

HOSPITAL AUTHORITY OF VALDOSTA
AND LOWNDES COUNTY, GEORGIA



FINANCIAL STATEMENTS

for the years ended September 30, 2019 and 2018

CONTENTS

	<u>Pages</u>
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-8
Financial Statements:	
Balance Sheets	9-10
Statements of Revenues, Expenses and Changes in Net Position	11
Statements of Cash Flows	12-13
Notes to Financial Statements	14-58
Required Supplementary Information:	
Schedule of Changes in Net Pension Liability and Related Ratios	59-60
Schedule of Pension Contributions	61
Facility Information:	
Independent Auditor's Report on Facility Information	62
Balance Sheet by Facility	63-64
Statement of Revenues and Expenses by Facility	65



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, 2019 and 2018, 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.

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

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

Continued

1

Let's Think Together.

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, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

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 59 through 61 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Draffin + Tucker, LLP

Albany, Georgia
December 17, 2019

Management's Discussion and Analysis For the Year Ending September 30, 2019

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, 2019, 2018, and 2017. 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 \$37.4 million in 2019 and \$17.8 million in 2018.
- The Authority reported a net operating loss of \$33.5 million for 2019 and \$29.3 million for 2018.

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, 2019**

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 plus deferred inflows of resources reported on the balance sheet. The following table summarizes the balance sheets as of September 30, for the fiscal years ending 2019, 2018, and 2017:

Balance Sheet Data

	(Dollars In Thousands)		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Current assets	\$ 81,346	\$ 102,388	\$ 84,101
Noncurrent cash and investments	203,129	266,484	307,152
Capital assets, net	181,032	193,511	188,682
Other noncurrent assets	1,725	1,280	1,542
Deferred outflows of resources	<u>25,413</u>	<u>11,627</u>	<u>14,339</u>
 Total assets and deferred outflows of resources	 <u>\$ 492,645</u>	 <u>\$ 575,290</u>	 <u>\$ 595,816</u>
 Current liabilities	 \$ 57,023	 \$ 63,828	 \$ 65,308
Long-term debt	157,629	203,333	202,310
Net pension liability	11,128	2,229	8,551
Deferred inflows of resources	2,363	4,030	-
Net position	<u>264,502</u>	<u>301,870</u>	<u>319,647</u>
 Total liabilities, deferred inflows of resources and net position	 <u>\$ 492,645</u>	 <u>\$ 575,290</u>	 <u>\$ 595,816</u>

**Management's Discussion and Analysis
For the Year Ending September 30, 2019**

The following table summarizes the revenues and expenses for the years ended September 30, 2019, 2018, and 2017:

Statement of Revenue and Expense Data

	(Dollars In Thousands)		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operating revenues	\$ <u>362,299</u>	\$ <u>359,165</u>	\$ <u>345,405</u>
Expenses:			
Operating expenses	372,431	365,384	332,926
Depreciation and amortization	<u>23,342</u>	<u>23,068</u>	<u>18,175</u>
Total expenses	<u>395,773</u>	<u>388,452</u>	<u>351,101</u>
Operating loss	(33,474)	(29,287)	(5,696)
Nonoperating income (expenses):			
Investment income	6,609	20,825	26,277
Interest expense	<u>(10,962)</u>	<u>(9,520)</u>	<u>(9,480)</u>
Excess revenues (expenses) before capital contributions	(37,827)	(17,982)	11,101
Capital contributions	<u>459</u>	<u>205</u>	<u>266</u>
Increase (decrease) in net position	<u>\$ (37,368)</u>	<u>\$ (17,777)</u>	<u>\$ 11,367</u>

**Management's Discussion and Analysis
For the Year Ending September 30, 2019**

A recap of the Authority's long-term debt outstanding at September 30, 2019, 2018, and 2017 follows:

		(Dollars In Thousands)		
<u>Description</u>	<u>Interest Rates</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Revenue Certificates, Series 2007	4.00%-5.00%	\$ -	\$ 47,535	\$ 48,395
Refunding Revenue Certificates Series 2010	Variable rates	-	6,300	8,200
Revenue Certificates, Series 2010	Variable rates	-	3,260	4,290
Revenue Certificates, Series 2011B	2.00%-5.00%	-	140,765	142,055
Revenue Certificates, Series 2019A	4.00%-5.00%	42,615	-	-
Revenue Certificates, Series 2019B	2.00%-3.75%	96,860	-	-
Capital leases	Variable rates	5,466	8,810	19
Other financing obligations	Variable rates	<u>4,373</u>	<u>3,583</u>	<u>4,827</u>
Total long-term debt, excluding discounts and premiums		<u>\$ 149,314</u>	<u>\$ 210,253</u>	<u>\$ 207,786</u>

The Authority's investment in capital assets placed in service during 2019, 2018, and 2017 is summarized in the table below:

		(Dollars In Thousands)		
<u>Capital Assets</u>		<u>2019</u>	<u>2018</u>	<u>2017</u>
Construction/renovation projects		\$ 5,799	\$ 6,097	\$ 8,382
Movable equipment		5,792	20,357	5,602
Information system upgrades		<u>674</u>	<u>2,140</u>	<u>20,105</u>
Net capital asset additions		<u>\$ 12,265</u>	<u>\$ 28,594</u>	<u>\$ 34,089</u>

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

The Hospital Authority faced many challenges in fiscal year 2019 resulting in a negative operating margin for the year. In spite of the poor operating performance, the Authority's Balance Sheet remained strong. After the Authority's implementation of Epic in fiscal year 2018, patient accounts receivable increased dramatically, and the net days in accounts receivable grew to 60 days at the end of fiscal year 2018. During fiscal year 2019, the Authority's Revenue Cycle staff worked diligently to reduce the patient accounts receivable. By the end of fiscal year 2019, the Authority's net days in accounts receivable dropped to 46 days.

Management's Discussion and Analysis For the Year Ending September 30, 2019

The Authority took advantage of favorable market conditions and restructured its outstanding debt in 2019. The Authority used \$57 million from its investment portfolio to refund the Series 2007 Bond, the Series 2010 Bond, the Series 2010 Refunding Bond, and the Series 2011B Bond, as well as proceeds from new bond issues Series 2019A and 2019B totaling \$139,475,000. The net present value benefit of the refunding is a savings of \$29.3 million for the Authority.

The Authority entered into an intergovernmental agreement with Lowndes County in August 2019. Pursuant to the agreement, Lowndes County agreed to levy an annual tax up to seven mills to make payments on the Series 2019 bond issues should the Authority be unable to make the required debt service payments. The Authority also replaced the restrictive covenants and default provisions in the prior indentures with more favorable provisions in the new indenture. For the Series 2019 bonds, the default provision will not apply unless the Authority issues new debt that is not backed by Lowndes County. The Authority's days cash on hand remained strong at 204 days at the end of fiscal year 2019 in spite of the significant cash outlay to pay off existing debt.

The Authority's operating margin for fiscal year 2019 declined 14% from the prior year. The decline was largely caused by two factors: increased labor expense due to professional staffing shortages and ongoing revenue cycle challenges caused by the implementation of Epic. The Authority has been adversely affected by the national nursing shortage and has been forced to utilize agencies to fill nursing vacancies. Agency staffing costs significantly exceed the direct benefit and salary costs for employed staff. The Authority incurred agency nursing expense of \$7.5 million in fiscal year 2019. The Authority has dedicated significant resources to recruiting and retaining nursing staff. The Authority has also developed partnerships with the regional nursing training facilities and is in the process of orienting nurses to replace agency staff.

In addition to nursing shortages, the Authority has experienced physician shortages as well. In late 2018, three independent Cardiologists left the Valdosta community in the same month. The Authority made the decision to hire locum tenens to provide cardiology services for members of the community until additional Cardiologists could be recruited. In fiscal year 2019, the Authority incurred cardiology locum expenses of \$5 million. The Authority is actively recruiting Cardiologists to reduce its dependence on locum tenens utilizing both internal and external resources to attract and retain qualified licensed providers. The Authority is committed to ensuring the people in its service area have access to excellent cardiology care.

In addition to staffing issues, the Authority continues to be adversely impacted by the implementation of the Epic system. During fiscal year 2018, Epic was implemented in all of the Authority's hospitals and clinics. Significant software implementation challenges were discovered that affected the accuracy of patients' monthly statements. The Authority held all statements for an extended period of time until the issue was resolved. As a result of suspending the monthly statement process, the Authority experienced a significant increase in bad debt write-offs in fiscal year 2019. The statement issue was resolved during the year, and bad debt write-offs started trending downward by the end of fiscal year 2019. The Authority's financial assistance policy was revised in fiscal year 2019. As a result, indigent and charity write-offs increased. The self-pay discount increased from 18% to 25%. The Authority also uncovered issues with the pre-authorization process at its Cancer Center that created significant denials before the issues were resolved. The Authority engaged Epic consultants to assist in identifying and resolving build issues that were negatively impacting operations.

**Management's Discussion and Analysis
For the Year Ending September 30, 2019**

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, 2019 and 2018

	<u>(Dollars In Thousands)</u>	
	<u>2019</u>	<u>2018</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current assets:		
Cash and cash equivalents	\$ 6,205	\$ 12,868
Short-term investments	4,934	12,347
Patient accounts receivable, net of estimated uncollectibles of \$85,748 in 2019 and \$106,325 in 2018	44,774	57,066
Other receivables	12,885	10,152
Supplies (first-in, first-out)	6,399	6,081
Estimated third-party payor settlements	2,347	-
Other current assets	<u>3,802</u>	<u>3,874</u>
Total current assets	<u>81,346</u>	<u>102,388</u>
Noncurrent cash and investments:		
Internally designated for capital improvements	<u>203,129</u>	<u>266,484</u>
Capital assets:		
Non-depreciable	18,830	21,798
Depreciable, net of accumulated depreciation	<u>162,202</u>	<u>171,713</u>
Total capital assets, net of accumulated depreciation	<u>181,032</u>	<u>193,511</u>
Other assets	<u>1,725</u>	<u>1,280</u>
Total assets	<u>467,232</u>	<u>563,663</u>
Deferred outflows of resources:		
Goodwill	1,340	1,405
Loss on bond defeasance	10,023	838
Pension related	<u>14,050</u>	<u>9,384</u>
Total deferred outflows of resources	<u>25,413</u>	<u>11,627</u>
Total assets and deferred outflows of resources	<u>\$ 492,645</u>	<u>\$ 575,290</u>

	<u>(Dollars In Thousands)</u>	
	<u>2019</u>	<u>2018</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Current liabilities:		
Current maturities of long-term debt	\$ 2,879	\$ 7,680
Accounts payable	18,209	18,691
Accrued expenses	35,023	36,878
Estimated third-party payor settlements	<u>912</u>	<u>579</u>
Total current liabilities	57,023	63,828
Long-term liabilities, excluding current maturities	157,629	203,333
Net pension liability	<u>11,128</u>	<u>2,229</u>
Total liabilities	<u>225,780</u>	<u>269,390</u>
Deferred inflows of resources:		
Gain on bond defeasance	573	-
Pension related	<u>1,790</u>	<u>4,030</u>
Total deferred inflows of resources	<u>2,363</u>	<u>4,030</u>
Net position:		
Net investment in capital assets	48,896	10,756
Restricted:		
Expendable	-	2,169
Unrestricted	<u>215,606</u>	<u>288,945</u>
Net position	<u>264,502</u>	<u>301,870</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 492,645</u>	<u>\$ 575,290</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, 2019 and 2018

	(Dollars In Thousands)	
	<u>2019</u>	<u>2018</u>
Operating revenues:		
Net patient service revenue (net of provision for bad debts of \$78,332 in 2019 and \$72,398 in 2018)	\$ 352,825	\$ 346,720
Other revenue	<u>9,474</u>	<u>12,445</u>
Total operating revenues	<u>362,299</u>	<u>359,165</u>
Operating expenses:		
Salaries and benefits	191,588	185,005
Supplies	79,850	79,017
Services	47,483	53,488
Depreciation and amortization	23,342	23,068
Medical and professional fees	41,428	38,398
Other expenses	<u>12,082</u>	<u>9,476</u>
Total operating expenses	<u>395,773</u>	<u>388,452</u>
Operating loss	<u>(33,474)</u>	<u>(29,287)</u>
Nonoperating revenue (expenses):		
Investment income	6,609	20,825
Interest expense	<u>(10,962)</u>	<u>(9,520)</u>
Total nonoperating revenues (expenses)	<u>(4,353)</u>	<u>11,305</u>
Excess expenses before capital contributions	(37,827)	(17,982)
Capital contributions	<u>459</u>	<u>205</u>
Decrease in net position	(37,368)	(17,777)
Net position, beginning of year	<u>301,870</u>	<u>319,647</u>
Net position, end of year	<u>\$ 264,502</u>	<u>\$ 301,870</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, 2019 and 2018

	<u>(Dollars In Thousands)</u>	
	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Cash received from patients and payors	\$ 372,577	\$ 340,537
Cash payments to vendors and other suppliers	(186,197)	(182,050)
Cash payments to employees	<u>(186,798)</u>	<u>(184,002)</u>
Net cash used by operating activities	<u>(418)</u>	<u>(25,515)</u>
Cash flows from capital and related financing activities:		
Principal paid on long-term debt	(64,594)	(6,784)
Interest paid on long-term debt	(13,299)	(9,554)
Purchase of capital assets	(6,660)	(17,026)
Proceeds from disposals of capital assets	472	362
Contributions for capital improvements and expansion	<u>459</u>	<u>205</u>
Net cash used by capital and related financing activities	<u>(83,622)</u>	<u>(32,797)</u>
Cash flows from investing activities:		
Purchase of investments	(309,926)	(412,936)
Proceeds from sale of investments	375,581	468,857
Income on investments	<u>4,804</u>	<u>5,451</u>
Net cash provided by investing activities	<u>70,459</u>	<u>61,372</u>
Net increase (decrease) in cash and cash equivalents	(13,581)	3,060
Cash and cash equivalents, beginning of year	<u>20,268</u>	<u>17,208</u>
Cash and cash equivalents, end of year	<u>\$ 6,687</u>	<u>\$ 20,268</u>
Reconciliation of cash and cash equivalents to the balance sheet:		
Cash and cash equivalents in current assets	\$ 6,205	\$ 12,868
Restricted cash and cash equivalents	<u>482</u>	<u>7,400</u>
Total cash and cash equivalents	<u>\$ 6,687</u>	<u>\$ 20,268</u>

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

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

	<u>(Dollars In Thousands)</u>	
	<u>2019</u>	<u>2018</u>
Reconciliation of operating loss to net cash flows used by operating activities:		
Operating loss	\$ (33,474)	\$ (29,287)
Depreciation and amortization	23,342	23,068
Changes in:		
Patient accounts receivable	12,292	(17,769)
Supplies	(318)	(257)
Other assets	72	991
Other receivables	(3,178)	2,191
Accounts payable	(2,009)	(462)
Accrued expenses	2,303	(2,569)
Estimated third-party payor settlements	(2,014)	(859)
Pension activity	<u>2,566</u>	<u>(562)</u>
Net cash used by operating activities	<u>\$ (418)</u>	<u>\$ (25,515)</u>

Supplemental disclosures of cash flow information:

- The Authority held investments at September 30, 2019 and 2018 with a fair value of \$207.6 million and \$271.4 million, respectively. During 2019 and 2018, the net change in fair value of these investments was a decrease of \$5.0 million and an increase \$0.6 million, respectively.
- Purchases of capital assets in accounts payable as of September 30, 2019 and 2018, were \$1.5 million and \$1.2 million, respectively.
- The Authority entered/extended capital lease and other long-term obligations for equipment in 2019 and 2018 in an amount of \$3.2 million and \$9.3 million, respectively.
- The Authority issued \$139.5 million in bonds to refund outstanding bonds and to pay costs related to the issuance. See Note 8 for additional information.

See accompanying notes to financial statements.

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS

September 30, 2019 and 2018

1. Summary of Significant Accounting Policies

Organization

The Hospital Authority of Valdosta and Lowndes County, Georgia (Authority) owns and operates (1) South Georgia Medical Center (SGMC), a 330 licensed-bed acute care general hospital facility located in the City of Valdosta, Lowndes County, Georgia, including SGMC – Smith Northview (Smith), a healthcare facility located in the City of Valdosta, Lowndes County, Georgia; (2) SGMC – Berrien Hospital (Berrien), a 51 licensed-bed acute care general hospital facility and a 12 licensed geri-psychiatric bed unit located in the City of Nashville, Berrien County, Georgia; and (3) SGMC – Lanier Hospital (Lanier), a 25 licensed-bed critical access hospital facility providing acute and sub-acute care and a 62-bed skilled nursing facility, both located in the City of Lakeland, Lanier County, Georgia and other services and facilities.

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).

Recently Adopted Accounting Pronouncements

In 2019, the Authority adopted GASB 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. The adoption of GASB 83 had no material impact on the financial statements of the Authority.

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019 and 2018

1. Summary of Significant Accounting Policies, Continued

Recently Adopted Accounting Pronouncements, Continued

In 2019, the Authority adopted GASB 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. The Authority has adopted the provisions for all periods presented. See Note 8 for the additional disclosures required by GASB 88.

Accounting Pronouncements Not Yet Adopted

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities* (GASB 84). GASB 84 establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. GASB 84 is effective for fiscal years beginning after December 15, 2018 and will be effective for the Authority's fiscal year beginning October 1, 2019. The Authority is currently evaluating the impact GASB 84 will have on its financial statements.

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61* (GASB 90). GASB 90 defines majority equity interest and specifies that a majority equity interest in a legally separate entity should be reported as an investment and measured using the equity method, if the government's holding of the equity interest meets the definition of an investment. All other holding of a majority equity interest in a legally separate entity should be reported as a component unit. GASB 90 is effective for fiscal years beginning after December 15, 2018 and will be effective for the Authority's fiscal year beginning October 1, 2019. The Authority is currently evaluating the impact GASB 90 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.

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.

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019 and 2018

1. Summary of Significant Accounting Policies, Continued

Allowance for Doubtful Accounts

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

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

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019 and 2018

1. Summary of Significant Accounting Policies, Continued

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, 2019 and 2018.

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 incurred in connection with 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 the unamortized gain on bond defeasance 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, 2019 and 2018. See Notes 8, 9, and 11 for additional information.

Net Pension Liability

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

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019 and 2018

1. Summary of Significant Accounting Policies, Continued

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 net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets.
- *Restricted* – This component of net position consists of noncapital assets reduced by liabilities and deferred inflows of resources related to those assets that must be used for a particular purpose, as specified by creditors, grantors or contributors external to the Authority, 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, deferred outflows of resources, liabilities, and deferred inflows of resources that do not meet the definition of *net investment in capital assets* or *restricted*.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity Care

The Authority provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Authority does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019 and 2018

1. Summary of Significant Accounting Policies, Continued

Operating Revenues and Expenses

The Authority's statement of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Authority's principle activity. Nonexchange revenues, including investment income 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 revenue. Amounts restricted to capital acquisitions are reported after excess expenses.

Income Taxes

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

Risk Management

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

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

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019 and 2018

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 2018 financial statements to conform to the fiscal year 2019 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, 2019 and 2018

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, 2019 and 2018.

	<u>(Dollars In Thousands)</u>	
	<u>2019</u>	<u>2018</u>
Charges foregone, based on established rates	<u>\$45,521</u>	<u>\$42,614</u>
Estimated costs and expenses incurred to provide charity care	<u>\$15,536</u>	<u>\$14,876</u>
Equivalent percentage of charity care patients to all patients served	<u>3.9%</u>	<u>3.8%</u>

Effective October 1, 2010, the Authority implemented a discount for uninsured patients. For fiscal years ended September 30, 2019 and 2018, the charges foregone and the estimated costs of services related to this discount were as follows:

	<u>(Dollars In Thousands)</u>	
	<u>2019</u>	<u>2018</u>
Charges foregone, based on established rates	<u>\$27,531</u>	<u>\$22,441</u>
Estimated costs and expenses incurred to provide discount for uninsured patients	<u>\$9,396</u>	<u>\$7,834</u>
Equivalent percentage of discounts to uninsured patients to all patients served	<u>2.4%</u>	<u>2.0%</u>

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.

Continued

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019 and 2018

3. Net Patient Service Revenue, Continued

Revenue from the Medicare and Medicaid programs accounted for approximately 48% and 16%, respectively, of the Authority's net patient revenue for the year ended 2019 and 40% and 13%, respectively, of the Authority's net patient revenue for the year ended 2018. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

The Authority believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. However, there has been an increase in regulatory initiatives at the state and federal levels including the initiation of the Recovery Audit Contractor (RAC) program and the Medicaid Integrity Contractor (MIC) program. These programs were created to review Medicare and Medicaid claims for medical necessity and coding 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.

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

Continued

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019 and 2018

3. Net Patient Service Revenue, Continued

• Medicare, Continued

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.

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 \$4.8 million and \$4.9 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, 2019 and 2018, 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

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019 and 2018

3. Net Patient Service Revenue, Continued

• Medicaid, Continued

uncompensated cost of services to Medicaid and uninsured patients. The amount of ICTF payments recognized in net patient service revenue was approximately \$8.2 million and \$7.6 million for the years ended September 30, 2019 and 2018, 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 2019 and 2018 of approximately \$2.4 million and \$2.7 million, respectively.

• 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.

The following is a summary of uncompensated services and a reconciliation of gross patient charges to net patient service revenue for 2019 and 2018.

	(Dollars In Thousands)	
	<u>2019</u>	<u>2018</u>
Gross patient charges	\$ 1,159,646	\$ 1,112,754
Uncompensated services:		
Medicare	407,256	423,661
Medicaid	118,794	113,749
Tricare	36,027	30,117
Indigent and charity care	45,521	42,614
Other third-party payors	131,449	93,776
Provision for bad debts	78,332	72,398
Indigent Care Trust Fund	(8,166)	(7,568)
Upper Payment Limit	<u>(2,392)</u>	<u>(2,713)</u>
Total uncompensated care	<u>806,821</u>	<u>766,034</u>
Net patient service revenue	<u>\$ 352,825</u>	<u>\$ 346,720</u>

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019 and 2018

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, 2019 and 2018 are classified in the accompanying financial statements as follows:

	(Dollars In Thousands)	
	<u>2019</u>	<u>2018</u>
Balance sheets:		
Cash and cash equivalents	\$ 6,205	\$ 12,868
Short-term investments	4,934	12,347
Noncurrent cash and investments:		
Internally designated for capital improvements	<u>203,129</u>	<u>266,484</u>
Total cash and investments	<u>\$ 214,268</u>	<u>\$ 291,699</u>
Cash and equivalents consist of the following:		
Cash on hand	\$ 19	\$ 18
Deposits with financial institutions	6,668	13,448
Cash equivalents	<u>-</u>	<u>6,802</u>
Cash and cash equivalents	<u>6,687</u>	<u>20,268</u>
Investments:		
Investments in equity securities	117,166	145,649
Investments in debt securities	32,925	40,151
Investments in mutual funds	51,304	59,468
Investments in money market funds	2,745	22,829
Investments in real estate investment trusts	<u>3,441</u>	<u>3,334</u>
Investments	<u>207,581</u>	<u>271,431</u>
Total cash and investments	<u>\$ 214,268</u>	<u>\$ 291,699</u>

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019 and 2018

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, 2019 and 2018, the Authority had the following investments in debt securities and weighted average maturities:

	2019		2018	
	(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	\$ 4,744	7.2	\$ 4,096	9.5
Mortgage-backed securities	3,683	29.5	3,287	33.4
Collateralized mortgage obligations	7,843	13.3	10,557	11.9
Corporate bonds	<u>16,655</u>	<u>4.5</u>	<u>22,211</u>	<u>4.6</u>
Total debt securities	32,925	9.8	40,151	9.4
Mutual funds:				
Fixed income	<u>51,304</u>	<u>6.2</u>	<u>59,468</u>	<u>6.7</u>
Grand total	<u>\$ 84,229</u>	<u>7.6</u>	<u>\$ 99,619</u>	<u>7.8</u>

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019 and 2018

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, 2019 and 2018, the Authority's investments in debt securities and money market funds had the following ratings:

	(Dollars In Thousands) <u>Amount</u>	<u>Rating as of September 30, 2019</u>					
		<u>Aaa</u>	<u>Aa</u>	<u>A</u>	<u>Baa</u>	<u>Ba</u>	<u>B</u>
Debt securities:							
U.S. government obligations	\$ 4,744	\$ 4,744	\$ -	\$ -	\$ -	\$ -	\$ -
Mortgage-backed securities	3,683	-	3,683	-	-	-	-
Collateralized mortgage obligations	7,843	6,283	1,024	536	-	-	-
Corporate bonds	<u>16,655</u>	<u>417</u>	<u>768</u>	<u>5,269</u>	<u>8,439</u>	<u>1,460</u>	<u>302</u>
Total debt securities	<u>\$ 32,925</u>	<u>\$ 11,444</u>	<u>\$ 5,475</u>	<u>\$ 5,805</u>	<u>\$ 8,439</u>	<u>\$ 1,460</u>	<u>\$ 302</u>
Money market funds	<u>\$ 2,745</u>	<u>\$ 2,745</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, 2019 and 2018

4. Cash and Investments, Continued

	(Dollars In Thousands) Amount	Rating as of September 30, 2018					
		Aaa	Aa	A	Baa	Ba	B
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>

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, 2019 and 2018.

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, 2019, 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, 2019 and 2018

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, 2019 and 2018, the Authority owned \$207.6 million and \$271.4 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, 2019 and 2018 are as follows:

(Dollars in Thousands)

<u>September 30, 2019</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	\$ 97,736	\$ 97,736	\$ -	\$ -
Foreign stock	19,430	19,430	-	-
Total equity securities	117,166	117,166	-	-
Debt securities:				
U.S. government obligations	4,744	-	4,744	-
Mortgage-backed securities	3,683	-	3,683	-
Collateralized mortgage obligations	7,843	-	7,673	170
Corporate bonds	16,655	-	16,655	-
Total debt securities	32,925	-	32,755	170
Mutual funds - fixed income	51,304	51,304	-	-
Money market funds	2,745	2,745	-	-
Real estate investment trusts	3,441	3,441	-	-
Total assets at fair value	\$ 207,581	\$ 174,656	\$ 32,755	\$ 170

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019 and 2018

5. Fair Value Measurements, Continued

<u>September 30, 2018</u>	(Dollars in Thousands)			
	<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	\$ 121,436	\$ 121,230	\$ 206	\$ -
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:				
U.S. 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>
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>

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.

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019 and 2018

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, 2019 and 2018 consisted of these amounts:

	(Dollars In Thousands)	
	<u>2019</u>	<u>2018</u>
Patient accounts receivable:		
Receivable from patients and their insurance carriers	\$ 108,517	\$ 121,058
Receivable from Medicare	13,325	27,483
Receivable from Medicaid	<u>8,680</u>	<u>14,850</u>
Total patient accounts receivable	130,522	163,391
Less allowance for uncollectible amounts	<u>85,748</u>	<u>106,325</u>
Patient accounts receivable, net	<u>\$ 44,774</u>	<u>\$ 57,066</u>
Accounts payable and accrued expenses:		
Payable to employees (including payroll taxes)	\$ 21,595	\$ 19,372
Payable to suppliers	18,326	18,829
Other	<u>13,311</u>	<u>17,368</u>
Total accounts payable and accrued expenses	<u>\$ 53,232</u>	<u>\$ 55,569</u>

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019 and 2018

7. Capital Assets

Capital asset changes for the years ended September 30, 2019 and 2018 were as follows:

	(Dollars in Thousands)			
	<u>2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>2019</u>
Land	\$ 7,399	\$ 127	\$ (125)	\$ 7,401
Market access rights and tradename	9,385	-	-	9,385
Construction-in-progress	<u>5,014</u>	<u>11,400</u>	<u>(14,370)</u>	<u>2,044</u>
Total capital assets not being depreciated	<u>21,798</u>	<u>11,527</u>	<u>(14,495)</u>	<u>18,830</u>
Land improvements	8,416	58	(1)	8,473
Buildings and improvements	255,134	7,287	(318)	262,103
Equipment	195,322	8,701	(2,813)	201,210
Equipment under capital lease	10,983	8,205	(9,222)	9,966
Non-compete covenants and other depreciable intangibles	<u>4,219</u>	<u>-</u>	<u>-</u>	<u>4,219</u>
Depreciable capital assets	<u>474,074</u>	<u>24,251</u>	<u>(12,354)</u>	<u>485,971</u>
Less accumulated depreciation and amortization for:				
Land improvements	6,023	321	(1)	6,343
Buildings and improvements	142,134	9,307	(16)	151,425
Equipment	148,794	13,620	(2,768)	159,646
Equipment under capital lease	1,347	989	(78)	2,258
Non-compete covenants and other depreciable intangibles	<u>4,063</u>	<u>34</u>	<u>-</u>	<u>4,097</u>
Total accumulated depreciation	<u>302,361</u>	<u>24,271</u>	<u>(2,863)</u>	<u>323,769</u>
Capital assets being depreciated, net	<u>171,713</u>	<u>(20)</u>	<u>(9,491)</u>	<u>162,202</u>
Total capital assets, net	<u>\$ 193,511</u>	<u>\$ 11,507</u>	<u>\$ (23,986)</u>	<u>\$ 181,032</u>

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019 and 2018

7. Capital Assets, Continued

	(Dollars in Thousands)			
	<u>2017</u>	<u>Additions</u>	<u>Reductions</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>
Depreciable capital assets	<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>

Depreciation expense for the years ended September 30, 2019 and 2018 amounted to approximately \$24.3 million and \$22.2 million, respectively.

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019 and 2018

8. Long-Term Debt

A summary of long-term debt at September 30, 2019 and 2018 follows:

	<u>(Dollars In Thousands)</u>	
	<u>2019</u>	<u>2018</u>
Revenue Certificates - Series 2007, Refunded using proceeds from the Series 2019A bonds.	\$ -	\$ 47,535
Revenue Certificates - Series 2010, Refunded using proceeds from the Series 2019A bonds.	-	3,260
Refunding Revenue Certificates - Series 2010, Refunded using proceeds from the Series 2019A bonds.	-	6,300
Revenue Certificates - Series 2011B, Refunded using proceeds from the Series 2019B bonds.	-	140,765
Revenue Certificates - Series 2019A, Payable in annual installments ranging from \$1.22 million on October 1, 2020 to \$3.38 million on October 1, 2038, with interest rates from 4.00% to 5.00% paid semi annually.	42,615	-
Revenue Certificates - Series 2019B, Payable in annual installments ranging from \$2.61 million on October 1, 2020 to \$9.09 million on October 1, 2041, with interest rates from 2.00% to 3.75% paid semi annually.	96,860	-
Capital lease obligations, with varying rates of interest, collateralized by leased equipment.	5,466	8,810

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019 and 2018

8. Long-Term Debt, Continued

	<u>(Dollars In Thousands)</u>	
	<u>2019</u>	<u>2018</u>
Other financing obligations, with varying rates of interest, collateralized by equipment.	\$ 4,373	\$ 3,583
Total long-term debt	149,314	210,253
Less current installments of long-term debt	<u>2,879</u>	<u>7,680</u>
Long-term debt excluding current installments	146,435	202,573
Unamortized net premium and discount	<u>11,194</u>	<u>760</u>
Long-term debt excluding current installments and unamortized net premium and discount	<u>\$ 157,629</u>	<u>\$ 203,333</u>

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

	<u>(Dollars In Thousands)</u>				
	<u>2018</u>			<u>2019</u>	<u>Amounts</u>
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>Due Within</u>
					<u>One Year</u>
Revenue certificates	\$ 197,860	\$ 139,475	\$ (197,860)	\$ 139,475	\$ -
Capital lease obligations	8,810	701	(4,045)	5,466	1,267
Other financing obligations	<u>3,583</u>	<u>2,540</u>	<u>(1,750)</u>	<u>4,373</u>	<u>1,612</u>
Total long-term debt	210,253	142,716	(203,655)	149,314	2,879
Unamortized net premium and discount	<u>760</u>	<u>11,273</u>	<u>(839)</u>	<u>11,194</u>	<u>-</u>
Long-term debt	<u>\$ 211,013</u>	<u>\$ 153,989</u>	<u>\$ (204,494)</u>	<u>\$ 160,508</u>	<u>\$ 2,879</u>

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019 and 2018

8. Long-Term Debt, Continued

	(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>

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. Interest on the Series 2007 Certificates is payable semi-annually at interest rates ranging from 4.00% to 5.00%.

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, 2019, the Series 2007 Certificates have been refunded.

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019 and 2018

8. Long-Term Debt, Continued

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.

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. As of September 30, 2019, the Series 2010 Certificate has been refunded.

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. As of September 30, 2019, the Series 2010 Refunding Revenue Certificate has been refunded.

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.

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019 and 2018

8. Long-Term Debt, Continued

As a result of the Series 2011B refunding the Series 2002 Certificates, 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. The 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.

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%.

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 August 2019, the Authority issued Refunding Revenue Certificates, Series 2019A and Series 2019B, in the amount of \$42.6 million and \$96.9 million, respectively. The Series 2019A Certificates were issued for the purpose of the refunding of the Series 2007, 2010, and 2010 Refunding Certificates. The Series 2019B Certificates were issued for the purpose of the advance refunding of the Series 2011B Certificates. Proceeds of the Series 2019A and 2019B Certificates were also used for related costs incidental to the financing, including costs of issuance. The purpose of the refundings was to take advantage of lower interest rates, reduce the Authority's overall cash flows related to outstanding debt and to obtain a debt service guarantee from the County. The transaction resulted in an economic gain of approximately \$29.3 million and reduced total debt service payments over the scheduled maturities by approximately \$59.3 million.

The Series 2007, 2010, and 2010 Refunding Certificates were refunded on August 28, 2019. On August 28, 2019, approximately \$151.8 million was deposited into an irrevocable escrow with the Bank of New York Mellon Trust Company, N.A. to purchase U.S. Government Obligations sufficient to pay principal and interest when due on the Series 2011B Certificates until their earliest date of optional redemption, October 1, 2021. As a result, the 2011B Certificates are considered to be defeased and the escrow assets and the liability for the Certificates has been removed from these financial statements. At September 30, 2019, \$139.8 million of the defeased Certificates remain outstanding.

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019 and 2018

8. Long-Term Debt, Continued

The Series 2019A and 2019B Certificates were issued pursuant to a Trust Indenture (Certificate Indenture), dated August 1, 2019, between the Authority and Regions Bank, Atlanta, Georgia (Trustee), as trustee. The Series 2019 Certificates are limited obligations of the Authority secured by the Trust Estate, which includes (i) all amounts on deposit from time to time in the funds created under the Certificate Indenture, (ii) all rights, title and interest of the Authority in the Series 2019 Master Note (defined below), including all payments thereunder, and (iii) all rights, title and interest of the Authority in the intergovernmental contract, dated August 1, 2019 (Contract) between the Authority and Lowndes County (County), including all payments thereunder.

The Authority has issued a Master Note securing the Series 2019 Certificates (2019 Master Note). The Series 2019 Master Note is issued pursuant to a Master Trust Indenture, dated as of August 1, 2019 as supplemented by a Supplemental Master Trust Indenture No. 1, dated as of August 1, 2019 (collectively, the Master Indenture), each between the Authority, as the sole member of the Obligated Group, and Regions Bank, Atlanta Georgia, as master Trustee (Master Trustee). As security for the Series 2019 Master Note, the Obligated Group has created a first pledge of and lien on the gross revenues in favor of the Master Trustee. The Obligated Group may issue additional obligations from time to time under the Master Indenture, which obligations will be secured by a lien on the gross revenues that is on parity with the lien securing the Series 2019 Master Note.

Pursuant to the Contract, the County is obligated to make payments, if necessary, in amounts sufficient to enable the Authority to provide for the payment of principal and interest on the Series 2019 Certificates as the same become due and payable at maturity or by proceedings for mandatory redemption. In order to assure such payments as to the Series 2019 Certificates, the County has agreed to levy annually an ad valorem tax, within the seven mill limitation specified in the Georgia Hospital Authorities Law or at such higher rate as may be allowed in the future.

As a result of the Series 2019A refunding the Series 2007, 2010, and 2010 Refunding Certificates, the Authority recognized a gain on defeasance of approximately \$575 thousand. The gain is included in the deferred inflows of resources on the balance sheet. The gain on bond defeasance is reported net of accumulated amortization expense and is amortized over 168 months, which is consistent with the remaining life of the new debt as it is shorter than the defeased 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, 2019 and 2018

8. Long-Term Debt, Continued

As a result of the Series 2019B advance refunding the Series 2011B Certificates, the Authority recognized a loss on defeasance of approximately \$10.1 million. The loss is included in the deferred outflows of resources on the balance sheet. The loss on bond defeasance is reported net of accumulated amortization expense and is amortized over 84 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.

Under the terms of the Master Trust Indenture, the Authority is required to satisfy certain measures of financial performance. The Master Trust Indenture contains provisions that, if the Authority falls below such measures for any two consecutive years, then an event of default shall exist. In an event of default, the lender may declare all outstanding obligations to be due and payable immediately. As of September 30, 2019, the Authority is not considered in default in accordance with the provisions delineated in the Master Trust Indenture.

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

In 2019 and 2018, the Authority entered into capital lease agreements under which the Authority leases various equipment. The monthly lease payments of approximately \$109 thousand end in FY 2024.

In 2019, the Authority entered into an agreement under which the Authority's facilities were renovated by a third-party at a cost of approximately \$2.5 million. Instead of repayment, the third-party is forgiving the cost of renovations monthly over the term of the contract. If the contract is terminated prior to the end of the term, the Authority will be required to pay the unforgiven balance. The Authority recognizes the forgiveness of the debt as contribution income, which is reported in other revenue on the statement of revenues, expenses and changes in net position. The related depreciation expense of the renovated capital assets is recorded in depreciation 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, 2019 and 2018

8. Long-Term Debt, Continued

The debt service requirements of long-term debt at September 30, 2019 are as follows:

	<u>Revenue Certificates</u>		<u>Capital Lease and Other Financing Obligations</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ -	\$ 3,019	\$ 2,879	\$ 208
2021	3,825	5,047	2,211	157
2022	4,410	4,916	1,384	101
2023	4,555	4,761	1,081	60
2024	4,720	4,594	1,006	9
2025-2029	26,285	20,227	936	-
2030-2034	31,445	14,971	342	-
2035-2039	37,880	8,358	-	-
2040-2044	<u>26,355</u>	<u>1,381</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 139,475</u>	<u>\$ 67,274</u>	<u>\$ 9,839</u>	<u>\$ 535</u>

A summary of interest cost and investment income during the years ended September 30, 2019 and 2018 follows:

	<u>(Dollars In Thousands)</u>	
	<u>2019</u>	<u>2018</u>
Interest cost:		
Capitalized	\$ -	\$ -
Charged to nonoperating revenue	<u>10,962</u>	<u>9,520</u>
Total	<u>\$ 10,962</u>	<u>\$ 9,520</u>
Investment income:		
Capitalized	\$ -	\$ -
Credited to nonoperating revenue	<u>6,609</u>	<u>20,825</u>
Total	<u>\$ 6,609</u>	<u>\$ 20,825</u>

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019 and 2018

9. Goodwill

Goodwill consists of the following:

(Dollars In Thousands)					
	Balance <u>2018</u>	<u>Increase</u>	<u>Decrease</u>	<u>Amortization</u>	Balance <u>2019</u>
Purchase of Diagnostic Imaging Center	\$ -	\$ -	\$ -	\$ -	\$ -
Purchase of Berrien County Hospital	<u>1,405</u>	<u>-</u>	<u>-</u>	<u>(65)</u>	<u>1,340</u>
Total goodwill	<u>\$ 1,405</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (65)</u>	<u>\$ 1,340</u>

	Balance <u>2017</u>	<u>Increase</u>	<u>Decrease</u>	<u>Amortization</u>	Balance <u>2018</u>
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>

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 2019 and 2018 was approximately \$100 thousand and \$800 thousand, respectively, 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, 2019 and 2018

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, 2019 and 2018, 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, the outstanding principal balance was \$1.6 million. The note was paid in full by the Alliance during FY 2019.

In addition to the above, included in other receivables on the balance sheet are related party receivables in the amounts of \$7.9 million and \$6.9 million for fiscal years 2019 and 2018, 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, 2019 and 2018

10. Related Party Transactions, Continued

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

South Georgia Medical Center Foundation, Inc. (Income Tax Basis of Accounting)

	(Dollars In Thousands)	
	(Unaudited) <u>June 30, 2019</u>	(Audited) <u>June 30, 2018</u>
Assets, principally cash and cash equivalents and investments	\$ 3,580	\$ 3,431
Liabilities, accounts payable and deferred revenue	\$ 66	\$ 32
Net assets:		
Without donor restrictions	1,857	1,639
With donor restrictions	1,657	1,760
Total net assets	3,514	3,399
Total liabilities and net assets	\$ 3,580	\$ 3,431
Support and revenue	\$ 931	\$ 644
Expenses:		
Administrative expenses	403	323
Charitable disbursements	413	100
Total expenses	816	423
Change in net assets	115	221
Net assets, beginning	3,399	3,178
Net assets, ending	\$ 3,514	\$ 3,399

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019 and 2018

10. Related Party Transactions, Continued

South Georgia Health Alliance, Inc.

	(Dollars In Thousands)	
	(Unaudited)	(Audited)
	<u>September 30, 2019</u>	<u>September 30, 2018</u>
Current assets	\$ 4,736	\$ 5,593
Property and equipment, net	<u>2,599</u>	<u>2,909</u>
 Total assets	 <u>\$ 7,335</u>	 <u>\$ 8,502</u>
 Current liabilities	 \$ 8,369	 \$ 7,553
Long-term debt	-	1,630
Net assets	<u>(1,034)</u>	<u>(681)</u>
 Total liabilities and net assets	 <u>\$ 7,335</u>	 <u>\$ 8,502</u>
 Revenues and gains	 \$ 9,249	 \$ 8,192
Expenses	<u>(9,602)</u>	<u>(8,787)</u>
 Decrease in net assets	 (353)	 (595)
 Net assets (deficit), beginning	 <u>(681)</u>	 <u>(86)</u>
 Net assets (deficit), ending	 <u>\$ (1,034)</u>	 <u>\$ (681)</u>

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019 and 2018

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 \$5.9 million and \$5.2 million in 2019 and 2018, respectively. Total contributions by the Authority on behalf of the participants were approximately \$1.3 million and \$1.2 million in 2019 and 2018, 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.

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.

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.

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019 and 2018

11. Retirement Plans, Continued

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>2019</u>	<u>2018</u>
Actuarially determined contribution	\$ 1,849	\$ 2,375
Contributions made in relation to the actuarially determined contribution	<u>1,849</u>	<u>2,375</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, 2019 and 2018 and the measurement date of the net pension liability is as of January 1, 2019 and 2018.

Participant Data

The following is a summary of plan participants at January 1, 2019 and 2018.

	January 1, <u>2019</u>	January 1, <u>2018</u>
Active participants	487	550
Inactives with deferred benefits	256	237
Inactives receiving payment	<u>455</u>	<u>448</u>
Total participants	<u>1,198</u>	<u>1,235</u>

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019 and 2018

11. Retirement Plans, Continued

Assumptions and Other Inputs

The Authority's net pension liability was measured as of January 1, 2019 and 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2019 and 2018.

The following summarizes the significant assumptions used in the valuation:

	<u>2019</u>	<u>2018</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%

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	40.00%	3.0% - 5.0%
Equities	55.00%	5.0% - 9.0%
Alternatives	5.00%	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, 2019 and 2018

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, 2019 and 2018:

	(Dollars in Thousands)		
	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>
Balance recognized at September 30, 2018	\$ 78,997	\$ 76,768	\$ 2,229
Changes recognized for the fiscal year:			
Service cost	177	-	177
Interest cost	5,692	-	5,692
Differences between expected and actual experience	1,459	-	1,459
Changes in assumptions	(130)	-	(130)
Contributions from the employer	-	1,849	(1,849)
Net investment income	-	(3,491)	3,491
Benefit payments	(6,565)	(6,565)	-
Administrative expense	-	(59)	59
Net changes	<u>633</u>	<u>(8,266)</u>	<u>8,899</u>
Balance recognized at September 30, 2019	<u>\$ 79,630</u>	<u>\$ 68,502</u>	<u>\$ 11,128</u>

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019 and 2018

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, 2017	\$ 79,238	\$ 70,687	\$ 8,551
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	<u>(241)</u>	<u>6,081</u>	<u>(6,322)</u>
Balance recognized at September 30, 2018	<u>\$ 78,997</u>	<u>\$ 76,768</u>	<u>\$ 2,229</u>

- *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 MP-2017 mortality improvement scale on a generational basis for purposes of developing mortality rates. In 2019, 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-2018 mortality improvement scale on a generational basis.

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019 and 2018

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, 2019 and 2018:

	2019 (Dollars in Thousands)		
	1% Decrease <u>6.50%</u>	Current Rate <u>7.50%</u>	1% Increase <u>8.50%</u>
Net pension liability	<u>\$ 17,446</u>	<u>\$ 11,128</u>	<u>\$ 5,606</u>
	2018 (Dollars in Thousands)		
	1% Decrease <u>6.50%</u>	Current Rate <u>7.50%</u>	1% Increase <u>8.50%</u>
Net pension liability	<u>\$ 8,654</u>	<u>\$ 2,229</u>	<u>\$ (3,374)</u>

Pension expense recognized during 2019 and 2018 totaled \$3.7 million and \$1.4 million, respectively.

The following table presents components of deferred inflows and deferred outflows of resources for the years ended September 30, 2019 and 2018:

	(Dollars In Thousands)			
	2019		2018	
	<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	\$ 4,997	\$ -	\$ -	\$ 2,001
Differences between expected and actual experience	4,545	96	4,034	118
Changes in assumptions	<u>3,219</u>	<u>1,694</u>	<u>3,963</u>	<u>1,911</u>
Amounts to be recognized in pension expense	12,761	1,790	7,997	4,030
Contributions made subsequent to measurement date	<u>1,289</u>	<u>-</u>	<u>1,387</u>	<u>-</u>
Total	<u>\$ 14,050</u>	<u>\$ 1,790</u>	<u>\$ 9,384</u>	<u>\$ 4,030</u>

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019 and 2018

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 following year.

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:

<u>Year Ending</u>	<u>(Dollars in Thousands)</u>		
	<u>Deferred Inflows</u>	<u>Deferred Outflows</u>	<u>Total</u>
2020	\$ (370)	\$ (3,527)	\$ (3,897)
2021	(370)	(2,302)	(2,672)
2022	(370)	(2,431)	(2,801)
2023	(370)	(3,506)	(3,876)
2024	(298)	(878)	(1,176)
2025	(12)	(117)	(129)
Total	<u>\$ (1,790)</u>	<u>\$ (12,761)</u>	<u>\$ (14,551)</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, 2019 and 2018

11. Retirement Plans, Continued

Investments Included in Fiduciary Net Position

The Plan has the following recurring fair value measurements as of September 30, 2019 and 2018:

<u>September 30, 2019</u>	(Dollars in Thousands)			
	<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	\$ 41,552	\$ 41,552	\$ -	\$ -
Foreign stock	<u>5,682</u>	<u>5,682</u>	<u>-</u>	<u>-</u>
Total equity securities	<u>47,234</u>	<u>47,234</u>	<u>-</u>	<u>-</u>
Debt securities:				
U.S. government obligations	1,720	-	1,720	-
Mortgage-backed securities	1,124	-	1,124	-
Collateralized mortgage obligations	2,728	-	2,728	-
Corporate bonds	<u>6,821</u>	<u>-</u>	<u>6,821</u>	<u>-</u>
Total debt securities	<u>12,393</u>	<u>-</u>	<u>12,393</u>	<u>-</u>
Mutual funds – fixed income	<u>5,311</u>	<u>5,311</u>	<u>-</u>	<u>-</u>
Money market funds	<u>2,486</u>	<u>2,486</u>	<u>-</u>	<u>-</u>
Real estate investment trusts	<u>1,078</u>	<u>1,078</u>	<u>-</u>	<u>-</u>
Total investments	<u>68,502</u>	<u>\$ 56,109</u>	<u>\$ 12,393</u>	<u>\$ -</u>
Plan fiduciary net position	<u>\$ 68,502</u>			

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019 and 2018

11. Retirement Plans, Continued

Investments Included in Fiduciary Net Position, Continued

<u>September 30, 2018</u>	(Dollars in Thousands)			
	<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	\$ -	\$ -
Foreign stock	6,296	6,296	-	-
Total equity securities	54,730	54,730	-	-
Debt securities:				
U.S. government obligations	1,720	-	1,720	-
Mortgage-backed securities	788	-	788	-
Collateralized mortgage obligations	2,900	-	2,900	-
Corporate bonds	6,693	-	6,693	-
Total debt securities	12,101	-	12,101	-
Mutual funds – fixed income	6,819	6,819	-	-
Money market funds	1,966	1,966	-	-
Real estate investment trusts	1,152	1,152	-	-
Total investments	76,768	\$ 64,667	\$ 12,101	\$ -
Plan fiduciary net position	\$ 76,768			

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, 2019 and 2018

12. Commitments and Contingencies

Operating Leases

Leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operations as incurred. Rent expense under operating leases is approximately \$2.7 million and \$3.1 million for the years ended September 30, 2019 and 2018, respectively.

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

	<u>(Dollars In Thousands)</u>
2020	\$ 757
2021	260
2022	260
2023	255
2024	<u>255</u>
Total	<u>\$ 1,787</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.

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, \$18.6 million and \$15.8 million was paid or accrued and expensed during the years ended September 30, 2019 and 2018, respectively.

Continued

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019 and 2018

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 2019 and 2018. 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, 2019.

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.

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019 and 2018

15. Fair Values of Financial Instruments, Continued

- *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 other long-term debt is estimated using discounted cash flow analyses, based on the Authority's current incremental borrowing rates for similar types of borrowing arrangements. Level 2 inputs are used in determining this valuation.

The carrying amounts and fair values of the Authority's long-term debt at September 30, 2019 and 2018 are as follows:

	(Dollars In Thousands)			
	<u>2019</u>		<u>2018</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Long-term debt	<u>\$ 150,669</u>	<u>\$ 152,203</u>	<u>\$ 198,620</u>	<u>\$ 207,067</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>2019</u>	<u>2018</u>
Medicare	26%	37%
Medicaid	16%	15%
Blue Cross	17%	16%
Other third-party payors	25%	20%
Patients	<u>16%</u>	<u>12%</u>
Total	<u>100%</u>	<u>100%</u>

Continued

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019 and 2018

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. 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 years 2019 and 2018. Contributions received under the program approximated \$0.4 and \$1.3 million during the Authority's fiscal years 2019 and 2018, respectively. These amounts are reported in other revenue on the statements of revenues, expenses, and changes in net position.

REQUIRED SUPPLEMENTARY INFORMATION



HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

SCHEDULE OF CHANGES IN NET PENSION
LIABILITY AND RELATED RATIOS
September 30, 2019, 2018, 2017, 2016, 2015, and 2014

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability:						
Service cost	\$ 177	\$ 203	\$ 238	\$ 322	\$ 377	\$ 638
Interest cost	5,692	5,704	5,807	5,935	5,520	5,346
Changes of benefit terms	-	-	-	-	-	-
Differences between expected and actual experiences	1,459	977	1,250	(184)	1,665	2,956
Changes in assumptions	(130)	(363)	(1,671)	(546)	4,273	2,546
Benefit payments	<u>(6,565)</u>	<u>(6,762)</u>	<u>(7,137)</u>	<u>(7,174)</u>	<u>(5,968)</u>	<u>(8,531)</u>
Net change in total pension liability	633	(241)	(1,513)	(1,647)	5,867	2,955
Total pension liability (beginning)	<u>78,997</u>	<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>79,630</u>	<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	1,849	2,375	3,012	3,055	2,472	2,582
Net investment income (loss)	(3,491)	10,511	5,679	(711)	4,221	9,102
Benefit payments	(6,565)	(6,762)	(7,137)	(7,174)	(5,968)	(8,531)
Administrative expense	<u>(59)</u>	<u>(43)</u>	<u>(154)</u>	<u>(210)</u>	<u>(251)</u>	<u>(184)</u>
Net changes in plan fiduciary net position	(8,266)	6,081	1,400	(5,040)	474	2,969
Plan fiduciary net position (beginning)	<u>76,768</u>	<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>68,502</u>	<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>\$ 11,128</u>	<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>86.03%</u>	<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	N/A
Net pension liability as a percentage of payroll	N/A	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, 2019, 2018, 2017, 2016, 2015, and 2014

- *Changes in assumptions:* In 2019, 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-2018 mortality improvement scale on a generational basis. 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, 2019, 2018, 2017, 2016, 2015, and 2014

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 1,849	\$ 2,375	\$ 3,012	\$ 3,055	\$ 2,671	\$ 2,384
Contributions made in relation to the actuarially determined contribution	<u>1,849</u>	<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	N/A
Contributions as a percentage of payroll	N/A	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. As of January 1, 2019, 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-2018 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.



INDEPENDENT AUDITOR'S REPORT ON FACILITY INFORMATION

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

We have audited the financial statements of the Hospital Authority of Valdosta and Lowndes County, Georgia (Authority) as of and for the years ended September 30, 2019 and 2018, and our report thereon dated December 17, 2019, which expressed an unmodified opinion on those financial statements, appears on pages 1 through 2. Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The information included in this report on pages 63 through 65, is presented for purposes of additional analysis of the financial statements rather than to present the balance sheet and statement of revenues and expenses of the individual facilities, and is not a required part of the financial statements. Accordingly, we do not express an opinion on the net position and results of operations of the individual facilities.

This information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Draffin + Tucker, LLP

Albany, Georgia
December 17, 2019

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

BALANCE SHEET – INDIVIDUAL FACILITIES (In Thousands)
September 30, 2019

	South Georgia Medical Center	SGMC - Berrien Campus	SGMC - Lanier Campus	Intercompany Eliminations	Total
Current assets:					
Cash and cash equivalents	\$ 4,419	\$ 771	\$ 1,015	\$ -	\$ 6,205
Short-term investments	4,934	-	-	-	4,934
Patient accounts receivable, net of estimated uncollectibles of \$85,748	42,019	871	1,884	-	44,774
Other receivables	12,885	-	-	-	12,885
Supplies (first-in, first-out)	6,166	97	136	-	6,399
Estimated third-party payor settlements	2,558	(191)	(20)	-	2,347
Other current assets	3,802	-	-	-	3,802
Total current assets	76,783	1,548	3,015	-	81,346
Noncurrent cash and investments	203,129	-	-	-	203,129
Capital assets, net of accumulated depreciation	167,976	2,087	10,969	-	181,032
Other assets	1,725	-	-	-	1,725
Intercompany receivables	18,788	-	-	(18,788)	-
Total assets	468,401	3,635	13,984	(18,788)	467,232
Deferred outflows of resources	24,073	1,340	-	-	25,413
Total assets and deferred outflows of resources	\$ 492,474	\$ 4,975	\$ 13,984	\$ (18,788)	\$ 492,645

	South Georgia Medical Center	SGMC - Berrien Campus	SGMC - Lanier Campus	Intercompany Eliminations	Total
Current liabilities:					
Current maturities of long-term debt	\$ 2,879	\$ -	\$ -	\$ -	\$ 2,879
Accounts payable	18,209	-	-	-	18,209
Accrued expenses	35,023	-	-	-	35,023
Estimated third-party payor settlements	<u>741</u>	<u>144</u>	<u>27</u>	<u>-</u>	<u>912</u>
Total current liabilities	56,852	144	27	-	57,023
Long-term liabilities, excluding current maturities	157,629	-	-	-	157,629
Net pension liability	11,128	-	-	-	11,128
Intercompany payables	<u>-</u>	<u>4,831</u>	<u>13,957</u>	<u>(18,788)</u>	<u>-</u>
Total liabilities	<u>225,609</u>	<u>4,975</u>	<u>13,984</u>	<u>(18,788)</u>	<u>225,780</u>
Deferred inflows of resources	<u>2,363</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,363</u>
Net position	<u>264,502</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>264,502</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 492,474</u>	<u>\$ 4,975</u>	<u>\$ 13,984</u>	<u>\$ (18,788)</u>	<u>\$ 492,645</u>

See report on facility information.

HOSPITAL AUTHORITY OF VALDOSTA AND LOWNDES COUNTY, GEORGIA

STATEMENT OF REVENUES AND EXPENSES – INDIVIDUAL FACILITIES (In Thousands)
September 30, 2019

	South Georgia Medical Center	SGMC - Berrien Campus	SGMC - Lanier Campus	Intercompany Eliminations	Total
Operating revenues:					
Net patient service revenue, net of provision for bad debts of \$78,332	\$ 333,681	\$ 6,100	\$ 13,044	\$ -	\$ 352,825
Other revenue	<u>8,352</u>	<u>170</u>	<u>952</u>	<u>-</u>	<u>9,474</u>
Total operating revenues	<u>342,033</u>	<u>6,270</u>	<u>13,996</u>	<u>-</u>	<u>362,299</u>
Operating expenses:					
Salaries and benefits	175,866	5,348	10,374	-	191,588
Supplies	77,153	714	1,983	-	79,850
Services	43,255	1,106	3,122	-	47,483
Depreciation and amortization	22,113	566	663	-	23,342
Medical and professional fees	39,097	1,078	1,253	-	41,428
Other expenses	<u>10,811</u>	<u>401</u>	<u>870</u>	<u>-</u>	<u>12,082</u>
Total operating expenses	<u>368,295</u>	<u>9,213</u>	<u>18,265</u>	<u>-</u>	<u>395,773</u>
Operating loss	(26,262)	(2,943)	(4,269)	-	(33,474)
Nonoperating revenue (expenses)	<u>(4,353)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,353)</u>
Excess expenses	<u>\$ (30,615)</u>	<u>\$ (2,943)</u>	<u>\$ (4,269)</u>	<u>\$ -</u>	<u>\$ (37,827)</u>

See report on facility information.