

HOSPITAL AUTHORITY
OF VALDOSTA AND LOWNDES COUNTY, GEORGIA
Annual Bond Compliance Reports

September 30, 2017

**Annual Report
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September 30, 2017**

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TAB 1

HOSPITAL AUTHORITY OF VALDOSTA
AND LOWNDES COUNTY, GEORGIA



FINANCIAL STATEMENTS

for the years ended September 30, 2017 and 2016

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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Hospital Authority of Valdosta
and Lowndes County, Georgia
Valdosta, Georgia

We have audited the accompanying financial statements of the Hospital Authority of Valdosta and Lowndes County, Georgia (Authority), which comprise the balance sheets as of September 30, 2017 and 2016, 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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

Continued

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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 the Hospital Authority of Valdosta and Lowndes County, Georgia as of September 30, 2017 and 2016, and the results of its operations and changes in net 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

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3 through 8 and the Schedule of Changes in Net Pension Liability and Related Ratios and Schedule of Pension Contributions on pages 63 through 65 be presented to supplement the basic financial statements. Such 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 financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Draffin & Tucker, LLP

Albany, Georgia
December 13, 2017



Management's Discussion and Analysis For the Year Ending September 30, 2017

Management's discussion and analysis of the Hospital Authority of Valdosta and Lowndes County, Georgia's (Authority) financial performance provides an overview of the Authority's financial performance during the fiscal years ended September 30, 2017, 2016, and 2015. This discussion is intended to be read in conjunction with the Authority's financial statements and accompanying notes.

Financial Highlights

- The Authority's net position increased \$11.4 million in 2017 compared to a \$31.6 million increase in 2016.
- The Authority reported a net operating loss of \$5.7 million for 2017 and a net operating gain of \$18.8 million in 2016.

Using This Annual Report

The Authority's financial statements consist of three statements: a balance sheet; a statement of revenues, expenses, and changes in net position, and a statement of cash flows. These financial statements and related notes provide information about the activities of the Authority, including resources held by the Authority but restricted for specific purposes by contributors, grantors, or enabling legislation.

The Balance Sheet and Statement of Revenues, Expenses, and Changes in Net Position

In accrual accounting, revenues are reported when earned regardless of when cash is received and expenses are reported as incurred irrespective of when they are paid. The balance sheet and statement of revenues, expenses, and changes in net position report the Authority's net position and changes in net position. Over time, increases or decreases in the Authority's net position are one indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors should be considered, such as changes in the Authority's volume, payor mix and measures of the quality of service it provides to the community, as well as local economic and demographic factors to assess the overall financial health of the Authority.

**Management's Discussion and Analysis
For the Year Ending September 30, 2017**

The Authority implemented GASB Statement No. 68 during fiscal year 2015. This Statement requires employers to recognize a net pension liability (unfunded accrued liability) which is the difference between the actuarial accrued liability and the fair value of the plan assets. The pension liability and associated deferred inflows and outflows are reported on the balance sheet.

The Statement of Cash Flows

The final required statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities.

The Authority's Net Position

The Authority's net position is the difference between its assets plus deferred outflows of resources, and liabilities reported on the balance sheet. The following table summarizes the balance sheets as of September 30, for the fiscal years ending 2017, 2016, and 2015:

Balance Sheet Data

| | (Dollars In Thousands) | | |
|--|------------------------|-----------------------|-----------------------|
| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
| Current assets | \$ 84,101 | \$ 109,563 | \$ 106,966 |
| Noncurrent cash and investments | 307,152 | 279,198 | 259,779 |
| Capital assets, net | 188,682 | 172,048 | 175,310 |
| Other noncurrent assets | 1,542 | 1,490 | 1,435 |
| Deferred outflows of resources | <u>14,339</u> | <u>18,464</u> | <u>17,245</u> |
| Total assets and deferred outflows of resources | \$ <u>595,816</u> | \$ <u>580,763</u> | \$ <u>560,735</u> |
| Current liabilities | \$ 65,308 | \$ 56,823 | \$ 65,030 |
| Long-term debt | 202,310 | 204,196 | 209,600 |
| Net pension liability | 8,551 | 11,464 | 8,071 |
| Deferred inflows of resources | - | - | 1,369 |
| Net position | <u>319,647</u> | <u>308,280</u> | <u>276,665</u> |
| Total liabilities, deferred inflows of resources and net position | \$ <u>595,816</u> | \$ <u>580,763</u> | \$ <u>560,735</u> |

The Authority's balance sheet remained strong in fiscal year 2017. Total cash and investments on hand increased by \$2.1 million, ending the year at \$329.2 million. Days of cash and investments on hand for fiscal year 2017 were 351 days as of year-end.

**Management's Discussion and Analysis
For the Year Ending September 30, 2017**

The following table summarizes the revenues and expenses for the years ended September 30, 2017, 2016, and 2015:

Statement of Revenue and Expense Data

| | (Dollars In Thousands) | | |
|---|------------------------|-------------------|---------------------|
| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
| Operating revenue | \$ <u>345,405</u> | \$ <u>334,002</u> | \$ <u>337,526</u> |
| Expenses: | | | |
| Operating expenses | 332,926 | 294,663 | 310,809 |
| Depreciation | <u>18,175</u> | <u>20,538</u> | <u>23,401</u> |
| Total expenses | <u>351,101</u> | <u>315,201</u> | <u>334,210</u> |
| Operating income (loss) | (5,696) | 18,801 | 3,316 |
| Nonoperating income (expenses): | | | |
| Investment income | 26,277 | 18,409 | 196 |
| Interest expense | <u>(9,480)</u> | <u>(9,588)</u> | <u>(9,666)</u> |
| Excess revenues (expenses) before special items and capital contributions | 11,101 | 27,622 | (6,154) |
| Loss on impairment | - | - | (33,570) |
| Settlement recovery | - | 3,639 | - |
| Capital contributions | <u>266</u> | <u>354</u> | <u>1,036</u> |
| Increase (decrease) in net position | \$ <u>11,367</u> | \$ <u>31,615</u> | \$ <u>(38,688)</u> |

An operating loss of \$5.7 million was realized in 2017 compared to an operating gain of \$18.8 million in 2016. The operating margin, adjusted for interest expense, decreased from 2.8% in 2016 to (4.4)% in 2017. Investment income was \$26.3 million in fiscal 2017 compared to \$18.4 million in fiscal 2016.

Management's Discussion and Analysis For the Year Ending September 30, 2017

Patient volumes measured by admissions decreased slightly by 2.1% from fiscal year 2016 to fiscal year 2017. Although total surgery volumes declined by 0.5%, inpatient surgeries increased by 5.4% from fiscal year 2016 to fiscal year 2017. The increase in inpatient surgeries contributed to an improvement in the Authority's Medicare Case Mix Index (CMI) of 8.1%, which helped the Authority achieve an increase in operating revenue of 3.4% over the prior fiscal year.

During fiscal year 2017, the Authority experienced significant events which resulted in an increase in operating expenses of 13.0% over fiscal year 2016. The sharp increase in expenses was due to four major transitions that took place during fiscal year 2017: a change in the group purchasing organization (GPO), a change in the provider of hospitalists' services, changes in the provider of emergency physicians' services, as well as the implementation of Epic for the Authority's new electronic health record and system operations platform.

In an effort to lower supply costs, the decision was made in fiscal year 2016 to change the Authority's GPO. The implementation began on November 15, 2016. However, the estimated projected savings were not attained as the Authority was unable to comply with the stringent purchasing parameters required to achieve the maximum savings. As a result, supply costs increased over fiscal year 2016 by 9.0%.

In addition to the change in GPO, the Authority entered into agreements with two additional companies on November 15, 2016. The first company provides hospitalist physicians' coverage for the Authority. The second company provided emergency room physicians to staff the Authority's emergency department. Prior to November 15, one company provided both hospitalist and emergency room coverage.

The agreement with the current hospitalist provider allows the company to utilize locum tenens to meet staffing obligations for the first eighteen months of the contract. The company has been successful in the recruitment of permanent physicians. However, the use of locums in the initial phase of the agreement increased the Authority's hospitalists costs by 60% in fiscal year 2017.

The agreement signed in November for emergency room coverage proved to be unsuccessful and was terminated in February 2017. Staffing for the emergency department was managed internally until the Authority signed an agreement with a new provider in May. Due to the turnover in providers and the use of locums, the physician fees for fiscal year 2017 more than doubled the amount of prior year's fees.

During fiscal year 2016, the Authority chose Epic as its electronic health record and system operations platform. Significant capital investments were made during fiscal year 2017 in preparation for the November 1, 2017 go-live date. A team of sixty-five people was formed to implement the system. The Authority engaged consultants to assist in establishing best practices, equipment purchases to ensure compatibility with the new system, as well as credentialed trainers and other professionals to assist the staff in preparation for go-live. Although the startup costs associated with the Epic implementation contributed to the negative operating performance for fiscal year 2017, the Authority fully expects to return to normalized electronic health record expense during fiscal year 2018.

**Management's Discussion and Analysis
For the Year Ending September 30, 2017**

A recap of the Authority's long-term debt outstanding at September 30, 2017, 2016, and 2015 follows:

| | | (Dollars in Thousands) | | |
|--|-----------------------|------------------------|-------------------|-------------------|
| <u>Description</u> | <u>Interest Rates</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
| Revenue Certificates, Series 2007 Refunding Revenue Certificates | 4.00%-5.00% | \$ 48,395 | \$ 49,250 | \$ 50,100 |
| Series 2010 | Variable rates | 8,200 | 10,100 | 11,900 |
| Revenue Certificates, Series 2010 | Variable rates | 4,290 | 5,300 | 6,290 |
| Revenue Certificates, Series 2011B | 2.00%-5.00% | 142,055 | 143,430 | 144,700 |
| Other financing obligations | Variable rates | <u>4,846</u> | <u>21</u> | <u>23</u> |
| Total long-term debt, excluding discounts and premiums | | <u>\$ 207,786</u> | <u>\$ 208,101</u> | <u>\$ 213,013</u> |

The Authority increased its investment in capital assets over the last two years. In 2016, the Authority began two significant capital projects – the implementation of Epic and the construction of a new skilled nursing facility. These projects continued into 2017. As a result, investment in capital assets placed into service was \$34.1 million in fiscal 2017 and \$14.2 million in fiscal 2016. In addition to the scheduled principal amortization, there was an increase in other financing obligations during 2017 associated with Epic implementation.

The Authority's investment in capital assets placed in service during 2017, 2016, and 2015 is summarized in the table below:

| | | (Dollars In Thousands) | | |
|----------------------------------|--|------------------------|------------------|-----------------|
| <u>Capital Assets</u> | | <u>2017</u> | <u>2016</u> | <u>2015</u> |
| Construction/renovation projects | | \$ 8,382 | \$ 3,613 | \$ 525 |
| Movable equipment | | 5,602 | 3,349 | 3,633 |
| Information system upgrades | | <u>20,105</u> | <u>7,258</u> | <u>2,116</u> |
| Net capital asset additions | | <u>\$ 34,089</u> | <u>\$ 14,220</u> | <u>\$ 6,274</u> |

See Notes 7 and 8 to the financial statements for additional information about the capital assets and debt of the Authority.

**Management's Discussion and Analysis
For the Year Ending September 30, 2017**

Contacting the Authority's Financial Management

This financial report is designed to provide a general overview of the Authority's finances. If you have questions about this report or need additional financial information, contact the Authority finance department at Hospital Authority of Valdosta and Lowndes County, Georgia, 2501 North Patterson Street, Valdosta, GA 31603.

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

BALANCE SHEETS
September 30, 2017 and 2016

(Dollars In Thousands)

| | <u>2017</u> | <u>2016</u> |
|---|-------------------|-------------------|
| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 5,981 | \$ 29,741 |
| Short-term investments | 16,053 | 18,136 |
| Patient accounts receivable, net of estimated uncollectibles of \$54,412 in 2017 and \$37,387 in 2016 | 39,297 | 40,795 |
| Other receivables | 12,081 | 9,449 |
| Supplies (first-in, first-out) | 5,824 | 6,491 |
| Other current assets | <u>4,865</u> | <u>4,951</u> |
| Total current assets | <u>84,101</u> | <u>109,563</u> |
| Noncurrent cash and investments: | | |
| Internally designated for capital improvements | <u>307,152</u> | <u>279,198</u> |
| Capital assets: | | |
| Non-depreciable | 47,175 | 29,262 |
| Depreciable, net of accumulated depreciation | <u>141,507</u> | <u>142,786</u> |
| Total capital assets, net of accumulated depreciation | <u>188,682</u> | <u>172,048</u> |
| Other assets: | | |
| Other receivables | <u>1,542</u> | <u>1,490</u> |
| Total assets | <u>581,477</u> | <u>562,299</u> |
| Deferred outflows of resources: | | |
| Goodwill | 2,225 | 3,046 |
| Loss on bond defeasance | 1,000 | 1,171 |
| Pension related | <u>11,114</u> | <u>14,247</u> |
| Total deferred outflows of resources | <u>14,339</u> | <u>18,464</u> |
| Total assets and deferred outflows of resources | <u>\$ 595,816</u> | <u>\$ 580,763</u> |

(Dollars In Thousands)

| | <u>2017</u> | <u>2016</u> |
|---|-------------------|-------------------|
| LIABILITIES AND NET POSITION | | |
| Current liabilities: | | |
| Current maturities of long-term debt | \$ 6,478 | \$ 5,161 |
| Accounts payable | 17,992 | 15,880 |
| Accrued expenses | 39,400 | 34,560 |
| Estimated third-party payor settlements | <u>1,438</u> | <u>1,222</u> |
| Total current liabilities | 65,308 | 56,823 |
| Long-term liabilities, excluding current maturities | 202,310 | 204,196 |
| Net pension liability | <u>8,551</u> | <u>11,464</u> |
| Total liabilities | <u>276,169</u> | <u>272,483</u> |
| Net position: | | |
| Net investment in capital assets | 8,644 | (8,121) |
| Restricted: | | |
| Expendable | 2,175 | 2,235 |
| Unrestricted | <u>308,828</u> | <u>314,166</u> |
| Net position | <u>319,647</u> | <u>308,280</u> |
| | | |
| Total liabilities and net position | \$ <u>595,816</u> | \$ <u>580,763</u> |

See accompanying notes to financial statements.

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION

for the years ended September 30, 2017 and 2016

| | <u>(Dollars In Thousands)</u> | |
|--|-------------------------------|-----------------|
| | <u>2017</u> | <u>2016</u> |
| Operating revenues: | | |
| Net patient service revenue (net of provision for bad debts of \$55,914 in 2017 and \$52,482 in 2016) | \$ 335,888 | \$ 324,160 |
| Other revenue | <u>9,517</u> | <u>9,842</u> |
| Total operating revenues | <u>345,405</u> | <u>334,002</u> |
| Operating expenses: | | |
| Salaries and benefits | 161,076 | 152,946 |
| Supplies | 78,121 | 71,697 |
| Services | 45,591 | 39,655 |
| Depreciation and amortization | 18,175 | 20,538 |
| Medical and professional fees | 34,231 | 24,381 |
| Other expenses | <u>13,907</u> | <u>5,984</u> |
| Total operating expenses | <u>351,101</u> | <u>315,201</u> |
| Operating income (loss) | <u>(5,696)</u> | <u>18,801</u> |
| Nonoperating revenues (expenses): | | |
| Investment income | 26,277 | 18,409 |
| Interest expense | <u>(9,480)</u> | <u>(9,588)</u> |
| Total nonoperating revenues | <u>16,797</u> | <u>8,821</u> |

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

STATEMENTS OF REVENUES, EXPENSES AND
 CHANGES IN NET POSITION, Continued
 for the years ended September 30, 2017 and 2016

| | <u>(Dollars In Thousands)</u> | |
|---|-------------------------------|-------------------|
| | <u>2017</u> | <u>2016</u> |
| Excess revenues before special items and capital contributions | \$ 11,101 | \$ 27,622 |
| Settlement recovery | - | 3,639 |
| Capital contributions | <u>266</u> | <u>354</u> |
| Increase in net position | 11,367 | 31,615 |
| Net position, beginning of year | <u>308,280</u> | <u>276,665</u> |
| Net position, end of year | <u>\$ 319,647</u> | <u>\$ 308,280</u> |

See accompanying notes to financial statements.

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

STATEMENTS OF CASH FLOWS
for the years ended September 30, 2017 and 2016

| | (Dollars In Thousands) | |
|---|------------------------|------------------|
| | <u>2017</u> | <u>2016</u> |
| Cash flows from operating activities: | | |
| Cash received from patients and payors | \$ 347,119 | \$ 336,410 |
| Cash payments to vendors and other suppliers | (172,933) | (149,504) |
| Cash payments to employees | (159,509) | (154,390) |
| Net cash provided by operating activities | <u>14,677</u> | <u>32,516</u> |
| Cash flows from capital and related financing activities: | | |
| Principal paid on long-term debt | (6,748) | (5,173) |
| Interest paid on long-term debt | (9,554) | (9,619) |
| Purchase of capital assets | (22,896) | (13,960) |
| Proceeds from disposals of capital assets | 89 | 76 |
| Contributions for capital improvements and expansion | <u>266</u> | <u>354</u> |
| Net cash used by capital and related financing activities | <u>(38,843)</u> | <u>(28,322)</u> |
| Cash flows from investing activities: | | |
| Purchase of investments | (245,615) | (135,015) |
| Proceeds from sale of investments | 228,038 | 130,486 |
| Income on investments | <u>6,463</u> | <u>5,252</u> |
| Net cash provided (used) by investing activities | <u>(11,114)</u> | <u>723</u> |
| Net increase (decrease) in cash and cash equivalents | (35,280) | 4,917 |
| Cash and cash equivalents, beginning of year | <u>52,488</u> | <u>47,571</u> |
| Cash and cash equivalents, end of year | \$ <u>17,208</u> | \$ <u>52,488</u> |
| Reconciliation of cash and cash equivalents to the balance sheet: | | |
| Cash and cash equivalents in current assets | \$ 5,981 | \$ 29,741 |
| Restricted cash and cash equivalents | <u>11,227</u> | <u>22,747</u> |
| Total cash and cash equivalents | \$ <u>17,208</u> | \$ <u>52,488</u> |

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

STATEMENTS OF CASH FLOWS, Continued
for the years ended September 30, 2017 and 2016

| | (Dollars In Thousands) | |
|---|------------------------|------------------|
| | <u>2017</u> | <u>2016</u> |
| Reconciliation of operating income (loss) to net cash flows provided by operating activities: | | |
| Operating income (loss) | \$(5,696) | \$ 18,801 |
| Depreciation and amortization | 18,175 | 20,538 |
| Changes in: | | |
| Patient accounts receivable | 1,498 | 3,583 |
| Supplies | 667 | 155 |
| Other assets | 86 | (500) |
| Other receivables | (2,684) | (1,456) |
| Accounts payable | (2,636) | (2,253) |
| Accrued expenses | 4,831 | (4,983) |
| Estimated third-party payor settlements | 216 | (1,175) |
| Pension activity | <u>220</u> | <u>(194)</u> |
| Net cash provided by operating activities | \$ <u>14,677</u> | \$ <u>32,516</u> |

Supplemental disclosures of cash flow information:

- The Authority held investments at September 30, 2017 and 2016 with a fair value of \$312.0 million and \$274.6 million, respectively. During 2017 and 2016, the net change in fair value of these investments was an increase of \$20.0 million and \$14.4 million, respectively.
- Purchases of capital assets in accounts payable as of September 30, 2017 and 2016, were \$4.7 million and \$2.3 million, respectively.
- See Note 7 for additional information related to the settlement recovery in 2016.
- The Authority entered/extended other long-term obligations for equipment in 2017 and 2016 in an amount of \$5.1 million and \$261 thousand, respectively.

See accompanying notes to financial statements.

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS

September 30, 2017 and 2016

1. Summary of Significant Accounting Policies

Organization

The Hospital Authority of Valdosta and Lowndes County, Georgia (Authority) owns and operates South Georgia Medical Center (SGMC), SGMC – Smith Northview campus (Smith), SGMC – Berrien campus (Berrien), and SGMC – Lanier campus (Lanier).

SGMC, located in Valdosta, Georgia, is an acute care hospital that provides inpatient, outpatient, and emergency care services for residents of Lowndes County, Georgia. Smith, also located in Valdosta, Georgia, operates under the same tax identification and provider numbers as SGMC and is considered to be an extension of SGMC.

Berrien is a 51-bed acute care hospital located in Nashville, Georgia. Berrien provides inpatient, outpatient, and emergency care services for residents of Berrien County, Georgia.

Lanier includes a 25-bed critical access hospital, and SGMC - Lakeland Villa, a 62-bed skilled nursing facility, both located in Lakeland, Georgia. Lanier provides inpatient, outpatient, emergency, and skilled nursing care for residents of Lanier County, Georgia.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles 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. Estimates also affect 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).

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2017 and 2016

1. Summary of Significant Accounting Policies, Continued

Recently Adopted Accounting Pronouncement

In March 2016, the Governmental Accounting Standards Board issued Statement No. 82, *Pension Issues, an amendment of GASB Statements No. 67, No. 68, and No. 73*. GASB No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The Authority's adoption of GASB No. 82 did not have a material impact on the financial statements. The Authority adopted this GASB Statement in fiscal year 2017.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less.

Short-Term Investments

Short-term investments include assets internally designated for professional liability claims and assets restricted under trust indentures that are anticipated to satisfy related obligations included in current liabilities.

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 account is charged against the allowance.

Supplies

Supplies are valued at the lower of cost or market value.

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2017 and 2016

1. Summary of Significant Accounting Policies, Continued

Noncurrent Cash and Investments

Noncurrent cash and investments include assets internally designated for capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes.

Investments in Debt and Equity Securities

Investments in debt and equity securities are reported at fair value. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in investment income when earned.

Capital Assets

Capital asset acquisitions are recorded at cost. Contributed capital assets are reported at their acquisition value at the time of donation. 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. Depreciation is provided over the estimated useful life of each depreciable asset (per the American Hospital Association (AHA) Guidelines for Depreciable Assets) and is computed using the straight-line method. The AHA Guidelines generally provide the following range in asset life by category:

| | |
|----------------------------|----------------|
| Land improvements | 10 to 20 years |
| Buildings and improvements | 10 to 40 years |
| Equipment | 3 to 15 years |

Impairment of Capital 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. Capital asset impairment is considered whenever indicators of impairment are present, such as the decline in service utility of a capital asset that is large in magnitude and the event or change in circumstance is outside the normal life cycle of the capital asset.

The Authority did not record any impairment losses for the years ended September 30, 2017 and 2016.

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2017 and 2016

1. Summary of Significant Accounting Policies, Continued

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 Costs

Costs related to the issuance of long-term debt are expensed in the period incurred.

Deferred Outflows and Inflows of Resources

Deferred outflows and inflows of resources represent the consumption or acquisition, respectively, of the Authority's net assets applicable to a future reporting period.

Deferred outflows of resources consist of goodwill, net of accumulated amortization, the unamortized loss on bond defeasance, and components related to the defined benefit pension plan as of September 30, 2017 and 2016. See Notes 8, 9, and 11 for additional information.

Net Pension Liability

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension items and pension expense, information about the fiduciary net position of the defined benefit plan and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Compensated Absences

The Authority's employees earn paid time off at varying rates depending on years of service. Employees may accumulate paid time off up to a specified maximum. Employees who leave in good standing will be eligible for payment of paid time off upon their resignation.

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2017 and 2016

1. Summary of Significant Accounting Policies, Continued

Net Position

Net position of the Authority is classified into three components – *net investment in capital assets*, *restricted* and *unrestricted*. These classifications are defined as follows:

- *Net investment in capital assets* – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- *Restricted* – This component of net position consists of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or contributors external to the Authority, including amounts deposited with trustees as required by revenue bond indentures as discussed in Note 8.
- *Unrestricted* – This component of net position consists of the remaining net amount of assets that do not meet the definition of *net investment in capital assets* or *restricted*.

Net Patient Service Revenue

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.

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

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2017 and 2016

1. Summary of Significant Accounting Policies, Continued

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 principle activity. Nonexchange revenues, including investment income, loss on impairment, and interest expense are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Grants and Contributions

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 income. Amounts restricted to capital acquisitions are reported after excess of revenues over expenses.

Income Taxes

The Authority is a public corporation and is also exempt from taxation under Section 501(a) of the Internal Revenue Code. Therefore, no provision for income taxes is made in the financial statements.

Risk Management

The Authority is exposed to various risks of loss from torts. The Authority purchases commercial insurance with a self-retention amount to protect itself against such risks. The provision for estimated professional liability claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. See Note 14 for a summary of the professional and general liability program. The Authority is self-insured for employee health and accident benefits, and purchases stop loss coverage for large claims. The expenses for employee health claims include the costs of actual claims incurred and an estimate of the claims incurred but not reported. See Note 13 for a summary of the employee health plan. The Authority has purchased commercial insurance for claims arising from theft of, damage to, and destruction of assets; business interruption; errors and omissions; and natural disasters.

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2017 and 2016

1. 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 practice to use restricted resources before unrestricted resources.

Fair Value Measurements

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

- *Level 1:* Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets and liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- *Level 2:* Observable inputs such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.
- *Level 3:* Unobservable inputs when there is little or no market data available, thereby requiring an entity to develop its own assumptions. The fair value hierarchy gives the lowest priority to Level 3 inputs.

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2017 and 2016

2. Charity Care and Discount for Uninsured Patients

The Authority maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies, and equivalent service statistics. The following information measures the level of charity care provided during the years ended September 30, 2017 and 2016.

| | (Dollars In Thousands) | |
|--|------------------------|------------------|
| | <u>2017</u> | <u>2016</u> |
| Charges foregone, based on established rates | \$ <u>32,583</u> | \$ <u>30,922</u> |
| Estimated costs and expenses incurred to provide charity care | \$ <u>11,421</u> | \$ <u>10,042</u> |
| Equivalent percentage of charity care patients to all patients served | <u>3.3%</u> | <u>3.2%</u> |

Effective October 1, 2010, the Authority implemented a discount for uninsured patients. For fiscal years ended September 30, 2017 and 2016, the charges foregone and the estimated costs of services related to this discount were as follows:

| | (Dollars In Thousands) | |
|---|------------------------|------------------|
| | <u>2017</u> | <u>2016</u> |
| Charges foregone, based on established rates | \$ <u>11,690</u> | \$ <u>12,374</u> |
| Estimated costs and expenses incurred to provide discount for uninsured patients | \$ <u>4,097</u> | \$ <u>4,019</u> |
| Equivalent percentage of discounts to uninsured patients to all patients served | <u>1.2%</u> | <u>1.3%</u> |

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2017 and 2016

3. 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 36% and 9%, respectively, of the Authority's net patient revenue for the year ended 2017 and 33% and 15%, respectively, of the Authority's net patient revenue for the year ended 2016. 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 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

For SGMC and Berrien, inpatient acute care, outpatient and rehabilitation services rendered to Medicare program beneficiaries are paid at prospectively determined rates per diem/discharge as applicable. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

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

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2017 and 2016

3. Net Patient Service Revenue, Continued

• Medicare, Continued

Lanier was granted critical access designation by the Medicare program in 2002. The critical access designation allows Lanier to have up to twenty-five beds interchangeable between acute care inpatient services and swing bed services and places certain restrictions on daily acute care inpatient census and an annual average length of stay of acute care inpatients. As a critical access hospital, payments for inpatient and outpatient services are based on the reasonable costs of providing such services.

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

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. All Medicare cost reports have been audited by the MAC through September 30, 2013.

• Medicaid

Inpatient acute care services rendered to Medicaid program beneficiaries are paid at a prospectively determined rate per discharge. 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 September 30, 2013.

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 diem rates.

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2017 and 2016

3. Net Patient Service Revenue, Continued

• Medicaid, Continued

Nursing Home services rendered to Medicaid program beneficiaries are paid at a prospectively determined rate per day. This rate is determined principally by the cost per day reflected in cost reports submitted to and audited by the Medicaid fiscal intermediary adjusted for certain incentives and inflation factors.

During 2010, the state of Georgia enacted legislation known as the Provider Payment Agreement Act (Act) whereby hospitals in the state of Georgia are assessed a “provider payment” in the amount of 1.45% of their net patient revenue. The Act became effective July 1, 2010, the beginning of state fiscal year 2011. The provider payments are due on a quarterly basis to the Department of Community Health. 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 resulted in an increase in hospital payments on Medicaid services of approximately 11.88%. Approximately \$4.6 million and \$4.3 million relating to the Act is included in services in the accompanying statements of revenues, expenses and changes in net position for the years ended September 30, 2017 and 2016, respectively.

The Authority participates in the Georgia Indigent Care Trust Fund (ICTF) Program. The Authority receives ICTF payments for treating a disproportionate number of Medicaid and other indigent patients. ICTF payments are based on the Authority’s estimated uncompensated cost of services to Medicaid and uninsured patients. The amount of ICTF payments recognized in net patient service revenue was approximately \$9.0 million and \$8.2 million for the years ended September 30, 2017 and 2016, respectively.

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 2017 and 2016 of approximately \$3.6 million and \$1.5 million, respectively.

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2017 and 2016

3. Net Patient Service Revenue, Continued

• Other Arrangements

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

Contractual adjustments, provision for bad debts, and related allowances included in net patient service revenue are as follows:

| | <u>(Dollars In Thousands)</u> | |
|---------------------------|-------------------------------|-------------------|
| | <u>2017</u> | <u>2016</u> |
| Medicare | \$ 367,287 | \$ 365,560 |
| Medicaid | 109,303 | 95,665 |
| Tricare | 30,772 | 31,527 |
| Indigent and charity care | 32,583 | 30,922 |
| Other third-party payors | 82,541 | 79,923 |
| Provision for bad debts | 55,914 | 52,482 |
| Indigent Care Trust Fund | (8,956) | (8,219) |
| Upper Payment Limit | (3,646) | (1,502) |
| | <u>\$ 665,798</u> | <u>\$ 646,358</u> |

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2017 and 2016

4. Cash and Investments

As discussed in Note 1, the Authority's investments are generally carried at fair value. Cash and investments as of September 30, 2017 and 2016 are classified in the accompanying financial statements as follows:

| | <u>(Dollars In Thousands)</u> | |
|--|-------------------------------|-------------------|
| | <u>2017</u> | <u>2016</u> |
| Balance sheets: | | |
| Cash and cash equivalents | \$ 5,981 | \$ 29,741 |
| Short-term investments | 16,053 | 18,136 |
| Noncurrent cash and investments: | | |
| Internally designated for capital improvements | 307,152 | 279,198 |
| Total cash and investments | \$ <u>329,186</u> | \$ <u>327,075</u> |
| Cash and equivalents consist of the following: | | |
| Cash on hand | \$ 15 | \$ 15 |
| Deposits with financial institutions | 10,354 | 45,529 |
| Money market funds | <u>6,839</u> | <u>6,944</u> |
| Cash and cash equivalents | <u>17,208</u> | <u>52,488</u> |
| Investments: | | |
| Investments in equity securities | 156,242 | 120,496 |
| Investments in debt securities | 50,424 | 46,286 |
| Investments in mutual funds | <u>105,312</u> | <u>107,805</u> |
| Investments | <u>311,978</u> | <u>274,587</u> |
| Total cash and investments | \$ <u>329,186</u> | \$ <u>327,075</u> |

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2017 and 2016

4. Cash and Investments, Continued

Disclosures Relating to Interest Rate Risk

The Authority manages its exposure to declines in fair values from rising interest rates by investing in debt securities with short to intermediate maturities. The Authority's investment policy requires that the duration of fixed income and debt securities be no longer than 125% of the Barclays Government/Credit Intermediate Index. The weighted average maturity presented below is calculated based on the maturity date of the security. For many of the fixed income and debt securities, the expected life is shorter than the maturity date as presented below.

As of September 30, 2017 and 2016, the Authority had the following investments in debt securities and weighted average maturities:

| | 2017 | | 2016 | |
|-------------------------------------|--|---|--|---|
| | (Dollars in Thousands) <u>Amount</u> | Weighted Average Maturity (In Years) | (Dollars in Thousands) <u>Amount</u> | Weighted Average Maturity (In Years) |
| Debt securities: | | | | |
| U. S. government obligations | \$ 9,631 | 6.9 | \$ 11,796 | 6.3 |
| Mortgage-backed securities | 2,207 | 46.6 | 1,910 | 45.7 |
| Collateralized mortgage obligations | 15,976 | 12.9 | 15,341 | 16.2 |
| Corporate bonds | <u>22,610</u> | <u>4.8</u> | <u>17,239</u> | <u>5.1</u> |
| Total debt securities | 50,424 | 17.8 | 46,286 | 18.3 |
| Mutual funds: | | | | |
| Fixed income | <u>105,312</u> | <u>5.2</u> | <u>107,805</u> | <u>5.8</u> |
| Grand total | \$ <u>155,736</u> | <u>6.7</u> | \$ <u>154,091</u> | <u>7.3</u> |

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2017 and 2016

4. Cash and Investments, Continued

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The Authority manages its exposure to credit risk by requiring in its investment policy, that the average quality rating of bonds be investment grade A or better as judged by a nationally recognized rating agency. In addition, the Authority's policy requires that no more than 10% of the fixed income securities be below investment grade Baa.

As of September 30, 2017 and 2016, the Authority's investments in debt securities and money market funds had the following ratings:

| | (Dollars In Thousands) Amount | Rating as of September 30, 2017 | | | | | |
|-------------------------------------|-------------------------------------|---------------------------------|-----------------|-----------------|------------------|-----------------|---------------|
| | | Aaa | Aa | A | Baa | Ba | B |
| Debt securities: | | | | | | | |
| U. S. government obligations | \$ 9,631 | \$ 9,631 | \$ - | \$ - | \$ - | \$ - | \$ - |
| Mortgage-backed securities | 2,207 | 2,207 | - | - | - | - | - |
| Collateralized mortgage obligations | 15,976 | 12,924 | 1,650 | 1,124 | 278 | - | - |
| Corporate bonds | <u>22,610</u> | <u>-</u> | <u>1,968</u> | <u>7,212</u> | <u>11,196</u> | <u>1,986</u> | <u>248</u> |
| Total debt securities | \$ <u>50,424</u> | \$ <u>24,762</u> | \$ <u>3,618</u> | \$ <u>8,336</u> | \$ <u>11,474</u> | \$ <u>1,986</u> | \$ <u>248</u> |
| Money market funds | \$ <u>6,839</u> | \$ <u>6,839</u> | \$ <u>-</u> | \$ <u>-</u> | \$ <u>-</u> | \$ <u>-</u> | \$ <u>-</u> |

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2017 and 2016

4. Cash and Investments, Continued

| | (Dollars In Thousands) <u>Amount</u> | Rating as of September 30, 2016 | | | | | |
|-------------------------------------|--|---------------------------------|-----------------|-----------------|-----------------|-----------------|---------------|
| | | <u>Aaa</u> | <u>Aa</u> | <u>A</u> | <u>Baa</u> | <u>Ba</u> | <u>B</u> |
| Debt securities: | | | | | | | |
| U. S. government obligations | \$ 11,796 | \$ 11,796 | \$ - | \$ - | \$ - | \$ - | \$ - |
| Mortgage-backed securities | 1,910 | 1,910 | - | - | - | - | - |
| Collateralized mortgage obligations | 15,341 | 11,206 | 2,244 | 1,612 | 279 | - | - |
| Corporate bonds | <u>17,239</u> | <u>384</u> | <u>725</u> | <u>5,519</u> | <u>8,069</u> | <u>1,913</u> | <u>629</u> |
| Total debt securities | \$ <u>46,286</u> | \$ <u>25,296</u> | \$ <u>2,969</u> | \$ <u>7,131</u> | \$ <u>8,348</u> | \$ <u>1,913</u> | \$ <u>629</u> |
| Money market funds | \$ <u>6,944</u> | \$ <u>6,944</u> | \$ <u>-</u> | \$ <u>-</u> | \$ <u>-</u> | \$ <u>-</u> | \$ <u>-</u> |

Disclosures Relating to Concentration of Credit Risk

The Authority's investment policy prohibits investments in any one issuer (other than U.S. Treasury securities, mutual funds, and money market funds) that are in excess of 10% of the Authority's total investments. Accordingly, the Authority did not own investments from any one issuer in excess of 10% as of September 30, 2017 and 2016.

Disclosures Relating to Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Authority will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. State law requires the collateralization of deposits in excess of insurance. The Authority has deposits as of September 30, 2017 totaling \$13 million that were collateralized by securities held by the pledging institution in the Authority's name.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of another party. At September 30, 2017 and 2016, the Authority owned \$312.0 million and \$274.6 million, respectively, in securities registered through the brokerage firm's trust department. Securities are held in the Authority's name.

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2017 and 2016

5. Fair Value Measurements

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based upon the valuation inputs used to measure fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs and Level 3 inputs are significant unobservable inputs.

The fair values of assets measured on a recurring basis at September 30, 2017 and 2016 are as follows:

| | (Dollars In Thousands) | | | |
|-------------------------------------|---|-------------------|------------------|----------------|
| | Fair Value Measurements at Reporting Date Using | | | |
| <u>September 30, 2017</u> | <u>Fair Value</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| Equity securities: | | | | |
| Common stock | \$ 122,118 | \$ 122,118 | \$ - | \$ - |
| Preferred stock | 132 | 132 | - | - |
| Foreign stock | <u>33,992</u> | <u>33,992</u> | - | - |
| Total equity securities | <u>156,242</u> | <u>156,242</u> | - | - |
| Debt securities: | | | | |
| US government obligations | 9,631 | - | 9,631 | - |
| Mortgage-backed securities | 2,207 | - | 2,207 | - |
| Collateralized mortgage obligations | 15,976 | - | 15,976 | - |
| Corporate bonds | <u>22,610</u> | - | <u>22,610</u> | - |
| Total debt securities | <u>50,424</u> | - | <u>50,424</u> | - |
| Mutual funds – fixed income | <u>105,312</u> | <u>105,312</u> | - | - |
| Total assets at fair value | <u>\$ 311,978</u> | <u>\$ 261,554</u> | <u>\$ 50,424</u> | <u>\$ -</u> |

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2017 and 2016

5. Fair Value Measurements, Continued

| | (Dollars In Thousands) | | | |
|-------------------------------------|---|-------------------|------------------|----------------|
| | Fair Value Measurements at Reporting Date Using | | | |
| <u>September 30, 2016</u> | <u>Fair Value</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| Equity securities: | | | | |
| Common stock | \$ 93,065 | \$ 93,065 | \$ - | \$ - |
| Preferred stock | 243 | 243 | - | - |
| Foreign stock | <u>27,188</u> | <u>27,188</u> | <u>-</u> | <u>-</u> |
| Total equity securities | <u>120,496</u> | <u>120,496</u> | <u>-</u> | <u>-</u> |
| Debt securities: | | | | |
| US government obligations | 11,796 | - | 11,796 | - |
| Mortgage-backed securities | 1,910 | - | 1,910 | - |
| Collateralized mortgage obligations | 15,341 | - | 15,341 | - |
| Corporate bonds | <u>17,239</u> | <u>-</u> | <u>17,239</u> | <u>-</u> |
| Total debt securities | <u>46,286</u> | <u>-</u> | <u>46,286</u> | <u>-</u> |
| Mutual funds – fixed income | <u>107,805</u> | <u>107,805</u> | <u>-</u> | <u>-</u> |
| Total assets at fair value | <u>\$ 274,587</u> | <u>\$ 228,301</u> | <u>\$ 46,286</u> | <u>\$ -</u> |

Equity securities and mutual funds valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Debt securities valued using Level 2 inputs are based on a confluence of model drive analysis, matrix pricing, as well as actual trade and market color.

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2017 and 2016

6. Accounts Receivable and Payable

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Authority at September 30, 2017 and 2016 consisted of these amounts:

| | <u>(Dollars In Thousands)</u> | |
|---|-------------------------------|------------------|
| | <u>2017</u> | <u>2016</u> |
| Patient accounts receivable: | | |
| Receivable from patients and their insurance carriers | \$ 68,702 | \$ 55,498 |
| Receivable from Medicare | 20,154 | 20,097 |
| Receivable from Medicaid | <u>4,853</u> | <u>2,587</u> |
| Total patient accounts receivable | 93,709 | 78,182 |
| Less allowance for uncollectible amounts | <u>54,412</u> | <u>37,387</u> |
| Patient accounts receivable, net | \$ <u>39,297</u> | \$ <u>40,795</u> |
| Accounts payable and accrued expenses: | | |
| Payable to employees (including payroll taxes) | \$ 17,806 | \$ 16,485 |
| Payable to suppliers | 18,190 | 16,079 |
| Other | <u>21,396</u> | <u>17,876</u> |
| Total accounts payable and accrued expenses | \$ <u>57,392</u> | \$ <u>50,440</u> |

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2017 and 2016

7. Capital Assets

Capital asset changes for the years ended September 30, 2017 and 2016 were as follows:

| | (Dollars in Thousands) | | | |
|--|------------------------|------------------|---------------------|-------------------|
| | <u>2016</u> | <u>Increases</u> | <u>Decreases</u> | <u>2017</u> |
| Land | \$ 7,043 | \$ - | \$ - | \$ 7,043 |
| Market access rights and tradename | 9,385 | - | - | 9,385 |
| Construction in progress | <u>12,834</u> | <u>40,069</u> | <u>(22,156)</u> | <u>30,747</u> |
| Total capital assets not being depreciated | <u>29,262</u> | <u>40,069</u> | <u>(22,156)</u> | <u>47,175</u> |
| Land improvements | 8,389 | 22 | - | 8,411 |
| Buildings and improvements | 239,159 | 9,317 | - | 248,476 |
| Equipment | 157,119 | 7,032 | (1,617) | 162,534 |
| Non-compete covenants and other depreciable intangibles | <u>4,219</u> | <u>-</u> | <u>-</u> | <u>4,219</u> |
| Total capital assets being depreciated | <u>408,886</u> | <u>16,371</u> | <u>(1,617)</u> | <u>423,640</u> |
| Less accumulated depreciation and amortization for: | | | | |
| Land improvements | 5,466 | 264 | - | 5,730 |
| Buildings and improvements | 126,061 | 8,104 | - | 134,165 |
| Equipment | 130,578 | 9,051 | (1,420) | 138,209 |
| Non-compete covenants and other depreciable intangibles | <u>3,995</u> | <u>34</u> | <u>-</u> | <u>4,029</u> |
| Total accumulated depreciation | <u>266,100</u> | <u>17,453</u> | <u>(1,420)</u> | <u>282,133</u> |
| Capital assets being depreciated, net | <u>142,786</u> | <u>(1,082)</u> | <u>(197)</u> | <u>141,507</u> |
| Total capital assets, net | <u>\$ 172,048</u> | <u>\$ 38,987</u> | <u>\$ (22,353)</u> | <u>\$ 188,682</u> |

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2017 and 2016

7. Capital Assets, Continued

| | (Dollars in Thousands) | | | |
|---|------------------------|---------------------|-------------------|-------------------|
| | <u>2015</u> | <u>Increases</u> | <u>Decreases</u> | <u>2016</u> |
| Land | \$ 7,014 | \$ 29 | \$ - | \$ 7,043 |
| Market access rights and tradename | 9,385 | - | - | 9,385 |
| Construction in progress | <u>2,491</u> | <u>10,343</u> | <u>-</u> | <u>12,834</u> |
| Total capital assets not being depreciated | <u>18,890</u> | <u>10,372</u> | <u>-</u> | <u>29,262</u> |
| Land improvements | 8,354 | 35 | - | 8,389 |
| Buildings and improvements | 237,797 | 1,362 | - | 239,159 |
| Equipment | 153,655 | 4,500 | 1,036 | 157,119 |
| Non-compete covenants and other depreciable intangibles | <u>4,219</u> | <u>-</u> | <u>-</u> | <u>4,219</u> |
| Total capital assets being depreciated | <u>404,025</u> | <u>5,897</u> | <u>1,036</u> | <u>408,886</u> |
| Less accumulated depreciation and amortization for: | | | | |
| Land improvements | 5,036 | 430 | - | 5,466 |
| Buildings and improvements | 117,950 | 8,111 | - | 126,061 |
| Equipment | 120,658 | 11,163 | 1,243 | 130,578 |
| Non-compete covenants and other depreciable intangibles | <u>3,961</u> | <u>34</u> | <u>-</u> | <u>3,995</u> |
| Total accumulated depreciation | <u>247,605</u> | <u>19,738</u> | <u>1,243</u> | <u>266,100</u> |
| Capital assets being depreciated, net | <u>156,420</u> | (13,841) | (207) | <u>142,786</u> |
| Total capital assets, net | \$ <u>175,310</u> | \$ (<u>3,469</u>) | \$ (<u>207</u>) | \$ <u>172,048</u> |

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2017 and 2016

7. Capital Assets, Continued

Depreciation expense for the years ended September 30, 2017 and 2016 amounted to approximately \$17.4 million and \$19.7 million, respectively. Construction and software contracts of approximately \$37.1 million exist for the renovation and construction of facilities and purchase and development of software. At September 30, 2017, the remaining commitment on these contracts approximated \$16.9 million.

In fiscal year 2014, the Authority began the process of acquiring and implementing a new information technology system. However, in fiscal year 2015, the Authority determined the system was not suitable for system-wide integration and abandoned the project. This resulted in a loss on impairment of \$8.7 million (Level 3 inputs). In fiscal year 2016, the Authority reached a settlement with the vendor which resulted in a recovery of \$3.6 million, which was previously impaired.

8. Long-Term Debt

A summary of long-term debt at September 30, 2017 and 2016 follows:

| | (Dollars In Thousands) | |
|---|------------------------|-------------|
| | <u>2017</u> | <u>2016</u> |
| Revenue Certificates – Series 2007, Payable in annual installments ranging from \$860 thousand on October 1, 2017, to \$7.24 million on October 1, 2033, with interest ranging from 4.00% to 5.00% paid semi-annually. | \$ 48,395 | \$ 49,250 |
| Revenue Certificates – Series 2010, Payable in annual installments ranging from \$1.03 million beginning December 1, 2017, to \$1.11 million on December 1, 2020, with variable interest rate at market not to exceed 12.00% paid monthly. | 4,290 | 5,300 |

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2017 and 2016

8. Long-Term Debt, Continued

| | <u>(Dollars In Thousands)</u> | |
|--|-------------------------------|-------------------|
| | <u>2017</u> | <u>2016</u> |
| Refunding Revenue Certificates – Series 2010, Payable in annual installments ranging from \$1.90 million beginning December 1, 2017 to \$2.20 million on December 1, 2020, with variable interest rate at market not to exceed 12.00% paid monthly. | \$ 8,200 | \$ 10,100 |
| Revenue Certificates – Series 2011B, Payable in annual installments ranging from \$1.29 million on October 1, 2017, to \$13.67 million on October 1, 2041, with interest rates from 2.00% to 5.00% paid semi-annually. | 142,055 | 143,430 |
| Other financing obligations, with varying rates of interest and monthly payments ranging from \$19 thousand to \$115 thousand. Collateralized by equipment. | <u>4,846</u> | <u>21</u> |
| Total long-term debt | 207,786 | 208,101 |
| Less current installments of long-term debt | <u>6,478</u> | <u>5,161</u> |
| Long-term debt excluding current installments | 201,308 | 202,940 |
| Unamortized net premium and discount | <u>1,002</u> | <u>1,256</u> |
| Long-term debt excluding current installments, and unamortized net premium and discount | \$ <u>202,310</u> | \$ <u>204,196</u> |

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2017 and 2016

8. Long-Term Debt, Continued

A schedule of changes in the Authority's long-term debt follows:

| (Dollars In Thousands) | | | | | |
|--------------------------------------|-------------------------|------------------|-------------------|-------------------------|--|
| | <u>2016 Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>2017 Balance</u> | <u>Amounts Due Within One Year</u> |
| Revenue certificates | \$ 208,080 | \$ - | \$(5,140) | \$ 202,940 | \$ 5,080 |
| Other financing obligations | <u>21</u> | <u>6,433</u> | <u>(1,608)</u> | <u>4,846</u> | <u>1,398</u> |
| Total long-term debt | 208,101 | 6,433 | (6,748) | 207,786 | 6,478 |
| Unamortized net premium and discount | <u>1,256</u> | <u>-</u> | <u>(254)</u> | <u>1,002</u> | <u>-</u> |
| Long-term debt | <u>\$ 209,357</u> | <u>\$ 6,433</u> | <u>\$(7,002)</u> | <u>\$ 208,788</u> | <u>\$ 6,478</u> |

| (Dollars In Thousands) | | | | | |
|--------------------------------------|-------------------------|------------------|-------------------|-------------------------|--|
| | <u>2015 Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>2016 Balance</u> | <u>Amounts Due Within One Year</u> |
| Revenue certificates | \$ 212,990 | \$ - | \$(4,910) | \$ 208,080 | \$ 5,140 |
| Other financing obligations | <u>23</u> | <u>261</u> | <u>(263)</u> | <u>21</u> | <u>21</u> |
| Total long-term debt | 213,013 | 261 | (5,173) | 208,101 | 5,161 |
| Unamortized net premium and discount | <u>1,520</u> | <u>-</u> | <u>(264)</u> | <u>1,256</u> | <u>-</u> |
| Long-term debt | <u>\$ 214,533</u> | <u>\$ 261</u> | <u>\$(5,437)</u> | <u>\$ 209,357</u> | <u>\$ 5,161</u> |

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2017 and 2016

8. Long-Term Debt, Continued

In January 2007, the Authority issued Revenue Certificates, Series 2007, in the amount of \$55 million for the purpose of (i) the construction of certain improvements and alterations to and the equipping of certain facilities for the Hospital and (ii) the acquisition of certain furniture, fixtures and equipment for installation in the Hospital.

The Series 2007 Certificates are special, limited obligations of the Authority payable from and secured by a pledge of and lien on the gross revenues of the Authority.

The Series 2007 Certificates maturing on or prior to October 1, 2017 are not subject to optional redemption. The Series 2007 Certificates maturing after October 1, 2017 are subject to redemption prior to their respective maturities, as a whole or in part, at any time on or after October 1, 2017, at a redemption price equal to the principal amount of the Series 2007 Certificates to be redeemed plus interest thereon to the date of redemption without premium.

The Series 2007 Certificates are subject to extraordinary redemption from the proceeds of insurance or condemnation awards in the event of any damage to, or destruction or condemnation of, any part of the Hospital if the Authority determines that the property so damaged, destroyed or taken shall not be repaired, replaced, or reconstructed, as provided in the Indenture.

The Indenture established a debt service reserve fund. The debt service reserve fund was not funded upon the original issuance of the Series 2007 Certificates and is only required to be funded if the Authority falls below certain required measures of financial and operational performance. As of September 30, 2017 and 2016, management believes they are in technical compliance with these requirements.

In December 2010, the Authority issued Revenue Certificate, Series 2010, in the amount of \$10 million for the purpose of the construction of certain improvements and alterations to and the equipping of a new outpatient imaging center to be located in the Professional Building on the main campus of South Georgia Medical Center. The Series 2010 Certificate is issued as a bank-qualified, tax-exempt obligation under Section 265(b)(3) of the Internal Revenue Code and is secured by a first priority lien on the equipment in the new imaging center. The Certificate was purchased by Branch Banking and Trust Company.

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2017 and 2016

8. Long-Term Debt, Continued

Principal on the Series 2010 Certificate is due and payable in annual installments, with a final maturity date of December 1, 2020. Interest on the Certificate is payable monthly at a variable rate of interest that is tied to the one month LIBOR rate. The Certificate is subject to optional redemption at the option of the Authority, without penalty, subject to written notice of the Authority of not less than ten days.

In December 2010, the Authority issued Refunding Revenue Certificate, Series 2010, in the amount of \$18.3 million for the purpose of refunding the outstanding Series 1998 Revenue Certificates. The Series 2010 Refunding Revenue Certificate is issued as a bank-qualified, tax-exempt obligation under Section 265(b)(3) of the Internal Revenue Code and is secured by a pledge of and lien on the gross revenues of the Authority. The Certificate was purchased by Branch Banking and Trust Company.

Principal on the Series 2010 Refunding Revenue Certificate is due and payable in annual installments, with a final maturity date of December 1, 2020. Interest on the Certificate is payable monthly at a variable rate of interest that is tied to the one month LIBOR rate. The Certificate is subject to optional redemption at the option of the Authority, without penalty, subject to written notice of the Authority of not less than ten days.

The Authority issued Series 2011B Revenue Certificates in the aggregate principal amount of \$148.3 million for the purpose of (i) financing or refinancing the costs of making certain additions, improvements, extensions, alterations, equipment acquisitions and expansions in, or to the Hospital premises and (ii) refunding all of the outstanding principal amount of Series 2002 Certificates and (iii) refunding all or a portion of the Series 2011A Certificates.

The Series 2011B Certificates are special limited obligations of the Authority payable from and secured by a pledge of and lien on the gross revenues of the Authority.

As a result of the Series 2002 bond refunding transaction, the Authority recognized a loss on defeasance of approximately \$2.1 million. The loss included the write-off of unamortized 2002 Series discount costs as well as funds necessary to adequately fund the defeased 2002 Series escrow amount. The loss is included in the deferred outflows of resources on the balance sheet. Loss on bond defeasance is reported net of accumulated amortization expense and is amortized over 192 months, which is consistent with the remaining life of the defeased debt as it is shorter than the new debt. Amortization expense is reported in interest expense on the statement of revenues, expenses and changes in net position.

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2017 and 2016

8. Long-Term Debt, Continued

Principal on the Series 2011B Revenue Certificates is due and payable in annual installments, in amounts ranging from \$1.0 million to \$13.7 million with final payment due October 1, 2041. Interest on the Certificates is payable semi-annually at interest rates ranging from 2.00% to 5.00%.

The Certificates maturing on or prior to October 1, 2021, are not subject to optional redemption. The Certificates maturing after October 1, 2021, are subject to redemption prior to their respective maturities, as a whole or in part, at any time on or after October 1, 2021, at a redemption price equal to 100% of the principal amount of each of the Series 2011B Certificates to be redeemed, plus accrued interest thereon to the date of redemption.

The Certificates maturing on October 1, 2029, are subject to mandatory sinking fund redemption on October 1, 2027, and on each October 1 thereafter at a redemption price equal to the principal amount of each Series 2011B Certificates to be redeemed plus accrued interest to the date fixed for redemption, in the following principal amounts and on the dates set forth below:

| <u>October 1 of the Year</u> | <u>Principal Amounts</u> |
|------------------------------|--------------------------|
| 2027 | \$ 5,975,000 |
| 2028 | 1,605,000 |
| 2029 | 1,675,000 |

The Series 2011B Certificates maturing on October 1, 2033, are subject to mandatory sinking fund redemption on October 1, 2030, and on each October 1 thereafter at a redemption price equal to the principal amount of each Series 2011B Certificates to be redeemed plus accrued interest to the date fixed for redemption, in the following principal amounts and on the dates set forth below:

| <u>October 1 of the Year</u> | <u>Principal Amounts</u> |
|------------------------------|--------------------------|
| 2030 | \$ 1,750,000 |
| 2031 | 1,835,000 |
| 2032 | 1,935,000 |
| 2033 | 2,030,000 |

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2017 and 2016

8. Long-Term Debt, Continued

The Series 2011B Certificates maturing on October 1, 2041, are subject to mandatory sinking fund redemption on October 1, 2035, and on each October 1 thereafter at a redemption price equal to the principal amount of each Series 2011B Certificates to be redeemed plus accrued interest to the date fixed for redemption, in the following principal amounts and on the dates set forth below:

| <u>October 1 of the Year</u> | <u>Principal Amounts</u> |
|------------------------------|--------------------------|
| 2035 | \$ 10,195,000 |
| 2036 | 10,705,000 |
| 2037 | 11,240,000 |
| 2038 | 11,805,000 |
| 2039 | 12,395,000 |
| 2040 | 13,015,000 |
| 2041 | 13,665,000 |

Under the terms of the 2007, 2010 and 2011B Certificate Indentures, the Authority deposits funds with a trustee sufficient to meet their scheduled Revenue Certificate payments. Such deposits are included with short-term investments in the financial statements.

The debt service requirements of long-term debt at September 30, 2017 are as follows:

| | <u>(Dollars In Thousands)</u> | |
|-----------|-------------------------------|-------------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2018 | \$ 6,478 | \$ 9,461 |
| 2019 | 6,579 | 9,335 |
| 2020 | 6,749 | 9,190 |
| 2021 | 6,220 | 9,041 |
| 2022 | 2,275 | 8,922 |
| 2023-2027 | 30,305 | 40,695 |
| 2028-2032 | 38,340 | 32,468 |
| 2033-2037 | 48,720 | 21,817 |
| 2038-2042 | <u>62,120</u> | <u>8,068</u> |
| Total | \$ <u>207,786</u> | \$ <u>148,997</u> |

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2017 and 2016

8. Long-Term Debt, Continued

A summary of interest cost and investment income during the years ended September 30, 2017 and 2016 follows:

| | (Dollars In Thousands) | |
|---------------------------|------------------------|------------------|
| | <u>2017</u> | <u>2016</u> |
| Interest cost: | | |
| Capitalized | \$ - | \$ - |
| Charged to operations | <u>9,480</u> | <u>9,588</u> |
| Total | \$ <u>9,480</u> | \$ <u>9,588</u> |
| Investment income: | | |
| Capitalized | \$ - | \$ - |
| Credited to other revenue | <u>26,277</u> | <u>18,409</u> |
| Total | \$ <u>26,277</u> | \$ <u>18,409</u> |

9. Goodwill

Goodwill consists of the following:

| | (Dollars In Thousands) | | | | |
|---------------------------------------|------------------------|-----------------|-----------------|---------------------|------------------------|
| | Balance <u>2016</u> | <u>Increase</u> | <u>Decrease</u> | <u>Amortization</u> | Balance <u>2017</u> |
| Purchase of Diagnostic Imaging Center | \$ 1,278 | \$ - | \$ - | \$ 678 | \$ 600 |
| Purchase of Berrien County Hospital | <u>1,768</u> | <u>-</u> | <u>-</u> | <u>143</u> | <u>1,625</u> |
| Total goodwill | \$ <u>3,046</u> | \$ <u>-</u> | \$ <u>-</u> | \$ <u>821</u> | \$ <u>2,225</u> |
| | Balance <u>2015</u> | <u>Increase</u> | <u>Decrease</u> | <u>Amortization</u> | Balance <u>2016</u> |
| Purchase of Diagnostic Imaging Center | \$ 1,955 | \$ - | \$ - | \$ 677 | \$ 1,278 |
| Purchase of Berrien County Hospital | <u>1,911</u> | <u>-</u> | <u>-</u> | <u>143</u> | <u>1,768</u> |
| Total goodwill | \$ <u>3,866</u> | \$ <u>-</u> | \$ <u>-</u> | \$ <u>820</u> | \$ <u>3,046</u> |

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2017 and 2016

9. Goodwill, Continued

Pursuant to the implementation of GASB No. 69, the Authority reclassified goodwill from other assets to deferred outflows of resources and established an attribution or amortization period for each component of goodwill. Because a substantial portion of the acquisitions consisted of capital assets, the Authority determined the amortization periods based upon an estimate of the remaining useful lives of the capital assets as of the date of implementation of GASB No. 69. The amount amortized in 2017 and 2016 was \$800 thousand and is reported in depreciation and amortization on the statement of revenues, expenses, and changes in net position.

10. Related Party Transactions

Because of the existence of common trustees and other factors, the Authority, South Georgia Medical Center Foundation, Inc. (Foundation) and South Georgia Health Alliance, Inc. (Alliance) are related parties.

The Foundation is authorized by SGMC to solicit contributions on its behalf. In its general appeal for contributions to support the community's providers of health care services, the Foundation also solicits contributions for certain other related health care institutions. In the absence of donor restrictions, the Foundation has discretionary control over the amounts, timing, and use of its distributions. During the years ended September 30, 2017 and 2016, SGMC provided work space, utilities and certain personnel free of charge to the Foundation.

The Alliance operates the not-for-profit entities of the Hospice of South Georgia, an organization providing supportive care for terminally ill patients and their families, Langdale Place, a residential care facility, and The Tree House, a consignment store. All funds raised in excess of operating needs are designated by the Alliance Board for health care purposes.

In March 2009, the Alliance obtained a \$4,500,000 note payable for the purpose of advance refunding of the Series 1996 Bonds with outstanding principal of \$4,500,000. Repayment of the note is guaranteed by the Authority. As of September 30, 2017 and 2016, the outstanding principal balance was \$2.0 million.

In addition to the above, included in other receivables on the balance sheet are related party receivables in the amounts of \$6.2 million and \$5.2 million for fiscal years 2017 and 2016, respectively. These amounts due are related to purchased goods and services on behalf of the related parties.

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2017 and 2016

10. Related Party Transactions, Continued

Summarized financial information from the financial statements of the related parties follows:

South Georgia Medical Center Foundation, Inc.

| | (Dollars In Thousands) | |
|---|-----------------------------------|-----------------------------------|
| | (Audited) <u>June 30, 2017</u> | (Audited) <u>June 30, 2016</u> |
| Assets, principally cash and cash equivalents and investments | \$ <u>3,212</u> | \$ <u>3,309</u> |
| Liabilities, accounts payable | \$ <u>34</u> | \$ <u>26</u> |
| Net assets: | | |
| Unrestricted | 1,585 | 1,847 |
| Restricted | <u>1,593</u> | <u>1,436</u> |
| Total net assets | <u>3,178</u> | <u>3,283</u> |
| Total liabilities and net assets | \$ <u>3,212</u> | \$ <u>3,309</u> |
| Support and revenue | \$ <u>369</u> | \$ <u>221</u> |
| Expenses: | | |
| Administrative expenses | 297 | 153 |
| Charitable disbursements | <u>177</u> | <u>328</u> |
| Total expenses | <u>474</u> | <u>481</u> |
| Change in net assets | (105) | (260) |
| Net assets, beginning | <u>3,283</u> | <u>3,543</u> |
| Net assets, ending | \$ <u>3,178</u> | \$ <u>3,283</u> |

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2017 and 2016

10. Related Party Transactions, Continued

South Georgia Health Alliance, Inc.

| | (Dollars In Thousands) | |
|----------------------------------|--|--|
| | (Unaudited) <u>September 30, 2017</u> | (Audited) <u>September 30, 2016</u> |
| Current assets | \$ 5,987 | \$ 5,726 |
| Other assets | <u>3,131</u> | <u>3,442</u> |
| Total assets | \$ <u>9,118</u> | \$ <u>9,168</u> |
| Current liabilities | \$ 7,163 | \$ 6,105 |
| Long-term debt | 2,041 | 2,069 |
| Net assets | <u>(86)</u> | <u>994</u> |
| Total liabilities and net assets | \$ <u>9,118</u> | \$ <u>9,168</u> |
| Revenues and gains | \$ 7,318 | \$ 7,842 |
| Expenses | <u>(8,398)</u> | <u>(8,478)</u> |
| Excess revenues (expenses) | <u>(1,080)</u> | <u>(636)</u> |
| Decrease in net assets | (1,080) | (636) |
| Net assets, beginning | <u>994</u> | <u>1,630</u> |
| Net assets, ending | \$ <u>(86)</u> | \$ <u>994</u> |

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2017 and 2016

11. Retirement Plans

The Authority has a deferred compensation plan under Section 401(k) of the Internal Revenue Code which allows employees to defer income taxes on a portion of their earnings. The Authority has no liability for investment losses incurred by the plan. The assets of the plan are in the individual participant's name and are not subject to claims by creditors of the Authority. In 2004, the Authority created an additional deferred compensation plan structured similarly to the 401(k) plan. This plan was established under Internal Revenue Code Section 457(b). Total participant contributions to the 401(k) and 457(b) plans were approximately \$4.5 million and \$4.0 million in 2017 and 2016, respectively. Total contributions by the Authority on behalf of the participants were approximately \$1.1 million in 2017 and 2016. The Authority makes a matching contribution equal to 50% of a participant's elective deferrals, not to exceed 2% of a participant's compensation. Participants are vested immediately in their contributions plus actual earnings (losses) thereon. Participants are 100% vested in the Authority's matching contributions after five years of service. Administrative expenses for the above plans are borne by the participants. Effective August 1, 2013, the Authority amended the 401(k) plan to discontinue discretionary contributions.

The Authority also has a single employer defined benefit pension plan, South Georgia Medical Center Retirement Plan (Plan), covering substantially all of its employees. The Authority's trustees have the authority to establish and amend benefit provisions. For more information on the plan, contact South Georgia Medical Center administration.

The Plan provides retirement, death, and disability benefits. Retirement benefits are calculated as 1% of high-five year average monthly compensation per year of service at normal retirement date, plus 0.65% of high-five year average monthly compensation in excess of the integration level for each year of service not to exceed 40 years. For service prior to January 1, 1974, one-third of those years of service are credited for benefit accrual. The integration level for years of service prior to December 31, 2003 is \$500; for years of service after December 31, 2003, the integration level is monthly social security covered compensation for a person who has attained age 65. The normal retirement date falls on the first of the month coincident with or following the attainment of social security retirement age.

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2017 and 2016

11. Retirement Plans, Continued

Effective April 15, 2009 the accrued retirement benefit of participants was frozen at the level earned as of that date. No otherwise eligible employee who had not already reached his entry date and entered the plan on or before April 15, 2009 shall enter and participate in the plan after such date.

In the event a participant becomes totally and permanently disabled as determined by the Social Security Administration, they are entitled to receive the benefit provided by the present value of their accrued benefit. The pre-retirement death benefits are the greater of the present value of the vested accrued benefit and \$1,000 for each \$20 of projected monthly retirement benefit. However, the death benefit for a participant employed beyond their normal retirement date is the present value of their accrued benefit.

All contributions are made by the Authority based on the minimum recommended contribution determined by an actuarial valuation each year. The Authority is providing for the cost of this plan as benefits are accrued based upon actuarial determinations employing the entry age normal actuarial cost method. Contributions are intended to provide for benefits attributed to service earned through the effective date of the freeze of plan benefits.

| | <u>2017</u> | <u>2016</u> |
|---|--------------|--------------|
| Actuarially determined contribution | \$ 3,012 | \$ 3,055 |
| Contributions made in relation to the actuarially determined contribution | <u>3,012</u> | <u>3,055</u> |
| Contribution deficiency (excess) | \$ <u>-</u> | \$ <u>-</u> |
| Covered payroll | N/A | N/A |
| Contributions as a percentage of payroll | N/A | N/A |

The actuarial valuation of the plan was performed as of January 1, 2017 and 2016 and the measurement date of the net pension liability is as of January 1, 2017 and 2016.

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2017 and 2016

11. Retirement Plans, Continued

Participant Data

The following is a summary of plan participants at January 1, 2017 and 2016.

| | January 1, <u>2017</u> | January 1, <u>2016</u> |
|----------------------------------|---------------------------|---------------------------|
| Active participants | 581 | 670 |
| Inactives with deferred benefits | 238 | 247 |
| Inactives receiving payment | <u>448</u> | <u>437</u> |
| Total participants | <u>1,267</u> | <u>1,354</u> |

Assumptions and Other Inputs

The Authority's net pension liability was measured as of January 1, 2017 and 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2017 and 2016.

The following summarizes the significant assumptions used in the valuation:

| | <u>2017</u> | <u>2016</u> |
|---------------------------|-------------|-------------|
| • Inflation | 2.50% | 2.50% |
| • Salary increase | N/A | N/A |
| • Expected rate of return | 7.50% | 7.50% |
| • Mortality table | RP-2014 | RP-2014 |
| • Discount rate | 7.50% | 7.50% |

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2017 and 2016

11. Retirement Plans, Continued

Assumptions and Other Inputs, Continued

The long-term expected rate of return on Plan investments was determined based on the Authority's expectation of best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of rates of return of each major asset class are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Expected Rate of Return</u> |
|--------------------|--------------------------|--------------------------------|
| Fixed income | 40.0% | 3.0% - 5.0% |
| Equities | 55.0% | 5.0% - 9.0% |
| Alternatives | 5.0% | 6.0% - 12.0% |

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from the employer will be made in an amount equal to the actuarially recommended contribution based on funding the unfunded liability over a 10-year period. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2017 and 2016

11. Retirement Plans, Continued

Changes in Net Pension Liability

The following table presents the changes in the Total Pension Liability, Plan Fiduciary Net Position, and Net Pension Liability for the years ended September 30, 2017 and 2016:

| | (Dollars in Thousands) | | |
|---|------------------------------------|--|----------------------------------|
| | <u>Total Pension Liability</u> | <u>Plan Fiduciary Net Position</u> | <u>Net Pension Liability</u> |
| Balance recognized at September 30, 2016 | \$ <u>80,751</u> | \$ <u>69,287</u> | \$ <u>11,464</u> |
| Changes recognized for the fiscal year: | | | |
| Service cost | 238 | - | 238 |
| Interest cost | 5,807 | - | 5,807 |
| Differences between expected and actual experience | 1,250 | 643 | 607 |
| Changes in assumptions | (1,671) | - | (1,671) |
| Contributions from the employer | - | 3,012 | (3,012) |
| Net investment income | - | 5,036 | (5,036) |
| Benefit payments | (7,137) | (7,137) | - |
| Administrative expense | <u>-</u> | <u>(154)</u> | <u>154</u> |
| Net changes | <u>(1,513)</u> | <u>1,400</u> | <u>(2,913)</u> |
| Balance recognized at September 30, 2017 | \$ <u>79,238</u> | \$ <u>70,687</u> | \$ <u>8,551</u> |

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2017 and 2016

11. Retirement Plans, Continued

Changes in Net Pension Liability, Continued

| | (Dollars in Thousands) | | |
|---|------------------------------------|--|----------------------------------|
| | <u>Total Pension Liability</u> | <u>Plan Fiduciary Net Position</u> | <u>Net Pension Liability</u> |
| Balance recognized at September 30, 2015 | \$ <u>82,398</u> | \$ <u>74,327</u> | \$ <u>8,071</u> |
| Changes recognized for the fiscal year: | | | |
| Service cost | 322 | - | 322 |
| Interest cost | 5,935 | - | 5,935 |
| Differences between expected and actual experience | (184) | (6,123) | 5,939 |
| Changes in assumptions | (546) | - | (546) |
| Contributions from the employer | - | 3,055 | (3,055) |
| Net investment income | - | 5,412 | (5,412) |
| Benefit payments | (7,174) | (7,174) | - |
| Administrative expense | - | (210) | 210 |
| Net changes | (<u>1,647</u>) | (<u>5,040</u>) | (<u>3,393</u>) |
| Balance recognized at September 30, 2016 | \$ <u>80,751</u> | \$ <u>69,287</u> | \$ <u>11,464</u> |

- *Changes in assumptions:* In 2016, amounts reported as changes in assumptions resulted primarily from the change in turnover assumption. In 2017, amounts reported as changes in assumptions resulted primarily from adjustments to assumed life expectancies as a result of adopting the sex-distinct Blue Collar RP-2014 mortality tables for employees and healthy annuitants, adjusted backward to 2006 with scale MP-2014, and then adjusted for mortality improvements with the MP-2016 mortality improvement scale on a generational basis for purposes of developing mortality rates.

The following table illustrates the impact of interest rate sensitivity on the Net Pension Liability for fiscal years ended September 30, 2017 and 2016:

| | 2017 (Dollars in Thousands) | | |
|-----------------------|-----------------------------|------------------------------|-----------------------------|
| | 1% Decrease <u>6.50%</u> | Current Rate <u>7.50%</u> | 1% Increase <u>8.50%</u> |
| Net pension liability | \$ <u>15,198</u> | \$ <u>8,551</u> | \$ <u>2,771</u> |

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2017 and 2016

11. Retirement Plans, Continued

Changes in Net Pension Liability, Continued

| | 2016 (Dollars in Thousands) | | |
|-----------------------|-----------------------------|------------------|-----------------|
| | 1% Decrease | Current Rate | 1% Increase |
| | <u>6.50%</u> | <u>7.50%</u> | <u>8.50%</u> |
| Net pension liability | \$ <u>18,511</u> | \$ <u>11,464</u> | \$ <u>5,369</u> |

Pension expense recognized during 2017 and 2016 totaled \$2.8 million.

The following table presents components of deferred inflows and deferred outflows of resources for the years ended September 30, 2017 and 2016:

| | (Dollars In Thousands) | | | |
|--|--------------------------|-------------------------|--------------------------|-------------------------|
| | 2017 | | 2016 | |
| | <u>Deferred Outflows</u> | <u>Deferred Inflows</u> | <u>Deferred Outflows</u> | <u>Deferred Inflows</u> |
| Net difference between projected and actual earnings on Plan investments | \$ 2,861 | \$ - | \$ 4,065 | \$ - |
| Differences between expected and actual experience | 3,640 | - | 2,952 | - |
| Changes in assumptions | <u>2,832</u> | <u>-</u> | <u>4,971</u> | <u>-</u> |
| Amounts to be recognized in pension expense | 9,333 | - | 11,988 | - |
| Contributions made subsequent to measurement date | <u>1,781</u> | <u>-</u> | <u>2,259</u> | <u>-</u> |
| Total | \$ <u>11,114</u> | \$ <u>-</u> | \$ <u>14,247</u> | \$ <u>-</u> |

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2017 and 2016

11. Retirement Plans, Continued

Changes in Net Pension Liability, Continued

Contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending September 30, 2018.

Other amounts recognized in the deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| (Dollars in Thousands) | | | |
|------------------------|-------------------------|--------------------------|--------------|
| <u>Year Ending</u> | <u>Deferred Inflows</u> | <u>Deferred Outflows</u> | <u>Total</u> |
| 2018 | \$ - | \$(1,591) | \$(1,591) |
| 2019 | - | (2,364) | (2,364) |
| 2020 | - | (2,126) | (2,126) |
| 2021 | - | (902) | (902) |
| 2022 | - | (1,030) | (1,030) |
| 2023 | - | (1,030) | (1,030) |
| 2024 | - | (290) | (290) |
| Total | \$ - | \$(9,333) | \$(9,333) |

GASB No. 68 requires a schedule of changes in net pension liability and related ratios and a schedule of pension contributions for each of the last ten years to be presented as required supplementary information. However, due to the implementation of the standard in fiscal year 2015, information prior to 2014 is not reasonably obtainable. Therefore, only information for the years available is presented.

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2017 and 2016

11. Retirement Plans, Continued

Investments Included in Fiduciary Net Position

The Plan has the following recurring fair value measurements as of September 30, 2017 and 2016:

| | (Dollars in Thousands) | | | |
|---|---|------------------|------------------|----------------|
| | Fair Value Measurements at Reporting Date Using | | | |
| <u>September 30, 2017</u> | <u>Fair Value</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| Equity securities: | | | | |
| Common stock | \$ 37,669 | \$ 37,669 | \$ - | \$ - |
| Preferred stock | 22 | 22 | - | - |
| Foreign stock | <u>7,948</u> | <u>7,948</u> | - | - |
| Total equity securities | <u>45,639</u> | <u>45,639</u> | - | - |
| Debt securities: | | | | |
| US government obligations | 3,200 | - | 3,200 | - |
| Mortgage-backed securities | 716 | - | 716 | - |
| Collateralized mortgage obligations | 3,219 | - | 3,219 | - |
| Corporate bonds | <u>4,952</u> | - | <u>4,952</u> | - |
| Total debt securities | <u>12,087</u> | - | <u>12,087</u> | - |
| Mutual funds – fixed income | <u>10,421</u> | <u>10,421</u> | - | - |
| Total investments | 68,147 | \$ <u>56,060</u> | \$ <u>12,087</u> | \$ - |
| Assets excluded from the fair value hierarchy | <u>2,540</u> | | | |
| Plan fiduciary net position | \$ <u>70,687</u> | | | |

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2017 and 2016

11. Retirement Plans, Continued

Investments Included in Fiduciary Net Position, Continued

| (Dollars in Thousands) | | | | |
|---|-------------------|------------------|------------------|----------------|
| Fair Value Measurements at Reporting Date Using | | | | |
| <u>September 30, 2016</u> | <u>Fair Value</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| Equity securities: | | | | |
| Common stock | \$ 33,915 | \$ 33,915 | \$ - | \$ - |
| Preferred stock | 121 | 121 | - | - |
| Foreign stock | <u>8,609</u> | <u>8,609</u> | - | - |
| Total equity securities | <u>42,645</u> | <u>42,645</u> | - | - |
| Debt securities: | | | | |
| US government obligations | 5,226 | - | 5,226 | - |
| Mortgage-backed securities | 609 | - | 609 | - |
| Collateralized mortgage obligations | 3,140 | - | 3,140 | - |
| Corporate bonds | <u>3,557</u> | - | <u>3,557</u> | - |
| Total debt securities | <u>12,532</u> | - | <u>12,532</u> | - |
| Mutual funds – fixed income | <u>12,016</u> | <u>12,016</u> | - | - |
| Total investments | 67,193 | \$ <u>54,661</u> | \$ <u>12,532</u> | \$ <u>-</u> |
| Assets excluded from the fair value hierarchy | <u>2,094</u> | | | |
| Plan fiduciary net position | \$ <u>69,287</u> | | | |

Equity securities and mutual funds valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Debt securities valued using Level 2 inputs are based on a confluence of model driven analysis, matrix pricing, as well as actual trade and market color.

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2017 and 2016

12. Commitments and Contingencies

Operating Leases

Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operations as incurred. Rent expense under operating leases is approximately \$2.6 million and \$2.9 million for the years ended September 30, 2017 and 2016, respectively.

Future minimum operating lease payments for noncancelable operating leases are as follows:

| | <u>(Dollars In Thousands)</u> |
|-------|-------------------------------|
| 2018 | \$ 3,064 |
| 2019 | 283 |
| 2020 | 283 |
| 2021 | 283 |
| 2022 | <u>283</u> |
| Total | \$ <u>4,196</u> |

Litigation

The Authority is involved in litigation and regulatory investigations arising in the course of business. After consulting 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 14.

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2017 and 2016

13. Employee Health Plan

The Authority has a self-insurance program under which a third-party administrator processes and pays claims. The Authority reimburses the third-party administrator for claims incurred and paid and has purchased stop-loss insurance coverage for claims in excess of \$500 thousand for each individual employee. In addition, the Authority has entered into a loss financing agreement with ten Georgia hospitals through a program developed by Georgia ADS, LLC. The program is designed to provide for the financing and payment of covered claims between \$150 thousand and \$500 thousand. Payments received from the program must be repaid over a specified period of time with interest. Under this self-insurance program, \$13.9 million and \$15.4 million was paid or accrued and expensed during the years ended September 30, 2017 and 2016, respectively.

14. Professional Liability Claims

The Authority has purchased commercial insurance to cover professional or general liability claims. The policy is written on a claims-made basis with a self-insured retention amount of \$2.5 million per claim, \$7 million aggregate for fiscal years 2017 and 2016. The Authority uses a third-party administrator to review and analyze incidents that may result in a claim against the Authority. In conjunction with the third-party administrator, incidents are assigned reserve amounts for the ultimate liability that may result from an asserted claim. The Authority also uses independent actuaries to estimate the ultimate costs, if any, of the settlement of such claims. The Authority has designated assets to be used for liabilities resulting from claims for which the Authority may ultimately be responsible. Accrued professional claims are included in the financial statements and in management's opinion provide an adequate reserve for loss contingencies. Berrien is insured under a separate commercial policy with deductible amounts of \$25,000 per incident and \$75,000 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

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2017 and 2016

15. Fair Values of Financial Instruments

The following methods and assumptions were used by the Authority in estimating the fair value of its financial instruments:

- *Cash and cash equivalents*: The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value.
- *Short-term investments*: These assets consist primarily of cash and cash equivalents, equity securities, and mutual funds. Fair value of the equity securities and mutual funds is based on the current trading value and market inputs. The carrying amount reported in the balance sheet for short-term investments approximates fair value.
- *Noncurrent cash and investments*: These assets consist primarily of cash, equity securities, mutual funds, corporate bonds, mortgage-backed securities, collateralized mortgage obligations and U.S. government obligations. Fair value of the noncurrent cash and investments is based on the current trading value and market inputs. The carrying amount reported on the balance sheet for noncurrent cash and investments approximates its fair value.
- *Accounts payable and accrued expenses*: The carrying amount reported in the balance sheet for accounts payable and accrued expenses approximates its fair value.
- *Estimated third-party payor settlements*: The carrying amount reported in the balance sheet for estimated third-party payor settlements approximates its fair value.
- *Long-term debt*: Fair values of the revenue notes are based on current traded value. 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. Level 2 inputs are used in determining this valuation.

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2017 and 2016

15. Fair Values of Financial Instruments, Continued

The carrying amounts and fair values of the Authority's long-term debt at September 30, 2017 and 2016 are as follows:

| | (Dollars In Thousands) | | | |
|----------------|----------------------------|-------------------|----------------------------|-------------------|
| | <u>2017</u> | | <u>2016</u> | |
| | <u>Carrying Amount</u> | <u>Fair Value</u> | <u>Carrying Amount</u> | <u>Fair Value</u> |
| Long-term debt | \$ <u>208,788</u> | \$ <u>219,915</u> | \$ <u>209,357</u> | \$ <u>228,279</u> |

16. Concentration of Credit Risk

The Authority grants credit without collateral to patients substantially all of whom are local residents of Lowndes County or the immediate surrounding counties of Georgia and Florida and are insured under third-party payor agreements. A significant portion of the net receivables are from patients covered by various government programs such as Medicare or Medicaid. The mix of net receivables from patients and third-party payors was as follows:

| | <u>2017</u> | <u>2016</u> |
|--------------------------|-------------|-------------|
| Medicare | 36% | 35% |
| Medicaid | 8% | 6% |
| Blue Cross | 22% | 19% |
| Other third-party payors | 18% | 19% |
| Patients | <u>16%</u> | <u>21%</u> |
| Total | <u>100%</u> | <u>100%</u> |

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2017 and 2016

17. 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 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.

18. Electronic Health Record Incentive Payments

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

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

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

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2017 and 2016

18. Electronic Health Record Incentive Payments, Continued

FY 2015 was the final year the Authority was eligible to participate in the Medicare EHR incentive program; FY 2016 was the final year the Authority was eligible to participate in the Medicaid EHR incentive program. The Authority has accrued \$337 thousand for the final Medicaid payment expected to be received in FY 2018. This amount has been accrued in other receivables on the balance sheet as of September 30, 2017.

REQUIRED SUPPLEMENTARY INFORMATION



HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

SCHEDULE OF CHANGES IN NET PENSION
LIABILITY AND RELATED RATIOS
September 30, 2017, 2016, 2015, and 2014

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|-----------------|------------------|-----------------|-----------------|
| Total pension liability: | | | | |
| Service cost | \$ 238 | \$ 322 | \$ 377 | \$ 638 |
| Interest cost | 5,807 | 5,935 | 5,520 | 5,346 |
| Changes of benefit terms | - | - | - | 2,956 |
| Differences between expected and actual experiences | 1,250 | (184) | 1,665 | 2,546 |
| Changes in assumptions | (1,671) | (546) | 4,273 | - |
| Benefit payments | (7,137) | (7,174) | (5,968) | (8,531) |
| Net change in total pension liability | (1,513) | (1,647) | 5,867 | 2,955 |
| Total pension liability (beginning) | <u>80,751</u> | <u>82,398</u> | <u>76,531</u> | <u>73,576</u> |
| Total pension liability (ending) | <u>79,238</u> | <u>80,751</u> | <u>82,398</u> | <u>76,531</u> |
| Plan fiduciary net position: | | | | |
| Contributions - employer | 3,012 | 3,055 | 2,472 | 2,582 |
| Net investment income (loss) | 5,679 | (711) | 4,221 | 9,102 |
| Benefit payments | (7,137) | (7,174) | (5,968) | (8,531) |
| Administrative expense | (154) | (210) | (251) | (184) |
| Net changes in plan fiduciary net position | 1,400 | (5,040) | 474 | 2,969 |
| Plan fiduciary net position (beginning) | <u>69,287</u> | <u>74,327</u> | <u>73,853</u> | <u>70,884</u> |
| Plan fiduciary net position (ending) | <u>70,687</u> | <u>69,287</u> | <u>74,327</u> | <u>73,853</u> |
| Net pension liability (ending) | \$ <u>8,551</u> | \$ <u>11,464</u> | \$ <u>8,071</u> | \$ <u>2,678</u> |
| Net position as a percentage of pension liability | <u>89.21%</u> | <u>85.80%</u> | <u>90.20%</u> | <u>96.50%</u> |
| Covered payroll | N/A | N/A | N/A | N/A |
| Net pension liability as a percentage of payroll | N/A | N/A | N/A | N/A |

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

SCHEDULE OF CHANGES IN NET PENSION
LIABILITY AND RELATED RATIOS, Continued
September 30, 2017, 2016, 2015, and 2014

- *Changes in assumptions:* In 2017, amounts reported as changes in assumptions resulted primarily from adjustments to assumed life expectancies as a result of adopting the sex-distinct Blue Collar RP-2014 mortality tables for employees and healthy annuitants, adjusted backward to 2006 with scale MP-2014, and then adjusted for mortality improvements with the scale MP-2016 mortality improvement scale on a generational basis. In 2016, amounts reported as changes in assumptions resulted primarily from the change in turnover assumption. In 2015, amounts reported as changes in assumptions resulted primarily from adjustments to assumed life expectancies as a result of adopting the RP-2014 Mortality Table for Annuitants and Non-Annuitants for purposes of developing mortality rates.
- *Changes of benefit terms:* In 2014, amounts reported as changes of benefit terms resulted primarily from the additional benefits payable under the Early Retirement Window and the related change in assumptions.

Information to present a 10-year history is not reasonably obtainable.

See independent auditor's report.

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

SCHEDULE OF PENSION CONTRIBUTIONS

September 30, 2017, 2016, 2015, and 2014

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|--------------|--------------|--------------|--------------|
| Actuarially determined contribution | \$ 3,012 | \$ 3,055 | \$ 2,671 | \$ 2,384 |
| Contributions made in relation to the actuarially determined contribution | <u>3,012</u> | <u>3,055</u> | <u>2,671</u> | <u>2,384</u> |
| Contribution deficiency (excess) | \$ <u>-</u> | \$ <u>-</u> | \$ <u>-</u> | \$ <u>-</u> |
| Covered payroll | N/A | N/A | N/A | N/A |
| Contributions as a percentage of payroll | N/A | N/A | N/A | N/A |

Methods and assumptions used to determine contribution rates:

- Actuarial cost method: Entry age normal
- Asset valuation method: Market Value
- Salary increases: N/A – plan is frozen
- Investment rate of return: 7.50% per year, compounded annually
- Retirement age varies by age and service.
- Prior to January 1, 2015, mortality rates were based on the RP-2000 Combined Mortality Table. As of January 1, 2015, mortality rates were based on the RP-2014 Mortality Table for Annuitants and Non-Annuitants, fully generational with projected mortality improvements using scale MP-2014, with blue collar adjustment. As of January 1, 2017, the sex-distinct Blue Collar RP-2014 mortality tables for employees and healthy annuitants, adjusted backward to 2006 with scale MP-2014, and then adjusted for mortality improvements with the scale MP-2016 mortality improvement scale on a generational basis. This assumption was based on a review of published mortality tables and the demographics and the industry of the Plan.

Information to present a 10-year history is not reasonably obtainable.

See independent auditor's report.

TAB 2



CERTIFICATE OF CHIEF FINANCIAL OFFICER

I, Grant D. Byers, the Chief Financial Officer of the Hospital Authority of Valdosta and Lowndes County, Georgia d/b/a South Georgia Medical Center, have reviewed the attached schedules itemized below. These schedules are for the fiscal year ended September 30, 2017:

Health Care Service and Operations

- Medical Staff
- Nursing and Professional Staff

Historical Utilization and Occupancy

- Utilization Statistics
- Sources of Patient Revenues

Summary Financial Information

- Summary of Revenue and Expenses and Debt Service Coverage
- Summary of Balance Sheet Data

To the best of my knowledge the schedules are true and accurate.

Grant D. Byers
Chief Financial Officer

HEALTH CARE SERVICES AND OPERATIONS
Medical Staff

The following table shows by specialty the number of active and provisional staff members, the number of staff members who are board certified, and the average age of the members of the Hospital as of September 2017:

| Specialty | Active/Provisional Staff | Board Certified | Average Age |
|-------------------------|-----------------------------|--------------------|----------------|
| Allergy | 1 | 1 | 71 |
| Anesthesia | 11 | 10 | 52 |
| Cardio/Thoracic Surgery | 3 | 2 | 59 |
| Cardiology | 6 | 6 | 53 |
| Dentistry | 9 | 0 | 50 |
| Dermatology | 2 | 2 | 57 |
| Emergency Medicine | 51 | 49 | 47 |
| Family Practice | 20 | 16 | 49 |
| Gastroenterology | 6 | 6 | 57 |
| General Surgery | 15 | 15 | 55 |
| Internal Medicine | 87 | 75 | 46 |
| Neonatology | 2 | 2 | 67 |
| Nephrology | 4 | 4 | 60 |
| Neuro Surgery | 2 | 1 | 56 |
| Neurology | 20 | 17 | 52 |
| OB/GYN | 13 | 11 | 54 |
| Oncology Hematology | 8 | 8 | 55 |
| Oncology Radiology | 1 | 1 | 62 |
| Ophthalmology | 11 | 11 | 54 |
| Oral Surgery | 5 | 4 | 62 |
| Orthopedic Surgery | 13 | 11 | 49 |
| Otolaryngology Surgery | 4 | 4 | 53 |
| Pathology | 3 | 3 | 57 |
| Pediatrics | 13 | 12 | 52 |
| Physiatry | 4 | 4 | 56 |
| Plastic Surgery | 4 | 4 | 47 |
| Podiatry | 7 | 4 | 45 |
| Psychiatry | 3 | 3 | 57 |
| Pulmonology | 7 | 7 | 54 |
| Radiology | 14 | 14 | 54 |
| Rheumatology | 1 | 1 | 53 |
| Urological Surgery | 3 | 3 | 56 |
| Total | <u>353</u> | <u>311</u> | <u>50</u> |

The following table shows the number and percentage of admissions by specialty for the fiscal year ended September 30, 2017, for specialties representing 2% or more of admissions at the Hospital:

| <u>Specialty</u> | <u>Number of Admissions</u> | <u>Percentage of Admissions</u> |
|----------------------------|-----------------------------|---------------------------------|
| Internal Medicine | 8,868 | 41.4% |
| Family Medicine | 1,213 | 5.7% |
| Cardiology | 479 | 2.2% |
| Pediatrics | 3,298 | 15.4% |
| OB/GYN | 2,611 | 12.2% |
| Surgery - General | 1,289 | 6.0% |
| Surgery - Orthopedic | 982 | 4.6% |
| Surgery - Cardiac Thoracic | 529 | 2.5% |
| Total | <u>19,269</u> | <u>90.1%</u> |

The following table shows the top ten admitting physicians by specialty and age for the fiscal year ended September 30, 2017:

| <u>Specialty</u> | <u>Age</u> | <u>Number of Admissions</u> | <u>Percentage of Admissions</u> |
|--------------------|------------|-----------------------------|---------------------------------|
| Pediatrics | 34 | 749 | 3.5% |
| Internal Medicine | 59 | 704 | 3.3% |
| Neonatology | 68 | 646 | 3.0% |
| Internal Medicine | 29 | 627 | 2.9% |
| Pediatrics | 48 | 518 | 2.4% |
| Internal Medicine | 54 | 481 | 2.2% |
| Emergency Medicine | 36 | 477 | 2.2% |
| Internal Medicine | 51 | 439 | 2.1% |
| OB/GYN | 56 | 428 | 2.0% |
| Internal Medicine | 49 | 418 | 2.0% |
| Total | | <u>5,487</u> | <u>25.6%</u> |

Nursing and Professional Staff

The nursing and other professional staff of the South Georgia Medical Center, Smith Northview, SGMC Berrien, and SGMC Lanier Campuses as of September 30, 2017 consists of the following:

| <u>Professional Staff</u> | <u>Full-time Equivalents</u> | <u>Part-time</u> | <u>Total</u> |
|---------------------------|----------------------------------|------------------|--------------|
| Registered Nurses | 604 | 35 | 639 |
| Licensed Practical Nurses | 108 | 8 | 116 |
| Student nurses | 0 | 0 | 0 |
| Radiology/Lab Techs | 135 | 6 | 141 |
| Pharmacists | 33 | 2 | 35 |
| Other* | 164 | 15 | 179 |

* Includes emergency medical technicians, physician assistants, interns and other professional staff.

HISTORICAL UTILIZATION AND OCCUPANCY

Utilization Statistics

The following table provides selected statistical information regarding utilization of the Authority's facilities, including the South Georgia Medical Center, Greenleaf Center, Smith Northview, SGMC Berrien and SGMC Lanier Campuses:

| | Fiscal years ended September 30, | | | | |
|---------------------------------|----------------------------------|---------|---------|---------|---------|
| | 2013** | 2014*** | 2015 | 2016 | 2017 |
| Licensed beds | 393 | 480 | 480 | 480 | 480 |
| Beds in service | 393 | 480 | 480 | 480 | 480 |
| Admissions | 15,875 | 14,831 | 13,988 | 13,848 | 13,563 |
| Patient days | 75,306 | 68,340 | 80,276 | 72,986 | 73,244 |
| Adjusted patient days | 152,618 | 145,106 | 167,214 | 150,865 | 155,697 |
| Adjusted discharges | 32,173 | 31,490 | 29,137 | 28,624 | 28,831 |
| Average daily census | 206 | 187 | 220 | 200 | 201 |
| Average length of stay | 4.74 | 4.61 | 5.74 | 5.27 | 5.40 |
| Occupancy percent | 54.1% | 46.8% | 45.8% | 41.7% | 41.8% |
| Outpatient visits: | | | | | |
| Emergency | 80,301 | 81,829 | 73,553 | 72,963 | 73,741 |
| Walk-in clinics | 13,451 | 13,501 | 15,545 | 20,680 | 18,898 |
| Pediatric clinics | 10,872 | 10,095 | 10,325 | 15,433 | 15,288 |
| Ambulatory surgery | 14,106 | 18,109 | 9,410 | 7,884 | 7,446 |
| Behavioral health | 974 | 0 | 0 | 0 | 0 |
| Observation visits | 3,817 | 3,997 | 6,621 | 6,165 | 7,761 |
| Other outpatients | 139,908 | 141,268 | 134,657 | 127,763 | 129,448 |
| Outpatient revenue percent | 50.7% | 52.9% | 52.0% | 51.6% | 53.0% |
| Full Time Equivalent Employees: | | | | | |
| Total | 2,355 | 2,168 | 2,273 | 2,197 | 2,164 |
| Per adjusted occupied bed | 5.63 | 5.45 | 4.96 | 5.32 | 5.07 |
| Medicare case mix index | 1.52 | 1.54 | 1.71 | 1.74 | 1.76 |

** Includes three months of Greenleaf Center and six months of SGMC Berrien Campus

*** Includes five months of SGMC Lanier Campus

Sources of Patient Revenues

Payments for the Authority's health care services are made on behalf of certain patients by third party insurance plans and governmental agencies. The majority of the Authority's PPO contracts pay on a discounted charge basis. The following table shows a percentage breakdown of patient revenue for South Georgia Medical Center, Greenleaf Center, Smith Northview, SGMC Berrien, and SGMC Lanier Campuses by payor source for the five fiscal years ended September 30, 2013 through 2017.

| | 2013 | 2014 | 2015 | 2016 | 2017 |
|----------------------|-------|-------|-------|-------|-------|
| Medicare | 47.8% | 44.6% | 48.8% | 49.8% | 49.7% |
| Medicaid | 14.1 | 11.3 | 11.1 | 13.7 | 13.6 |
| Tricare | 4.5 | 4.7 | 3.7 | 4.4 | 4.1 |
| State Health | 4.3 | 1.8 | 0.8 | 0.7 | 0.7 |
| Blue Cross | 7.6 | 10.3 | 10.7 | 11.1 | 11.0 |
| PPO/Insurance | 10.2 | 9.5 | 8.6 | 10.1 | 9.5 |
| Self pay and other | 10.7 | 17.2 | 16.0 | 9.5 | 10.7 |
| Workers compensation | 0.8 | 0.6 | 0.3 | 0.7 | 0.7 |
| Total | 100% | 100% | 100% | 100% | 100% |

SUMMARY FINANCIAL INFORMATION

The following tables set forth the summary historical financial and statistical information regarding the Authority for the five most recent fiscal years ended September 30, 2017. The summary historical financial information below for FY 2013 - 2017 has been derived from audited financial statements of the Authority and the related notes thereto.

SUMMARY OF REVENUES AND EXPENSES AND DEBT SERVICE COVERAGE (dollars in thousands)

| | Fiscal years ended September 30 | | | | |
|--|---------------------------------|------------------|------------------|------------------|------------------|
| | 2013* | 2014* | 2015 | 2016 | 2017 |
| Revenues: | | | | | |
| Net patient service revenue | \$280,508 | \$304,704 | \$326,604 | \$324,160 | \$335,888 |
| Other revenue | 12,456 | 12,299 | 10,922 | 9,842 | 9,517 |
| Total operating revenue | <u>\$292,964</u> | <u>\$317,003</u> | <u>\$337,526</u> | <u>\$334,002</u> | <u>\$345,405</u> |
| Expenses: | | | | | |
| Salaries, wages and benefits | \$149,349 | \$142,444 | \$160,099 | \$152,946 | \$161,076 |
| Supplies and other expenses | 128,157 | 137,269 | 150,710 | 141,717 | 171,850 |
| Depreciation and amortization | 20,655 | 24,177 | 23,401 | 20,538 | 18,175 |
| Total operating expenses | <u>\$298,161</u> | <u>\$303,890</u> | <u>\$334,210</u> | <u>\$315,201</u> | <u>\$351,101</u> |
| Operating income | (\$5,197) | \$13,113 | \$3,316 | \$18,801 | (\$5,696) |
| Nonoperating income: | | | | | |
| Investment income | \$8,304 | \$10,244 | \$196 | \$18,409 | \$26,277 |
| Gain on the sale of Greenleaf Center | \$5,280 | \$0 | \$0 | \$0 | \$0 |
| Interest expense | (7,785) | (9,787) | (9,666) | (9,588) | (9,480) |
| Total nonoperating income | <u>\$5,799</u> | <u>\$457</u> | <u>(\$9,470)</u> | <u>\$8,821</u> | <u>\$16,797</u> |
| Excess revenues over expenses | <u>\$602</u> | <u>\$13,570</u> | <u>(\$6,154)</u> | <u>\$27,622</u> | <u>\$11,101</u> |
| Debt service coverage ratios: | | | | | |
| Excess revenues over expenses | \$602 | \$13,570 | (\$6,154) | \$27,622 | \$11,101 |
| Depreciation and amortization | 20,655 | 24,177 | 23,401 | 20,538 | 18,175 |
| Interest expense | 7,785 | 9,787 | 9,666 | 9,588 | 9,480 |
| Net revenues available for debt service | <u>\$29,042</u> | <u>\$47,534</u> | <u>\$26,913</u> | <u>\$57,748</u> | <u>\$38,756</u> |
| Historical actual long-term debt service ** | <u>\$12,860</u> | <u>\$15,045</u> | <u>\$14,550</u> | <u>\$14,521</u> | <u>\$14,641</u> |
| Historical actual debt service coverage | <u>2.26</u> | <u>3.16</u> | <u>1.85</u> | <u>3.98</u> | <u>2.65</u> |

* Restated

** does not include unamortized premium and discount

SUMMARY OF BALANCE SHEET DATA
(dollars in thousands)

| | As of September 30, | | | | |
|--|---------------------|------------------|------------------|------------------|------------------|
| | 2013* | 2014* | 2015 | 2016 | 2017 |
| Cash and cash equivalents | \$67,216 | \$64,855 | \$26,671 | \$29,741 | \$5,981 |
| Short-term investments | 17,622 | 18,133 | 18,022 | 18,136 | 16,053 |
| Patient accounts receivable, net | 49,608 | 55,974 | 44,378 | 40,795 | 39,297 |
| Other current assets | 16,551 | 18,859 | 17,895 | 20,891 | 22,770 |
| Total current assets | <u>\$150,997</u> | <u>\$157,821</u> | <u>\$106,966</u> | <u>\$109,563</u> | <u>\$84,101</u> |
| Noncurrent cash and investments | \$188,511 | \$197,746 | \$259,779 | \$279,198 | \$307,152 |
| Property and equipment, net | 200,410 | 195,329 | 175,310 | 172,048 | 188,682 |
| Other assets | 35,521 | 40,398 | 18,680 | 19,954 | 15,881 |
| Total assets | <u>\$575,439</u> | <u>\$591,294</u> | <u>\$560,735</u> | <u>\$580,763</u> | <u>\$595,816</u> |
| Current liabilities | \$57,805 | \$55,389 | \$65,030 | \$56,823 | \$65,308 |
| Long-term debt, excluding current maturities | \$219,949 | \$217,461 | \$217,671 | \$215,660 | \$210,861 |
| Deferred inflows of Resources | | \$3,091 | \$1,369 | \$0 | \$0 |
| Net assets | 297,685 | 315,353 | 276,665 | 308,280 | 319,647 |
| Total liabilities and net assets | <u>\$575,439</u> | <u>\$591,294</u> | <u>\$560,735</u> | <u>\$580,763</u> | <u>\$595,816</u> |

* Restated