions in Medicare reimbursements beginning in FY 2015. On July 13, 2010, the Department of Health and Human Services (DHHS) released final meaningful use regulations. Meaningful use criteria are divided into three distinct stages: I, II and III. The final rules specify the initial criteria for physicians and eligible hospitals necessary to qualify for incentive payments; calculation of the incentive payment amounts; payment adjustments under Medicare for covered professional services and inpatient hospital services; eligible hospitals failing to demonstrate meaningful use of certified EHR technology; and other program participation requirements.

The final rule set the earliest interim payment date for the incentive payment at May 2011. The first year of the Medicare portion of the program is defined as the federal government fiscal year October 1, 2010 to September 30, 2011.

Continued

HOSPITAL AUTHORITY OF BEN HILL COUNTY  
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NOTES TO FINANCIAL STATEMENTS, Continued  
July 31, 2018 and 2017

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15. Electronic Health Records Incentive Payments, Continued

The Medicaid portion of the program will be administered by the Georgia Department of Community Health based upon the criteria in the final rules. In the first year of the Medicaid EHR incentive program, eligible hospitals must attest to having adopted, implemented, upgraded or demonstrated meaningful use of certified EHR technology. In the second and subsequent years, the hospitals will be subject to additional meaningful use criteria in order to continue receiving payments. The Medicaid EHR incentive will be paid over three years. The Authority received its third and final Medicaid payment in 2014.

The Authority recognizes income related to Medicare and Medicaid incentive payments using a grant model based upon when it has determined that it is reasonably assured that the Authority will be meaningfully using EHR technology for the applicable period and the cost report information is reasonably estimable.

The Authority recognized approximately \$17,000 and \$263,000 of EHR incentive income related to the Medicare incentive program for the years ended 2018 and 2017, respectively. These amounts were included in other revenue on the statement of revenues, expenses and changes in net position.

The Authority's attestation to the demonstration of meaningful use and other requirements under the Medicare and Medicaid EHR programs are subject to audit. If the Authority is selected for an audit, there is a possibility the incentive payments could be reduced or recouped based on the audit results.

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.

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HOSPITAL AUTHORITY OF BEN HILL COUNTY  
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NOTES TO FINANCIAL STATEMENTS, Continued  
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16. Related Party Transactions, Continued

A summary of the Foundation's assets, liabilities, net assets, results of operations, and changes in net assets as of July 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Assets:		
Cash and cash equivalents	\$ <u>78,125</u>	\$ <u>85,306</u>
Net assets:		
Net assets	\$ <u>78,125</u>	\$ <u>85,306</u>
Support and revenue	\$ 1,183	\$ 8,470
Expenses	( 8,364)	( 9,742)
Net assets, beginning of year	<u>85,306</u>	<u>86,578</u>
Net assets, end of year	\$ <u>78,125</u>	\$ <u>85,306</u>

17. 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 2018. Contributions received under the program approximated \$1,344,000 during fiscal year 2018. The Authority will have to be approved by the State to participate in the program in each subsequent year.

18. Going Concern

The Authority reported a decrease in net position of \$2,071,000 and \$2,397,000 in 2018 and 2017, respectively. The Authority has a net position deficiency of \$22,901,000 at July 31, 2018 and \$20,830,000 at July 31, 2017. The Authority reported operating losses of \$3,116,000 and \$2,230,000 in 2018 and 2017, respectively. The Authority reported negative cash flow from operating activities of \$2,543,000 in 2018, compared to a positive cash flow from operating activities of \$205,000 in 2017. These issues raise substantial doubt about the Authority's ability to continue as a going concern.

Continued

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NOTES TO FINANCIAL STATEMENTS, Continued  
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18. Going Concern, Continued

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. Management also signed a contract with a vendor to market their lab as a reference lab to perform specialty lab tests and will be expanding the tests offered. Management is also in the process of converting two hospital clinics to rural health clinics.

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 \$571,000 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.