EMANUEL COUNTY HOSPITAL AUTHORITY
(A Component Unit of Emanuel County, Georgia)

FINANCIAL STATEMENTS

for the years ended June 30, 2019 and 2018

CONTENTS

Draffin Tucker

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Emanuel County Hospital Authority
Swainsboro, Georgia

Report on the Financial Statements

We have audited the accompanying financial statements of Emanuel County Hospital Authority (a component unit of Emanuel County, Georgia), which comprise the balance sheets as of June 30, 2019 and 2018, 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Continued

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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 Emanuel County Hospital Authority as of June 30, 2019 and 2018, 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.

Other Matter

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2019, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Draffin & Tucker, LLP
Albany, Georgia
September 24, 2019

EMANUEL COUNTY HOSPITAL AUTHORITY
(A Component Unit of Emanuel County, Georgia)

BALANCE SHEETS
June 30, 2019 and 2018

	2019	2018
ASSETS AND DEFERRED OUTFLOW OF RESOURCES		
Current assets:		
Cash	$ 1,292,366	$ 1,094,644
Restricted cash and cash equivalents	42,876	894,317
Patient accounts receivable, net of estimated uncollectibles and contractual allowances of approximately $16,474,000 in 2019 and $12,858,000 in 2018	5,119,638	4,499,090
Supplies, at lower of cost (first-in, first-out) or market	447,479	465,830
Estimated third-party payor settlements	-	149,195
Other current assets	654,198	631,059
Total current assets	7,556,557	7,734,135
Capital assets:		
Non-depreciable	713,334	669,989
Depreciable, net of accumulated depreciation	13,162,696	12,920,788
Total capital assets, net of accumulated depreciation	13,876,030	13,590,777
Total assets	21,432,587	21,324,912
Deferred outflow of resources	157,232	188,678
Total assets and deferred outflow of resources	$ 21,589,819	$ 21,513,590

	2019	2018
LIABILITIES AND NET POSITION		
Current liabilities:		
Current maturities of long-term debt	$ 1,216,181	$ 1,903,012
Accounts payable	2,490,154	3,021,273
Accrued expenses	1,921,651	1,820,006
Estimated third-party payor settlements	257,234	317,198
Total current liabilities	5,885,220	7,061,489
Long-term debt, net of current maturities	6,411,112	6,701,189
Total liabilities	12,296,332	13,762,678
Net position:		
Net investment in capital assets	6,448,844	6,069,571
Unrestricted	2,844,643	1,681,341
Total net position	9,293,487	7,750,912
Total liabilities and net position	$ 21,589,819	$ 21,513,590

See accompanying notes to financial statements.

EMANUEL COUNTY HOSPITAL AUTHORITY
(A Component Unit of Emanuel County, Georgia)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
for the years ended June 30, 2019 and 2018

	2019	2018
Operating revenues:		
Net patient service revenue (net of provision for bad debts of approximately $12,330,000 in 2019 and $12,663,000 in 2018)	$ 30,373,018	$ 28,964,211
Other revenue	1,655,646	1,140,054
Total operating revenues	32,028,664	30,104,265
Operating expenses:		
Salaries and wages	15,306,550	14,352,639
Employee health and welfare	3,086,839	2,845,034
Medical supplies and drugs	2,135,464	1,862,499
Professional fees	2,861,633	2,421,763
Purchased services	3,552,951	4,364,503
Other	4,251,093	4,253,720
Depreciation and amortization	941,330	962,176
Total operating expenses	32,135,860	31,062,334
Operating loss	(107,196)	(958,069)
Nonoperating revenues (expenses):		
Investment income	12,633	7,310
Interest expense	(297,700)	(321,097)
Contributions restricted for debt service	1,010,289	966,082
Noncapital grants, contributions and other	924,549	571,414
Total nonoperating revenues	1,649,771	1,223,709
Increase in net position	1,542,575	265,640
Net position, beginning of year	7,750,912	7,485,272
Net position, end of year	$ 9,293,487	$ 7,750,912

See accompanying notes to financial statements.

EMANUEL COUNTY HOSPITAL AUTHORITY
(A Component Unit of Emanuel County, Georgia)

STATEMENTS OF CASH FLOWS
for the years ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Receipts from and on behalf of patients	$ 29,841,701	$ 28,467,386
Payments to vendors and other suppliers	(13,408,910)	(11,535,807)
Payments to employees	(18,238,647)	(17,116,382)
Other revenues	1,655,646	1,140,054
Net cash provided (used) by operating activities	(150,210)	955,251
Cash flows from noncapital financing activities:		
Noncapital grants and contributions	924,549	571,414
Cash flows from capital and related financing activities:		
Proceeds from issuance of long-term debt	-	172,500
Principal paid on long-term debt and capital leases	(1,984,841)	(345,491)
Interest paid on debt	(266,254)	(289,650)
Purchase of capital assets	(199,885)	(458,252)
Contributions and other	1,010,289	971,243
Net cash provided (used) by capital and related financing activities	(1,440,691)	50,350
Cash flows from investing activities:		
Investment income	12,633	7,310
Net increase (decrease) in cash	(653,719)	1,584,325
Cash and cash equivalents, beginning of year	1,988,961	404,636
Cash and cash equivalents, end of year	$ 1,335,242	$ 1,988,961

Continued

EMANUEL COUNTY HOSPITAL AUTHORITY
(A Component Unit of Emanuel County, Georgia)

STATEMENTS OF CASH FLOWS, Continued
for the years ended June 30, 2019 and 2018

	2019	2018
Reconciliation of cash to the balance sheets:		
Cash in current assets	$ 1,292,366	$ 1,094,644
Restricted cash and cash equivalents	42,876	894,317
Total cash and cash equivalents	$ 1,335,242	$ 1,988,961
Reconciliation of operating loss to net cash provided (used) by operating activities:		
Operating loss	$(107,196)	$(958,069)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation and amortization	941,330	962,176
Provision for bad debts	12,329,866	12,662,744
Changes in:		
Patient accounts receivable	(12,950,414)	(12,941,394)
Estimated third-party payor settlements	89,231	(218,175)
Supplies	18,351	79,720
Other current assets	(23,139)	1,350,653
Accounts payable	(549,884)	(63,695)
Accrued expenses	101,645	81,291
Net cash provided (used) by operating activities	$(150,210)	$ 955,251

Supplemental disclosures of cash flow information:

- Purchases of capital assets in accounts payable as of June 30, 2019 and 2018 were $18,765 and $-0-, respectively.
- The Authority entered into capital lease obligations of $677,933 and $53,181 for new equipment in 2019 and 2018, respectively.
- The Authority financed the purchase of a building during 2019 in the amount of $330,000.

See accompanying notes to financial statements.

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

Reporting Entity

The Emanuel County Hospital Authority (Authority) is a public corporation which operates Emanuel Medical Center, an acute care hospital licensed for 72 beds. In addition to the Hospital, the Authority operates a 49 bed skilled nursing facility, a 15 bed geriatric psychiatric unit and various rural health clinics and physician office practices. The Authority is comprised of a board of directors, which has the right to approve major expenditures and long-term borrowings.

The Board of County Commissioners of Emanuel County, Georgia nominates for appointment all non-physician Authority board members, and guarantees the 2012 Refunding Revenue Anticipation Certificates. For these reasons, the Authority is considered a component unit of Emanuel 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).

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents include assets externally restricted for debt service payments. Assets consist of cash and money market deposit accounts.

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 to deductions from revenue and bad debt expense.

Continued

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

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	5 To 25 Years
Buildings and building improvements	5 To 40 Years
Equipment, computers and furniture	3 To 20 Years

Costs of Borrowing

Interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. None of the Authority's interest cost was capitalized in 2019 or 2018.

Financing Cost

Financing costs are expensed in the period in which they are incurred.

Deferred Outflow of Resources

Deferred outflow of resources consist of the unamortized portion of the loss on defeasance for the 2002 Series Certificates. See Note 7 for additional information.

Grants and Contributions

From time to time, the Authority receives contributions from Emanuel County and grants from the State of Georgia and other agencies in addition to 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 as an increase in net position.

Continued

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

Net Position

Net position of the Authority is classified into two 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. *Unrestricted net position* is the remaining net amount of assets and deferred outflow of resources that does not meet the definition of *net investment in capital assets*.

Operating Revenues and Expenses

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

Net Patient Service Revenue

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

Compensated Absences

The Authority's employees earn paid time off, which is comprised of vacation, sick, and holiday benefits at varying rates depending on years of service and are allowed to accumulate up to a specified maximum. Paid time off in excess of the specified maximum is forfeited. Employees terminating their employment may be entitled to payment for earned but unused paid time off. The estimated paid time off accrual is reported in accrued expenses on the Authority's balance sheets in both 2019 and 2018.

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.

Continued

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

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.

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; and employee health benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years. The Authority is partially self-insured for medical malpractice claims and judgments, as discussed in Note 13.

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 June 30, 2019 and 2018.

Recently Adopted Accounting Pronouncement

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 has adopted the provisions for all periods presented.

Accounting Pronouncement Not Yet Adopted

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities* (GASB 84). GASB 84 establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the financial statements.

Continued

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

Accounting Pronouncement Not Yet Adopted, Continued

Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. GASB 84 is effective for fiscal years beginning after December 15, 2018. The Authority is currently evaluating the impact GASB 84 will have on its financial statements.

2. Net Patient Service Revenue

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

Revenue from the Medicare and Medicaid programs accounted for approximately 55% and 29%, respectively, of the Authority's net patient revenue for the year ended 2019 and 50% and 29%, respectively, of the Authority's net patient revenue for the year ended 2018. 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. However, 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 and billing 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 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. Certain other reimbursable items are reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare Administrative Contractor (MAC). The Authority's classification of patients under the Medicare program and the appropriateness of their admission is subject to an independent review by a peer review organization under contract with the Authority. The Authority's Medicare cost reports have been audited by the MAC through June 30, 2015.

Continued

2. Net Patient Service Revenue, Continued

- Medicare, Continued

  Nursing Home services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system known as Resource Utilization Groups (RUGs).

- 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 reduced 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 intermediary through June 30, 2016.

  Long-term care services are reimbursed by the Medicaid program based on a prospectively determined per diem. The per diem is determined by the facility's historical allowable operating costs adjusted for certain incentives and inflation factors.

  The Authority 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 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 service 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 a corresponding increase in hospital payments on Medicaid services of approximately 11.88%. The Authority made or accrued "provider payments" of approximately $133,000 and $229,000 to DCH for the years ended June 30, 2019 and 2018, respectively. These payments are included in other expenses in the accompanying statement of revenues, expenses and changes in net position.

- Other Arrangements

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

Continued

3. Uncompensated Services

The Authority was compensated for services at amounts less than its established rates. Charges for uncompensated services for 2019 and 2018 were $95,703,924 and $91,020,633, respectively.

Uncompensated care includes charity and indigent care services of $2,776,803 and $2,759,699 in 2019 and 2018, respectively. The cost of charity and indigent care services provided during 2019 and 2018 was approximately $708,000 and $714,000, 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 2019 and 2018.

	2019	2018
Gross patient charges	$ 126,076,942	$ 119,984,844
Uncompensated services:		
Charity and indigent care	2,776,803	2,759,699
Medicare	37,031,169	37,757,484
Medicaid	17,248,148	16,391,561
Other allowances	26,317,938	21,449,145
Bad debts	12,329,866	12,662,744
Total uncompensated care	95,703,924	91,020,633
Net patient service revenue	$ 30,373,018	$ 28,964,211

4. Deposits

State law requires collateralization of all deposits with federal depository insurance and other acceptable collateral in specific amounts. 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.

As of June 30, 2019 and 2018, the Authority's deposits were entirely insured, collateralized with securities held by a trustee in the Authority's name, or held by financial institutions that participate in the Georgia Secure Deposit Program (SDP). The SDP is a multibank contingent liability pledging pool to protect public deposits. The program is administered by Georgia Banker's Association Services, Inc. Under the program, a combination of the liquidation of pledged collateral and a guarantee from all the other banks participating in the contingent liability pool will cover any loss exceeding FDIC insurance limits.

Continued

4. Deposits, Continued

Deposits as of June 30, 2019 and 2018 are classified in the accompanying financial statements as follows:

	2019	2018
Balance sheets:		
Cash	$ 1,292,366	$ 1,094,644
Restricted cash and cash and cash equivalents:		
Externally restricted for debt service	42,876	894,317
Total deposits	$ 1,335,242	$ 1,988,961

Deposits consist of the following:		
Deposits	$ 1,330,166	$ 1,119,531
Money market deposit accounts	5,076	869,430
Total deposits	$ 1,335,242	$ 1,988,961

5. Accounts Receivable and Payable

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

	2019	2018
Patient accounts receivable:		
Receivable from patients and their insurance carriers	$ 13,424,328	$ 10,170,259
Receivable from Medicare	5,940,802	5,224,816
Receivable from Medicaid	2,228,573	1,962,399
Total patient accounts receivable	21,593,703	17,357,474
Less allowance for uncollectible amounts and contractual allowances	(16,474,065)	(12,858,384)
Patient accounts receivable, net	$ 5,119,638	$ 4,499,090
Accounts payable and accrued expenses:		
Payable to employees (including payroll taxes)	$ 1,551,482	$ 1,396,740
Payable to suppliers	2,490,154	3,021,273
Other	370,169	423,266
Total accounts payable and accrued expenses	$ 4,411,805	$ 4,841,279

Continued

6. Capital Assets

A summary of capital assets at June 30, 2019 and 2018 follows:

	2018 Balance	Increase	Decrease	Transfers	2019 Balance
Capital assets not being depreciated:					
Land	$ 649,529	$ -	$ -	$ -	$ 649,529
Construction-in-progress	20,460	85,537	-	(42,192)	63,805
Total capital assets not being depreciated	669,989	85,537	-	(42,192)	713,334
Capital assets being depreciated:					
Land improvements	360,011	-	-	-	360,011
Buildings	25,744,023	351,650	(15,427)	21,732	26,101,978
Equipment	12,707,698	789,396	(1,008,482)	20,460	12,509,072
Total capital assets being depreciated	38,811,732	1,141,046	(1,023,909)	42,192	38,971,061
Less accumulated depreciation:					
Land improvements	360,011	-	-	-	360,011
Buildings	13,705,419	555,964	(15,427)	-	14,245,956
Equipment	11,825,514	385,366	(1,008,482)	-	11,202,398
Total accumulated depreciation	25,890,944	941,330	(1,023,909)	-	25,808,365
Total capital assets, net	$ 13,590,777	$ 285,253	$ -	$ -	$ 13,876,030

Continued

6. Capital Assets, Continued

	2017 Balance	Increase	Decrease	Transfers	2018 Balance
Capital assets not being depreciated:					
Land	$ 649,529	$ -	$ -	$ -	$ 649,529
Construction-in-progress	5,161	20,460	(5,161)	-	20,460
Total capital assets not being depreciated	654,690	20,460	(5,161)	-	669,989
Capital assets being depreciated:					
Land improvements	360,011	-	-	-	360,011
Buildings	25,717,847	26,176	-	-	25,744,023
Equipment	12,413,150	324,192	(29,644)	-	12,707,698
Total capital assets being depreciated	38,491,008	350,368	(29,644)	-	38,811,732
Less accumulated depreciation:					
Land improvements	360,011	-	-	-	360,011
Buildings	13,141,013	564,406	-	-	13,705,419
Equipment	11,457,388	397,770	(29,644)	-	11,825,514
Total accumulated depreciation	24,958,412	962,176	(29,644)	-	25,890,944
Total capital assets, net	$ 14,187,286	$(591,348)	$(5,161)	$ -	$ 13,590,777

Amortization for equipment under capital lease obligations for the years ended June 30, 2019 and 2018 amounted to approximately $78,000 and $91,000. Accumulated amortization for equipment under capital lease obligations was approximately $84,000 and $628,000 at June 30, 2019 and 2018, respectively.

Continued

7. Long-Term Debt

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

	2018 Balance	Additions	Reductions	2019 Balance	Amounts Due Within One Year
Direct borrowings and direct placement:					
Revenue certificates:					
2012 Series	$ 5,985,000	$ -	$(1,620,000)	$ 4,365,000	$ 835,000
Notes payable	2,497,944	330,000	(204,682)	2,623,262	241,262
Capital lease obligations	121,257	677,933	(160,159)	639,031	139,919
Total long-term debt	$ 8,604,201	$ 1,007,933	$(1,984,841)	$ 7,627,293	$ 1,216,181

	2017 Balance	Additions	Reductions	2018 Balance	Amounts Due Within One Year
Direct borrowings and direct placement:					
Revenue certificates:					
2012 Series	$ 5,985,000	$ -	$ -	$ 5,985,000	$ 1,620,000
Notes payable	2,519,911	172,500	(194,467)	2,497,944	205,391
Capital lease obligations	219,100	53,181	(151,024)	121,257	77,621
Total long-term debt	$ 8,724,011	$ 225,681	$(345,491)	$ 8,604,201	$ 1,903,012

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

- In December 2012, the Authority issued Refunding Revenue Anticipation Certificates Series 2012 to advance refund the 2002 Series Certificates with principal maturing in varying annual amounts with final payment due July 1, 2024, interest accruing at 2.17%. Collateralized by a pledge of the Authority's gross receipts. During 2011, Emanuel County approved by referendum a special purpose local option sales tax (SPLOST), for which a portion of the SPLOST funds would be for the Authority's debt service requirements. During 2017, the SPLOST was reimposed by referendum for an additional six-year period. The contributions related to SPLOST are included in the statements of revenues, expenses and changes in net position as nonoperating revenue for the years ended 2019 and 2018. The cumulative amount paid by Emanuel County as of 2019 is approximately $7,807,000. The SPLOST resolution is effective from January 2018 to December 2023 and does not require any amounts to be repaid to the County.

  As a result of the bond refunding transaction, the Authority recognized a loss on defeasance of approximately $362,000. The loss included the funds necessary to adequately fund the defeased Series 2002 escrow account. The loss is included in deferred outflow of resources on the balance sheet and is being amortized over the life of the Series 2012 Certificates.

Continued

7. Long-Term Debt, Continued

- Note payable to Emanuel County with a remaining principal balance of $686,248, incurring interest at the imputed rate of 5.25%, collateralized by the Authority's capital assets.

- Note payable to a bank with a remaining principal balance of $74,076, bearing interest at a rate of 5.75%. On July 30, 2017, and each thirty-six month interval thereafter, the rate will change to the Prime Rate plus 2.50%. Collateralized by property.

- Note payable to a bank with a remaining principal balance of $276,782, bearing interest at a rate of 5.25%. Collateralized by property.

- Note payable to the United States Department of Agriculture with a maximum draw amount of $1,426,250, bearing interest at a rate of 3.50%. The Authority has made the maximum amount of draws and has a remaining principal balance of $1,176,454. The note is collateralized by property and revenues of the Authority.

- Note payable to a bank with a remaining principal balance of $79,702, bearing interest at a rate of 5.75%. Collateralized by equipment.

- Note payable to a bank with a remaining principal balance of $330,000, bearing interest at a rate of 5.50%. Collateralized by property.

- Capital lease obligations, at varying rates of imputed interest from 1.31% to 6.45%, collateralized by leased equipment with an unamortized cost of $647,367 at June 30, 2019.

All outstanding long-term debt from direct borrowings and direct placement contain provisions of default that, if experienced by the Authority, would change the timing of repayment of outstanding amounts to become immediately due.

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

	Long-Term Debt		Capital Lease Obligations	
Year Ending June 30	Principal	Interest	Principal	Interest
2020	$ 1,076,262	$ 172,259	$ 139,919	$ 18,560
2021	1,793,984	142,559	144,585	13,930
2022	1,112,750	111,857	149,380	9,135
2023	1,028,654	84,664	151,206	4,191
2024	1,238,417	59,683	53,941	369
2025-2029	614,647	78,983	-	-
2030	123,548	1,955	-	-
Total	$ 6,988,262	$ 651,960	$ 639,031	$ 46,185

Continued

8. Retirement Plan

The Authority provides coverage under contract with Variable Annuity Life Insurance Company (VALIC) for a retirement plan for the employees of the Authority. The plan is a defined contribution plan. The plan is open to all employees on the first day of the month following the date they have completed 90 days of service and reached age 21. The Authority makes a base contribution of .5% of the employee's compensation and if the employee elects to contribute up to 2.5% of their compensation, the Authority will match the employee's contribution.

Years of Service	Vesting Percentage
Less Than 5	0%
5 or More	100%

A year of service for vesting is a plan year in which the employee works at least 1,000 hours. Employee contributions are 100% vested at all times.

The Authority elected to allocate past forfeitures of approximately $-0- and $8,000 in 2019 and 2018 in lieu of cash contributions. The Authority's cost for the retirement plan in 2019 and 2018 was approximately $155,000 and $143,000, respectively. The amount owed by the Authority to the plan was approximately $19,000 and $22,000 at June 30, 2019 and 2018, respectively.

9. Concentration of Credit Risk

The Authority grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements.

The mix of receivables from patients and third-party payors is as follows:

	2019	2018
Medicare	28%	30%
Medicaid	10%	11%
Patients	39%	37%
Other third-party payors	23%	22%
Total	100%	100%

Continued

10. Hospital Management Agreement

Effective April 1, 2013, the Authority entered into a management agreement with ERHospital, LLC (ERH) for the purpose of providing management and administrative services. The original agreement was for a period of five years, with an automatic renewal of one year, unless either party provides notice of nonrenewal within ninety days prior to the end of the five year term. On April 1, 2018, the agreement was amended and renewed for an additional five years.

Under the original agreement, consideration for the management services provided by ERH was calculated based on the monthly Net Operating Income (NOI) of the Authority. The agreement defined NOI as earnings before interest, taxes, depreciation, and amortization. In the event of a negative monthly NOI, the management fee would be reduced and carried forward to the following month. Management fees owed to the Authority under this agreement at June 30, 2017 were approximately $1,304,000. During 2018, with the amendment of the original agreement, the management fees owed to the Authority were forgiven and expensed by the Authority.

Under the amended agreement, consideration for the management services provided by ERH is a monthly fee of $30,000 due on the first day of each month. ERH may also be entitled to an incentive bonus equal to $50,000 each fiscal year dependent upon meeting certain performance goals agreed upon by the Authority and ERH prior to the beginning of the fiscal year. Management fees incurred under the amended agreement during 2019 and 2018 were approximately $360,000 and $90,000, respectively.

On January 1, 2015, the Authority and ERH modified the management agreement whereas certain management and operational services will be provided by ERH Shared Services, LLC (Shared Services) a wholly owned subsidiary of ERH. Employees of Shared Services provide services to multiple hospitals under the management of ERH. The cost for these services are billed monthly based on each hospital's pro rata share of the total cost incurred by Shared Services. These costs mainly include salaries, wages, and benefits of the Shared Services employees. The amounts incurred by the Authority for these services were approximately $1,777,000 and $1,634,000 in 2019 and 2018, respectively.

The management and shared services fees incurred under the agreement are recorded in purchased services on the statements of revenues, expenses and changes in net position.

11. Contingencies

During the normal course of operations, the Authority is potentially subject to litigation and regulatory investigation arising from the treatment of patients and the normal operations of the Authority. In the opinion of management and legal counsel, the Authority has adequate liability insurance protection to indemnify any material asserted or unasserted claims as of June 30, 2019 and 2018.

Continued

12. Employee Health Insurance

The Authority purchases employee health insurance through a third-party vendor. Total expense related to employee health insurance was approximately $1,277,000 and $1,335,000 for 2019 and 2018, respectively. These amounts, which include commercial insurance premiums, are included in the statement of revenues, expenses and changes in net position as employee health and welfare.

13. Medical Malpractice Claims and Judgments

The Authority is covered by a general and professional liability insurance policy with a specified deductible per incident and excess coverage on a claims-made basis. Self-insured retention related to this policy was $150,000 per occurrence in 2019 and 2018. The specific loss, other coverage and health care professional liability aggregate limits for each year is $5 million. Under this program, the Authority paid or accrued approximately $198,000 and $139,000 in 2019 and 2018, respectively. These amounts, which include commercial insurance premiums, are included in the statement of revenues, expenses and changes in net position as other expenses.

14. Indigent Care Trust Fund

The Authority qualified as a Medicaid disproportionate share hospital for 2019 and 2018 and received increased payment adjustments for claims paid during 2019 and 2018. The continuation of increased payment adjustments for Medicaid disproportionate share hospitals in future years is uncertain. The 2019 and 2018 financial statements include payment adjustments of approximately $720,000 and $575,000, respectively, which are reflected in net patient service revenue.

15. Medicaid Upper Payment Limit

The Medicare, Medicaid, and SCHIP Benefits Improvement and Protection Act of 2000 (BIPA) provides for enhanced payments to Medicaid providers under the Upper Payment Limit (UPL) methodology. Subsequent to the implementation of the UPL methodology, federal budget concerns have led to reconsideration of the BIPA legislation with possible elimination or reduction of enhanced Medicaid payments. The financial statements include enhanced payments for 2019 and 2018 of approximately $1,020,000 and $1,143,000, respectively, which are reflected in net patient service revenue.

16. Health Care Reform

There has been increasing pressure on Congress and some state legislatures to control and reduce the cost of healthcare at the national and the state levels. 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 these provisions are and 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.

Continued

17. Regulatory Compliance

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.

18. Operating Leases

The Authority leases various equipment under operating leases expiring at various dates through June 2022. Total rental expense in 2019 and 2018 for all operating leases was approximately $875,000 and $873,000, respectively.

The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2019, that have initial or remaining lease terms in excess of one year.

Year Ending	Amount at June 30
2020	$ 165,666
2021	165,666
2022	84,959
Total	$ 416,291

19. Rural Hospital Tax Credit Contributions

The State of Georgia (State) passed legislation which will allow individuals or corporations to receive a State tax credit for making a contribution to certain qualified rural hospital organizations during calendar years 2017 through 2021. The Authority submitted the necessary documentation and was approved by the State to participate in the rural hospital tax credit program for calendar years 2018 and 2019. Contributions received under the program for 2019 and 2018 were approximately $874,000 and $568,000, respectively, and are reported as noncapital grants, contributions and other on the statements of revenues, expenses and changes in net position. The Authority will have to be approved by the State to participate in the program in each subsequent year.

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

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

Board of Directors
Emanuel County Hospital Authority
Swainsboro, Georgia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Emanuel County Hospital Authority (Authority) as of and for the year ended June 30, 2019, and the related notes to the financial statements, and have issued our report thereon dated September 24, 2019.

Internal Control Over Financial Reporting

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

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

Continued

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Draffin & Tucker, LLP
Albany, Georgia
September 24, 2019