

CANDLER COUNTY HOSPITAL AUTHORITY  
(A Component Unit of Candler County, Georgia)

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FINANCIAL STATEMENTS

for the years ended December 31, 2018 and 2017

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Candler County Hospital Authority  
Metter, Georgia

### **Report on the Financial Statements**

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

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

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

Continued

Let's Think Together.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Candler County Hospital Authority as of December 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.

### ***Substantial Doubt About the Authority's Ability to Continue as a Going Concern***

The accompanying financial statements have been prepared assuming that the Authority will continue as a going concern. As discussed in Note 9 to the financial statements, the Authority has suffered recurring losses from operations, has a net position deficiency, has current liabilities that exceed its current assets, and has difficulties in managing cash flow. These issues indicate that substantial doubt exists about the Authority's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 9. 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.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 26, 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  
August 26, 2019

CANDLER COUNTY HOSPITAL AUTHORITY  
(A Component Unit of Candler County, Georgia)

BALANCE SHEETS  
December 31, 2018 and 2017

|                                                                                                                                                            | <u>2018</u>         | <u>2017</u>         |
|------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| ASSETS                                                                                                                                                     |                     |                     |
| Current assets:                                                                                                                                            |                     |                     |
| Cash                                                                                                                                                       | \$ 558,300          | \$ 22,422           |
| Patient accounts receivable, net of contractual allowances<br>and estimated uncollectibles of approximately<br>\$6,575,000 in 2018 and \$5,883,000 in 2017 | 1,255,376           | 1,791,947           |
| Supplies                                                                                                                                                   | 176,472             | 196,823             |
| Other current assets                                                                                                                                       | <u>609,955</u>      | <u>885,335</u>      |
| Total current assets                                                                                                                                       | <u>2,600,103</u>    | <u>2,896,527</u>    |
| Noncurrent cash:                                                                                                                                           |                     |                     |
| Externally restricted for debt service                                                                                                                     | <u>2,376</u>        | <u>12,376</u>       |
| Capital assets:                                                                                                                                            |                     |                     |
| Nondepreciable capital assets                                                                                                                              | 168,940             | 168,940             |
| Depreciable capital assets, net of accumulated<br>depreciation                                                                                             | <u>2,538,815</u>    | <u>3,265,711</u>    |
| Total capital assets, net of accumulated depreciation                                                                                                      | <u>2,707,755</u>    | <u>3,434,651</u>    |
| Total assets                                                                                                                                               | \$ <u>5,310,234</u> | \$ <u>6,343,554</u> |

Continued

|                                           | <u>2018</u>          | <u>2017</u>          |
|-------------------------------------------|----------------------|----------------------|
| LIABILITIES AND NET POSITION              |                      |                      |
| Current liabilities:                      |                      |                      |
| Current maturities of long-term debt      | \$ 574,276           | \$ 724,712           |
| Short-term debt                           | -                    | 1,324,751            |
| Accounts payable                          | 4,779,289            | 6,547,541            |
| Accrued expenses                          | 494,951              | 517,811              |
| Estimated third-party payor settlements   | <u>783,109</u>       | <u>354,870</u>       |
| Total current liabilities                 | 6,631,625            | 9,469,685            |
| Long-term debt, net of current maturities | <u>3,811,072</u>     | <u>2,956,833</u>     |
| Total liabilities                         | <u>10,442,697</u>    | <u>12,426,518</u>    |
| Net position:                             |                      |                      |
| Net investment in capital assets          | 1,984,313            | 2,427,286            |
| Restricted:                               |                      |                      |
| Expendable for debt service               | 2,376                | 12,376               |
| Unrestricted                              | ( <u>7,119,152</u> ) | ( <u>8,522,626</u> ) |
| Total net position                        | ( <u>5,132,463</u> ) | ( <u>6,082,964</u> ) |
| Total liabilities and net position        | \$ <u>5,310,234</u>  | \$ <u>6,343,554</u>  |

See accompanying notes to financial statements.



CANDLER COUNTY HOSPITAL AUTHORITY  
(A Component Unit of Candler County, Georgia)

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
for the years ended December 31, 2018 and 2017

|                                                                                                                           | <u>2018</u>            | <u>2017</u>            |
|---------------------------------------------------------------------------------------------------------------------------|------------------------|------------------------|
| Operating revenues:                                                                                                       |                        |                        |
| Net patient service revenue (net of provision for bad debts of approximately \$5,820,000 in 2018 and \$4,308,000 in 2017) | \$ 12,357,904          | \$ 13,062,352          |
| Other revenue                                                                                                             | <u>305,288</u>         | <u>411,210</u>         |
| Total operating revenues                                                                                                  | <u>12,663,192</u>      | <u>13,473,562</u>      |
| Operating expenses:                                                                                                       |                        |                        |
| Salaries and wages                                                                                                        | 6,336,562              | 5,960,862              |
| Employee health and welfare                                                                                               | 1,016,010              | 1,001,124              |
| Purchased services                                                                                                        | 2,712,516              | 2,938,456              |
| Medical supplies and drugs                                                                                                | 1,357,366              | 1,540,481              |
| Professional fees                                                                                                         | 906,433                | 863,760                |
| Repairs and maintenance                                                                                                   | 158,975                | 219,911                |
| Utilities and communications                                                                                              | 310,978                | 323,707                |
| Insurance                                                                                                                 | 103,244                | 120,761                |
| Other                                                                                                                     | 930,510                | 1,152,406              |
| Depreciation and amortization                                                                                             | <u>726,896</u>         | <u>769,412</u>         |
| Total operating expenses                                                                                                  | <u>14,559,490</u>      | <u>14,890,880</u>      |
| Operating loss                                                                                                            | ( <u>1,896,298</u> )   | ( <u>1,417,318</u> )   |
| Nonoperating revenues (expenses):                                                                                         |                        |                        |
| Interest income                                                                                                           | 22,318                 | 2,703                  |
| Interest expense                                                                                                          | ( 209,060 )            | ( 196,876 )            |
| Noncapital contributions                                                                                                  | <u>1,815,945</u>       | <u>1,014,628</u>       |
| Total nonoperating revenues                                                                                               | <u>1,629,203</u>       | <u>820,455</u>         |
| Excess revenues (expenses)                                                                                                | ( 267,095 )            | ( 596,863 )            |
| Capital contributions                                                                                                     | -                      | 10,500                 |
| Forgiveness of debt                                                                                                       | <u>1,217,596</u>       | <u>-</u>               |
| Increase (decrease) in net position                                                                                       | 950,501                | ( 586,363 )            |
| Net position, beginning of year                                                                                           | ( <u>6,082,964</u> )   | ( <u>5,496,601</u> )   |
| Net position, end of year                                                                                                 | \$( <u>5,132,463</u> ) | \$( <u>6,082,964</u> ) |

See accompanying notes to financial statements.

CANDLER COUNTY HOSPITAL AUTHORITY  
(A Component Unit of Candler County, Georgia)

STATEMENTS OF CASH FLOWS  
for the years ended December 31, 2018 and 2017

|                                                           | <u>2018</u>       | <u>2017</u>      |
|-----------------------------------------------------------|-------------------|------------------|
| Cash flows from operating activities:                     |                   |                  |
| Receipts from and on behalf of patients                   | \$ 13,628,002     | \$ 14,041,417    |
| Payments to suppliers and contractors                     | ( 6,717,947)      | ( 7,193,282)     |
| Payments to employees                                     | ( 7,375,432)      | ( 6,868,594)     |
| Net cash used by operating activities                     | ( 465,377)        | ( 20,459)        |
| Cash flows from noncapital financing activities:          |                   |                  |
| Noncapital contributions                                  | <u>1,295,855</u>  | <u>485,522</u>   |
| Cash flows from capital and related financing activities: |                   |                  |
| Capital contributions                                     | -                 | 10,500           |
| Principal paid on long-term debt                          | ( 246,189)        | ( 259,160)       |
| Interest paid on long-term debt                           | ( 63,729)         | ( 77,034)        |
| Purchase of capital assets                                | ( 17,000)         | ( 235,860)       |
| Net cash used by capital and related financing activities | ( 326,918)        | ( 561,554)       |
| Cash flows from investing activities:                     |                   |                  |
| Interest income                                           | <u>22,318</u>     | <u>2,703</u>     |
| Net increase (decrease) in cash                           | 525,878           | ( 93,788)        |
| Cash, beginning of year                                   | <u>34,798</u>     | <u>128,586</u>   |
| Cash, end of year                                         | \$ <u>560,676</u> | \$ <u>34,798</u> |

Continued



CANDLER COUNTY HOSPITAL AUTHORITY  
(A Component Unit of Candler County, Georgia)

STATEMENTS OF CASH FLOWS, Continued  
for the years ended December 31, 2018 and 2017

|                                                                                      | <u>2018</u>          | <u>2017</u>         |
|--------------------------------------------------------------------------------------|----------------------|---------------------|
| Reconciliation of cash to the balance sheet:                                         |                      |                     |
| Cash in current assets                                                               | \$ 558,300           | \$ 22,422           |
| Restricted cash                                                                      | <u>2,376</u>         | <u>12,376</u>       |
| Total cash                                                                           | \$ <u>560,676</u>    | \$ <u>34,798</u>    |
| Reconciliation of operating loss to net cash used<br>by operating activities:        |                      |                     |
| Operating loss                                                                       | \$(1,896,298)        | \$(1,417,318)       |
| Adjustments to reconcile operating loss to net cash<br>used by operating activities: |                      |                     |
| Depreciation and amortization                                                        | 726,896              | 769,412             |
| Provision for bad debts                                                              | 5,820,140            | 4,307,611           |
| Changes in:                                                                          |                      |                     |
| Patient accounts receivable                                                          | (5,283,569)          | (3,684,665)         |
| Supplies                                                                             | 20,351               | 14,471              |
| Estimated third-party payor settlements                                              | 428,239              | ( 55,091)           |
| Other current assets                                                                 | 275,380              | ( 170,570)          |
| Accounts payable                                                                     | ( 533,656)           | 122,299             |
| Accrued expenses                                                                     | <u>( 22,860)</u>     | <u>93,392</u>       |
| Net cash used by operating activities                                                | \$ <u>( 465,377)</u> | \$ <u>( 20,459)</u> |

Supplemental disclosures of cash flow information:

- The Authority entered into capital lease obligations of approximately \$-0- and \$82,000 for new equipment in 2018 and 2017, respectively.
- Purchases of capital assets in accounts payable as of December 31, 2018 and 2017 were approximately \$-0- and \$17,000, respectively.
- Principal and interest payments on long-term debt, paid by the County on behalf of the Authority, were approximately \$520,000 and \$529,000 in 2018 and 2017, respectively.

See accompanying notes to financial statements.

CANDLER COUNTY HOSPITAL AUTHORITY  
(A Component Unit of Candler County, Georgia)

NOTES TO FINANCIAL STATEMENTS  
December 31, 2018 and 2017

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

Reporting Entity

The Candler County Hospital Authority (Authority) is a public corporation that operates Candler County Hospital, an acute care hospital. The Authority was created on November 11, 1958 by the Board of Commissioners of Roads and Revenues of Candler County, Georgia to operate, control, and manage all matters concerning the county's health care functions. The Board of Commissioners of Candler County, Georgia nominate the Board of Directors of the Authority and the County has guaranteed some debt of the Authority. For these reasons, the Authority is considered to be a component unit of Candler 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).

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          | 8 To 20 Years  |
| Buildings and improvements | 10 To 40 Years |
| Equipment                  | 3 To 20 Years  |

Continued

CANDLER COUNTY HOSPITAL AUTHORITY  
(A Component Unit of Candler County, Georgia)

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

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

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 statement of revenues, expenses and changes in net position for the years ended December 31, 2018 and 2017.

Costs of Borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Financing Cost

Costs incurred in connection with the issuance of notes are expensed in the period in which they are incurred.

Grants and Contributions

From time to time, the Authority receives grants as well as contributions from individuals, private organizations and Candler County. 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.

Continued

CANDLER COUNTY HOSPITAL AUTHORITY  
(A Component Unit of Candler County, Georgia)

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

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

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 and deferred inflows of resources related to those assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Authority. *Unrestricted net position* is the remaining net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that do not meet the definition of *net investment in capital assets* or *restricted net position*.

Operating Revenues and Expenses

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

Compensated Absences

The Authority's employees earn Paid Time Off (PTO) at varying rates depending on years of service. The amount of PTO an employee can accumulate is limited. Employees who voluntarily terminate their job after one year of service may request payment of their unused PTO balance if termination is in accordance with the PTO policy. Employees may also convert PTO to cash under certain conditions. Accrued PTO is reported as accrued expenses on the balance sheet.

Allowance for Doubtful Accounts

The Authority provides an allowance for doubtful accounts based on the 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.

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

CANDLER COUNTY HOSPITAL AUTHORITY  
(A Component Unit of Candler County, Georgia)

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

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

Risk Management

The Authority is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years. The Authority is partially self-insured for medical malpractice claims and judgments, as discussed in Note 12.

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.

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 arrangements 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.

Supplies

Supplies are stated at the lower of cost or market value, using the first-in, first-out method.

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. 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.

Continued

CANDLER COUNTY HOSPITAL AUTHORITY  
(A Component Unit of Candler County, Georgia)

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

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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 there are any significant credit risks associated with receivables due from third-party payors. A summary of the payment arrangements with major third-party payors follows:

- Medicare

Effective October 1, 2004, the Authority was granted Critical Access Hospital (CAH) designation by the Medicare program. The CAH designation places certain restrictions on daily acute care inpatient census and an annual, average length of stay of acute care inpatients. Inpatient acute care and outpatient services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology. 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 December 31, 2014.

- 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 the 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 December 31, 2016.

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 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 \$582,000 and \$608,000 for the years ended December 31, 2018 and 2017, respectively.

Continued

CANDLER COUNTY HOSPITAL AUTHORITY  
(A Component Unit of Candler County, Georgia)

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

2. Net Patient Service Revenue, Continued

- Medicaid, Continued

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 \$88,000 and \$56,000 for the years ended December 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.

Revenue from the Medicare and Medicaid programs accounted for approximately 62% and 17%, respectively of the Authority's net patient service revenue for the year ended 2018 and 64% and 14%, respectively, of the Authority's net patient service revenue for the year ended 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 2018 and 2017 net patient service revenue decreased approximately \$465,000 and \$-0-, respectively due to prior-year retroactive adjustments in excess of amounts previously estimated.

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 appropriateness. The RAC's have authority to pursue improper payments with a three year look back from the date the claim was paid. While no such regulatory inquiries have been made to date, 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.

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 \$40,261,000 and \$41,313,000, respectively.

Continued



CANDLER COUNTY HOSPITAL AUTHORITY  
(A Component Unit of Candler County, Georgia)

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

3. Uncompensated Services, Continued

Uncompensated care includes charity and indigent care services of approximately \$1,358,000 and \$1,852,000 in 2018 and 2017, respectively. The cost of charity and indigent care services provided during 2018 and 2017 was approximately \$376,000 and \$507,000, respectively, computed by applying a total cost factor to the charges foregone.

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>52,618,526</u> | \$ <u>54,375,082</u> |
| Uncompensated services:     |                      |                      |
| Charity and indigent care   | 1,357,781            | 1,851,647            |
| Medicare                    | 17,876,197           | 20,710,092           |
| Medicaid                    | 5,642,254            | 5,792,097            |
| Other allowances            | 9,564,250            | 8,651,283            |
| Bad debts                   | <u>5,820,140</u>     | <u>4,307,611</u>     |
| Total uncompensated care    | <u>40,260,622</u>    | <u>41,312,730</u>    |
| Net patient service revenue | \$ <u>12,357,904</u> | \$ <u>13,062,352</u> |

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 December 31, 2018 and 2017, 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.

The carrying amount of cash included in the Authority's balance sheet is as follows:

|      | <u>2018</u>       | <u>2017</u>      |
|------|-------------------|------------------|
| Cash | \$ <u>560,676</u> | \$ <u>34,798</u> |

Continued

CANDLER COUNTY HOSPITAL AUTHORITY  
(A Component Unit of Candler County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued  
December 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 at December 31, 2018 and 2017 consisted of these amounts:

|                                                                      | <u>2018</u>         | <u>2017</u>         |
|----------------------------------------------------------------------|---------------------|---------------------|
| Patient accounts receivable:                                         |                     |                     |
| Receivable from patients and their insurance carriers                | \$ 4,271,927        | \$ 4,193,616        |
| Receivable from Medicare                                             | 3,024,079           | 2,753,871           |
| Receivable from Medicaid                                             | <u>534,816</u>      | <u>727,239</u>      |
| Total patient accounts receivable                                    | 7,830,822           | 7,674,726           |
| Less allowance for uncollectible amounts and contractual adjustments | <u>6,575,446</u>    | <u>5,882,779</u>    |
| Patient accounts receivable, net                                     | \$ <u>1,255,376</u> | \$ <u>1,791,947</u> |
| Accounts payable and accrued expenses:                               |                     |                     |
| Payable to employees (including payroll taxes)                       | \$ 494,951          | \$ 517,811          |
| Payable to suppliers                                                 | <u>4,779,289</u>    | <u>6,547,541</u>    |
| Total accounts payable and accrued expenses                          | \$ <u>5,274,240</u> | \$ <u>7,065,352</u> |

Continued

CANDLER COUNTY HOSPITAL AUTHORITY  
(A Component Unit of Candler County, Georgia)

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

6. Capital Assets

Capital asset changes for the years ended December 31, 2018 and 2017 are as follows:

|                                                        | <u>2017</u>         | <u>Additions</u>    | <u>Retirements</u> | <u>Transfers</u> | <u>2018</u>         |
|--------------------------------------------------------|---------------------|---------------------|--------------------|------------------|---------------------|
| Land                                                   | \$ <u>168,940</u>   | \$ <u>-</u>         | \$ <u>-</u>        | \$ <u>-</u>      | \$ <u>168,940</u>   |
| Total capital assets not<br>being depreciated          | <u>168,940</u>      | <u>-</u>            | <u>-</u>           | <u>-</u>         | <u>168,940</u>      |
| Land improvements                                      | 148,884             | -                   | -                  | -                | 148,884             |
| Buildings and improvements                             | 6,985,111           | -                   | -                  | -                | 6,985,111           |
| Equipment                                              | <u>9,862,369</u>    | <u>-</u>            | <u>-</u>           | <u>-</u>         | <u>9,862,369</u>    |
| Total capital assets<br>being depreciated              | <u>16,996,364</u>   | <u>-</u>            | <u>-</u>           | <u>-</u>         | <u>16,996,364</u>   |
| Less accumulated depreciation<br>and amortization for: |                     |                     |                    |                  |                     |
| Land improvements                                      | 148,884             | -                   | -                  | -                | 148,884             |
| Buildings and improvements                             | 5,222,828           | 195,904             | -                  | -                | 5,418,732           |
| Equipment                                              | <u>8,358,941</u>    | <u>530,992</u>      | <u>-</u>           | <u>-</u>         | <u>8,889,933</u>    |
| Total accumulated<br>depreciation and<br>amortization  | <u>13,730,653</u>   | <u>726,896</u>      | <u>-</u>           | <u>-</u>         | <u>14,457,549</u>   |
| Capital assets being<br>depreciated, net               | <u>3,265,711</u>    | <u>(726,896)</u>    | <u>-</u>           | <u>-</u>         | <u>2,538,815</u>    |
| Total capital<br>assets, net                           | \$ <u>3,434,651</u> | \$ <u>(726,896)</u> | \$ <u>-</u>        | \$ <u>-</u>      | \$ <u>2,707,755</u> |

Continued

CANDLER COUNTY HOSPITAL AUTHORITY  
(A Component Unit of Candler County, Georgia)

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

6. Capital Assets, Continued

|                                                     | <u>2016</u>         | <u>Additions</u>    | <u>Retirements</u> | <u>Transfers</u> | <u>2017</u>         |
|-----------------------------------------------------|---------------------|---------------------|--------------------|------------------|---------------------|
| Land                                                | \$ 168,940          | \$ -                | \$ -               | \$ -             | \$ 168,940          |
| Construction-in-progress                            | <u>720</u>          | <u>-</u>            | <u>720</u>         | <u>-</u>         | <u>-</u>            |
| Total capital assets not being depreciated          | <u>169,660</u>      | <u>-</u>            | <u>720</u>         | <u>-</u>         | <u>168,940</u>      |
| Land improvements                                   | 148,884             | -                   | -                  | -                | 148,884             |
| Buildings and improvements                          | 6,808,859           | 152,753             | -                  | 23,499           | 6,985,111           |
| Equipment                                           | <u>9,744,520</u>    | <u>141,348</u>      | <u>-</u>           | <u>(23,499)</u>  | <u>9,862,369</u>    |
| Total capital assets being depreciated              | <u>16,702,263</u>   | <u>294,101</u>      | <u>-</u>           | <u>-</u>         | <u>16,996,364</u>   |
| Less accumulated depreciation and amortization for: |                     |                     |                    |                  |                     |
| Land improvements                                   | 148,884             | -                   | -                  | -                | 148,884             |
| Buildings and improvements                          | 4,997,093           | 225,735             | -                  | -                | 5,222,828           |
| Equipment                                           | <u>7,815,264</u>    | <u>543,677</u>      | <u>-</u>           | <u>-</u>         | <u>8,358,941</u>    |
| Total accumulated depreciation and amortization     | <u>12,961,241</u>   | <u>769,412</u>      | <u>-</u>           | <u>-</u>         | <u>13,730,653</u>   |
| Capital assets being depreciated, net               | <u>3,741,022</u>    | <u>(475,311)</u>    | <u>-</u>           | <u>-</u>         | <u>3,265,711</u>    |
| Total capital assets, net                           | \$ <u>3,910,682</u> | \$ <u>(475,311)</u> | \$ <u>720</u>      | \$ <u>-</u>      | \$ <u>3,434,651</u> |

Amortization for equipment under capital lease obligations for the years ended December 31, 2018 and 2017 amounted to approximately \$64,000 and \$54,000, respectively. Accumulated amortization for equipment under capital lease obligations was approximately \$174,000 and \$110,000 with original cost of approximately \$549,000 at December 31, 2018 and 2017, respectively.

Continued

CANDLER COUNTY HOSPITAL AUTHORITY  
(A Component Unit of Candler County, Georgia)

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

7. Short-Term Debt

A schedule of changes in the Authority's short-term debt for 2018 and 2017 follows:

|                                              | <u>2017</u>         | <u>Additions</u> | <u>Reductions</u> | <u>Transfers</u>      | <u>2018</u>         |
|----------------------------------------------|---------------------|------------------|-------------------|-----------------------|---------------------|
| Notes payable:<br>Candler County,<br>Georgia | \$ <u>1,324,751</u> | \$ <u>-</u>      | \$ <u>-</u>       | \$ <u>(1,324,751)</u> | \$ <u>-</u>         |
|                                              | <u>2016</u>         | <u>Additions</u> | <u>Reductions</u> | <u>Transfers</u>      | <u>2017</u>         |
| Notes payable:<br>Candler County,<br>Georgia | \$ <u>1,324,751</u> | \$ <u>-</u>      | \$ <u>-</u>       | \$ <u>-</u>           | \$ <u>1,324,751</u> |

- Note payable to Candler County, Georgia incurring interest at the imputed rate of 4.00%, unsecured. During 2018, the note payable was converted to long-term with no obligation to pay during the next fiscal year.

8. Long-Term Debt

A schedule of changes in the Authority's long-term debt for 2018 and 2017 follows:

|                                       | <u>2017</u>         | <u>Additions</u> | <u>Reductions</u> | <u>Transfers</u>    | <u>2018</u>         | <u>Amounts<br/>Due Within<br/>One Year</u> |
|---------------------------------------|---------------------|------------------|-------------------|---------------------|---------------------|--------------------------------------------|
| Revenue certificates:<br>Series 2013A | \$ 97,734           | \$ -             | \$ 97,734         | \$ -                | \$ -                | \$ -                                       |
| Taxable note:<br>Series 2014          | 2,574,179           | -                | 277,025           | -                   | 2,297,154           | 291,002                                    |
| Notes payable                         | 689,646             | -                | 160,369           | 1,324,751           | 1,854,028           | 146,569                                    |
| Capital leases                        | <u>319,986</u>      | <u>-</u>         | <u>85,820</u>     | <u>-</u>            | <u>234,166</u>      | <u>136,705</u>                             |
| Total long<br>term debt               | \$ <u>3,681,545</u> | \$ <u>-</u>      | \$ <u>620,948</u> | \$ <u>1,324,751</u> | \$ <u>4,385,348</u> | \$ <u>574,276</u>                          |

|                                       | <u>2016</u>         | <u>Additions</u> | <u>Reductions</u> | <u>Transfers</u> | <u>2017</u>         | <u>Amounts<br/>Due Within<br/>One Year</u> |
|---------------------------------------|---------------------|------------------|-------------------|------------------|---------------------|--------------------------------------------|
| Revenue certificates:<br>Series 2013A | \$ 201,394          | \$ -             | \$ 103,660        | \$ -             | \$ 97,734           | \$ 97,734                                  |
| Taxable note:<br>Series 2014          | 2,879,782           | -                | 305,603           | -                | 2,574,179           | 298,564                                    |
| Notes payable                         | 877,951             | -                | 188,305           | -                | 689,646             | 163,209                                    |
| Capital leases                        | <u>308,942</u>      | <u>81,900</u>    | <u>70,856</u>     | <u>-</u>         | <u>319,986</u>      | <u>165,205</u>                             |
| Total long<br>term debt               | \$ <u>4,268,069</u> | \$ <u>81,900</u> | \$ <u>668,424</u> | \$ <u>-</u>      | \$ <u>3,681,545</u> | \$ <u>724,712</u>                          |

Continued

CANDLER COUNTY HOSPITAL AUTHORITY  
(A Component Unit of Candler County, Georgia)

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

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8. Long-Term Debt, Continued

The terms and due dates of the Authority's long-term debt, including capital lease obligations, at December 31, 2018 and 2017, follows:

- Revenue Anticipation Certificate, Series 2013A with Queensborough National Bank dated November 5, 2013. Payable in 60 monthly payments of approximately \$9,000, including interest at the fixed rate of 2.90%. Secured by the net revenues of the Authority.
- Taxable Note, Series 2014 with Queensborough National Bank dated December 17, 2014. Payable in 120 monthly payments of approximately \$35,000 including interest at the fixed rate of 4.15% through January 2017. Beginning with the February 2017 payment, interest will be accrued at the *Wall Street Journal* prime rate, plus 0.50%, adjusted daily. Secured by property of the Authority.
- Note payable to Partnersfirst Management, LLC (Partnersfirst) dated December 31, 2013. The Authority was in default under the note agreement due to not making the scheduled payments and held the position that the Authority should not pay the balance due to alleged mismanagement by Partnersfirst. Partnersfirst filed suit against the Authority in an attempt to collect the outstanding balance on the note. In July 2017, the suit was settled for \$180,000, payable by a lump sum of \$50,000 at the time of settlement, and 26 monthly payments of \$5,000 at -0-% interest. The outstanding balance on the note as of December 31, 2018 is \$40,000.
- Promissory note payable to the United States Department of Agriculture (USDA) dated March 17, 2014 with an outstanding balance of \$489,277. Payable in 120 monthly payments of approximately \$10,000 including interest at the fixed rate of 3.50%, secured by a pledge of various medical equipment.
- Note payable to Candler County, Georgia with an outstanding balance of \$1,324,751, incurring interest at the imputed rate of 4.00%, unsecured.
- Capital lease obligations, at varying rates of imputed interest from 5.70% to 8.86%, collateralized by leased equipment with an unamortized cost of approximately \$375,000 and \$439,000 at December 31, 2018 and 2017, respectively.

To further secure the Series 2013A Revenue Anticipation Certificates and the Series 2014 Taxable Note, the Authority and Candler County (County) entered into a contract in which the Authority agreed to make the Hospital facilities and services available to the residents of Candler 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 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 under this agreement were \$-0- in 2018 and 2017.

Continued

CANDLER COUNTY HOSPITAL AUTHORITY  
(A Component Unit of Candler County, Georgia)

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

8. Long-Term Debt, Continued

Effective January 1, 2017, Candler County began subsidizing the Series 2013A Revenue Anticipation Certificates and the Series 2014 Taxable Note through the implementation of a \$90 per parcel fee. Payments made by the County on behalf of the Authority in 2018 were approximately \$520,000.

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

| <u>Year Ending December 31</u> | <u>Long-Term Debt</u> |                   | <u>Capital Lease Obligations</u> |                  |
|--------------------------------|-----------------------|-------------------|----------------------------------|------------------|
|                                | <u>Principal</u>      | <u>Interest</u>   | <u>Principal</u>                 | <u>Interest</u>  |
| 2019                           | \$ 437,571            | \$ 145,240        | \$ 136,705                       | \$ 12,573        |
| 2020                           | 1,744,062             | 123,501           | 54,300                           | 4,275            |
| 2021                           | 442,291               | 100,520           | 43,161                           | 1,077            |
| 2022                           | 466,587               | 76,245            | -                                | -                |
| 2023                           | 409,430               | 51,454            | -                                | -                |
| 2024-2026                      | <u>651,241</u>        | <u>29,691</u>     | <u>-</u>                         | <u>-</u>         |
| Total                          | \$ <u>4,151,182</u>   | \$ <u>526,651</u> | \$ <u>234,166</u>                | \$ <u>17,925</u> |

9. Contingencies

Going Concern

The Authority reported operating losses the last five years including losses of \$1,896,298 and \$1,417,318 in 2018 and 2017, respectively. The Authority has a net position deficiency (liabilities exceed assets) of \$5,132,463 at December 31, 2018. The Authority's current liabilities exceed its current assets by \$4,031,522 at December 31, 2018. These issues raise substantial doubt about the Authority's ability to continue as a going concern. The Authority's plans to improve its financial position are as follows:

- Financial Support from Candler County

Effective January 1, 2017, Candler County began subsidizing the Authority's long-term debt obligations to Queensborough National Bank through the implementation of a \$90 per parcel fee for landowners in Candler County. In November 2017 the citizens of Candler County approved a 2018 Special Local Option Sales Tax (SPLOST) for \$8,000,000 for Capital Outlay Projects, of which 20% is, in part, related to the retirement of general obligation debt for all County buildings. A portion of these proceeds is being used to fund the monthly long-term debt obligations to Queensborough National Bank. The tax was effective May 1, 2018.

Continued



CANDLER COUNTY HOSPITAL AUTHORITY  
(A Component Unit of Candler County, Georgia)

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

9. Contingencies, Continued

- Physician Group

Effective May 1, 2019, the Authority engaged a physician's group, Doctor's To Go, to cover the Emergency Room and Hospitalist program. The Authority anticipates this change to stabilize these areas with consistent quality care which will increase patient satisfaction and quality of care for its patients.

- Business Office Operations and Collections

Effective July 1, 2019, the Authority engaged Healthcare Resource Group (HRG) to act as the Authority's business office and early out self-pay provider. HRG will help improve efficiency, maximize collections and consult on a variety of improvement processes, procedures and regulation changes that may affect reimbursement.

- Management Personnel

Effective September 1, 2018 the Authority and ERM Hospital, LLC (ERH) agreed to end the management agreement. As a result, the Authority hired a full-time CEO to manage the day-to-day operations of the hospital, and in June 2019, the Authority hired a full-time CFO to assist in managing the day-to-day operations. The Authority anticipates this will provide management stability and consistency in the operations of the Authority going forward.

Operating Leases

The Authority leases various equipment under operating leases expiring at various dates through September 2021. Total rental expense in 2018 and 2017 for all operating leases was \$694,372 and \$874,563, respectively.

The following is a schedule by year of future minimum lease payments under operating leases as of December 31, 2018 and 2017, that have initial or remaining lease terms in excess of one year.

| <u>Year Ending</u> | <u>Amount</u>     |
|--------------------|-------------------|
| 2019               | \$ 151,980        |
| 2020               | 34,880            |
| 2021               | <u>17,802</u>     |
| Total              | \$ <u>204,662</u> |

Continued

CANDLER COUNTY HOSPITAL AUTHORITY  
(A Component Unit of Candler County, Georgia)

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

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9. Contingencies, Continued

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.

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.

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 12.

10. 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, accounts payable, accrued expenses, short-term debt 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.
- *Long-term debt:* The fair value of the Authority's 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.

Continued

CANDLER COUNTY HOSPITAL AUTHORITY  
(A Component Unit of Candler County, Georgia)

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

10. Fair Values of Financial Instruments, Continued

The carrying amounts and estimated fair values of the Authority's long-term debt at December 31, 2018 and 2017 are as follows:

|                | 2018                       |                     | 2017                       |                     |
|----------------|----------------------------|---------------------|----------------------------|---------------------|
|                | <u>Carrying<br/>Amount</u> | <u>Fair Value</u>   | <u>Carrying<br/>Amount</u> | <u>Fair Value</u>   |
| Long-term debt | \$ <u>4,151,182</u>        | \$ <u>4,105,098</u> | \$ <u>3,361,559</u>        | \$ <u>3,358,669</u> |

11. Retirement Plan

The Candler County Hospital 403(b) Plan (403(b) Plan) is a defined contribution plan established and administered by the Authority to provide benefits at retirement to substantially all eligible employees. Plan provisions and contribution requirements are established and may be amended by the Authority's Board of Directors.

Employees may make voluntary contributions to the 403(b) Plan. Matching contributions have been suspended by the Authority and the total expense for the 403(b) Plan incurred by the Authority was \$-0- in 2018 and 2017. The Authority had no liability outstanding related to the 403(b) Plan at December 31, 2018 and 2017. Employees are immediately 100% vested in all funds under the 403(b) Plan.

The Authority has also established and administers the Candler County 457 Top Hat Plan (457 Plan). The 457 Plan is offered to limited employees of the Authority. The Authority makes no matching contributions to the 457 Plan and had no liability outstanding related to the 457 Plan at December 31, 2018 and 2017. Employees are immediately 100% vested in all funds under the 457 Plan.

12. Malpractice Insurance

The Authority is covered by a claims-made general and professional liability insurance policy with a specified deductible of \$25,000 per incident and excess coverage on a claims-made basis. Liability limits related to this policy in 2018 and 2017 are \$1 million per occurrence and \$3 million in aggregate.

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. In the opinion of management, adequate provision has been made for losses which may occur from such asserted and unasserted claims that are not covered by liability insurance.

Continued

CANDLER COUNTY HOSPITAL AUTHORITY  
(A Component Unit of Candler County, Georgia)

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

13. Concentrations of Credit Risk

The Authority grants credit without collateral to patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at December 31, 2018 and 2017 was as follows:

|                    | <u>2018</u> | <u>2017</u> |
|--------------------|-------------|-------------|
| Medicare           | 39%         | 39%         |
| Medicaid           | 7%          | 10%         |
| Third-party payors | 24%         | 22%         |
| Patients           | <u>30%</u>  | <u>29%</u>  |
| Total              | <u>100%</u> | <u>100%</u> |

14. Hospital Management Agreement

The Authority entered into a management agreement with ERM Hospital, LLC (ERM) for the purpose of providing management and administrative services. The agreement originated October 29, 2014 with an initial term of five years and an automatic renewal term of three years, unless either party provides notice of nonrenewal within one hundred twenty days prior to the end of the initial term or any renewal terms. Consideration for the management services provided by ERM is \$35,000 per month plus an additional \$2,000 per month in expense reimbursement. The agreement also stipulates a performance bonus structure that began January 1, 2016. The performance bonus will be based on the annual budget established by the Board of Directors and ERM and shall equal 5% of earnings before interest, taxes, depreciation, and amortization if the annual budget is exceeded by 10%.

Earnings for the purposes of this calculation do not include funds contributed by the Candler County Commission.

Effective September 1, 2017, the management fee was reduced to \$18,500 per month and is to be paid in bi-weekly installments.

Management fees, including expense reimbursement, incurred during 2018 and 2017 were approximately \$148,000 and \$370,000.

Continued

CANDLER COUNTY HOSPITAL AUTHORITY  
(A Component Unit of Candler County, Georgia)

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

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14. Hospital Management Agreement, Continued

The management agreement with ERH also provides for certain management and operational services to 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 Shared Services employees. The amount incurred by the Authority for these services was approximately \$702,000 and \$1,011,000 in 2018 and 2017, respectively and is recorded in purchased services on the statements of revenues, expenses, and changes in net position.

Effective September 1, 2018, the Authority and ERH mutually agreed to end the management agreement. At the time of separation, the Authority had accrued approximately \$1,218,000 in unpaid management fees owed to ERH. As part of the separation agreement, ERH waived the unpaid management fees. This forgiveness is reflected as a special item in the statements of revenues, expenses, and changes in net position for 2018.

15. Employee Health Insurance

The Authority purchases employee health insurance through a third-party vendor. Total expense related to employee health insurance was approximately \$521,000 and \$437,000 for 2018 and 2017, respectively. These amounts are included in the statement of revenues, expenses and changes in net position as employee health and welfare.

16. Rural Hospital Tax Credit Contributions

The State of Georgia (State) passed legislation which allows individuals or corporations to receive a State tax credit for making a contribution to certain qualified rural hospital organizations 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 2017 and 2018. Contributions received under the program approximated \$1,233,000 during fiscal year 2018 and \$260,000 during fiscal year 2017. The Authority will have to be approved by the State to participate in the program in each subsequent year. These funds are reflected in noncapital contributions in the accompanying statements of revenues, expenses and changes in net position.

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*

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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  
Candler County Hospital Authority  
Metter, 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 Candler County Hospital Authority (Authority) as of and for the year ended December 31, 2018, and the related notes to the financial statements, and have issued our report thereon dated August 26, 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.

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

Continued

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## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Candler County Hospital Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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  
August 26, 2019