

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

September 30, 2018

**Annual Report
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September 30, 2018**

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TAB 1

HOSPITAL AUTHORITY OF VALDOSTA
AND LOWNDES COUNTY, GEORGIA



FINANCIAL STATEMENTS

for the years ended September 30, 2018 and 2017

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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, 2018 and 2017, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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

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, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 64 through 66 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
January 23, 2019



Management's Discussion and Analysis For the Year Ending September 30, 2018

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, 2018, 2017, and 2016. 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 decreased \$17.8 million in 2018 compared to a \$11.4 million increase in 2017.
- The Authority reported a net operating loss of \$29.3 million for 2018 and \$5.7 million in 2017.

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, 2018**

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 2018, 2017, and 2016:

Balance Sheet Data

	(Dollars In Thousands)		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Current assets	\$ 102,388	\$ 84,101	\$ 109,563
Noncurrent cash and investments	266,484	307,152	279,198
Capital assets, net	193,511	188,682	172,048
Other noncurrent assets	1,280	1,542	1,490
Deferred outflows of resources	<u>9,598</u>	<u>14,339</u>	<u>18,464</u>
 Total assets and deferred outflows of resources	 \$ <u>573,261</u>	 \$ <u>595,816</u>	 \$ <u>580,763</u>
Current liabilities	\$ 63,828	\$ 65,308	\$ 56,823
Long-term debt	203,333	202,310	204,196
Net pension liability	2,229	8,551	11,464
Deferred inflows of resources	2,001	-	-
Net position	<u>301,870</u>	<u>319,647</u>	<u>308,280</u>
 Total liabilities, deferred inflows of resources and net position	 \$ <u>573,261</u>	 \$ <u>595,816</u>	 \$ <u>580,763</u>

Management's Discussion and Analysis
For the Year Ending September 30, 2018

The following table summarizes the revenues and expenses for the years ended September 30, 2018, 2017, and 2016:

Statement of Revenue and Expense Data

	(Dollars In Thousands)		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating revenue	\$ <u>359,165</u>	\$ <u>345,405</u>	\$ <u>334,002</u>
Expenses:			
Operating expenses	365,384	332,926	294,663
Depreciation	<u>23,068</u>	<u>18,175</u>	<u>20,538</u>
Total expenses	<u>388,452</u>	<u>351,101</u>	<u>315,201</u>
Operating income (loss)	(29,287)	(5,696)	18,801
Nonoperating income (expenses):			
Investment income	20,825	26,277	18,409
Interest expense	<u>(9,520)</u>	<u>(9,480)</u>	<u>(9,588)</u>
Excess revenues (expenses) before special items and capital contributions	(17,982)	11,101	27,622
Settlement recovery	-	-	3,639
Capital contributions	<u>205</u>	<u>266</u>	<u>354</u>
Increase (decrease) in net position	\$(<u>17,777</u>)	\$ <u>11,367</u>	\$ <u>31,615</u>

**Management's Discussion and Analysis
For the Year Ending September 30, 2018**

A recap of the Authority's long-term debt outstanding at September 30, 2018, 2017, and 2016 follows:

		(Dollars in Thousands)		
<u>Description</u>	<u>Interest Rates</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Revenue Certificates, Series 2007	4.00%-5.00%	\$ 47,535	\$ 48,395	\$ 49,250
Refunding Revenue Certificates				
Series 2010	Variable rates	6,300	8,200	10,100
Revenue Certificates, Series 2010	Variable rates	3,260	4,290	5,300
Revenue Certificates, Series 2011B	2.00%-5.00%	140,765	142,055	143,430
Capital leases	Variable rates	8,810	19	21
Other financing obligations	Variable rates	<u>3,583</u>	<u>4,827</u>	<u>-</u>
Total long-term debt, excluding discounts and premiums		<u>\$ 210,253</u>	<u>\$ 207,786</u>	<u>\$ 208,101</u>

The Authority's investment in capital assets placed in service during 2018, 2017, and 2016 is summarized in the table below:

		(Dollars In Thousands)		
<u>Capital Assets</u>		<u>2018</u>	<u>2017</u>	<u>2016</u>
Construction/renovation projects		\$ 6,097	\$ 8,382	\$ 3,613
Movable equipment		20,357	5,602	3,349
Information system upgrades		<u>2,140</u>	<u>20,105</u>	<u>7,258</u>
Net capital asset additions		<u>\$ 28,594</u>	<u>\$ 34,089</u>	<u>\$ 14,220</u>

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

Fiscal year 2018 was a year of transition for the Hospital Authority. The year was shaped by two major events, the implementation of Epic for clinical and financial operations and a focus on building a physician enterprise for the organization. Both events led to a sharp increase in operating expenses in fiscal year 2018 which negatively affected the Authority's profitability. In spite of the poor operating performance in fiscal year 2018, the Authority's balance sheet remains strong with significant cash reserves of 284 days cash on hand as of September 30, 2018.

Management's Discussion and Analysis For the Year Ending September 30, 2018

On November 1, 2017, the Authority replaced its decades-old systems operation platform with Epic. The Authority chose the "big bang" approach which transitioned the clinical and financial platforms to Epic for all facilities at the same time. Significant investments of resources were made to ensure the implementation was a success. In the months leading up to the go-live date, labor costs increased as the organization prepared for go-live. Dry runs of the cutover plan were conducted to identify potential issues. Go-live support was brought in to ensure a smooth transition that did not interfere with patient care. Contract nurses who were Epic users continued to provide quality care for patients as our nursing staff worked through implementation issues. At-the-elbow trainers were also brought in at go-live to provide assistance. The estimated increase in operating expenses related to the Epic conversion was approximately \$15 million.

Although the Epic conversion was a success, the organization faced many challenges in the months following go-live. One of the areas most impacted was the Revenue Cycle as the Authority moved to a SBO model. The Authority experienced a delay in cash collections after go-live caused by an increase in denials related to build issues and issues with patients' statements. The Authority also changed Medicare intermediaries from Cahaba to Palmetto which resulted in significant cash delays. As a result of these issues, the days in accounts receivable increased by 17 days from fiscal year 2017 to fiscal year 2018. Fortunately, the Authority's strong cash position allowed management the time to address the issues. As of the end of fiscal year 2018, cash collections were returning to pre-Epic amounts.

A strategic decision was made to grow the Authority's physician enterprise. Prior to 2018, the Authority employed less than ten physicians. Management set out to more than double that number in fiscal year 2018. The two major areas of focus were primary care and general surgery. Ten employed surgeons were added in fiscal year 2018 including several general surgeons, two urologists, and a plastic surgeon. With the addition of the employed surgeons, the Authority now controls the surgery market in its service area. Because there is a shortage of primary care physicians in its service area, the Authority employed four primary care physicians during the year. With the addition of the employed physicians and support staff, the Authority's labor expenses increased in fiscal year 2018, as well as increased maintenance costs and equipment costs associated with the setup of each practice. In support of its mission, the Authority also provided funding of over \$1 million for a local non-profit organization that provides primary care for the under-insured in the community.

In August of 2018, the Authority's Chief Executive Officer vacated his position. The leadership position was filled on an interim basis by a long-time executive of the organization with more than 20 years of leadership experience with the Authority. The leadership team is actively working on a strategic plan to return the Authority to a positive operating margin by focusing on productivity improvements and reducing supply expenses.

**Management's Discussion and Analysis
For the Year Ending September 30, 2018**

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, 2018 and 2017

	(Dollars In Thousands)	
	<u>2018</u>	<u>2017</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current assets:		
Cash and cash equivalents	\$ 12,868	\$ 5,981
Short-term investments	12,347	16,053
Patient accounts receivable, net of estimated uncollectibles of \$106,325 in 2018 and \$54,412 in 2017	57,066	39,297
Other receivables	10,152	12,081
Supplies (first-in, first-out)	6,081	5,824
Other current assets	<u>3,874</u>	<u>4,865</u>
Total current assets	<u>102,388</u>	<u>84,101</u>
Noncurrent cash and investments:		
Internally designated for capital improvements	<u>266,484</u>	<u>307,152</u>
Capital assets:		
Non-depreciable	21,798	47,175
Depreciable, net of accumulated depreciation	<u>171,713</u>	<u>141,507</u>
Total capital assets, net of accumulated depreciation	<u>193,511</u>	<u>188,682</u>
Other assets:		
Other receivables	<u>1,280</u>	<u>1,542</u>
Total assets	<u>563,663</u>	<u>581,477</u>
Deferred outflows of resources:		
Goodwill	1,405	2,225
Loss on bond defeasance	838	1,000
Pension related	<u>7,355</u>	<u>11,114</u>
Total deferred outflows of resources	<u>9,598</u>	<u>14,339</u>
Total assets and deferred outflows of resources	<u>\$ 573,261</u>	<u>\$ 595,816</u>

(Dollars In Thousands)

	<u>2018</u>	<u>2017</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
Current liabilities:		
Current maturities of long-term debt	\$ 7,680	\$ 6,478
Accounts payable	18,691	17,992
Accrued expenses	36,878	39,400
Estimated third-party payor settlements	<u>579</u>	<u>1,438</u>
Total current liabilities	63,828	65,308
Long-term liabilities, excluding current maturities	203,333	202,310
Net pension liability	<u>2,229</u>	<u>8,551</u>
Total liabilities	<u>269,390</u>	<u>276,169</u>
Deferred inflows of resources	<u>2,001</u>	<u>-</u>
Net position:		
Net investment in capital assets	10,756	8,644
Restricted:		
Expendable	2,169	2,175
Unrestricted	<u>288,945</u>	<u>308,828</u>
Net position	<u>301,870</u>	<u>319,647</u>
Total liabilities, deferred inflows of resources, and net position	\$ <u>573,261</u>	\$ <u>595,816</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, 2018 and 2017

	<u>(Dollars In Thousands)</u>	
	<u>2018</u>	<u>2017</u>
Operating revenues:		
Net patient service revenue (net of provision for bad debts of \$72,398 in 2018 and \$55,914 in 2017)	\$ 346,720	\$ 335,888
Other revenue	<u>12,445</u>	<u>9,517</u>
Total operating revenues	<u>359,165</u>	<u>345,405</u>
Operating expenses:		
Salaries and benefits	185,005	161,076
Supplies	79,017	78,121
Services	53,488	45,591
Depreciation and amortization	23,068	18,175
Medical and professional fees	38,398	34,231
Other expenses	<u>9,476</u>	<u>13,907</u>
Total operating expenses	<u>388,452</u>	<u>351,101</u>
Operating loss	(29,287)	(5,696)
Nonoperating revenues (expenses):		
Investment income	20,825	26,277
Interest expense	(9,520)	(9,480)
Total nonoperating revenues	<u>11,305</u>	<u>16,797</u>
Excess revenues (expenses) before capital contributions	(17,982)	11,101
Capital contributions	<u>205</u>	<u>266</u>
Increase (decrease) in net position	(17,777)	11,367
Net position, beginning of year	<u>319,647</u>	<u>308,280</u>
Net position, end of year	\$ <u>301,870</u>	\$ <u>319,647</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, 2018 and 2017

	(Dollars In Thousands)	
	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Cash received from patients and payors	\$ 340,537	\$ 347,119
Cash payments to vendors and other suppliers	(182,050)	(172,933)
Cash payments to employees	(184,002)	(159,509)
Net cash provided (used) by operating activities	(25,515)	14,677
Cash flows from capital and related financing activities:		
Principal paid on long-term debt	(6,784)	(6,748)
Interest paid on long-term debt	(9,554)	(9,554)
Purchase of capital assets	(17,026)	(22,896)
Proceeds from disposals of capital assets	362	89
Contributions for capital improvements and expansion	205	266
Net cash used by capital and related financing activities	(32,797)	(38,843)
Cash flows from investing activities:		
Purchase of investments	(412,936)	(245,615)
Proceeds from sale of investments	468,857	228,038
Income on investments	5,451	6,463
Net cash provided (used) by investing activities	61,372	(11,114)
Net increase (decrease) in cash and cash equivalents	3,060	(35,280)
Cash and cash equivalents, beginning of year	17,208	52,488
Cash and cash equivalents, end of year	\$ 20,268	\$ 17,208
Reconciliation of cash and cash equivalents to the balance sheet:		
Cash and cash equivalents in current assets	\$ 12,868	\$ 5,981
Restricted cash and cash equivalents	7,400	11,227
Total cash and cash equivalents	\$ 20,268	\$ 17,208

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

STATEMENTS OF CASH FLOWS, Continued
for the years ended September 30, 2018 and 2017

	<u>(Dollars In Thousands)</u>	
	<u>2018</u>	<u>2017</u>
Reconciliation of operating loss to net cash flows provided (used) by operating activities:		
Operating loss	\$(29,287)	\$(5,696)
Depreciation and amortization	23,068	18,175
Changes in:		
Patient accounts receivable	(17,769)	1,498
Supplies	(257)	667
Other assets	991	86
Other receivables	2,191	(2,684)
Accounts payable	(462)	(2,636)
Accrued expenses	(2,569)	4,831
Estimated third-party payor settlements	(859)	216
Pension activity	<u>(562)</u>	<u>220</u>
Net cash provided (used) by operating activities	<u>\$(25,515)</u>	<u>\$ 14,677</u>

Supplemental disclosures of cash flow information:

- The Authority held investments at September 30, 2018 and 2017 with a fair value of \$271.4 million and \$312.0 million, respectively. During 2018 and 2017, the net change in fair value of these investments was an increase of \$1.0 million and \$20.0 million, respectively.
- Purchases of capital assets in accounts payable as of September 30, 2018 and 2017, were \$1.2 million and \$4.7 million, respectively.
- The Authority entered/extended capital lease and other long-term obligations for equipment in 2018 and 2017 in an amount of \$9.1 million and \$5.1 million, respectively.

See accompanying notes to financial statements.

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS

September 30, 2018 and 2017

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, 2018 and 2017

1. Summary of Significant Accounting Policies, Continued

Recently Adopted Accounting Pronouncement

In 2018, the Authority adopted Statement No. 85, *Omnibus 2017* (GASB 85). GASB 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and pensions and other postemployment benefits. The adoption of GASB 85 had no material impact on the financial statements of the Authority.

Recently Issued Accounting Pronouncements

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations* (GASB 83). GASB 83 addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability and a corresponding deferred outflow of resources based on the guidance in this Statement. GASB 83 is effective for fiscal years beginning after June 15, 2018 and will be effective for the Authority's fiscal year beginning October 1, 2018. The Authority is currently evaluating the impact GASB 83 will have on its financial statements.

In March 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* (GASB 88). GASB 88 clarifies which liabilities should be included when disclosing information related to debt, requires additional essential information related to debt be disclosed, and requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. GASB 88 is effective for fiscal years beginning after June 15, 2018 and will be effective for the Authority's fiscal year beginning October 1, 2018. The Authority is currently evaluating the impact GASB 88 will have on its financial statements.

Cash and Cash Equivalents

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

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018 and 2017

1. Summary of Significant Accounting Policies, Continued

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 collectability 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, using the first-in, first-out method.

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.

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018 and 2017

1. Summary of Significant Accounting Policies, Continued

Capital Assets, Continued

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, 2018 and 2017.

Costs of Borrowing

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

Financing 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 inflows of resources consist of components related to the defined benefit pension plan and 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, 2018 and 2017. See Notes 8, 9, and 11 for additional information.

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018 and 2017

1. Summary of Significant Accounting Policies, Continued

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.

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*.

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018 and 2017

1. Summary of Significant Accounting Policies, Continued

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.

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 revenues (expenses).

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018 and 2017

1. Summary of Significant Accounting Policies, Continued

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.

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.

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018 and 2017

1. Summary of Significant Accounting Policies, Continued

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.

Prior Year Reclassifications

Certain reclassifications have been made to the fiscal year 2017 financial statements to conform to the fiscal year 2018 presentation. These reclassifications had no impact on the change in net position in the accompanying financial statements.

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018 and 2017

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, 2018 and 2017.

	<u>(Dollars In Thousands)</u>	
	<u>2018</u>	<u>2017</u>
Charges foregone, based on established rates	\$ <u>42,614</u>	\$ <u>32,583</u>
Estimated costs and expenses incurred to provide charity care	\$ <u>14,876</u>	\$ <u>11,421</u>
Equivalent percentage of charity care patients to all patients served	<u>3.8%</u>	<u>3.3%</u>

Effective October 1, 2010, the Authority implemented a discount for uninsured patients. For fiscal years ended September 30, 2018 and 2017, the charges foregone and the estimated costs of services related to this discount were as follows:

	<u>(Dollars In Thousands)</u>	
	<u>2018</u>	<u>2017</u>
Charges foregone, based on established rates	\$ <u>22,441</u>	\$ <u>11,690</u>
Estimated costs and expenses incurred to provide discount for uninsured patients	\$ <u>7,834</u>	\$ <u>4,097</u>
Equivalent percentage of discounts to uninsured patients to all patients served	<u>2.0%</u>	<u>1.2%</u>

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018 and 2017

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 40% and 13%, respectively, of the Authority's net patient revenue for the year ended 2018 and 36% and 9%, respectively, of the Authority's net patient revenue for the year ended 2017. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

The 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, 2018 and 2017

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, 2014.

• 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, 2015.

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, 2018 and 2017

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 \$4.9 million and \$4.6 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, 2018 and 2017, 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 \$7.6 million and \$9.0 million for the years ended September 30, 2018 and 2017, 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 2018 and 2017 of approximately \$2.7 million and \$3.6 million, respectively.

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018 and 2017

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:

	(Dollars In Thousands)	
	<u>2018</u>	<u>2017</u>
Medicare	\$ 423,661	\$ 367,287
Medicaid	113,749	109,303
Tricare	30,117	30,772
Indigent and charity care	42,614	32,583
Other third-party payors	93,775	82,541
Provision for bad debts	72,398	55,914
Indigent Care Trust Fund	(7,568)	(8,956)
Upper Payment Limit	(2,713)	(3,646)
	<u>\$ 766,033</u>	<u>\$ 665,798</u>

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018 and 2017

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

	<u>(Dollars In Thousands)</u>	
	<u>2018</u>	<u>2017</u>
Balance sheets:		
Cash and cash equivalents	\$ 12,868	\$ 5,981
Short-term investments	12,347	16,053
Noncurrent cash and investments:		
Internally designated for capital improvements	266,484	307,152
Total cash and investments	\$ <u>291,699</u>	\$ <u>329,186</u>
Cash and equivalents consist of the following:		
Cash on hand	\$ 18	\$ 15
Deposits with financial institutions	13,448	10,354
Cash equivalents	<u>6,802</u>	<u>6,839</u>
Cash and cash equivalents	<u>20,268</u>	<u>17,208</u>
Investments:		
Investments in equity securities	145,649	156,242
Investments in debt securities	40,151	50,424
Investments in mutual funds	59,468	105,312
Investments in money market funds	22,829	-
Investments in real estate investment trusts	<u>3,334</u>	<u>-</u>
Investments	<u>271,431</u>	<u>311,978</u>
Total cash and investments	\$ <u>291,699</u>	\$ <u>329,186</u>

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2018 and 2017

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, 2018 and 2017, the Authority had the following investments in debt securities and weighted average maturities:

	2018		2017	
	(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	\$ 4,096	9.5	\$ 9,631	6.9
Mortgage-backed securities	3,287	33.4	2,207	46.6
Collateralized mortgage obligations	10,557	11.9	15,976	12.9
Corporate bonds	<u>22,211</u>	<u>4.6</u>	<u>22,610</u>	<u>4.8</u>
Total debt securities	40,151	9.4	50,424	17.8
Mutual funds:				
Fixed income	<u>59,468</u>	<u>6.7</u>	<u>105,312</u>	<u>5.2</u>
Grand total	\$ <u>99,619</u>	<u>7.8</u>	\$ <u>155,736</u>	<u>6.7</u>

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018 and 2017

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, 2018 and 2017, the Authority's investments in debt securities and money market funds had the following ratings:

	(Dollars In Thousands) <u>Amount</u>	Rating as of September 30, 2018					
		<u>Aaa</u>	<u>Aa</u>	<u>A</u>	<u>Baa</u>	<u>Ba</u>	<u>B</u>
Debt securities:							
U. S. government obligations	\$ 4,096	\$ 4,096	\$ -	\$ -	\$ -	\$ -	\$ -
Mortgage-backed securities	3,287	-	3,287	-	-	-	-
Collateralized mortgage obligations	10,557	8,027	1,909	621	-	-	-
Corporate bonds	<u>22,211</u>	<u>108</u>	<u>846</u>	<u>8,313</u>	<u>10,881</u>	<u>1,373</u>	<u>690</u>
Total debt securities	\$ <u>40,151</u>	\$ <u>12,231</u>	\$ <u>6,042</u>	\$ <u>8,934</u>	\$ <u>10,881</u>	\$ <u>1,373</u>	\$ <u>690</u>
Money market funds	\$ <u>22,829</u>	\$ <u>22,829</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, 2018 and 2017

4. Cash and Investments, Continued

	(Dollars In Thousands) <u>Amount</u>	Rating as of September 30, 2017					
		<u>Aaa</u>	<u>Aa</u>	<u>A</u>	<u>Baa</u>	<u>Ba</u>	<u>B</u>
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>-</u>	\$ <u>-</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, 2018 and 2017.

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

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2018 and 2017

4. Cash and Investments, Continued

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of another party. At September 30, 2018 and 2017, the Authority owned \$271.4 million and \$312.0 million, respectively, in securities registered through the brokerage firm's trust department. Securities are held in the Authority's name.

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, 2018 and 2017 are as follows:

	(Dollars In Thousands)			
	<u>Fair Value Measurements at Reporting Date Using</u>			
<u>September 30, 2018</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Equity securities:				
Common stock	\$ 121,436	\$ 121,230	\$ 206	\$ -
Preferred stock	-	-	-	-
Foreign stock	<u>24,213</u>	<u>23,701</u>	<u>371</u>	<u>141</u>
Total equity securities	<u>145,649</u>	<u>144,931</u>	<u>577</u>	<u>141</u>
Debt securities:				
US government obligations	4,096	-	4,096	-
Mortgage-backed securities	3,287	-	2,991	296
Collateralized mortgage obligations	10,557	-	9,801	756
Corporate bonds	<u>22,211</u>	<u>-</u>	<u>21,996</u>	<u>215</u>
Total debt securities	<u>40,151</u>	<u>-</u>	<u>38,884</u>	<u>1,267</u>

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2018 and 2017

5. Fair Value Measurements, Continued

(Dollars In Thousands)

Fair Value Measurements at Reporting Date Using

<u>September 30, 2018</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Mutual funds – fixed income	<u>59,468</u>	<u>59,468</u>	<u>-</u>	<u>-</u>
Money market funds	<u>22,829</u>	<u>22,829</u>	<u>-</u>	<u>-</u>
Real estate investment trusts	<u>3,334</u>	<u>3,334</u>	<u>-</u>	<u>-</u>
Total assets at fair value	<u>\$ 271,431</u>	<u>\$ 230,562</u>	<u>\$ 39,461</u>	<u>\$ 1,408</u>

(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>	<u>-</u>	<u>-</u>
Total equity securities	<u>156,242</u>	<u>156,242</u>	<u>-</u>	<u>-</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>-</u>	<u>22,610</u>	<u>-</u>
Total debt securities	<u>50,424</u>	<u>-</u>	<u>50,424</u>	<u>-</u>
Mutual funds – fixed income	<u>105,312</u>	<u>105,312</u>	<u>-</u>	<u>-</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, 2018 and 2017

5. Fair Value Measurements, Continued

Equity securities, mutual funds, money market funds, and real estate investment trusts valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Debt securities and equity 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. Debt securities and equity securities valued using Level 3 inputs are based on risk-adjusted value ranges.

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, 2018 and 2017 consisted of these amounts:

	<u>(Dollars In Thousands)</u>	
	<u>2018</u>	<u>2017</u>
Patient accounts receivable:		
Receivable from patients and their insurance carriers	\$ 121,058	\$ 61,513
Receivable from Medicare	27,483	19,029
Receivable from Medicaid	<u>14,850</u>	<u>13,167</u>
Total patient accounts receivable	163,391	93,709
Less allowance for uncollectible amounts	<u>106,325</u>	<u>54,412</u>
Patient accounts receivable, net	<u>\$ 57,066</u>	<u>\$ 39,297</u>
Accounts payable and accrued expenses:		
Payable to employees (including payroll taxes)	\$ 19,372	\$ 17,806
Payable to suppliers	18,828	18,190
Other	<u>17,369</u>	<u>21,396</u>
Total accounts payable and accrued expenses	<u>\$ 55,569</u>	<u>\$ 57,392</u>

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018 and 2017

7. Capital Assets

Capital asset changes for the years ended September 30, 2018 and 2017 were as follows:

	(Dollars in Thousands)			
	<u>2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>2018</u>
Land	\$ 7,043	\$ 356	\$ -	\$ 7,399
Market access rights and tradename	9,385	-	-	9,385
Construction in progress	<u>30,747</u>	<u>30,948</u>	<u>(56,681)</u>	<u>5,014</u>
Total capital assets not being depreciated	<u>47,175</u>	<u>31,304</u>	<u>(56,681)</u>	<u>21,798</u>
Land improvements	8,411	5	-	8,416
Buildings and improvements	248,476	7,043	(385)	255,134
Equipment	160,661	36,764	(2,103)	195,322
Equipment under capital lease	1,873	9,110	-	10,983
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>423,640</u>	<u>52,922</u>	<u>(2,488)</u>	<u>474,074</u>
Less accumulated depreciation and amortization for:				
Land improvements	5,730	293	-	6,023
Buildings and improvements	134,165	7,995	(26)	142,134
Equipment	137,211	13,571	(1,988)	148,794
Equipment under capital lease	998	349	-	1,347
Non-compete covenants and other depreciable intangibles	<u>4,029</u>	<u>34</u>	<u>-</u>	<u>4,063</u>
Total accumulated depreciation	<u>282,133</u>	<u>22,242</u>	<u>(2,014)</u>	<u>302,361</u>
Capital assets being depreciated, net	<u>141,507</u>	<u>30,680</u>	<u>(474)</u>	<u>171,713</u>
Total capital assets, net	<u>\$ 188,682</u>	<u>\$ 61,984</u>	<u>\$ (57,155)</u>	<u>\$ 193,511</u>

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2018 and 2017

7. Capital Assets, Continued

	(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	155,472	6,806	(1,617)	160,661
Equipment under capital lease	1,647	226	-	1,873
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	129,837	8,794	(1,420)	137,211
Equipment under capital lease	741	257	-	998
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, 2018 and 2017

7. Capital Assets, Continued

Depreciation expense for the years ended September 30, 2018 and 2017 amounted to approximately \$22.2 million and \$17.4 million, respectively. Construction and software contracts of approximately \$3.7 million exist for the renovation and construction of facilities and purchase and development of software. At September 30, 2018, the remaining commitment on these contracts approximated \$700 thousand.

8. Long-Term Debt

A summary of long-term debt at September 30, 2018 and 2017 follows:

	<u>(Dollars In Thousands)</u>	
	<u>2018</u>	<u>2017</u>
Revenue Certificates – Series 2007, Payable in annual installments ranging from \$850 thousand on October 1, 2018, to \$7.24 million on October 1, 2033, with interest ranging from 4.00% to 5.00% paid semi-annually.	\$ 47,535	\$ 48,395
Revenue Certificates – Series 2010, Payable in annual installments ranging from \$1.06 million beginning December 1, 2018, to \$1.11 million on December 1, 2020, with variable interest rate at market not to exceed 12.00% paid monthly.	3,260	4,290
Refunding Revenue Certificates – Series 2010, Payable in annual installments ranging from \$2.00 million beginning December 1, 2018 to \$2.20 million on December 1, 2020, with variable interest rate at market not to exceed 12.00% paid monthly.	6,300	8,200

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2018 and 2017

8. Long-Term Debt, Continued

	<u>(Dollars In Thousands)</u>	
	<u>2018</u>	<u>2017</u>
Revenue Certificates – Series 2011B, Payable in annual installments ranging from \$1.29 million on October 1, 2018, to \$13.67 million on October 1, 2041, with interest rates from 2.00% to 5.00% paid semi-annually.	\$ 140,765	\$ 142,055
Capital lease obligations, with varying rates of interest, collateralized by leased equipment.	8,810	19
Other financing obligations, with varying rates of interest, collateralized by equipment.	<u>3,583</u>	<u>4,827</u>
Total long-term debt	210,253	207,786
Less current installments of long-term debt	<u>7,680</u>	<u>6,478</u>
Long-term debt excluding current installments	202,573	201,308
Unamortized net premium and discount	<u>760</u>	<u>1,002</u>
Long-term debt excluding current installments, and unamortized net premium and discount	<u>\$ 203,333</u>	<u>\$ 202,310</u>

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018 and 2017

8. Long-Term Debt, Continued

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

(Dollars In Thousands)					
	<u>2017 Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>2018 Balance</u>	<u>Amounts Due Within One Year</u>
Revenue certificates	\$ 202,940	\$ -	\$(5,080)	\$ 197,860	\$ 5,200
Capital lease obligations	19	9,115	(324)	8,810	1,056
Other financing obligations	<u>4,827</u>	<u>136</u>	<u>(1,380)</u>	<u>3,583</u>	<u>1,424</u>
Total long-term debt	207,786	9,251	(6,784)	210,253	7,680
Unamortized net premium and discount	<u>1,002</u>	<u>-</u>	<u>(242)</u>	<u>760</u>	<u>-</u>
Long-term debt	<u>\$ 208,788</u>	<u>\$ 9,251</u>	<u>\$(7,026)</u>	<u>\$ 211,013</u>	<u>\$ 7,680</u>

(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
Capital lease obligations	21	226	(228)	19	19
Other financing obligations	<u>-</u>	<u>6,207</u>	<u>(1,380)</u>	<u>4,827</u>	<u>1,379</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>

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2018 and 2017

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, 2018, the Authority is not in compliance with all requirements and is working to remedy the violation in accordance with the provisions delineated in the Indenture.

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, 2018 and 2017

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, 2018 and 2017

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, 2018 and 2017

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.

In 2018, the Authority entered into a capital lease agreement under which the Authority leases surgical equipment. The monthly lease payments of approximately \$41,000 end in FY 2021.

In 2018, the Authority entered into a capital lease agreement under which the Authority leases various equipment. The monthly lease payments of approximately \$123,000 end in FY 2024.

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2018 and 2017

8. Long-Term Debt, Continued

The debt service requirements of long-term debt at September 30, 2018 are as follows:

	<u>Long-Term Debt</u>		<u>Capital Lease Obligations</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 6,624	\$ 9,386	\$ 1,056	\$ 121
2020	6,795	9,218	1,711	258
2021	6,265	9,046	1,820	149
2022	2,275	8,922	1,731	91
2023	5,485	8,728	1,429	48
2024-2028	31,795	39,180	1,063	11
2029-2033	40,195	30,558	-	-
2034-2038	51,130	19,339	-	-
2039-2043	<u>50,879</u>	<u>5,243</u>	<u>-</u>	<u>-</u>
Total	\$ <u>201,443</u>	\$ <u>139,620</u>	\$ <u>8,810</u>	\$ <u>678</u>

A summary of interest cost and investment income during the years ended September 30, 2018 and 2017 follows:

	<u>(Dollars In Thousands)</u>	
	<u>2018</u>	<u>2017</u>
Interest cost:		
Capitalized	\$ -	\$ -
Charged to nonoperating revenues	<u>9,520</u>	<u>9,480</u>
Total	\$ <u>9,520</u>	\$ <u>9,480</u>
Investment income:		
Capitalized	\$ -	\$ -
Credited to nonoperating revenue	<u>20,825</u>	<u>26,277</u>
Total	\$ <u>20,825</u>	\$ <u>26,277</u>

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018 and 2017

9. Goodwill

Goodwill consists of the following:

	(Dollars In Thousands)				Balance 2018
	Balance 2017	Increase	Decrease	Amortization	
Purchase of Diagnostic Imaging Center	\$ 600	\$ -	\$ -	\$ 600	\$ -
Purchase of Berrien County Hospital	<u>1,625</u>	<u>-</u>	<u>-</u>	<u>220</u>	<u>1,405</u>
Total goodwill	\$ <u>2,225</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>820</u>	\$ <u>1,405</u>
	Balance 2016	Increase	Decrease	Amortization	Balance 2017
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>

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 2018 and 2017 was approximately \$800 thousand and is reported in depreciation and amortization 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, 2018 and 2017

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, 2018 and 2017, 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, 2018 and 2017, the outstanding principal balance was \$1.6 million and \$2.0 million, respectively.

In addition to the above, included in other receivables on the balance sheet are related party receivables in the amounts of \$6.9 million and \$6.2 million for fiscal years 2018 and 2017, 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, 2018 and 2017

10. Related Party Transactions, Continued

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

South Georgia Medical Center Foundation, Inc.

	<u>(Dollars In Thousands)</u>	
	<u>(Audited)</u> <u>June 30, 2018</u>	<u>(Audited)</u> <u>June 30, 2017</u>
Assets, principally cash and cash equivalents and investments	\$ <u>3,431</u>	\$ <u>3,212</u>
Liabilities, accounts payable and deferred revenue	\$ <u>32</u>	\$ <u>34</u>
Net assets:		
Unrestricted	1,639	1,585
Restricted	<u>1,760</u>	<u>1,593</u>
Total net assets	<u>3,399</u>	<u>3,178</u>
Total liabilities and net assets	\$ <u>3,431</u>	\$ <u>3,212</u>
Support and revenue	\$ <u>644</u>	\$ <u>369</u>
Expenses:		
Administrative expenses	323	297
Charitable disbursements	<u>100</u>	<u>177</u>
Total expenses	<u>423</u>	<u>474</u>
Change in net assets	221	(105)
Net assets, beginning	<u>3,178</u>	<u>3,283</u>
Net assets, ending	\$ <u>3,399</u>	\$ <u>3,178</u>

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018 and 2017

10. Related Party Transactions, Continued

South Georgia Health Alliance, Inc.

	(Dollars In Thousands)	
	(Unaudited)	(Audited)
	<u>September 30, 2018</u>	<u>September 30, 2017</u>
Current assets	\$ 5,599	\$ 5,952
Other assets	<u>2,916</u>	<u>3,121</u>
Total assets	<u>\$ 8,515</u>	<u>\$ 9,073</u>
Current liabilities	\$ 7,510	\$ 7,127
Long-term debt	1,636	2,032
Net assets	<u>(631)</u>	<u>(86)</u>
Total liabilities and net assets	<u>\$ 8,515</u>	<u>\$ 9,073</u>
Revenues and gains	\$ 8,096	\$ 7,479
Expenses	<u>(8,641)</u>	<u>(8,559)</u>
Excess revenues (expenses)	<u>(545)</u>	<u>(1,080)</u>
Decrease in net assets	<u>(545)</u>	<u>(1,080)</u>
Net assets, beginning	<u>(86)</u>	<u>994</u>
Net assets, ending	<u>\$(631)</u>	<u>\$(86)</u>

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018 and 2017

11. Retirement Plans

The Authority has a defined contribution plan under Section 401(k) of the Internal Revenue Code, South Georgia Medical Center Money Purchase Retirement Plan, 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, South Georgia Medical Center 457 Plan, was established under Internal Revenue Code Section 457(b). Total participant contributions to the 401(k) and 457(b) plans were approximately \$5.2 million and \$4.5 million in 2018 and 2017, respectively. Total contributions by the Authority on behalf of the participants were approximately \$1.2 million and \$1.1 million in 2018 and 2017, respectively. 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. Vesting in the Authority's matching contributions occurs in 20% increments over 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, 2018 and 2017

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>2018</u>	<u>2017</u>
Actuarially determined contribution	\$ 2,375	\$ 3,012
Contributions made in relation to the actuarially determined contribution	<u>2,375</u>	<u>3,012</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, 2018 and 2017 and the measurement date of the net pension liability is as of January 1, 2018 and 2017.

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018 and 2017

11. Retirement Plans, Continued

Participant Data

The following is a summary of plan participants at January 1, 2018 and 2017.

	January 1, <u>2018</u>	January 1, <u>2017</u>
Active participants	550	581
Inactives with deferred benefits	237	238
Inactives receiving payment	<u>448</u>	<u>448</u>
Total participants	<u>1,235</u>	<u>1,267</u>

Assumptions and Other Inputs

The Authority's net pension liability was measured as of January 1, 2018 and 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2018 and 2017.

The following summarizes the significant assumptions used in the valuation:

	<u>2018</u>	<u>2017</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, 2018 and 2017

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, 2018 and 2017

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, 2018 and 2017:

	(Dollars in Thousands)		
	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>
Balance recognized at September 30, 2017	\$ <u>79,238</u>	\$ <u>70,687</u>	\$ <u>8,551</u>
Changes recognized for the fiscal year:			
Service cost	203	-	203
Interest cost	5,704	-	5,704
Differences between expected and actual experience	977	5,376	(4,399)
Changes in assumptions	(363)	-	(363)
Contributions from the employer	-	2,375	(2,375)
Net investment income	-	5,135	(5,135)
Benefit payments	(6,762)	(6,762)	-
Administrative expense	-	(43)	43
Net changes	(241)	6,081	(6,322)
Balance recognized at September 30, 2018	\$ <u>78,997</u>	\$ <u>76,768</u>	\$ <u>2,229</u>

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018 and 2017

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, 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	-	(154)	154
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>

- *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 MP-2016 mortality improvement scale on a generational basis for purposes of developing mortality rates. In 2018, 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-2017 mortality improvement scale on a generational basis.

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2018 and 2017

11. Retirement Plans, Continued

Changes in Net Pension Liability, Continued

The following table illustrates the impact of interest rate sensitivity on the Net Pension Liability for fiscal years ended September 30, 2018 and 2017:

	2018 (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>8,654</u>	\$ <u>2,229</u>	\$(<u>3,374</u>)

	2017 (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>15,198</u>	\$ <u>8,551</u>	\$ <u>2,771</u>

Pension expense recognized during 2018 and 2017 totaled \$2.8 million.

The following table presents components of deferred inflows and deferred outflows of resources for the years ended September 30, 2018 and 2017:

	(Dollars In Thousands)			
	2018		2017	
	<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	\$ -	\$ 2,001	\$ 2,861	\$ -
Differences between expected and actual experience	3,916	-	3,640	-
Changes in assumptions	<u>2,052</u>	<u>-</u>	<u>2,832</u>	<u>-</u>
Amounts to be recognized in pension expense	5,968	2,001	9,333	-
Contributions made subsequent to measurement date	<u>1,387</u>	<u>-</u>	<u>1,781</u>	<u>-</u>
Total	\$ <u>7,355</u>	\$ <u>2,001</u>	\$ <u>11,114</u>	\$ <u>-</u>

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018 and 2017

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, 2019.

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>
2019	\$(258)	\$(1,118)	\$(1,376)
2020	(21)	(1,118)	(1,139)
2021	1,204	(1,118)	86
2022	1,076	(1,119)	(43)
2023	-	(1,118)	(1,118)
2024	-	(377)	(377)
Total	\$ <u>2,001</u>	\$(<u>5,968</u>)	\$(<u>3,967</u>)

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, 2018 and 2017

11. Retirement Plans, Continued

Investments Included in Fiduciary Net Position

The Plan has the following recurring fair value measurements as of September 30, 2018 and 2017:

<u>September 30, 2018</u>	<u>Fair Value Measurements at Reporting Date Using</u>			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Equity securities:				
Common stock	\$ 48,434	\$ 48,434	\$ -	\$ -
Preferred stock	-	-	-	-
Foreign stock	<u>6,296</u>	<u>6,296</u>	-	-
Total equity securities	<u>54,730</u>	<u>54,730</u>	-	-
Debt securities:				
US government obligations	1,720	-	1,720	-
Mortgage-backed securities	788	-	788	-
Collateralized mortgage obligations	2,900	-	2,900	-
Corporate bonds	<u>6,693</u>	-	<u>6,693</u>	-
Total debt securities	<u>12,101</u>	-	<u>12,101</u>	-
Mutual funds – fixed income	<u>6,819</u>	<u>6,819</u>	-	-
Money market funds	<u>1,966</u>	<u>1,966</u>	-	-
Real estate investment trusts	<u>1,152</u>	<u>1,152</u>	-	-
Total investments	76,768	\$ <u>64,667</u>	\$ <u>12,101</u>	\$ -
Assets excluded from the fair value hierarchy	-			
Plan fiduciary net position	\$ <u>76,768</u>			

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018 and 2017

11. Retirement Plans, Continued

Investments Included in Fiduciary Net Position, Continued

(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>			

Equity securities, mutual funds, money market funds, and real estate investment trusts 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, 2018 and 2017

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 \$3.1 million and \$2.6 million for the years ended September 30, 2018 and 2017, respectively.

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

	<u>(Dollars In Thousands)</u>
2019	\$ 2,451
2020	299
2021	299
2022	299
2023	<u>299</u>
Total	\$ <u>3,647</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.

Accreditation

SGMC was subject of a complaint audit conducted by Joint Commission in September 2018 that resulted in a Preliminary Denial of Accreditation (PDA). SGMC worked diligently to address all findings and support compliance with Joint Commission standards and the Medicare Conditions of Participation. Prior to the completion of the validation survey and the lifting of the PDA from the complaint survey, SGMC was subject to a triannual survey on November 26-28, 2018. The preliminary results of the November 26-28, 2018 audit are that the survey will result in an additional PDA. SGMC disputes the Joint Commission findings. Because the two surveys will have PDA results, Joint Commission will recommend denial of accreditation. If appeal rights are granted, SGMC intends to appeal the Joint Commission findings. The denial of accreditation is not final until the appeal process is completed, if the appeal process is granted by Joint Commission.

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018 and 2017

12. Commitments and Contingencies, Continued

The state Department of Community Health has conducted two follow up surveys to the Joint Commission surveys and has not substantiated the Joint Commission findings. SGMC continues to participate in Medicare and Medicaid.

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, \$15.8 million and \$13.9 million was paid or accrued and expensed during the years ended September 30, 2018 and 2017, 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 2018 and 2017. 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 as of September 30, 2018.

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2018 and 2017

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 due to the short-term nature of these instruments.
- *Short-term investments:* These assets consist primarily of cash and cash equivalents, equity securities, and mutual funds. The carrying amount reported in the balance sheet for short-term investments approximates fair value. See Note 5 for fair value measurement disclosures.
- *Noncurrent cash and investments:* These assets consist primarily of cash, equity securities, mutual funds, money market funds, real estate investment trusts, corporate bonds, mortgage-backed securities, collateralized mortgage obligations and U.S. government obligations. The carrying amount reported on the balance sheet for noncurrent cash and investments approximates its fair value. See Note 5 for fair value measurement disclosures.
- *Accounts payable and accrued expenses:* The carrying amount reported in the balance sheet for accounts payable and accrued expenses approximates its fair value due to the short-term nature of these instruments.
- *Estimated third-party payor settlements:* The carrying amount reported in the balance sheet for estimated third-party payor settlements approximates its fair value due to the short-term nature of these instruments.
- *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, 2018 and 2017

15. Fair Values of Financial Instruments, Continued

The carrying amounts and fair values of the Authority's long-term debt at September 30, 2018 and 2017 are as follows:

	(Dollars In Thousands)			
	<u>2018</u>		<u>2017</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Long-term debt	\$ <u>202,201</u>	\$ <u>210,563</u>	\$ <u>208,788</u>	\$ <u>219,915</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>2018</u>	<u>2017</u>
Medicare	37%	35%
Medicaid	15%	12%
Blue Cross	16%	21%
Other third-party payors	20%	15%
Patients	<u>12%</u>	<u>17%</u>
Total	<u>100%</u>	<u>100%</u>

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued

September 30, 2018 and 2017

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, 2018 and 2017

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's Medicaid EHR incentive payment calculation is currently under audit and is expected to be completed in FY 2019.

19. Rural Hospital Tax Credit Contributions

The State of Georgia (State) passed legislation which allows individuals or corporations to receive a State tax credit for making a contribution to certain qualified rural hospital organizations. Berrien and Lanier submitted the necessary documentation and were approved by the State to participate in the rural hospital tax credit program effective for calendar year 2018. Contributions received under the program approximated \$1.3 million during the Authority's fiscal year 2018.

REQUIRED SUPPLEMENTARY INFORMATION



HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

SCHEDULE OF CHANGES IN NET PENSION
LIABILITY AND RELATED RATIOS

September 30, 2018, 2017, 2016, 2015, and 2014

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability:					
Service cost	\$ 203	\$ 238	\$ 322	\$ 377	\$ 638
Interest cost	5,704	5,807	5,935	5,520	5,346
Changes of benefit terms	-	-	-	-	-
Differences between expected and actual experiences	977	1,250	(184)	1,665	2,956
Changes in assumptions	(363)	(1,671)	(546)	4,273	2,546
Benefit payments	(6,762)	(7,137)	(7,174)	(5,968)	(8,531)
Net change in total pension liability	(241)	(1,513)	(1,647)	5,867	2,955
Total pension liability (beginning)	<u>79,238</u>	<u>80,751</u>	<u>82,398</u>	<u>76,531</u>	<u>73,576</u>
Total pension liability (ending)	<u>78,997</u>	<u>79,238</u>	<u>80,751</u>	<u>82,398</u>	<u>76,531</u>
Plan fiduciary net position:					
Contributions - employer	2,375	3,012	3,055	2,472	2,582
Net investment income (loss)	10,511	5,679	(711)	4,221	9,102
Benefit payments	(6,762)	(7,137)	(7,174)	(5,968)	(8,531)
Administrative expense	(43)	(154)	(210)	(251)	(184)
Net changes in plan fiduciary net position	6,081	1,400	(5,040)	474	2,969
Plan fiduciary net position (beginning)	<u>70,687</u>	<u>69,287</u>	<u>74,327</u>	<u>73,853</u>	<u>70,884</u>
Plan fiduciary net position (ending)	<u>76,768</u>	<u>70,687</u>	<u>69,287</u>	<u>74,327</u>	<u>73,853</u>
Net pension liability (ending)	\$ <u>2,229</u>	\$ <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>97.18%</u>	<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	N/A
Net pension liability as a percentage of payroll	N/A	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, 2018, 2017, 2016, 2015, and 2014

- *Changes in assumptions:* In 2018, 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-2017 mortality improvement scale on a generational basis. 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, 2018, 2017, 2016, 2015, and 2014

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 2,375	\$ 3,012	\$ 3,055	\$ 2,671	\$ 2,384
Contributions made in relation to the actuarially determined contribution	<u>2,375</u>	<u>3,012</u>	<u>3,055</u>	<u>2,671</u>	<u>2,384</u>
Contribution deficiency (excess)	\$ <u>-</u>				
Covered payroll	N/A	N/A	N/A	N/A	N/A
Contributions as a percentage of payroll	N/A	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. As of January 1, 2018, the sex-distinct Blue Collar 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-2017 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, 2018:

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.

A handwritten signature in cursive script, appearing to read "Grant D. Byers", is written over a horizontal line.

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 2018:

Specialty	Active/Provisional Staff	Board Certified	Average Age
Allergy	1	1	72
Anesthesia	12	10	49
Cardio/Thoracic Surgery	4	3	61
Cardiology	18	18	51
Dentistry	8	0	53
Dermatology	1	1	43
Emergency Medicine	38	26	45
Family Practice	21	19	45
Gastroenterology	4	4	56
General Surgery	8	6	56
Internal Medicine	60	49	44
Neonatology	7	6	61
Nephrology	4	4	61
Neuro Surgery	2	1	57
Neurology	4	4	48
OB/GYN	14	14	54
Oncology Hematology	5	5	56
Oncology Radiology	3	3	67
Ophthalmology	8	7	56
Oral Surgery	3	3	58
Orthopedic Surgery	15	13	50
Otolaryngology Surgery	3	3	54
Pathology	3	3	58
Pediatrics	10	7	53
Physiatry	7	7	52
Plastic Surgery	3	3	52
Podiatry	4	4	46
Psychiatry	3	3	58
Pulmonology	5	5	50
Radiology	13	13	52
Rheumatology	1	1	54
Urological Surgery	4	4	57
Total	<u>296</u>	<u>250</u>	<u>50</u>

The following table shows the number and percentage of admissions by specialty for the fiscal year ended September 30, 2018, 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	7,042	51.5%
Family Medicine	804	5.9%
Cardiology	334	2.4%
Pediatrics	509	3.7%
OB/GYN	2,213	16.2%
Surgery - General	826	6.0%
Surgery - Orthopedic	830	6.1%
Surgery - Cardiac Thoracic	571	4.2%
Total	<u>13,129</u>	<u>96.2%</u>

The following table shows the top ten admitting physicians by specialty and age for the fiscal year ended September 30, 2018:

<u>Specialty</u>	<u>Age</u>	<u>Number of Admissions</u>	<u>Percentage of Admissions</u>
Internal Medicine	30	559	4.1%
Internal Medicine	37	494	3.6%
Internal Medicine	31	405	3.0%
Internal Medicine	34	405	3.0%
Internal Medicine	39	401	2.9%
Internal Medicine	37	374	2.7%
OB/GYN	57	348	2.5%
Internal Medicine	32	336	2.5%
Internal Medicine	40	334	2.4%
Family Medicine	37	322	2.4%
Total		<u>3,978</u>	<u>29.1%</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, 2018 consists of the following:

Professional Staff	Full-time Equivalents	Part-time	Total
Registered Nurses	616	36	652
Licensed Practical Nurses	110	8	118
Student nurses	-	-	0
Radiology/Lab Techs	138	6	144
Pharmacists	34	2	36
Other*	137	15	152

* 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,				
	2014***	2015	2016	2017	2018
Licensed beds	480	480	480	480	480
Beds in service	480	480	480	480	480
Admissions	14,831	13,988	13,848	13,563	14,722
Patient days	68,340	80,276	72,986	73,244	78,485
Adjusted patient days	145,106	167,214	150,865	155,697	160,107
Adjusted discharges	31,490	29,137	28,624	28,831	30,032
Average daily census	187	220	200	201	215
Average length of stay	4.61	5.74	5.27	5.40	5.33
Occupancy percent	46.8%	45.8%	41.7%	41.8%	545.0%
Outpatient visits:					
Emergency	81,829	73,553	72,963	73,741	79,201
Walk-in clinics	13,501	15,545	26,062	24,167	22,247
Pediatric clinics	10,095	10,325	10,051	10,109	8,335
Ambulatory surgery	18,109	9,410	7,884	7,446	5,590
Behavioral health	0	0	0	0	0
Observation visits	3,997	6,621	6,165	7,761	9,006
Other outpatients	141,268	134,657	127,763	129,448	181,113
Outpatient revenue percent	52.9%	52.0%	51.6%	53.0%	51.0%
Full Time Equivalent Employees:					
Total	2,168	2,273	2,197	2,164	2,374
Per adjusted occupied bed	5.45	4.96	5.32	5.07	5.41
Medicare case mix index	1.54	1.71	1.74	1.76	1.67

** 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, 2014 through 2018.

	2014	2015	2016	2017	2018
Medicare	44.6%	48.8%	49.8%	49.7%	50.8%
Medicaid	11.3	11.1	13.7	13.6	12.8%
Tricare	4.7	3.7	4.4	4.1	3.8%
Blue Cross	12.1	11.5	11.7	11.7	12.0%
PPO/Insurance	9.5	8.6	10.1	9.5	7.2%
Self pay and other	17.2	16.0	9.5	10.7	12.9%
Workers compensation	0.6	0.3	0.7	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, 2018. The summary historical financial information below for FY 2014 - 2018 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,				
	2014*	2015	2016	2017	2018
Revenues:					
Net patient service revenue	\$304,704	\$326,604	\$324,160	\$335,888	\$346,720
Other revenue	12,299	10,922	9,842	9,517	12,445
Total operating revenue	<u>\$317,003</u>	<u>\$337,526</u>	<u>\$334,002</u>	<u>\$345,405</u>	<u>\$359,165</u>
Expenses:					
Salaries, wages and benefits	\$142,444	\$160,099	\$152,946	\$161,076	\$185,005
Supplies and other expenses	137,269	150,710	141,717	171,850	180,379
Depreciation and amortization	24,177	23,401	20,538	18,175	23,068
Total operating expenses	<u>\$303,890</u>	<u>\$334,210</u>	<u>\$315,201</u>	<u>\$351,101</u>	<u>\$388,452</u>
Operating income	\$13,113	\$3,316	\$18,801	(\$5,696)	(\$29,287)
Nonoperating income:					
Investment income	\$10,244	\$196	\$18,409	\$26,277	\$20,825
Gain on the sale of Greenleaf Center	\$0	\$0	\$0	\$0	\$0
Interest expense	(9,787)	(9,666)	(9,588)	(9,480)	(9,520)
Total nonoperating income	<u>\$457</u>	<u>(\$9,470)</u>	<u>\$8,821</u>	<u>\$16,797</u>	<u>\$11,305</u>
Excess revenues over expenses	<u>\$13,570</u>	<u>(\$6,154)</u>	<u>\$27,622</u>	<u>\$11,101</u>	<u>(\$17,982)</u>
Debt service coverage ratios:					
Excess revenues over expenses	\$13,570	(\$6,154)	\$27,622	\$11,101	(\$17,982)
Depreciation and amortization	24,177	23,401	20,538	18,175	23,068
Interest expense	9,787	9,666	9,588	9,480	9,520
Net revenues available for debt service	<u>\$47,534</u>	<u>\$26,913</u>	<u>\$57,748</u>	<u>\$38,756</u>	<u>\$14,606</u>
Historical actual long-term debt service **	<u>\$15,045</u>	<u>\$14,550</u>	<u>\$14,521</u>	<u>\$14,641</u>	<u>\$14,600</u>
Historical actual debt service coverage	<u>3.16</u>	<u>1.85</u>	<u>3.98</u>	<u>2.65</u>	<u>1.00</u>

* Restated

** does not include unamortized premium and discount

SUMMARY OF BALANCE SHEET DATA
(dollars in thousands)

	As of September 30,			
	2015	2016	2017	2018
Cash and cash equivalents	\$26,671	\$29,741	\$5,981	\$12,868
Short-term investments	18,022	18,136	16,053	12,347
Patient accounts receivable, net	44,378	40,795	39,297	57,066
Other current assets	17,895	20,891	22,770	20,107
Total current assets	<u>\$106,966</u>	<u>\$109,563</u>	<u>\$84,101</u>	<u>\$102,388</u>
Noncurrent cash and investments	\$259,779	\$279,198	\$307,152	\$266,484
Property and equipment, net	175,310	172,048	188,682	193,511
Other assets	18,680	19,954	15,881	10,878
Total assets	<u><u>\$560,735</u></u>	<u><u>\$580,763</u></u>	<u><u>\$595,816</u></u>	<u><u>\$573,261</u></u>
Current liabilities	\$65,030	\$56,823	\$65,308	\$63,828
Long-term debt, excluding current maturities	\$217,671	\$215,660	\$210,861	\$205,562
Deferred inflows of Resources	\$1,369	\$0	\$0	\$0
Net assets	276,665	308,280	319,647	301,870
Total liabilities and net assets	<u><u>\$560,735</u></u>	<u><u>\$580,763</u></u>	<u><u>\$595,816</u></u>	<u><u>\$571,261</u></u>

* Restated