

THE HOSPITAL AUTHORITY OF
WAYNE COUNTY, GEORGIA
(A Component Unit of Wayne County, Georgia)

FINANCIAL STATEMENTS

for the years ended June 30, 2018 and 2017

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
The Hospital Authority of Wayne County, Georgia
Jesup, Georgia

We have audited the accompanying financial statements of The Hospital Authority of Wayne County, Georgia (Authority), which comprise the balance sheets as of June 30, 2018 and 2017, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Hospital Authority of Wayne County, Georgia as of June 30, 2018 and 2017, and the changes in its financial position, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

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

Driffin & Tucker, LLP

Atlanta, Georgia
December 21, 2018

THE HOSPITAL AUTHORITY OF WAYNE COUNTY, GEORGIA
(A Component Unit of Wayne County, Georgia)

Balance Sheets
June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Assets and Deferred Outflows of Resources		
<i>Current assets:</i>		
Cash and cash equivalents	\$ 3,081,000	\$ 708,000
Patient accounts receivable, net of estimated uncollectibles of \$8,413,000 in 2018 and \$8,594,000 in 2017	7,054,000	9,005,000
Estimated third-party payor settlements	507,000	342,000
Supplies, at lower of cost (first-in, first-out) or market	1,549,000	1,620,000
Prepaid expenses	<u>682,000</u>	<u>902,000</u>
Total current assets	<u>12,873,000</u>	<u>12,577,000</u>
<i>Noncurrent cash and investments:</i>		
Held by trustee for debt service	591,000	589,000
Other long-term investments	<u>5,703,000</u>	<u>5,758,000</u>
Total noncurrent cash and investments	<u>6,294,000</u>	<u>6,347,000</u>
<i>Capital assets:</i>		
Land	453,000	345,000
Construction-in-progress	109,000	-
Depreciable capital assets, net of accumulated depreciation	<u>24,280,000</u>	<u>24,528,000</u>
Total capital assets, net of accumulated depreciation	<u>24,842,000</u>	<u>24,873,000</u>
<i>Other assets:</i>		
Investment in joint venture	205,000	234,000
Notes receivable, net	151,000	690,000
Bond insurance costs	<u>31,000</u>	<u>35,000</u>
Total other assets	<u>387,000</u>	<u>959,000</u>
Total assets	44,396,000	44,756,000
<i>Deferred outflows of resources:</i>		
Deferred loss on refunding	<u>427,000</u>	<u>482,000</u>
Total assets and deferred outflows of resources	<u>\$ 44,823,000</u>	<u>\$ 45,238,000</u>

	<u>2018</u>	<u>2017</u>
Liabilities and Net Position		
<i>Current liabilities:</i>		
Current maturities of long-term debt	\$ 1,215,000	\$ 1,175,000
Accounts payable	2,264,000	2,942,000
Accrued expenses	1,771,000	1,912,000
Estimated third-party payor settlements	<u>595,000</u>	<u>776,000</u>
Total current liabilities	5,845,000	6,805,000
Long-term debt, net of current maturities	<u>11,684,000</u>	<u>13,085,000</u>
Total liabilities	<u>17,529,000</u>	<u>19,890,000</u>
<i>Net position:</i>		
Net investment in capital assets	12,400,000	11,131,000
Restricted for debt service	591,000	589,000
Unrestricted	<u>14,303,000</u>	<u>13,628,000</u>
Total net position	<u>27,294,000</u>	<u>25,348,000</u>
Total liabilities and net position	<u>\$ 44,823,000</u>	<u>\$ 45,238,000</u>

See accompanying notes to financial statements.

THE HOSPITAL AUTHORITY OF WAYNE COUNTY, GEORGIA
(A Component Unit of Wayne County, Georgia)

Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating revenues:		
Net patient service revenue (net of provision for bad debts of \$15,073,000 in 2018 and \$14,145,000 in 2017)	\$ 58,508,000	\$ 56,638,000
Other revenue	<u>1,167,000</u>	<u>1,403,000</u>
Total operating revenues	<u>59,675,000</u>	<u>58,041,000</u>
Operating expenses:		
Salaries and wages	20,089,000	19,178,000
Employee benefits	5,109,000	5,724,000
Purchased services and professional fees	8,605,000	7,972,000
Supplies and drugs	11,915,000	11,002,000
Depreciation and amortization	2,871,000	4,227,000
Other expense	<u>8,205,000</u>	<u>6,705,000</u>
Total operating expenses	<u>56,794,000</u>	<u>54,808,000</u>
Operating income	<u>2,881,000</u>	<u>3,233,000</u>
Nonoperating revenues (expenses):		
Investment loss	(15,000)	(130,000)
Loss on joint venture	(813,000)	(929,000)
Interest expense	(455,000)	(493,000)
Rural hospital tax credit contributions	235,000	-
Contributions	70,000	20,000
Gain on sale of capital assets	<u>43,000</u>	<u>-</u>
Total nonoperating expenses	<u>(935,000)</u>	<u>(1,532,000)</u>
Excess of revenues over expenses	1,946,000	1,701,000
Net position, beginning of year	<u>25,348,000</u>	<u>23,647,000</u>
Net position, end of year	<u>\$ 27,294,000</u>	<u>\$ 25,348,000</u>

See accompanying notes to financial statements.

THE HOSPITAL AUTHORITY OF WAYNE COUNTY, GEORGIA
(A Component Unit of Wayne County, Georgia)

Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 60,113,000	\$ 55,009,000
Payments to suppliers and contractors	(28,573,000)	(26,484,000)
Payments to employees	(25,339,000)	(24,881,000)
Other receipts	<u>1,167,000</u>	<u>1,403,000</u>
Net cash provided by operating activities	<u>7,368,000</u>	<u>5,047,000</u>
Cash flows from noncapital financing activities:		
Rural hospital tax credit contributions	235,000	-
Contributions	70,000	20,000
Proceeds from short-term borrowings	-	754,000
Principal paid on short-term borrowings	-	(754,000)
Interest paid on short-term borrowings	<u>-</u>	<u>(4,000)</u>
Net cash provided by noncapital financing activities	<u>305,000</u>	<u>16,000</u>
Cash flows from capital and related financing activities:		
Principal paid on long-term debt	(1,175,000)	(1,135,000)
Interest paid on long-term debt	(582,000)	(613,000)
Proceeds on sale of capital assets	43,000	-
Purchase of capital assets	<u>(2,840,000)</u>	<u>(1,674,000)</u>
Net cash used by capital and related financing activities	<u>(4,554,000)</u>	<u>(3,422,000)</u>
Cash flows from investing activities:		
Sales of debt securities	1,446,000	1,960,000
Purchase of debt securities	(1,663,000)	(2,154,000)
Investment income	108,000	73,000
Investment in joint venture	<u>(784,000)</u>	<u>(847,000)</u>
Net cash used by investing activities	<u>(893,000)</u>	<u>(968,000)</u>
Net increase in cash and cash equivalents	2,226,000	673,000
Cash and cash equivalents, beginning of year	<u>1,575,000</u>	<u>902,000</u>
Cash and cash equivalents, end of year	<u>\$ 3,801,000</u>	<u>\$ 1,575,000</u>

Continued

THE HOSPITAL AUTHORITY OF WAYNE COUNTY, GEORGIA
(A Component Unit of Wayne County, Georgia)

Statements of Cash Flows, Continued
Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash and cash equivalents	\$ 3,081,000	\$ 708,000
Cash and cash equivalents in noncurrent cash and investments:		
Held by trustee for debt service	591,000	589,000
Other long-term investments	<u>129,000</u>	<u>278,000</u>
Total cash and cash equivalents	\$ <u>3,801,000</u>	\$ <u>1,575,000</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 2,881,000	\$ 3,233,000
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	2,871,000	4,227,000
Provision for bad debts	15,073,000	14,145,000
Changes in:		
Patient accounts receivable	(13,122,000)	(16,273,000)
Estimated third-party payor settlements	(346,000)	499,000
Supplies	71,000	(384,000)
Prepaid expenses	220,000	(179,000)
Notes receivable	539,000	(487,000)
Accounts payable	(678,000)	245,000
Accrued expenses	<u>(141,000)</u>	<u>21,000</u>
Net cash provided by operating activities	\$ <u>7,368,000</u>	\$ <u>5,047,000</u>
Noncash investing activities:		
Change in fair value of investments	\$(<u>123,000</u>)	\$(<u>203,000</u>)

See accompanying notes to financial statements.

THE HOSPITAL AUTHORITY OF WAYNE COUNTY, GEORGIA
(A Component Unit of Wayne County, Georgia)

Notes To Financial Statements
June 30, 2018 and 2017

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

Reporting entity. The Hospital Authority of Wayne County, Georgia (Authority) is a public body corporate and politic organized under the Hospital Authorities Law of the State of Georgia. The Authority was established on August 7, 1956 by the Board of Commissioners of Wayne County, Georgia. The Authority is governed by a seven-member board of trustees appointed by the Wayne County Commissioners and Wayne County has guaranteed debt of the Authority. For these reasons, the Authority is considered to be a component unit of Wayne County, Georgia.

The Authority owns and operates Wayne Memorial Hospital, which provides short-term medical, surgical, obstetrical, pediatric, emergency, and home health care to residents of Wayne County and the surrounding area.

Use of estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant items subject to such estimates and assumptions include the determination of the allowances for uncollectible accounts and contractual adjustments, estimated third-party payor settlements, and self-insurance reserves. In particular, 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 associated with these programs will change by a material amount in the near term.

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).

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

Allowance for doubtful accounts. The Authority provides an allowance for doubtful accounts based on the evaluation of the overall collectability of the accounts receivable. As accounts are known to be uncollectible, the accounts are charged against the allowance.

Continued

THE HOSPITAL AUTHORITY OF WAYNE COUNTY, GEORGIA
(A Component Unit of Wayne County, Georgia)

Notes To Financial Statements, Continued
June 30, 2018 and 2017

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

Noncurrent cash and investments. Noncurrent cash and investments include assets held by trustees under indenture agreements and other long-term investments.

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

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) for identical assets or liabilities in active markets that a government can access at the measurement date. 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 for an asset or liability. The fair value hierarchy gives the lowest priority to Level 3 inputs.

Capital assets. The Authority’s capital assets are reported at historical cost. Contributed capital assets are reported at their acquisition value at the time of their donation. All capital assets other than land are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using these asset lives:

Land improvements	15 To 20 Years
Buildings and building improvements	20 To 40 Years
Equipment, computers and furniture	3 To 10 Years

Continued

THE HOSPITAL AUTHORITY OF WAYNE COUNTY, GEORGIA
(A Component Unit of Wayne County, Georgia)

Notes To Financial Statements, Continued
June 30, 2018 and 2017

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

Capital assets, continued. The Authority evaluates capital assets regularly for impairment under the provisions of GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. If circumstances suggest that assets may be impaired, an assessment of recoverability is performed prior to any write-down of assets. An impairment charge is recorded on those assets for which the estimated fair value is below its carrying value. The Authority has not recorded any impairment charges during 2018 or 2017.

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

Financing costs. Costs incurred in connection with the issuance of bonds and notes are expensed in the period incurred.

Compensated absences. The Authority's employees earn benefit hours for paid time off at varying rates depending on years of service. Benefit hours accumulate and may be carried over to the next year. However, an employee's benefit hour accrual may not exceed certain amounts based on years of service. An employee may receive a pay out of benefit hours, subject to certain restrictions. The estimated amount of benefit hours payable is reported as a current liability in both 2018 and 2017.

Net position. Net position is classified into components. *Net investment in capital assets* consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any borrowings that are attributable to the acquisition, construction, or improvement of those assets. The *restricted* component of net position consists of restricted assets reduced by liabilities related to those assets. The *unrestricted* component of net position is the amount of assets, deferred outflows of resources, and liabilities that is not included in the determination of *net investment in capital assets* or the *restricted* component of net position.

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

Continued

THE HOSPITAL AUTHORITY OF WAYNE COUNTY, GEORGIA
(A Component Unit of Wayne County, Georgia)

Notes To Financial Statements, Continued
June 30, 2018 and 2017

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

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

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.

Grants and contributions. From time to time, the Authority receives grants from the Hospital Auxiliary, Wayne County, the State of Georgia, and the federal government as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Restricted resources. When the Authority has both restricted and unrestricted resources available to finance a particular program, it is the Authority's policy to use restricted resources before unrestricted resources.

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

Income taxes. The Authority is a governmental entity and has been recognized as tax-exempt under the Internal Revenue Code. Accordingly, no provision for income taxes has been provided.

Continued

THE HOSPITAL AUTHORITY OF WAYNE COUNTY, GEORGIA
(A Component Unit of Wayne County, Georgia)

Notes To Financial Statements, Continued
June 30, 2018 and 2017

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

Deferred outflows of resources. Deferred outflows of resources consist of the unamortized deferred loss on refunding of the 2006 Series Bonds. The deferred loss is amortized to interest expense over the life of the 2015 Series Bonds.

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

In 2018, the Authority adopted Statement No. 86, *Certain Debt Extinguishment Issues* (GASB 86). GASB 86 establishes standards of accounting and financial reporting, including additional disclosure requirements, for in-substance defeasance transactions in which cash and other monetary assets acquired with only existing resources (resources other than the proceeds of refunding debt) are placed in an irrevocable trust for the purpose of extinguishing debt. GASB 86 also amends accounting and financial reporting requirements for prepaid insurance associated with debt that is extinguished. The adoption of GASB 86 had no material impact on the financial statements of the Authority.

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

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

Continued

THE HOSPITAL AUTHORITY OF WAYNE COUNTY, GEORGIA
(A Component Unit of Wayne County, Georgia)

Notes To Financial Statements, Continued
June 30, 2018 and 2017

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

Recently issued accounting pronouncements, continued. In June 2017, the GASB issued Statement No. 87, *Leases* (GASB 87). GASB 87 establishes standards of accounting and financial reporting by lessees and lessors. GASB 87 will require a lessee to recognize a lease liability and an intangible right-to-use lease asset at the commencement of the lease term, with certain exceptions, and will require a lessor to recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions. GASB 87 is effective for fiscal years beginning after December 15, 2019. The Authority is currently evaluating the impact GASB 87 will have on its financial statements.

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

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period* (GASB 89). GASB 89 requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred. GASB 89 is effective for fiscal years beginning after December 15, 2019. The Authority is currently evaluating the impact GASB 89 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 holdings 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. The Authority is currently evaluating the impact GASB 90 will have on its financial statements.

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THE HOSPITAL AUTHORITY OF WAYNE COUNTY, GEORGIA
(A Component Unit of Wayne County, Georgia)

Notes To Financial Statements, Continued
June 30, 2018 and 2017

2. Net Patient Service Revenue

The Authority has arrangements 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. A summary of the payment arrangements with major third-party payors follows:

- *Medicare.* The Authority has received sole community hospital (SCH) classification from Medicare. As an SCH, inpatient services rendered to Medicare program beneficiaries are paid at a hospital-specific rate calculated for a base period and adjusted annually by an updating factor. Outpatient services are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The inpatient services and certain other reimbursable items are paid at a tentative rate with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare Administrative Contractor (MAC).

The Authority's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Authority. The Authority's Medicare cost reports have been audited by the MAC through June 30, 2015. Revenue from the Medicare program accounted for approximately 36% and 36% of the Authority's net patient service revenue for the years ended June 30, 2018 and 2017, respectively.

- *Medicaid.* Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates. Outpatient services are generally paid under a cost reimbursement methodology. The Authority is reimbursed for cost reimbursable items 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 settled by the Medicaid fiscal intermediary through June 30, 2015. Revenue from the Medicaid program accounted for approximately 13% and 14% of the Authority's net patient service revenue for the years ended June 30, 2018 and 2017, respectively.

The Authority has also entered into contracts with certain care management organizations (CMO's) to receive reimbursement for providing services to selected enrolled Medicaid beneficiaries. Payment arrangements with these CMO's consist primarily of prospectively determined rates and discounts from established charges.

Continued

THE HOSPITAL AUTHORITY OF WAYNE COUNTY, GEORGIA
(A Component Unit of Wayne County, Georgia)

Notes To Financial Statements, Continued
June 30, 2018 and 2017

2. Net Patient Service Revenue, Continued

- *Medicaid, continued.* The Authority participates in the Indigent Care Trust Fund (ICTF) Program. The Authority receives ICTF payments for treating a disproportionate number of Medicaid and other indigent patients. ICTF payments are based on the Authority's estimated uncompensated cost of services to Medicaid and uninsured patients. The net amount of ICTF payments recognized in net patient service revenues was approximately \$1,874,000 and \$1,962,000 for the years ended June 30, 2018 and 2017, respectively.

The Authority also participates in the Medicaid Upper Payment Limit (UPL) Program. The UPL payment adjustments are based on a measure of the difference between Medicaid payments and the amount that could be paid based on Medicare payment principles. The net amount of UPL payment adjustments recognized in net patient service revenue was approximately \$494,000 and \$330,000 for the years ended June 30, 2018 and 2017, respectively.

Hospitals in Georgia are assessed a "provider payment" in the amount of 1.45% of their net patient revenue. The provider payments are due on a quarterly basis to the State of Georgia. 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 results in a corresponding increase in Medicaid payments for hospital services of approximately 11.88%. The Authority made provider payments to the State of Georgia of approximately \$624,000 and \$585,000 in 2018 and 2017, respectively. The payments are included in other expense in the accompanying statements of revenues, expenses and changes in net position.

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

3. Charity Care

Charges excluded from revenue under the Authority's charity care policy were approximately \$5,674,000 and \$4,839,000 for the years ended June 30, 2018 and 2017, respectively.

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THE HOSPITAL AUTHORITY OF WAYNE COUNTY, GEORGIA
(A Component Unit of Wayne County, Georgia)

Notes To Financial Statements, Continued
June 30, 2018 and 2017

4. Deposits and Investments

Custodial credit risk – deposits. Custodial credit risk is the risk that in the event of a bank failure, the Authority’s deposits may not be returned to them.

State law requires collateralization of all deposits with federal depository insurance and other acceptable collateral in specific amounts. As of June 30, 2018 and 2017, the Authority’s deposits were entirely insured or collateralized.

Custodial credit risk – investments. For an investment, this is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Authority’s investments are held in the Authority’s name by a custodial bank that is the agent of the Authority.

The Authority’s investments generally are reported at fair value. At June 30, 2018 and 2017, the Authority had the following debt securities with the following maturities, all of which were held in the Authority’s name by a custodial bank that is an agent of the Authority:

June 30, 2018

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Investment Maturities (In Years)</u>			
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
U.S. Treasury Notes	\$ 1,345,000	\$ -	\$ 1,345,000	\$ -	\$ -
U.S. Treasury Bonds	546,000	-	-	-	546,000
Federal National Mortgage Association	2,791,000	-	-	-	2,791,000
Federal Home Loan Mortgage Corporation	<u>892,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>892,000</u>
Total	\$ <u>5,574,000</u>	\$ <u>-</u>	\$ <u>1,345,000</u>	\$ <u>-</u>	\$ <u>4,229,000</u>

Continued

THE HOSPITAL AUTHORITY OF WAYNE COUNTY, GEORGIA
(A Component Unit of Wayne County, Georgia)

Notes To Financial Statements, Continued
June 30, 2018 and 2017

4. Deposits and Investments, Continued

June 30, 2017

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Investment Maturities (In Years)</u>			
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
U.S. Treasury Notes	\$ 1,603,000	\$ 55,000	\$ 1,434,000	\$ 114,000	\$ -
U.S. Treasury Bonds	545,000	-	-	-	545,000
Federal National Mortgage Association	2,343,000	-	-	-	2,343,000
Federal Home Loan Mortgage Corporation	<u>971,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>971,000</u>
Total	\$ <u>5,462,000</u>	\$ <u>55,000</u>	\$ <u>1,434,000</u>	\$ <u>114,000</u>	\$ <u>3,859,000</u>

Interest rate risks. The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

The Authority's investment in Georgia Fund 1 Local Government Investment Pool (LGIP) has a weighted average maturity of 10 days and 26 days at June 30, 2018 and 2017, respectively.

Credit risk. The Authority invests only in U.S. Treasuries, U.S. Government Obligations, or obligations guaranteed by the U.S. Government that are held by the Authority's third-party agent. Georgia Fund 1 LGIP is invested primarily in negotiated investment deposit agreements, overnight repurchase agreements and U.S. Government agency obligations.

Georgia Fund 1 LGIP carried a rating of AA+ by Standard & Poors at both June 30, 2018 and 2017.

Continued

THE HOSPITAL AUTHORITY OF WAYNE COUNTY, GEORGIA
(A Component Unit of Wayne County, Georgia)

Notes To Financial Statements, Continued
June 30, 2018 and 2017

4. Deposits and Investments, Continued

Concentrations of credit risk. The Authority places no limit on the amount it may invest in any one issuer. More than 5 percent of the Authority's investments at June 30, 2018 and 2017 are invested in the Georgia Fund 1 LGIP, the Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLM), U.S. Treasury Bonds and U.S. Treasury Notes. The following is a summary of the percentages of investment in each issuer as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Georgia Fund 1 LGIP	10%	10%
U.S. Treasury Notes	22%	26%
U.S. Treasury Bonds	9%	9%
Federal National Mortgage Association	45%	39%
Federal Home Loan Mortgage Corporation	<u>14%</u>	<u>16%</u>
Total	<u>100%</u>	<u>100%</u>

The carrying amounts of deposits and investments are included in the Authority's balance sheet as follows:

	<u>2018</u>	<u>2017</u>
Deposits	\$ 3,210,000	\$ 985,000
Investments	<u>6,165,000</u>	<u>6,070,000</u>
Total	<u>\$ 9,375,000</u>	<u>\$ 7,055,000</u>

Continued

THE HOSPITAL AUTHORITY OF WAYNE COUNTY, GEORGIA
(A Component Unit of Wayne County, Georgia)

Notes To Financial Statements, Continued
June 30, 2018 and 2017

4. Deposits and Investments, Continued

Included in the following balance sheet captions:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 3,081,000	\$ 708,000
Noncurrent cash and investments:		
Held by trustee for debt service	591,000	589,000
Other long-term investments	<u>5,703,000</u>	<u>5,758,000</u>
Total	\$ <u>9,375,000</u>	\$ <u>7,055,000</u>

At June 30, 2018 and 2017, the Authority's investments consisted of the following:

	<u>2018</u>	<u>2017</u>
Georgia Fund 1 LGIP	\$ 591,000	\$ 589,000
U.S. Treasury Notes	1,345,000	1,603,000
U.S. Treasury Bonds	546,000	545,000
Federal National Mortgage Association	2,791,000	2,343,000
Federal Home Loan Mortgage Corporation	892,000	971,000
Interest receivable	<u>-</u>	<u>19,000</u>
Total	\$ <u>6,165,000</u>	\$ <u>6,070,000</u>

Continued

THE HOSPITAL AUTHORITY OF WAYNE COUNTY, GEORGIA
(A Component Unit of Wayne County, Georgia)

Notes To Financial Statements, Continued
June 30, 2018 and 2017

4. Deposits and Investments, Continued

Fair value of investments measured on a recurring basis at June 30, 2018 and 2017 are as follows:

	<u>Total</u>	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>June 30, 2018</u>				
U.S. Treasury Notes	\$ 1,345,000	\$ 1,345,000	\$ -	\$ -
U.S. Treasury Bonds	546,000	546,000	-	-
Federal National Mortgage Association	2,791,000	2,791,000	-	-
Federal Home Loan Mortgage Corporation	<u>892,000</u>	<u>892,000</u>	<u>-</u>	<u>-</u>
	<u>5,574,000</u>	<u>\$ 5,574,000</u>	<u>\$ -</u>	<u>\$ -</u>
Georgia Fund 1 LGIP	<u>591,000</u>			
Total investments at fair value	<u>\$ 6,165,000</u>			
<u>June 30, 2017</u>				
U.S. Treasury Notes	\$ 1,603,000	\$ 1,603,000	\$ -	\$ -
U.S. Treasury Bonds	545,000	545,000	-	-
Federal National Mortgage Association	2,343,000	2,343,000	-	-
Federal Home Loan Mortgage Corporation	971,000	971,000	-	-
Accrued interest	<u>19,000</u>	<u>-</u>	<u>19,000</u>	<u>-</u>
	<u>5,481,000</u>	<u>\$ 5,462,000</u>	<u>\$ 19,000</u>	<u>\$ -</u>
Georgia Fund 1 LGIP	<u>589,000</u>			
Total investments at fair value	<u>\$ 6,070,000</u>			

The Authority's investment in the Georgia Fund 1 LGIP is managed by the Georgia Office of the State Treasurer. The unit of account is each share held, and the Authority's investment in the Georgia Fund 1 LGIP is reported at fair value.

Continued

THE HOSPITAL AUTHORITY OF WAYNE COUNTY, GEORGIA
(A Component Unit of Wayne County, Georgia)

Notes To Financial Statements, Continued
June 30, 2018 and 2017

5. Accounts Receivable and Payable

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Authority at June 30, 2018 and 2017 consisted of these amounts:

	<u>2018</u>	<u>2017</u>
Patient accounts receivable:		
Receivable from patients and their insurance carriers	\$ 13,462,000	\$ 13,873,000
Receivable from Medicare	1,460,000	3,089,000
Receivable from Medicaid	<u>545,000</u>	<u>637,000</u>
Total patient accounts receivable	15,467,000	17,599,000
Less allowance for uncollectible amounts	<u>8,413,000</u>	<u>8,594,000</u>
Patient accounts receivable, net	\$ <u>7,054,000</u>	\$ <u>9,005,000</u>
Accounts payable and accrued expenses:		
Payable to employees (including payroll taxes)	\$ 1,460,000	\$ 1,589,000
Payable to suppliers	2,264,000	2,943,000
Accrued interest payable	186,000	197,000
Other payable	<u>125,000</u>	<u>125,000</u>
Total accounts payable and accrued expenses	\$ <u>4,035,000</u>	\$ <u>4,854,000</u>

6. Concentrations of Credit Risk

The Authority grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2018 and 2017, was as follows:

	<u>2018</u>	<u>2017</u>
Medicare	18%	30%
Medicaid	8%	7%
Blue Cross	18%	14%
Other third-party payors	39%	37%
Patients	<u>17%</u>	<u>12%</u>
Total	<u>100%</u>	<u>100%</u>

Continued

THE HOSPITAL AUTHORITY OF WAYNE COUNTY, GEORGIA
(A Component Unit of Wayne County, Georgia)

Notes To Financial Statements, Continued
June 30, 2018 and 2017

7. Capital Assets

Capital asset additions, retirements and balances for the years ended June 30, 2018 and 2017 were as follows:

	<u>Balance</u> <u>June 30, 2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance</u> <u>June 30, 2018</u>
Land	\$ 345,000	\$ 108,000	\$ -	\$ -	\$ 453,000
Construction-in-progress	-	203,000	-	(94,000)	109,000
Buildings and improvements	57,361,000	350,000	(13,000)	93,000	57,791,000
Equipment	<u>13,212,000</u>	<u>2,192,000</u>	<u>-</u>	<u>1,000</u>	<u>15,405,000</u>
Totals at historical cost	<u>70,918,000</u>	<u>2,853,000</u>	<u>(13,000)</u>	<u>-</u>	<u>73,758,000</u>
Less accumulated depreciation for:					
Buildings and improvements	(35,815,000)	(2,073,000)	-	-	(37,888,000)
Equipment	<u>(10,230,000)</u>	<u>(798,000)</u>	<u>-</u>	<u>-</u>	<u>(11,028,000)</u>
Total accumulated depreciation	<u>(46,045,000)</u>	<u>(2,871,000)</u>	<u>-</u>	<u>-</u>	<u>(48,916,000)</u>
Capital assets, net	\$ <u>24,873,000</u>	\$ <u>(18,000)</u>	\$ <u>(13,000)</u>	\$ <u>-</u>	\$ <u>24,842,000</u>

Continued

THE HOSPITAL AUTHORITY OF WAYNE COUNTY, GEORGIA
(A Component Unit of Wayne County, Georgia)

Notes To Financial Statements, Continued
June 30, 2018 and 2017

7. Capital Assets, Continued

	<u>Balance</u> <u>June 30, 2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance</u> <u>June 30, 2017</u>
Land	\$ 345,000	\$ -	\$ -	\$ -	\$ 345,000
Buildings and improvements	57,070,000	291,000	-	-	57,361,000
Equipment	<u>11,829,000</u>	<u>1,383,000</u>	<u>-</u>	<u>-</u>	<u>13,212,000</u>
Totals at historical cost	<u>69,244,000</u>	<u>1,674,000</u>	<u>-</u>	<u>-</u>	<u>70,918,000</u>
Less accumulated depreciation for:					
Buildings and improvements	(32,275,000)	(3,540,000)	-	-	(35,815,000)
Equipment	<u>(9,543,000)</u>	<u>(687,000)</u>	<u>-</u>	<u>-</u>	<u>(10,230,000)</u>
Total accumulated depreciation	<u>(41,818,000)</u>	<u>(4,227,000)</u>	<u>-</u>	<u>-</u>	<u>(46,045,000)</u>
Capital assets, net	<u>\$ 27,426,000</u>	<u>\$(2,553,000)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,873,000</u>

Construction-in-progress consists of expansion of the Authority's surgery and pharmacy departments. Construction contracts were entered into subsequent to year-end. The surgery construction has an estimated cost of \$4,027,000 and the pharmacy construction has an estimated cost of \$341,000.

8. Notes Receivable

Notes receivable consist primarily of loans to physicians under recruiting arrangements. In general, the loans are forgiven over a period of time in which the physician practices medicine in Wayne County, Georgia. If the physician discontinues medical practice in Wayne County before the end of the contract period, the outstanding principal and accrued interest becomes due immediately. The amounts forgiven and charged to expense during 2018 and 2017 were approximately \$591,000 and \$178,000, respectively.

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THE HOSPITAL AUTHORITY OF WAYNE COUNTY, GEORGIA
(A Component Unit of Wayne County, Georgia)

Notes To Financial Statements, Continued
June 30, 2018 and 2017

9. Short-Term Borrowings

The Authority has a line-of-credit agreement in the aggregate principal amount of \$2,000,000 with a financial institution. The line-of-credit bears interest at 4.5% (0.5% below the prime rate with a floor of 4.5%). The line-of-credit is used for operating purposes. The line-of-credit is secured by investments.

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

	<u>Balance</u> <u>June 30, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2018</u>
Line-of-credit	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
	<u>Balance</u> <u>June 30, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2017</u>
Line-of-credit	\$ <u>-</u>	\$ <u>754,000</u>	\$ <u>(754,000)</u>	\$ <u>-</u>

10. Long-Term Debt

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

	<u>Balance</u> <u>June 30, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2018</u>	<u>Amounts Due</u> <u>Within One Year</u>
2015 Bonds	\$ 12,655,000	\$ -	\$(1,175,000)	\$ 11,480,000	\$ 1,215,000
Premium	<u>1,605,000</u>	<u>-</u>	<u>(186,000)</u>	<u>1,419,000</u>	<u>-</u>
Total long-term debt	\$ <u>14,260,000</u>	\$ <u>-</u>	\$ <u>(1,361,000)</u>	\$ <u>12,899,000</u>	\$ <u>1,215,000</u>
	<u>Balance</u> <u>June 30, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2017</u>	<u>Amounts Due</u> <u>Within One Year</u>
2015 Bonds	\$ 13,790,000	\$ -	\$(1,135,000)	\$ 12,655,000	\$ 1,175,000
Premium	<u>1,790,000</u>	<u>-</u>	<u>(185,000)</u>	<u>1,605,000</u>	<u>-</u>
Total long-term debt	\$ <u>15,580,000</u>	\$ <u>-</u>	\$ <u>(1,320,000)</u>	\$ <u>14,260,000</u>	\$ <u>1,175,000</u>

Continued

THE HOSPITAL AUTHORITY OF WAYNE COUNTY, GEORGIA
(A Component Unit of Wayne County, Georgia)

Notes To Financial Statements, Continued
June 30, 2018 and 2017

10. Long-Term Debt, Continued

The terms and due dates of the Authority's long-term debt at June 30, 2018 and 2017, follow:

- 2015 Bonds – \$13,790,000 Refunding Revenue Anticipation Certificates, Series 2015, interest ranging from 3.000% to 5.000%, principal maturing in varying annual amounts, due March 1, 2026 secured by: (i) a pledge of the Authority's gross revenues, (ii) a debt service reserve surety bond, (iii) a contract with Wayne County to levy an annual ad valorem tax if needed, and (iv) a municipal bond insurance policy.

On May 12, 2015, the Authority advance refunded \$16,730,000 of the Revenue Anticipation Refunding and Improvement Certificates, Series 2006 Bonds with proceeds from the 2015 Bonds. The difference between the reacquisition price and the net carrying amount, \$601,000, was recognized as a deferred outflow of resources and is being amortized over the life of the 2015 Bonds.

Under the terms of the 2015 Bond Indenture, the Authority is required to maintain certain deposits with a trustee. Such deposits are included in noncurrent cash and investments held by trustee for debt service in the balance sheet.

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

Year Ending <u>June 30,</u>	Long-Term Debt	
	<u>Principal</u>	<u>Interest</u>
2019	\$ 1,215,000	\$ 557,000
2020	1,260,000	508,000
2021	1,320,000	450,000
2022	1,390,000	384,000
2023	1,460,000	315,000
2024-2026	<u>4,835,000</u>	<u>491,000</u>
Total	11,480,000	\$ <u>2,705,000</u>
Bond premium	<u>1,419,000</u>	
Net	\$ <u>12,899,000</u>	

Continued

THE HOSPITAL AUTHORITY OF WAYNE COUNTY, GEORGIA
(A Component Unit of Wayne County, Georgia)

Notes To Financial Statements, Continued
June 30, 2018 and 2017

11. Employee Retirement Plan

The Authority provides retirement benefits for its employees through the Wayne Memorial Hospital 401(k) Plan, a defined contribution plan. Wayne Memorial Hospital administers the Plan. Plan provisions and contribution requirements are established and may be amended by the Authority's Board of Trustees. Employees are eligible to participate after one-half of one year of service and having reached the age of 20 and one-half. Employees may contribute not less than 3% nor more than 100% of their annual compensation to the plan such that total contributions do not exceed the maximum annual amount as set periodically by the Internal Revenue Service. Employee contributions to the Plan were approximately \$723,000 and \$720,000 for the years ended June 30, 2018 and 2017, respectively. The Authority makes a matching contribution of 3% of the employee's annual compensation. The Authority's contributions to the plan totaled approximately \$344,000 and \$347,000 for the years ended June 30, 2018 and 2017, respectively. Employees are vested in their contributions immediately and vested in the Authority's matching contributions based on a 6-year grade. Matching forfeitures are used to reduce matching contributions.

12. Insurance Arrangements

Liability insurance. The Authority has claims-made insurance coverage for professional liability and occurrence insurance coverage for general liability. The insurance policies have limits of \$1,000,000 per claim/occurrence and \$3,000,000 annual aggregate. The Authority's deductible for the professional liability policy is \$50,000 for individual claims or \$150,000 annual aggregate. The Authority's deductible for the general liability policy is \$5,000 per occurrence. The Authority has also purchased excess liability insurance coverage with a policy limit of \$10,000,000 per claim and \$10,000,000 annual aggregate. The Authority's deductible for this policy is \$25,000. Estimated accruals for claims incurred but not reported have been recorded.

Employee health insurance. The Authority has a self-insured health plan for its employees. The Authority has purchased stop loss insurance to supplement the health plan, which will reimburse the Authority for individual claims in excess of \$100,000 annually through October 31, 2017, and \$125,000 annually beginning November 1, 2017. The Authority incurred expenses related to this plan of approximately \$3,060,000 and \$3,756,000 for the years ended June 30, 2018 and 2017, respectively. Estimated accruals for claims incurred but not reported have been recorded in accrued expenses in the balance sheet. Estimated accruals were approximately \$287,000 and \$397,000 at June 30, 2018 and 2017, respectively.

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THE HOSPITAL AUTHORITY OF WAYNE COUNTY, GEORGIA
(A Component Unit of Wayne County, Georgia)

Notes To Financial Statements, Continued
June 30, 2018 and 2017

13. Fair Value 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, estimated third-party payor settlements, accounts payable and accrued expenses:* The carrying amounts reported in the balance sheets approximate their fair value due to the short-term nature of these instruments.
- *Noncurrent cash and investments:* Fair values, which are the amounts reported in the balance sheet, are based on quoted market prices.
- *Long-term debt:* Fair values of the Authority's revenue notes are based on quoted market prices and the carrying amounts for other long-term debt approximate their fair value.

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

	2018		2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	\$ <u>12,899,000</u>	\$ <u>12,663,000</u>	\$ <u>14,260,000</u>	\$ <u>14,280,000</u>

14. Rural Hospital Tax Credit Contributions

The State of Georgia (State) passed legislation which will allow individuals or corporations to receive a State tax credit for making a contribution to certain qualified rural hospital organizations during calendar years 2017 through 2021. The Authority submitted the necessary documentation and was approved by the State to participate in the rural hospital tax credit program for calendar year 2018. Contributions received under the program approximated \$235,000 during fiscal year 2018. The Authority will have to be approved by the State to participate in the program in each subsequent year.

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THE HOSPITAL AUTHORITY OF WAYNE COUNTY, GEORGIA
(A Component Unit of Wayne County, Georgia)

Notes To Financial Statements, Continued
June 30, 2018 and 2017

15. Joint Venture

The Authority and Saint Joseph's Hospital, Inc. formed Wayne/SJC Medical Group, LLC (Wayne/SJC), a physician practice, during 2013. The Authority has a 70% interest in Wayne/SJC which is accounted for using the equity method. Condensed unaudited financial information for the joint venture is as follows:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Balance sheet:		
Assets:		
Cash	\$ 101,000	\$ 106,000
Capital assets	57,000	87,000
Other assets	<u>128,000</u>	<u>142,000</u>
Total assets	\$ <u>286,000</u>	\$ <u>335,000</u>
Liabilities:		
Accrued expenses	\$ 17,000	\$ 1,000
Equity	<u>269,000</u>	<u>334,000</u>
Total liabilities and equity	\$ <u>286,000</u>	\$ <u>335,000</u>
Income statement:		
Revenue	\$ 650,000	\$ 1,158,000
Expenses	<u>(1,812,000)</u>	<u>(2,485,000)</u>
Net loss	\$(<u>1,162,000</u>)	\$(<u>1,327,000</u>)

Continued

THE HOSPITAL AUTHORITY OF WAYNE COUNTY, GEORGIA
(A Component Unit of Wayne County, Georgia)

Notes To Financial Statements, Continued
June 30, 2018 and 2017

15. Joint Venture, Continued

A schedule of changes in the Authority's investment in the joint venture for 2018 and 2017 follows:

	<u>Balance</u> <u>June 30, 2017</u>	<u>Contributed</u> <u>Capital</u>	<u>Investment</u> <u>Loss</u>	<u>Balance</u> <u>June 30, 2018</u>
Joint venture	\$ <u>234,000</u>	\$ <u>784,000</u>	\$(<u>813,000</u>)	\$ <u>205,000</u>
	<u>Balance</u> <u>June 30, 2016</u>	<u>Contributed</u> <u>Capital</u>	<u>Investment</u> <u>Loss</u>	<u>Balance</u> <u>June 30, 2017</u>
Joint venture	\$ <u>316,000</u>	\$ <u>847,000</u>	\$(<u>929,000</u>)	\$ <u>234,000</u>

16. Contingencies

Litigation. The Authority is subject to litigation and regulatory investigation arising in the course of business. After consultation with legal counsel, management believes no matters exist that would have a material adverse effect on the Authority's future financial position or results from operations.

Health care reform. There has been increasing pressure on Congress and some state legislatures to control and reduce the cost of healthcare at the national and the state levels. Legislation has been passed that includes cost controls on healthcare providers, insurance market reforms, delivery system reforms and various individual and business mandates among other provisions. The costs of certain provisions 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.