

TIFT COUNTY HOSPITAL AUTHORITY
(A Component Unit of Tift County, Georgia)



FINANCIAL STATEMENTS

for the years ended September 30, 2018 and 2017

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Tift County Hospital Authority
Tifton, Georgia

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Continued

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

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

Opinion

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

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 4 through 10 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.

Continued

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2018, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Draffin & Tucker, LLP

Atlanta, Georgia
December 20, 2018



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Christopher K. Dorman, FACHE
President/CEO

TIFT COUNTY HOSPITAL AUTHORITY
(A Component Unit of Tift County, Georgia)

Management's Discussion and Analysis
September 30, 2018

Our discussion and analysis of Tift County Hospital Authority's (Authority) financial performance provides an overview of the Authority's financial activities. Please read it in conjunction with the Authority's financial statements, which begin on page 10.

Financial Highlights of 2018

- Net position increased \$48,569,000 (10%).
- Total assets increased \$159,946,000 (23%).
- Total liabilities increased \$111,385,000 (56%).
- Operating income was \$30,610,000, which equates to an operating margin of 7%.
- Investment income was \$20,104,000.
- Rural hospital tax credit contributions received was \$2,032,000.

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.

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

Our analyses of the Authority's finances are presented on the following pages. The balance sheet and statement of revenues, expenses, and changes in net position report in summary the outcome of this year's activity. These statements are presented on the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Continued

TIFT COUNTY HOSPITAL AUTHORITY
(A Component Unit of Tift County, Georgia)

Management's Discussion and Analysis, Continued
September 30, 2018

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

These two statements report the Authority's net position and its changes. One way to measure the Authority's financial health or financial position is to review the Authority's net position. Net position is the difference between assets and liabilities. Over time, increases or decreases in the Authority's net position is one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the payor mix, the quality of service provided to the community, Medicare and Medicaid reimbursement policies and local economic factors to assess the overall health of the Authority.

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. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

The Authority's Net Position

The Authority's net position is the difference between its assets and liabilities reported in the balance sheet. The Authority's net position increased \$48,569,000 (10%) as reflected in Table 1.

Table 1: Assets, Liabilities, Deferred Inflows of Resources, and Net Position

| | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|--|------------------------------|------------------------------|------------------------------|
| Assets: | | | |
| Current assets | \$ 141,681,000 | \$ 132,841,000 | \$ 105,129,000 |
| Noncurrent cash and investments | 473,141,000 | 347,668,000 | 334,408,000 |
| Capital assets, net | 235,406,000 | 209,322,000 | 170,379,000 |
| Other noncurrent assets | <u>2,129,000</u> | <u>2,580,000</u> | <u>2,578,000</u> |
| Total assets | <u>\$ 852,357,000</u> | <u>\$ 692,411,000</u> | <u>\$ 612,494,000</u> |
| Liabilities and deferred inflows of resources: | | | |
| Current liabilities | \$ 66,874,000 | \$ 57,778,000 | \$ 51,381,000 |
| Long-term debt | 243,118,000 | 140,829,000 | 130,680,000 |
| Deferred inflows of resources | <u>114,000</u> | <u>122,000</u> | <u>130,000</u> |
| Total liabilities and deferred inflows of resources | <u>\$ 310,106,000</u> | <u>\$ 198,729,000</u> | <u>\$ 182,191,000</u> |

Continued

TIFT COUNTY HOSPITAL AUTHORITY
(A Component Unit of Tift County, Georgia)

Management's Discussion and Analysis, Continued
September 30, 2018

The Authority's Net Position, Continued

Table 1: Assets, Liabilities, Deferred Inflows of Resources, and Net Position, Continued

| | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|----------------------------------|------------------------------|------------------------------|------------------------------|
| Net position: | | | |
| Net investment in capital assets | \$ 70,288,000 | \$ 67,441,000 | \$ 70,161,000 |
| Unrestricted | <u>471,963,000</u> | <u>426,241,000</u> | <u>360,142,000</u> |
| Total net position | <u>\$ 542,251,000</u> | <u>\$ 493,682,000</u> | <u>\$ 430,303,000</u> |

The Authority's current assets increased 7% primarily due to an increase in patient accounts receivable. The Authority converted computer systems during the year which caused a delay in billing patient accounts receivable. The delay in billing and collecting patient accounts receivable in turn led to a decrease in cash and cash equivalents.

Noncurrent cash and investments increased \$125,473,000 (36%). Cash and investments internally designated for capital acquisitions increased \$45,979,000 (14%) due to investment income and a transfer from current cash of approximately \$25,000,000. Cash and investments held by trustee for capital acquisitions increased \$79,491,000 due to the proceeds of the 2018-A Bank loan being received just before year-end.

Accounts payable increased \$2,295,000 (11%) due to construction related invoices. Accrued expenses increased \$5,159,000 (18%) due to increases in employee health insurance and payroll-related accruals. Long-term debt increased significantly due to additional borrowings on the 2016-B Bank loan plus the new 2018-A Bank and 2018-C Bank loans. Overall, liabilities increased \$111,385,000 (56%).

A comparison of certain balance sheet ratios follows:

| | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|---|-------------|-------------|-------------|
| Current ratio | 2.12 | 2.30 | 2.05 |
| Days patient revenue in patient accounts receivable | 58 Days | 39 Days | 38 Days |
| Long-term debt to capitalization | 31% | 23% | 24% |

Operating Results and Changes in the Authority's Net Position

Table 2 summarizes the Authority's operating results and changes in net position. Operating revenues experienced a 5% increase while operating expenses grew 9%. Operating income was down 29%, from \$43,061,000 in 2017 to \$30,610,000 in 2018. Favorable stock and bond market conditions in 2018 led to investment income of \$20,104,000.

Continued

TIFT COUNTY HOSPITAL AUTHORITY
(A Component Unit of Tift County, Georgia)

Management's Discussion and Analysis, Continued
September 30, 2018

Table 2: Operating Results and Changes in Net Position

| | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|--|------------------------------|------------------------------|------------------------------|
| Operating revenues: | | | |
| Net patient service revenue | \$ 403,576,000 | \$ 384,240,000 | \$ 352,099,000 |
| EHR meaningful use incentive revenue | 137,000 | 112,000 | 765,000 |
| Other revenue | <u>5,197,000</u> | <u>4,527,000</u> | <u>4,088,000</u> |
| Total operating revenue | <u>408,910,000</u> | <u>388,879,000</u> | <u>356,952,000</u> |
| Operating expenses: | | | |
| Salaries and wages | 164,347,000 | 149,745,000 | 145,021,000 |
| Employee benefits | 42,346,000 | 40,182,000 | 37,373,000 |
| Supplies and drugs | 68,781,000 | 64,452,000 | 57,386,000 |
| Contract and purchased services | 24,225,000 | 17,355,000 | 19,380,000 |
| Physician services | 14,952,000 | 16,349,000 | 18,410,000 |
| Depreciation and amortization | 28,516,000 | 25,006,000 | 23,996,000 |
| Other expense | <u>35,133,000</u> | <u>32,729,000</u> | <u>30,986,000</u> |
| Total operating expenses | <u>378,300,000</u> | <u>345,818,000</u> | <u>332,552,000</u> |
| Operating income | <u>30,610,000</u> | <u>43,061,000</u> | <u>24,400,000</u> |
| Nonoperating revenues (expenses): | | | |
| Investment income | 20,104,000 | 23,968,000 | 16,167,000 |
| Rural hospital tax credit contributions | 2,032,000 | - | - |
| Interest expense | <u>(4,493,000)</u> | <u>(3,944,000)</u> | <u>(3,725,000)</u> |
| Total nonoperating revenues | <u>17,643,000</u> | <u>20,024,000</u> | <u>12,442,000</u> |
| Excess revenues | 48,253,000 | 63,085,000 | 36,842,000 |
| Transfer from affiliated entities, net | <u>316,000</u> | <u>294,000</u> | <u>302,000</u> |
| Change in net position | \$ <u>48,569,000</u> | \$ <u>63,379,000</u> | \$ <u>37,144,000</u> |
| Net position, end of year | \$ <u>542,251,000</u> | \$ <u>493,682,000</u> | \$ <u>430,303,000</u> |

Continued

TIFT COUNTY HOSPITAL AUTHORITY
(A Component Unit of Tift County, Georgia)

Management's Discussion and Analysis, Continued
September 30, 2018

Operating Income

The first component of the overall change in the Authority's net position is its operating income – generally, the difference between net patient service revenue and the expenses incurred to perform those services. The primary components of operating income relate to:

- Net patient service revenue increased \$19,336,000 (5%). Net patient service revenue consists of gross charges to patients, net of contractual adjustments and provision for bad debts.
- Operating expenses increased \$32,482,000 (9%).

Gross charges to patients were \$1,367,815,000 in 2018, a 5% increase from 2017. Gross charges to inpatients increased \$26,041,000 (7%) while gross charges to outpatients increased \$44,732,000 (5%). Departments with significant growth in gross charges were as follows:

| <u>Department</u> | <u>\$ Increase</u> | <u>% Increase</u> |
|-----------------------|--------------------|-------------------|
| Chemotherapy | \$ 18,871,000 | 18% |
| Pharmacy | \$ 13,158,000 | 9% |
| Cardiac Catherization | \$ 6,162,000 | 15% |
| Urology | \$ 5,962,000 | 73% |
| CT Scan | \$ 5,663,000 | 8% |
| Laboratory | \$ 5,003,000 | 3% |

Contractual adjustments and provision for bad debts were 70% of gross charges in both 2018 and 2017.

Employee related expenses (salaries, wages, and employee benefits) are the largest expense item for health care entities. Employee related expenses were 55% of total operating expenses in both 2018 and 2017. Salaries and wages increased 10% while employee benefits increased 5%.

Physician services decreased \$1,397,000 (9%) due mainly to a 42% decrease in contracted emergency room physician cost. Many of the emergency room physicians are now employed and the expense is now recognized in salaries and wages.

The \$3,510,000 (14%) increase in depreciation and amortization is attributable to the implementation of the new computer system.

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TIFT COUNTY HOSPITAL AUTHORITY
(A Component Unit of Tift County, Georgia)

Management's Discussion and Analysis, Continued
September 30, 2018

Nonoperating Revenues and Expenses

Nonoperating revenues consist primarily of earnings on investments internally designated for capital acquisitions. Investment income decreased because of realized losses on investments in 2018 versus realized gains in 2017. See Note 17 to the financial statements for a detailed comparison of investment income.

The Authority was eligible to participate in the rural hospital tax credit contribution program in 2018. The Authority received \$2,032,000 in contributions from individuals and corporations under the program. See Note 18 to the financial statements for a discussion of this program.

Nonoperating expenses consist of interest expense, excluding amounts capitalized, on long-term debt. Interest expense increased in 2018 due to the aforementioned new borrowings.

The Authority's Cash Flow

Overall, the Authority's cash position decreased \$10,648,000. Cash provided by operating activities was \$42,505,000, a decrease of 37% from prior year. The Authority had cash flows from noncapital financing activities in 2018 from its participation in the rural hospital tax credit program. Net cash provided from capital and related financing activities was \$46,972,000 due to \$108,968,000 in borrowings as described in Note 12 to the financial statements. Cash used by investing activities was \$110,292,000 due principally to investing the proceeds from the 2018-A Bank loan in U.S. Treasury obligations.

Capital Asset and Debt Administration

Capital Assets

At September 30, 2018, the Authority had \$235,406,000 invested in capital assets, net of accumulated depreciation, as detailed in Note 8 to the financial statements. The Authority began construction on a \$34,000,000 replacement facility for Cook Medical Center in 2018. Approximately \$6,403,000 had been completed and the remaining commitment was approximately \$27,597,000 on the replacement facility at September 30, 2018. A musculoskeletal medical office building (MOB) with a total construction cost of approximately \$12,853,000 was completed in 2018. The Authority is in the design phase of an emergency room and patient room tower project. Architect fees on the project have totaled approximately \$6,361,000 thus far. Also during 2018, the Authority completed the acquisition, installation, and implementation of a new computer system. The Authority invested approximately \$11,315,000 into the new computer system in 2018.

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TIFT COUNTY HOSPITAL AUTHORITY
(A Component Unit of Tift County, Georgia)

Management's Discussion and Analysis, Continued
September 30, 2018

Capital Asset and Debt Administration, Continued

Debt

At September 30, 2018, the Authority had \$249,240,000 in debt borrowings as detailed in Note 12 to the financial statements. New debt in 2018 was follows:

- 2016-B Bank – Borrowed an additional \$14,868,000 to finance the MOB.
- 2018-A Bank – Borrowed \$90,300,000 for the construction of a patient room tower and emergency room.
- 2018-B Bank – Obtained a non-revolving line-of-credit of \$62,020,000 (no draws in 2018) also for the construction of a patient room tower and emergency room.
- 2018-C Bank – Borrowed \$3,800,000 to finance construction of the Cook Medical Center replacement facility. Total loan agreement is for \$18,200,000.
- 2018-D Bank – Entered into loan agreement for \$20,000,000 (no draws in 2018) also for the construction of the Cook Medical Center replacement facility.

The Authority has received loan commitments from the USDA for the future refinancing of the 2016-B Bank, 2018-A Bank, and 2018-D Bank loans.

Certain loan agreements require the Authority to meet minimum financial covenant ratios. The Authority met the minimum requirements in 2018. The Authority's debt covenant ratios for 2018 are as follows:

| <u>Financial Covenant</u> | <u>2018 Ratio</u> |
|-----------------------------------|-------------------|
| Debt service coverage ratio | 5.52 |
| Days of unrestricted cash on hand | 475 |

Contacting the Authority's Management

This financial report is designed to provide our patients, suppliers, creditors and other stakeholders with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. Any questions about this report or request for additional information should be directed to the Senior Vice President/Chief Financial Officer's office at Tift Regional Medical Center, P. O. Box 747, Tifton, GA 31793.

TIFT COUNTY HOSPITAL AUTHORITY
(A Component Unit of Tift County, Georgia)

Balance Sheets
September 30, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|---|-----------------------|-----------------------|
| Assets | | |
| <i>Current assets:</i> | | |
| Cash and cash equivalents | \$ 60,789,000 | \$ 74,708,000 |
| Short-term investments | 5,150,000 | 5,091,000 |
| Patient accounts receivable, net of estimated uncollectibles of \$105,109,000 in 2018 and \$95,555,000 in 2017 | 63,889,000 | 41,414,000 |
| Estimated third-party payor settlements | - | 1,220,000 |
| Supplies, at lower of cost (first-in, first-out) or market | 3,145,000 | 3,001,000 |
| Other current assets | <u>8,708,000</u> | <u>7,407,000</u> |
| Total current assets | <u>141,681,000</u> | <u>132,841,000</u> |
| <i>Noncurrent cash and investments:</i> | | |
| Internally designated for capital acquisitions | 385,046,000 | 339,067,000 |
| Internally designated for malpractice self-insurance | 3,859,000 | 3,856,000 |
| Held by trustee for capital acquisitions | <u>84,236,000</u> | <u>4,745,000</u> |
| Total noncurrent cash and investments | <u>473,141,000</u> | <u>347,668,000</u> |
| <i>Capital assets:</i> | | |
| Land | 9,438,000 | 7,033,000 |
| Construction in progress | 19,831,000 | 57,206,000 |
| Depreciable capital assets, net of accumulated depreciation | <u>206,137,000</u> | <u>145,083,000</u> |
| Total capital assets, net of accumulated depreciation | <u>235,406,000</u> | <u>209,322,000</u> |
| <i>Other assets:</i> | | |
| Notes receivable | 1,280,000 | 1,731,000 |
| Other investments | <u>849,000</u> | <u>849,000</u> |
| Total other assets | <u>2,129,000</u> | <u>2,580,000</u> |
| Total assets | <u>\$ 852,357,000</u> | <u>\$ 692,411,000</u> |

| | <u>2018</u> | <u>2017</u> |
|---|-----------------------|-----------------------|
| Liabilities, Deferred Inflows of Resources, and Net Position | | |
| <i>Current liabilities:</i> | | |
| Current maturities of long-term debt | \$ 6,122,000 | \$ 5,675,000 |
| Accounts payable | 23,090,000 | 20,795,000 |
| Accrued expenses | 33,217,000 | 28,058,000 |
| Estimated third-party payor settlements | <u>4,445,000</u> | <u>3,250,000</u> |
| Total current liabilities | 66,874,000 | 57,778,000 |
| Long-term debt, net of current maturities | <u>243,118,000</u> | <u>140,829,000</u> |
| Total liabilities | 309,992,000 | 198,607,000 |
| <i>Deferred inflows of resources:</i> | | |
| Deferred amount on refundings | <u>114,000</u> | <u>122,000</u> |
| Total liabilities and deferred inflows of resources | <u>310,106,000</u> | <u>198,729,000</u> |
| <i>Net position:</i> | | |
| Net investment in capital assets | 70,288,000 | 67,441,000 |
| Unrestricted | <u>471,963,000</u> | <u>426,241,000</u> |
| Total net position | <u>542,251,000</u> | <u>493,682,000</u> |
| Total liabilities, deferred inflows of resources, and net position | <u>\$ 852,357,000</u> | <u>\$ 692,411,000</u> |

See accompanying notes to financial statements.

TIFT COUNTY HOSPITAL AUTHORITY
(A Component Unit of Tift County, Georgia)

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

| | <u>2018</u> | <u>2017</u> |
|--|-----------------------|-----------------------|
| Operating revenues: | | |
| Net patient service revenue (net of provision for bad debts of \$67,214,000 in 2018 and \$63,374,000 in 2017) | \$ 403,576,000 | \$ 384,240,000 |
| EHR meaningful use incentive revenue | 137,000 | 112,000 |
| Other revenue | <u>5,197,000</u> | <u>4,527,000</u> |
| Total operating revenues | <u>408,910,000</u> | <u>388,879,000</u> |
| Operating expenses: | | |
| Salaries and wages | 164,347,000 | 149,745,000 |
| Employee benefits | 42,346,000 | 40,182,000 |
| Supplies and drugs | 68,781,000 | 64,452,000 |
| Contract and purchased services | 24,225,000 | 17,355,000 |
| Physician services | 14,952,000 | 16,349,000 |
| Depreciation and amortization | 28,516,000 | 25,006,000 |
| Other expense | <u>35,133,000</u> | <u>32,729,000</u> |
| Total operating expenses | <u>378,300,000</u> | <u>345,818,000</u> |
| Operating income | <u>30,610,000</u> | <u>43,061,000</u> |
| Nonoperating revenues (expenses): | | |
| Investment income | 20,104,000 | 23,968,000 |
| Rural hospital tax credit contribution | 2,032,000 | - |
| Interest expense | <u>(4,493,000)</u> | <u>(3,944,000)</u> |
| Total nonoperating revenues | <u>17,643,000</u> | <u>20,024,000</u> |
| Excess revenues | 48,253,000 | 63,085,000 |
| Transfers from affiliated entities, net | <u>316,000</u> | <u>294,000</u> |
| Change in net position | 48,569,000 | 63,379,000 |
| Net position, beginning of year | <u>493,682,000</u> | <u>430,303,000</u> |
| Net position, end of year | <u>\$ 542,251,000</u> | <u>\$ 493,682,000</u> |

See accompanying notes to financial statements.

TIFT COUNTY HOSPITAL AUTHORITY
(A Component Unit of Tift County, Georgia)

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

| | <u>2018</u> | <u>2017</u> |
|--|----------------------|----------------------|
| Cash flows from operating activities: | | |
| Receipts from and on behalf of patients | \$ 381,101,000 | \$ 379,437,000 |
| Payments to suppliers and contractors | (142,630,000) | (130,469,000) |
| Payments to employees | (201,616,000) | (186,265,000) |
| EHR meaningful use receipts | 137,000 | 112,000 |
| Other receipts | 5,197,000 | 4,527,000 |
| Transfers from affiliated entities | <u>316,000</u> | <u>294,000</u> |
| Net cash provided by operating activities | <u>42,505,000</u> | <u>67,636,000</u> |
| Cash flows from noncapital financing activities: | | |
| Rural hospital tax credit contribution | <u>2,032,000</u> | <u>-</u> |
| Cash flows from capital and related financing activities: | | |
| Proceeds from issuance of long-term debt | 108,968,000 | 23,114,000 |
| Principal paid on long-term debt | (6,008,000) | (11,037,000) |
| Interest paid on long-term debt | (4,725,000) | (4,177,000) |
| Purchase of capital assets, net of retirements | <u>(51,263,000)</u> | <u>(64,502,000)</u> |
| Net cash provided (used) by capital and related financing activities | <u>46,972,000</u> | <u>(56,602,000)</u> |
| Cash flows from investing activities: | | |
| Sale of debt and equity securities | 199,523,000 | 164,027,000 |
| Purchase of debt and equity securities | (312,592,000) | (192,698,000) |
| Sale of short-term investments | 5,050,000 | 4,025,000 |
| Purchase of short-term investments | (4,800,000) | (5,050,000) |
| Investment income | <u>2,527,000</u> | <u>8,014,000</u> |
| Net cash used by investing activities | <u>(110,292,000)</u> | <u>(21,682,000)</u> |
| Net decrease in cash and cash equivalents | (18,783,000) | (10,648,000) |
| Cash and cash equivalents, beginning of year | <u>88,639,000</u> | <u>99,287,000</u> |
| Cash and cash equivalents, end of year | \$ <u>69,856,000</u> | \$ <u>88,639,000</u> |

Continued

TIFT COUNTY HOSPITAL AUTHORITY
(A Component Unit of Tift County, Georgia)

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

| | <u>2018</u> | <u>2017</u> |
|---|----------------------|----------------------|
| Reconciliation of cash and cash equivalents to the balance sheets: | | |
| Cash and cash equivalents | \$ 60,789,000 | \$ 74,708,000 |
| Cash and cash equivalents included in short-term investments | 353,000 | 44,000 |
| Cash and cash equivalents in noncurrent cash and investments: | | |
| Internally designated for capital acquisitions | 5,261,000 | 8,386,000 |
| Internally designated for malpractice self-insurance | 759,000 | 756,000 |
| Held by trustee for capital acquisitions | <u>2,694,000</u> | <u>4,745,000</u> |
| Total cash and cash equivalents | <u>\$ 69,856,000</u> | <u>\$ 88,639,000</u> |
| Reconciliation of operating income to net cash provided by operating activities: | | |
| Operating income | \$ 30,610,000 | \$ 43,061,000 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation and amortization | 28,516,000 | 25,006,000 |
| Provision for bad debts | 67,214,000 | 63,374,000 |
| Transfers from affiliated entities | 316,000 | 294,000 |
| Changes in: | | |
| Patient accounts receivable | (89,689,000) | (68,177,000) |
| Supplies | (144,000) | (581,000) |
| Other current assets | (1,301,000) | 634,000 |
| Notes receivable | 451,000 | (2,000) |
| Accounts payable | (1,042,000) | 932,000 |
| Accrued expenses | 5,159,000 | 3,906,000 |
| Estimated third-party payor settlements | <u>2,415,000</u> | <u>(811,000)</u> |
| Net cash provided by operating activities | <u>\$ 42,505,000</u> | <u>\$ 67,636,000</u> |
| Noncash investing activities: | | |
| Change in fair value of investments | \$ <u>17,577,000</u> | \$ <u>15,954,000</u> |
| Noncash capital financing activities: | | |
| Capital assets acquired through accounts payable | \$ <u>7,853,000</u> | \$ <u>4,516,000</u> |

See accompanying notes to financial statements.

TIFT COUNTY HOSPITAL AUTHORITY
(A Component Unit of Tift County, Georgia)

Notes To Financial Statements
September 30, 2018 and 2017

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

Reporting entity. The Tift County Hospital Authority (Authority) is a public body corporate and politic organized under the Hospital Authorities Law of the State of Georgia. The Authority was established by the Board of County Commissioners of Tift County, Georgia (County) to operate, control, and manage all matters concerning the County's health care functions. The Authority is governed by a nine-member board of trustees appointed by the County and the County has guaranteed debt of the Authority. For these reasons, the Authority is considered to be a component unit of the County.

The Authority owns and operates Tift Regional Medical Center (an acute care hospital), Cook Medical Center (an acute care hospital), Cook Senior Living Center (a nursing home), and several physician office practices. The Authority provides short-term medical, surgical, obstetrical, pediatric, geriatric psychiatry, emergency, and physician care and long-term nursing care.

On June 24, 2015, the Authority formed a limited liability company, CareAlliance: An Accountable Care Organization, LLC (ACO), as the sole member. The ACO is a blended component unit of the Authority.

Use of estimates. The preparation of financial statements in conformity with U.S. 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 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 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).

Continued

TIFT COUNTY HOSPITAL AUTHORITY
(A Component Unit of Tift County, Georgia)

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

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

Risk Management. The Authority is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; 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 insurance policy as discussed in Note 15.

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 consist of certificates of deposit with maturities ranging from 6 months to 12 months.

Allowance for estimated uncollectibles. The Authority provides an allowance for estimated uncollectibles 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.

Noncurrent cash and investments. Noncurrent cash and investments include assets held by trustees for capital acquisitions and assets internally designated for capital improvements and malpractice self-insurance, 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 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 No. 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.

Continued

TIFT COUNTY HOSPITAL AUTHORITY
(A Component Unit of Tift County, Georgia)

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

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

Fair value measurements, continued. GASB No. 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.

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.

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 |

Capital assets also include certain intangible assets. Intangible assets of the Authority that are reported in capital assets include restrictive non-compete covenants that were acquired in the purchases of Affinity Health Group, LLC, Tiftarea Surgical Partners, LLC, Georgia Sports Medicine & Orthopedic Clinic, P.C., Tiftarea Urology, P.C., and Urosurg, LLC. The intangible assets are amortized over the term of the covenants.

Continued

TIFT COUNTY HOSPITAL AUTHORITY
(A Component Unit of Tift County, Georgia)

Notes To Financial Statements, Continued
September 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.

Deferred inflows of resources. Deferred inflows of resources consist of the unamortized portion of the deferred amount on refunding for the 2002 Certificates. See Note 12 for additional information.

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. Interest capitalized was approximately \$896,000 and \$668,000 during 2018 and 2017, respectively.

Costs incurred in connection with the issuance of bonds and notes are expensed in the period in which they are incurred. Loan issuance costs were approximately \$700,000 and \$452,000 in 2018 and 2017, respectively, and are included in interest expense.

Compensated absences. The Authority's employees earn personal days off (PDO's) at varying rates depending on years of service. All employees that accrue PDO's are required to use at least a minimum number of PDO's each year as pay for time not worked. Up to sixty (60) PDO's may be banked. PDO's in excess of sixty (60) days are automatically bought back by the Authority. Employees may elect to receive a cash pay-out for accrued PDO's provided that such pay-out will leave a balance equal to or greater than ten (10) days. PDO's are cashed out at \$0.85 on each dollar. Upon termination of employment, eligible PDO's will be paid to the employee. The accrued PDO is reported as a current liability in 2018 and 2017.

Net position. Net position is classified into components. *Net investment in capital assets* consists of capital assets, net of accumulated depreciation, 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, liabilities and deferred inflows of resources that is not included in the determination of *net investment in capital assets* or the *restricted* component of net position.

Continued

TIFT COUNTY HOSPITAL AUTHORITY
(A Component Unit of Tift County, Georgia)

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

1. Description of Reporting Entity and 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 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.

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 State of Georgia 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.

Income taxes. The Authority is a governmental entity and is exempt from income taxes. Accordingly, no provision for income taxes has been provided.

Continued

TIFT COUNTY HOSPITAL AUTHORITY
(A Component Unit of Tift County, Georgia)

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

2. Net Patient Service Revenue

The Authority has agreements with third-party payors that provide for payments to the Authority at amounts different from its established rates. The Authority does not believe 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.* Inpatient and outpatient services rendered to Medicare program beneficiaries are generally paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Certain other reimbursable items are reimbursed 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 Medicare cost reports have been settled by the MAC through September 30, 2014. Revenue from the Medicare program accounted for approximately 42% and 40% of the Authority's net patient service revenue for the years ended September 30, 2018 and 2017, respectively.
- *Medicaid.* Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates. Outpatient services rendered to Medicaid program beneficiaries are generally reimbursed 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 September 30, 2015. Revenue from the Medicaid program accounted for approximately 10% and 8% of the Authority's net patient service revenue for the years ended September 30, 2018 and 2017.

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 \$4,412,000 and \$4,905,000 for the years ended September 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 \$3,423,000 and \$2,955,000 for the years ended September 30, 2018 and 2017, respectively.

Continued

TIFT COUNTY HOSPITAL AUTHORITY
(A Component Unit of Tift County, Georgia)

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

2. Net Patient Service Revenue, Continued

- *Medicaid, continued.* The State of Georgia has legislation known as the Provider Payment Agreement Act (Act) whereby 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 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 \$3,660,000 and \$3,466,000 in 2018 and 2017, respectively. The payments are included in other expenses in the accompanying statements of revenues, expenses and changes in net position.

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

3. Charity Care

Charges excluded from revenue under the Authority’s charity care policy were approximately \$65,315,000 and \$75,303,000 for the years ended September 30, 2018 and 2017, respectively.

4. Designated Net Position

Of the \$471,963,000 and \$426,241,000 of unrestricted net position reported in 2018 and 2017, respectively, the following amounts have been designated by the Authority’s Board of Trustees:

| | <u>2018</u> | <u>2017</u> |
|---|-----------------------|-----------------------|
| Designated for capital acquisitions | \$ 385,046,000 | \$ 339,067,000 |
| Designated for malpractice self-insurance | <u>3,859,000</u> | <u>3,856,000</u> |
| Total | <u>\$ 388,905,000</u> | <u>\$ 342,923,000</u> |

Designated funds remain under the control of the Board of Trustees and may at its discretion subsequently use for other purposes.

Continued

TIFT COUNTY HOSPITAL AUTHORITY
(A Component Unit of Tift County, Georgia)

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

5. Deposits and Investments

Investment policy. The Authority's investment policy allows for investments in four (4) basic asset classes:

- (1) *Cash and cash equivalents* – Assets in this class must be invested in money market funds or fixed income obligations such as certificates of deposit, commercial paper, U.S. Treasury Bills, and other similar high quality, investment grade instruments with maturities not longer than one year.
- (2) *Fixed income securities* – Assets in this class must be invested in debt securities guaranteed by the U.S. Government and/or its agencies (including collateralized mortgage obligations (CMOs)); corporate debt (including asset-backed securities), debentures, or other forms of corporate debt; mortgage-related securities (including CMOs); state and municipal securities; Rule 144A securities.
- (3) *Equities* – Assets in this class must be invested in equity securities that are listed and marketable on U.S. national, regional or over-the-counter exchanges.
- (4) *Alternative assets* – Assets in this class must be invested in open ended commodity mutual funds.

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 it. State law requires collateralization of all deposits with federal depository insurance and other acceptable collateral in specific amounts. As of September 30, 2018 and 2017, the Authority's deposits were entirely insured, collateralized with securities held by a trustee in the Authority's name, or held by financial institutions that participate in the Georgia Secure Deposit Program (SDP). The SDP is a multibank contingent liability pledging pool to protect public deposits. The program is administered by Georgia Banker's Association Services, Inc. Under the program, a combination of the liquidation of pledged collateral and a guarantee from all the other banks participating in the contingent liability pool will cover any loss exceeding FDIC insurance limits.

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 investments 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.

Continued

TIFT COUNTY HOSPITAL AUTHORITY
(A Component Unit of Tift County, Georgia)

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

5. Deposits and Investments, Continued

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

| | <u>2018</u> | <u>2017</u> |
|--|-----------------------|-----------------------|
| Deposits | \$ 65,002,000 | \$ 78,609,000 |
| Investments | <u>474,078,000</u> | <u>348,858,000</u> |
| Total | <u>\$ 539,080,000</u> | <u>\$ 427,467,000</u> |
| Included in the following balance sheet captions: | | |
| Cash and cash equivalents | \$ 60,789,000 | \$ 74,708,000 |
| Short-term investments | 5,150,000 | 5,091,000 |
| Noncurrent cash and investments: | | |
| Internally designated for capital acquisitions | 385,046,000 | 339,067,000 |
| Internally designated for malpractice self-insurance | 3,859,000 | 3,856,000 |
| Held by trustee for capital acquisitions | <u>84,236,000</u> | <u>4,745,000</u> |
| Total | <u>\$ 539,080,000</u> | <u>\$ 427,467,000</u> |

The Authority's investments generally are reported at fair value. At September 30, 2018 and 2017, the Authority's investments consisted of the following:

| | <u>2018</u> | <u>2017</u> |
|------------------------------------|-----------------------|-----------------------|
| Money market funds | \$ 7,955,000 | \$ 13,130,000 |
| Certificates of deposit | 6,017,000 | 7,288,000 |
| U.S. Treasury obligations | 111,658,000 | 31,126,000 |
| U.S. Government agency obligations | 14,090,000 | 5,843,000 |
| Corporate obligations | 49,233,000 | 47,485,000 |
| Asset-backed securities | 67,363,000 | 56,884,000 |
| Marketable equity securities | 162,684,000 | 136,248,000 |
| Non-U.S. equity mutual funds | 18,141,000 | 18,179,000 |
| Commodity mutual funds | 18,441,000 | 16,230,000 |
| Other mutual funds | <u>18,496,000</u> | <u>16,445,000</u> |
| Total | <u>\$ 474,078,000</u> | <u>\$ 348,858,000</u> |

Continued

TIFT COUNTY HOSPITAL AUTHORITY
(A Component Unit of Tift County, Georgia)

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

5. Deposits and Investments, Continued

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

Certain funds of the Authority's internally designated for capital acquisitions are invested in a money market fund with a weighted average maturity of 27 days at June 30, 2018. Certain funds of the Authority's held by trustee for capital acquisitions are invested in a money market fund with a weighted average maturity of 18 days at June 30, 2018.

The Authority's debt securities had the following maturities:

| <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> |
| Certificates of deposit | \$ 6,017,000 | \$ 4,796,000 | \$ 1,221,000 | \$ - | \$ - |
| U. S. Treasury obligations | 111,658,000 | 23,451,000 | 67,137,000 | 12,333,000 | 8,737,000 |
| U.S. Government agency obligations | 14,090,000 | 376,000 | 4,113,000 | 8,679,000 | 922,000 |
| Corporate obligations | 49,233,000 | 758,000 | 18,863,000 | 15,856,000 | 13,756,000 |
| Asset-backed securities | <u>67,363,000</u> | <u>75,000</u> | <u>9,705,000</u> | <u>6,913,000</u> | <u>50,670,000</u> |
| Total | \$ <u>248,361,000</u> | \$ <u>29,456,000</u> | \$ <u>101,039,000</u> | \$ <u>43,781,000</u> | \$ <u>74,085,000</u> |

| <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> |
| Certificates of deposit | \$ 7,288,000 | \$ 5,288,000 | \$ 2,000,000 | \$ - | \$ - |
| U. S. Treasury obligations | 31,126,000 | 1,197,000 | 14,372,000 | 8,030,000 | 7,527,000 |
| U.S. Government agency obligations | 5,843,000 | - | 3,008,000 | 2,723,000 | 112,000 |
| Corporate obligations | 47,485,000 | 2,453,000 | 12,684,000 | 19,114,000 | 13,234,000 |
| Asset-backed securities | <u>56,884,000</u> | <u>-</u> | <u>8,912,000</u> | <u>6,652,000</u> | <u>41,320,000</u> |
| Total | \$ <u>148,626,000</u> | \$ <u>8,938,000</u> | \$ <u>40,976,000</u> | \$ <u>36,519,000</u> | \$ <u>62,193,000</u> |

Continued

TIFT COUNTY HOSPITAL AUTHORITY
(A Component Unit of Tift County, Georgia)

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

5. Deposits and Investments, Continued

Credit risk. The Authority's investment policy requires investments in fixed income securities be rated Investment Grade or better according to the Barclays methodology used to determine inclusion in their family of indices. The methodology employed utilizes that Investment Grade as established by Standard & Poor's, Fitch, Moody's, or another Nationally Recognized Statistical Ratings Organization (NRSRO). Ratings of less than BBB- (Standard & Poor's or Fitch) or Baa3 (Moody's) or another NRSRO at time of purchase are prohibited, except for issues that are split-rated, in which case the lowest quality rating will be considered.

The Authority's investment in U.S. Treasury obligations, U.S. Government agency obligations, corporate obligations, asset-backed securities, and money market funds carried the following ratings at September 30, 2018 and 2017:

| <u>Rating Agency</u> | <u>2018 Rating Range</u> | <u>2017 Rating Range</u> |
|------------------------------|------------------------------|------------------------------|
| Standard & Poor's Moody's | AAA to BBB- Aaa to Ba1 | AAA to BBB- Aaa to Ba1 |

Concentration of credit risk. The Authority's investment policy has a target allocation of 45% for fixed income securities. The portfolio may not have, at any one time, any investment in the obligations, property, or securities of any one issuer aggregating in excess of 5% of the total portfolio, with the exception that there shall be no limit on direct obligations of the U.S. Government or its guaranteed federally sponsored agencies.

The Authority's investment policy limits equity securities to 50% of the total portfolio. The equity portfolio must be diversified with no more than 5% of the portfolio at market value invested in one company. In addition, sector limits will not exceed the greater of two times the investment advisor's assigned benchmark sector weights or 25% of the portfolio, each measured at market value. The equity portfolio must include at least twenty-five (25) different stocks.

The Authority's investment policy limits alternative assets to 5% of the total portfolio. The investments allowable for the alternative assets portfolio are open ended commodity mutual funds.

Continued

TIFT COUNTY HOSPITAL AUTHORITY
(A Component Unit of Tift County, Georgia)

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

5. Deposits and Investments, Continued

The fair values of investments measured on a recurring basis at September 30, 2018 and 2017 are as follows:

| | <u>Total</u> | Quoted Prices in Active Markets for Identical Assets (<u>Level 1</u>) | Significant Other Observable Inputs (<u>Level 2</u>) | Significant Unobservable Inputs (<u>Level 3</u>) |
|------------------------------------|-----------------------|---|--|---|
| <u>September 30, 2018</u> | | | | |
| Money market funds | \$ 7,955,000 | \$ 7,955,000 | \$ - | \$ - |
| Certificates of deposit | 6,017,000 | 6,017,000 | - | - |
| U.S. Treasury obligations | 111,658,000 | 111,658,000 | - | - |
| U.S. Government agency obligations | 14,090,000 | 14,090,000 | - | - |
| Corporate obligations | 49,233,000 | - | 49,233,000 | - |
| Asset-backed securities | 67,363,000 | - | 67,363,000 | - |
| Marketable equity securities | 162,684,000 | 162,684,000 | - | - |
| Non-U.S. equity mutual funds | 18,141,000 | 18,141,000 | - | - |
| Commodity mutual funds | 18,441,000 | 18,441,000 | - | - |
| Other mutual funds | <u>18,496,000</u> | <u>18,496,000</u> | <u>-</u> | <u>-</u> |
| Total | <u>\$ 474,078,000</u> | <u>\$ 357,482,000</u> | <u>\$ 116,596,000</u> | <u>\$ -</u> |

Continued

TIFT COUNTY HOSPITAL AUTHORITY
(A Component Unit of Tift County, Georgia)

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

5. Deposits and Investments, Continued

| | <u>Total</u> | Quoted Prices in Active Markets for Identical Assets (<u>Level 1</u>) | Significant Other Observable Inputs (<u>Level 2</u>) | Significant Unobservable Inputs (<u>Level 3</u>) |
|------------------------------------|-----------------------|---|--|---|
| <u>September 30, 2017</u> | | | | |
| Money market funds | \$ 13,130,000 | \$ 13,130,000 | \$ - | \$ - |
| Certificates of deposit | 7,288,000 | 7,288,000 | - | - |
| U.S. Treasury obligations | 31,126,000 | 31,126,000 | - | - |
| U.S. Government agency obligations | 5,843,000 | 5,843,000 | - | - |
| Corporate obligations | 47,485,000 | - | 47,485,000 | - |
| Asset-backed securities | 56,884,000 | - | 56,884,000 | - |
| Marketable equity securities | 136,248,000 | 136,248,000 | - | - |
| Non-U.S. equity mutual funds | 18,179,000 | 18,179,000 | - | - |
| Commodity mutual funds | 16,230,000 | 16,230,000 | - | - |
| Other mutual funds | <u>16,445,000</u> | <u>16,445,000</u> | <u>-</u> | <u>-</u> |
| Total | \$ <u>348,858,000</u> | \$ <u>244,489,000</u> | \$ <u>104,369,000</u> | \$ <u>-</u> |

Financial assets valued using Level 1 inputs are valued using prices quoted in active markets for those securities. Financial assets valued using Level 2 inputs are based on data provided by pricing services that utilize actual trades, historical comparisons, and pricing models in determining prices.

Continued

TIFT COUNTY HOSPITAL AUTHORITY
(A Component Unit of Tift County, Georgia)

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

6. Accounts Receivable and Payable

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

| | <u>2018</u> | <u>2017</u> |
|---|----------------------|----------------------|
| Patient accounts receivable: | | |
| Receivable from patients and their insurance carriers | \$ 142,229,000 | \$ 113,626,000 |
| Receivable from Medicare | 19,856,000 | 17,733,000 |
| Receivable from Medicaid | <u>6,913,000</u> | <u>5,610,000</u> |
| Total patient accounts receivable | 168,998,000 | 136,969,000 |
| Less allowance for uncollectible amounts | <u>105,109,000</u> | <u>95,555,000</u> |
| Patient accounts receivable, net | \$ <u>63,889,000</u> | \$ <u>41,414,000</u> |
| Accounts payable and accrued expenses: | | |
| Payable to employees (including payroll taxes) | \$ 30,827,000 | \$ 25,750,000 |
| Payable to suppliers | 23,090,000 | 20,795,000 |
| Other | <u>2,390,000</u> | <u>2,308,000</u> |
| Total accounts payable and accrued expenses | \$ <u>56,307,000</u> | \$ <u>48,853,000</u> |

7. 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 September 30, 2018 and 2017, was as follows:

| | <u>2018</u> | <u>2017</u> |
|--------------------------|-------------|-------------|
| Medicare | 30% | 27% |
| Medicaid | 11% | 7% |
| Blue Cross | 26% | 24% |
| Other third-party payors | <u>33%</u> | <u>42%</u> |
| | <u>100%</u> | <u>100%</u> |

Continued

TIFT COUNTY HOSPITAL AUTHORITY
(A Component Unit of Tift County, Georgia)

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

8. Capital Assets

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

| | Balance September 30, <u>2017</u> | <u>Additions</u> | <u>Retirements</u> | <u>Transfers</u> | Balance September 30, <u>2018</u> |
|--|---|----------------------|---------------------|---------------------|---|
| Capital assets, not being depreciated: | | | | | |
| Land | \$ 7,033,000 | \$ 1,596,000 | \$ - | \$ 809,000 | \$ 9,438,000 |
| Construction-in progress | <u>57,206,000</u> | <u>39,839,000</u> | <u>(19,000)</u> | <u>(77,195,000)</u> | <u>19,831,000</u> |
| Total capital assets, not being depreciated, net | <u>64,239,000</u> | <u>41,435,000</u> | <u>(19,000)</u> | <u>(76,386,000)</u> | <u>29,269,000</u> |
| Capital assets, being depreciated: | | | | | |
| Buildings and improvements | 164,079,000 | 5,055,000 | - | 20,876,000 | 190,010,000 |
| Equipment | 255,558,000 | 8,008,000 | (147,000) | 55,510,000 | 318,929,000 |
| Intangible assets | <u>12,465,000</u> | <u>121,000</u> | <u>-</u> | <u>-</u> | <u>12,586,000</u> |
| Total capital assets, being depreciated | <u>432,102,000</u> | <u>13,184,000</u> | <u>(147,000)</u> | <u>76,386,000</u> | <u>521,525,000</u> |
| Less accumulated depreciation for: | | | | | |
| Buildings and improvements | (74,943,000) | (7,484,000) | - | - | (82,427,000) |
| Equipment | (209,004,000) | (18,525,000) | 147,000 | - | (227,382,000) |
| Intangible assets | <u>(3,072,000)</u> | <u>(2,507,000)</u> | <u>-</u> | <u>-</u> | <u>(5,579,000)</u> |
| Total accumulated depreciation | <u>(287,019,000)</u> | <u>(28,516,000)</u> | <u>147,000</u> | <u>-</u> | <u>(315,388,000)</u> |
| Total capital assets, being depreciated, net | <u>145,083,000</u> | <u>(15,332,000)</u> | <u>-</u> | <u>76,386,000</u> | <u>206,137,000</u> |
| Capital assets, net | \$ <u>209,322,000</u> | \$ <u>26,103,000</u> | \$(<u>19,000</u>) | \$ <u>-</u> | \$ <u>235,406,000</u> |

Continued

TIFT COUNTY HOSPITAL AUTHORITY
(A Component Unit of Tift County, Georgia)

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

8. Capital Assets, Continued

| | Balance September 30, <u>2016</u> | <u>Additions</u> | <u>Retirements</u> | <u>Transfers</u> | Balance September 30, <u>2017</u> |
|--|---|----------------------|---------------------|--------------------|---|
| Capital assets, not being depreciated: | | | | | |
| Land | \$ 7,018,000 | \$ 15,000 | \$ - | \$ - | \$ 7,033,000 |
| Construction-in progress | <u>21,169,000</u> | <u>42,865,000</u> | <u>(13,000)</u> | <u>(6,815,000)</u> | <u>57,206,000</u> |
| Total capital assets, not being depreciated, net | <u>28,187,000</u> | <u>42,880,000</u> | <u>(13,000)</u> | <u>(6,815,000)</u> | <u>64,239,000</u> |
| Capital assets, being depreciated: | | | | | |
| Buildings and improvements | 157,824,000 | 72,000 | - | 6,183,000 | 164,079,000 |
| Equipment | 241,404,000 | 13,564,000 | (42,000) | 632,000 | 255,558,000 |
| Intangible assets | <u>5,642,000</u> | <u>7,488,000</u> | <u>(665,000)</u> | <u>-</u> | <u>12,465,000</u> |
| Total capital assets, being depreciated | <u>404,870,000</u> | <u>21,124,000</u> | <u>(707,000)</u> | <u>6,815,000</u> | <u>432,102,000</u> |
| Less accumulated depreciation for: | | | | | |
| Buildings and improvements | (68,680,000) | (6,263,000) | - | - | (74,943,000) |
| Equipment | (192,238,000) | (16,766,000) | - | - | (209,004,000) |
| Intangible assets | <u>(1,760,000)</u> | <u>(1,977,000)</u> | <u>665,000</u> | <u>-</u> | <u>(3,072,000)</u> |
| Total accumulated depreciation | <u>(262,678,000)</u> | <u>(25,006,000)</u> | <u>665,000</u> | <u>-</u> | <u>(287,019,000)</u> |
| Total capital assets, being depreciated, net | <u>142,192,000</u> | <u>(3,882,000)</u> | <u>(42,000)</u> | <u>6,815,000</u> | <u>145,083,000</u> |
| Capital assets, net | \$ <u>170,379,000</u> | \$ <u>38,998,000</u> | \$(<u>55,000</u>) | \$ <u>-</u> | \$ <u>209,322,000</u> |

Contracts of approximately \$53,008,000 exist for the acquisition, installation, and implementation of an EMR system, the construction of the Cook Medical replacement facility, the renovation and expansion of the emergency center, the construction of the new patient tower, and various other projects. At September 30, 2018, the remaining commitment on these contracts approximated \$33,794,000.

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TIFT COUNTY HOSPITAL AUTHORITY
(A Component Unit of Tift County, Georgia)

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

9. Notes Receivable

A summary of notes receivable at September 30, 2018 and 2017, follows:

| | <u>2018</u> | <u>2017</u> |
|--|---------------------|---------------------|
| Educational loans to employees | \$ 1,534,000 | \$ 1,050,000 |
| Allowance | <u>(1,534,000)</u> | <u>(1,050,000)</u> |
| Net | <u>-</u> | <u>-</u> |
| Recruiting arrangements and educational loans to physicians | 1,491,000 | 1,890,000 |
| Allowance | <u>(211,000)</u> | <u>(159,000)</u> |
| Net | <u>1,280,000</u> | <u>1,731,000</u> |
| Total | <u>\$ 1,280,000</u> | <u>\$ 1,731,000</u> |

The educational loans to employees are to be repaid with interest at the prime rate plus 1% (5.25% and 4.50% at September 30, 2018 and 2017, respectively). The loans may be considered repaid by the employees maintaining employment with the Authority for a period of time. The loans are forgiven at the rate of \$1,000 per year. Since the Authority will not receive repayment of these loans, but will forgive the loans over a period of time, the full amount of the loans is reserved. The amount of loans charged to expense during the years ended September 30, 2018 and 2017 was \$584,000 and \$363,000, respectively. These expenses are reflected in employee benefits in the accompanying statements of revenues, expenses and changes in net position.

The recruiting arrangements and educational loans to physicians are to be repaid with interest at the prime rate plus 1%. The loans may be considered repaid by the physicians meeting certain community service obligations for a period of time. When and if these conditions are met, the notes are forgiven. If the physician ceases to meet the community service obligations before the loan is forgiven, the outstanding principal and accrued interest becomes due immediately. The amount of notes receivable from physicians charged to expense during the years ended September 30, 2018 and 2017 was approximately \$1,745,000 and \$1,209,000, respectively. These expenses are reflected in physician services in the accompanying statements of revenues, expenses and changes in net position.

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TIFT COUNTY HOSPITAL AUTHORITY
(A Component Unit of Tift County, Georgia)

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

10. Other Investments

Other investments consist of an 8.00% investment in Distribution Cooperative, Inc. and a 13.16% investment in Stratus Healthcare, LLC. The investments are accounted for on the cost method. Below is a summary of the investments at September 30, 2018 and 2017:

| | <u>2018</u> | <u>2017</u> |
|--------------------------------|-------------------|-------------------|
| Distribution Cooperative, Inc. | \$ 849,000 | \$ 849,000 |
| Stratus Healthcare, LLC | <u>-</u> | <u>-</u> |
| Total | \$ <u>849,000</u> | \$ <u>849,000</u> |

11. Related Parties

Keystone Medical Services Corporation (Keystone) is a tax-exempt, Georgia not-for-profit entity which has a board of directors composed of two representatives from the Authority's board, one representative from the Authority's management, and two members of the community. Tift Enterprises, Inc. (Enterprises), is a Georgia for profit corporation which is wholly owned by Keystone.

Enterprises owns a 50% interest in PET Imaging, LLC (PET). The Authority received equity transfers of approximately \$316,000 and \$294,000 in 2018 and 2017, respectively, from Enterprises related to the earnings of PET.

The Authority has deposit, investment and loan balances at financial institutions in which members of the Authority board also serve on the board of the financial institutions. Such transactions are disclosed by the Authority board members through conflict-of-interest statements. Board members do not participate in the approval process on matters in which they have a conflict-of-interest.

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TIFT COUNTY HOSPITAL AUTHORITY
(A Component Unit of Tift County, Georgia)

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

12. Long-Term Debt

A summary of changes in the Authority's long-term debt for September 30, 2018 and 2017 follows:

| | Balance September 30, <u>2017</u> | <u>Additions</u> | <u>Reductions</u> | Balance September 30, <u>2018</u> | Amounts Due Within <u>One Year</u> |
|----------------------|---|-----------------------|-------------------------|---|--|
| Bonds: | | | | | |
| 2013 Series | \$ 79,530,000 | \$ - | \$(1,690,000) | \$ 77,840,000 | \$ 1,740,000 |
| 2013 Series Premium | <u>5,675,000</u> | <u>-</u> | <u>(224,000)</u> | <u>5,451,000</u> | <u>-</u> |
| Bonds, net | 85,205,000 | - | (1,914,000) | 83,291,000 | 1,740,000 |
| Notes payable: | | | | | |
| 2016-A Bank | 37,481,000 | - | (4,283,000) | 33,198,000 | 3,690,000 |
| 2016-B Bank | 23,114,000 | 14,868,000 | - | 37,982,000 | 657,000 |
| 2018-A Bank | - | 90,300,000 | - | 90,300,000 | - |
| 2018-C Bank | - | 3,800,000 | - | 3,800,000 | - |
| Capital lease: | | | | | |
| Building | <u>704,000</u> | <u>-</u> | <u>(35,000)</u> | <u>669,000</u> | <u>35,000</u> |
| Total long-term debt | \$ <u>146,504,000</u> | \$ <u>108,968,000</u> | \$(<u>6,232,000</u>) | \$ <u>249,240,000</u> | \$ <u>6,122,000</u> |
| | Balance | | | Balance | |
| | September 30, <u>2016</u> | <u>Additions</u> | <u>Reductions</u> | September 30, <u>2017</u> | Amounts Due Within <u>One Year</u> |
| Bonds: | | | | | |
| 2013 Series | \$ 79,530,000 | \$ - | \$ - | \$ 79,530,000 | \$ 1,690,000 |
| 2013 Series Premium | <u>5,900,000</u> | <u>-</u> | <u>(225,000)</u> | <u>5,675,000</u> | <u>-</u> |
| Bonds, net | 85,430,000 | - | (225,000) | 85,205,000 | 1,690,000 |
| Notes payable: | | | | | |
| 2006 Bank | 7,125,000 | - | (7,125,000) | - | - |
| 2016-A Bank | 41,360,000 | - | (3,879,000) | 37,481,000 | 3,950,000 |
| 2016-B Bank | - | 23,114,000 | - | 23,114,000 | - |
| Capital lease: | | | | | |
| Building | <u>737,000</u> | <u>-</u> | <u>(33,000)</u> | <u>704,000</u> | <u>35,000</u> |
| Total long-term debt | \$ <u>134,652,000</u> | \$ <u>23,114,000</u> | \$(<u>11,262,000</u>) | \$ <u>146,504,000</u> | \$ <u>5,675,000</u> |

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TIFT COUNTY HOSPITAL AUTHORITY
(A Component Unit of Tift County, Georgia)

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

12. Long-Term Debt, Continued

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

- 2013 Series – 2.00% to 5.00% 2013 Series Revenue Anticipation Certificates, principal maturing in varying annual amounts, due December 1, 2042, collateralized by a lien on the Authority's gross revenues, net of unamortized bond premium of \$5,451,000 and \$5,675,000 at September 30, 2018 and 2017.
- 2016-A Bank – 1.80% note payable, payable in monthly installments of \$383,000 including interest, due July 2026, collateralized by EMR system.
- 2016-B Bank – interest at a rate equal to the sum of 67% of the LIBOR daily floating rate plus 0.45% (1.96% at September 30, 2018), collateralized by a lien on the Authority's gross revenue, due December 2018.
- 2018-A Bank – 2.80% note payable, collateralized by a lien on the Authority's gross revenue, due March 24, 2022.
- 2018-C Bank – interest at a rate equal to 81.50% of the sum of the LIBOR daily floating rate plus 0.29% (1.95% at September 30, 2018), collateralized by a lien on the Authority's gross revenue, due February 27, 2020.
- Building lease – interest at a rate equal to 65% of the prime rate published by the *Wall Street Journal* (2.93% at September 30, 2018), collateralized by leased building. Payable in monthly installments of \$4,000, including interest, due October 16, 2034.

On December 1, 2002, the Authority issued \$36,235,000 Fixed Rate Revenue Anticipation Certificates, Series 2002 (2002 Fixed). On February 19, 2013, the Authority advance refunded the 2002 Fixed outstanding balance of \$28,205,000 with proceeds from the 2013 Series. The difference between the reacquisition price and the net carrying amount, \$160,000, was recognized as a deferred inflow of resources and will be amortized over the life of the 2013 Series. As a result of the advance refunding, the Authority will decrease its total debt service requirement by \$277,000, which results in an economic savings (the difference between the present value of the debt service payments on the old and new debt) of \$2,833,000, or 10% of the principal amount being refunded.

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TIFT COUNTY HOSPITAL AUTHORITY
(A Component Unit of Tift County, Georgia)

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

12. Long-Term Debt, Continued

On January 17, 2013, the Authority issued \$83,260,000 Revenue Anticipation Certificates Series 2013 (2013 Series). As security, the Authority created a first pledge of and lien on the gross revenues of the Authority. Pursuant to a contract, Tift County is obligated to make payments, if necessary, in amounts sufficient (limited to ad valorem tax not to exceed 7 mills) to enable the Authority to provide for the payment of principal and interest on the 2013 Series. Proceeds from the Series 2013 were issued to (i) finance or refinance certain additions, extensions, and improvements to the Authority's healthcare and related facilities, (ii) refund the Authority's outstanding 2002 Fixed, (iii) repay a bank loan, and (iv) pay the cost of issuing the 2013 Series.

On July 1, 2016, the Authority entered into a master equipment lease/purchase agreement (2016-A Bank) for \$42,000,000 with a financial institution. Proceeds of the 2016-A Bank will be used for the acquisition, installation, and implementation of an Electronic Medical Records (EMR) system. During the term of the 2016-A Bank, the Authority must maintain a debt service coverage ratio greater than or equal to 1.10.

On December 20, 2016, the Authority entered into a loan agreement (2016-B Bank) for \$47,695,000 with a financial institution. Proceeds of the 2016-B Bank will be used for (i) financing the costs of certain additions, extensions, and improvements to the Authority's facilities, (ii) paying the outstanding principal balance of the 2006 Bank, and (iii) paying the closing costs of the loan. During the term of the 2016-B Bank, the Authority must maintain a debt service coverage ratio greater than or equal to 1.25 and days unrestricted cash on hand greater than or equal to 90.

On September 24, 2018, the Authority entered into a loan agreement (2018-A Bank) for \$90,300,000 with a financial institution. Proceeds of the 2018-A Bank will be used for the construction of a patient tower and a new emergency center. During the term of the 2018-A Bank, the Authority must maintain a debt service coverage ratio greater than or equal to 1.25 and days unrestricted cash on hand greater than or equal to 75. Also on that date, the Authority obtained a nonrevolving line-of-credit with the financial institution for \$62,020,000 (2018-B Bank) subject to the same use and covenants as the 2018-A Bank. As of September 30, 2018, the Authority had not drawn on 2018-B Bank.

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TIFT COUNTY HOSPITAL AUTHORITY
(A Component Unit of Tift County, Georgia)

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

12. Long-Term Debt, Continued

On February 28, 2018, the Authority entered into a loan agreement (2018-C Bank) for \$18,200,000 with a financial institution. Proceeds of the 2018-C Bank will be used for the Cook Medical replacement facility. During the term of the 2018-C Bank, the Authority must maintain a debt service coverage ratio greater than or equal to 1.25 and days unrestricted cash on hand greater than or equal to 75. Also on that date, the Authority entered into a loan agreement with the financial institution for \$20,000,000 (2018-D Bank) subject to the same use and covenants as the 2018-C Bank. As of September 30, 2018, the Authority had not drawn on 2018-D Bank.

On December 21, 2016, the Authority received a loan commitment from the USDA to borrow \$47,695,000 for the future refinancing of the 2016-B Bank. The Authority completed the refinancing of the 2016-B Bank with the USDA loan on December 17, 2018. Also on December 21, 2016, the Authority received a loan commitment from the USDA to borrow \$90,300,000 for the future refinancing of the 2018-A Bank. On August 22, 2017, the Authority received a loan commitment from the USDA to borrow \$20,000,000 for the future refinancing of the 2018-D Bank. All of the USDA loans will be payable over 30 years.

On October 15, 2004, the Authority entered into a contract for the construction and lease of a medical office building. The Authority and the Tift County Development Authority (Tift Development) will each provide \$800,000 towards the acquisition of property and construction of a building to be used for occupational health services. Tift Development will hold title to the premises and will lease the premises to the Authority. The lease is for a primary term of ten years without any rental payments or accrued interest and for an extended twenty-year term at a monthly rental sufficient in amount to amortize Tift Development's \$800,000 investment in equal and consecutive payments. The payments will include interest computed at a rate equal to 65% of the prime rate published by *The Wall Street Journal* and adjusted on January 1 of each year. The Authority may purchase the premises at any time during the primary or extended term of the lease for the unamortized balance of Tift Development's investment plus \$1,000.

As a condition of its worker's compensation insurance, the Authority has a letter-of-credit from a bank. The letter-of-credit is for \$1,081,000 for insurance policy year ending December 31, 2018. As of September 30, 2018, the Authority had not drawn on the letter-of-credit.

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TIFT COUNTY HOSPITAL AUTHORITY
(A Component Unit of Tift County, Georgia)

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

12. Long-Term Debt, Continued

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

| <u>Year Ending September 30,</u> | <u>Principal</u> | <u>Interest</u> |
|----------------------------------|-----------------------|-----------------------|
| 2019 | \$ 6,122,000 | \$ 7,424,000 |
| 2020 | 10,631,000 | 7,302,000 |
| 2021 | 7,017,000 | 7,077,000 |
| 2022 | 8,229,000 | 6,706,000 |
| 2023 | 9,485,000 | 6,291,000 |
| 2024-2028 | 41,120,000 | 27,819,000 |
| 2029-2033 | 33,647,000 | 22,284,000 |
| 2034-2038 | 39,495,000 | 16,241,000 |
| 2039-2043 | 46,920,000 | 8,766,000 |
| 2044-2048 | 26,550,000 | 3,364,000 |
| 2049-2052 | <u>14,573,000</u> | <u>611,000</u> |
| Total | 243,789,000 | \$ <u>113,885,000</u> |
| Add: | | |
| Bond premium | <u>5,451,000</u> | |
| Total | \$ <u>249,240,000</u> | |

13. Retirement Plan

The Tift Regional Medical Center Retirement Savings Plan (403(b) Plan) is a 403(b) defined contribution plan established by the Authority to provide benefits at retirement to all employees of the Authority. Effective January 1, 2018, when the 401(a) Plan was amended, certain highly compensated employees have their contributions directed to the 401(a) Plan, rather than the 403(b) Plan. Tift Regional Medical Center administers the 403(b) Plan. 403(b) Plan provisions and contribution requirements are established and may be amended by the Authority's Board of Trustees.

All employees (except those who contribute to the 401(a) Plan) are required to contribute 6% of their annual compensation to the 403(b) Plan and may make additional voluntary contributions to the 403(b) Plan such that total contributions do not exceed the maximum annual amount as set periodically by the Internal Revenue Service. Employees direct the investment of their contributions

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TIFT COUNTY HOSPITAL AUTHORITY
(A Component Unit of Tift County, Georgia)

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

13. Retirement Plan, Continued

into various investment options offered by the 403(b) Plan. The 403(b) Plan currently offers various mutual funds and a fixed income account as investment options for employees. Employee contributions to the 403(b) Plan were approximately \$11,253,000 and \$10,623,000 for the years ended September 30, 2018 and 2017, respectively.

The Authority makes a mandatory contribution of 8% of each employee's annual compensation to the 403(b) Plan (except for those who contribute to the 401(a) Plan). Employees may allocate their portion of the Authority's contributions among any of the 403(b) Plan investment options. The Authority's contributions, net of forfeitures, to the 403(b) Plan totaled approximately \$6,580,000 and \$10,381,000 for the years ended September 30, 2018 and 2017, respectively.

403(b) Plan assets totaled approximately \$265,193,000 and \$239,200,000 at September 30, 2018 and 2017, respectively.

Each employee's 403(b) Plan account is credited with the employee's contributions, the Authority's contributions, and investment earnings. Employees are vested immediately in their contributions plus actual earnings thereon. Vesting in the Authority's contribution portion of their accounts is based on years of continuous service as follows:

| <u>Years of Service</u> | <u>Vesting Percentage</u> |
|-------------------------|---------------------------|
| 0 – 3 | 20% |
| 4 but less than 5 | 40% |
| 5 but less than 6 | 60% |
| 6 but less than 7 | 80% |
| 7 or more | 100% |

Administrative and advisor services provided to the 403(b) Plan and its participants are paid through a plan expense account. The plan expense account is a 403(b) Plan asset which is funded by the retirement plan custodian and fixed account provider. Any residual balance in the plan expense account not utilized for 403(b) Plan expenses will be periodically allocated to participant accounts.

At September 30, 2018 and 2017, forfeited nonvested accounts in the 403(b) Plan totaled approximately \$1,915,000 and \$273,000, respectively. These accounts may be used to reduce future employer contributions or to pay 403(b) Plan expenses. Employer contributions expense for the 403(b) Plan was reduced by approximately \$2,200,000 and \$1,004,000 from forfeited nonvested accounts for the years ended September 30, 2018 and 2017, respectively.

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TIFT COUNTY HOSPITAL AUTHORITY
(A Component Unit of Tift County, Georgia)

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

13. Retirement Plan, Continued

Employees may borrow from their 403(b) Plan accounts a minimum of \$1,000 up to a maximum equal to the lesser of \$50,000 reduced by the highest outstanding loan balance incurred by the employee during the 12-month period ending on the day before the date on which the loan was made or 50% of their vested account balance. The loans are secured by the balance in the employee's account and bear interest at rates which are commensurate with local prevailing rates. Principal and interest is paid ratably through payroll deductions, no less frequently than quarterly.

On termination of service due to death, disability, retirement, or other reasons, an employee may receive from the 403(b) Plan either a lump sum equal to the value of the employee's vested interest in his or her account or installments over a specified period of time. In-service distributions may be taken in the event of hardships, as defined by the 403(b) Plan, or when an employee has attained the age of 59½.

The TRMC 401(a) Defined Contribution Plan (401(a) Plan) is a defined contribution plan established by the Authority to provide benefits at retirement to certain highly compensated employees. Tift Regional Medical Center administers the 401(a) Plan. 401(a) Plan provisions and contribution requirements are established and may be amended by the Authority's Board of Trustees.

The 401(a) Plan was amended effective January 1, 2018 to include additional employees and allow for additional contribution types. Prior to amendment, there were no employee contributions to the 401(a) Plan, and the Authority made only an annual contribution for three individuals.

After amendment, employees included in the 401(a) Plan are required to contribute 6% of their annual compensation to the 401(a) Plan and may make additional voluntary contributions to the 401(a) Plan such that total contributions do not exceed the maximum annual amount as set periodically by the Internal Revenue Service. Employee contributions to the 401(a) Plan were approximately \$1,581,000 and \$0 for the years ended September 30, 2018 and 2017, respectively.

After amendment, the Authority makes a mandatory contribution of 8% of annual compensation for each employee who contributes to the 401(a) Plan. The Authority's contributions to the 401(a) Plan totaled approximately \$2,144,000 and \$162,000 for the years ended September 30, 2018 and 2017, respectively.

401(a) Plan assets totaled approximately \$6,359,000 and \$4,304,000 at September 30, 2018 and 2017, respectively.

Continued

TIFT COUNTY HOSPITAL AUTHORITY
(A Component Unit of Tift County, Georgia)

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

13. Retirement Plan, Continued

Prior to amendment, employees were vested immediately in all contributions to the 401(a) Plan. After amendment, employees are vested immediately in their contributions plus actual earnings thereon. Vesting in the Authority's contribution portion of their accounts is based on years of continuous service as follows:

| <u>Years of Service</u> | <u>Vesting Percentage</u> |
|-------------------------|---------------------------|
| 0 – 3 | 20% |
| 4 but less than 5 | 40% |
| 5 but less than 6 | 60% |
| 6 but less than 7 | 80% |
| 7 or more | 100% |

At September 30, 2018 and 2017, there were no forfeited nonvested accounts in the 401(a) Plan. If there are such accounts in the future, the accounts may be used to reduce future employer contributions or to pay 401(a) Plan expenses. Employer contributions expense for the 401(a) Plan was not reduced by the use of amounts from forfeited nonvested accounts for the years ended September 30, 2018 and 2017.

14. Commitments and Contingencies

Operating leases. The Authority leases various equipment and facilities under operating leases. Total rental expense in 2018 and 2017 for all operating leases was approximately \$982,000 and \$1,020,000, respectively. There are no future minimum lease payments under operating leases, that have initial or remaining lease terms in excess of one year.

Litigation. The Authority is involved in litigation, regulatory investigations, and compliance matters arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Authority's future financial position or results from operations.

Medicare recovery audit contractors. The Centers for Medicare and Medicaid Services utilizes Recovery Audit Contractors (RACs) who are paid a contingent fee to detect and correct improper Medicare payments. RACs have authority to pursue improper payments with a three year look back from the date a claim was paid.

The Authority has received notifications from RACs regarding potential Medicare overpayments due to incorrect coding of claims. When notification of a potential claim overpayment is received, the Authority accrues a liability for the estimated amount of Medicare overpayment.

Continued

TIFT COUNTY HOSPITAL AUTHORITY
(A Component Unit of Tift County, Georgia)

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

14. Commitments and Contingencies, Continued

Medicare recovery audit contractors, continued. The liability is then reduced when claims are refunded to Medicare or successfully appealed. The Authority has recorded an estimated liability of \$1,352,000 and \$1,095,000 at September 30, 2018 and 2017, respectively, related to claims being audited by the RAC. The estimated liability is reported in estimated third-party payor settlements in the balance sheets.

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.

15. Insurance Arrangements

General and professional liability. 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 \$3,765,000 annual aggregate. The Authority is self-insured to cover the deductible portion of its general and professional insurance policy. The Authority's deductible is \$50,000 for individual claims or \$300,000/\$150,000 (professional/general) annual aggregate. Estimated accruals for claims incurred but not reported have been recorded in accrued expenses on the balance sheet.

Employee health. 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 \$150,000 annually. The Authority incurred expense related to this plan of approximately \$31,372,000 and \$28,608,000 in 2018 and 2017, respectively. Estimated accruals for claims incurred but not reported have been recorded in accrued expenses on the balance sheet. Estimated accruals were approximately \$6,610,000 and \$3,731,000 at September 30, 2018 and 2017, respectively.

Also, the Authority has entered into a loss financing agreement with other 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 \$225,000 and \$650,000. Commercial insurance has been obtained to provide coverage for claims exceeding \$500,000. Estimated accruals for amounts due from (owed to) the program under the loss financing agreement have been recorded in accrued expenses on the balance sheet. Estimated accruals were approximately \$17,000 and \$(719,000) at September 30, 2018 and 2017, respectively.

Continued

TIFT COUNTY HOSPITAL AUTHORITY
(A Component Unit of Tift County, Georgia)

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

16. 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, short-term investments, 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 sheets, are based on quoted market prices.
- *Long-term debt:* Fair values of the Authority's revenue anticipation certificates 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, excluding capital leases, at September 30, 2018 and 2017 are as follows:

| | 2018 | | 2017 | |
|----------------|----------------------------|-----------------------|----------------------------|-----------------------|
| | <u>Carrying Amount</u> | <u>Fair Value</u> | <u>Carrying Amount</u> | <u>Fair Value</u> |
| Long-term debt | \$ <u>248,571,000</u> | \$ <u>247,240,000</u> | \$ <u>145,800,000</u> | \$ <u>146,316,000</u> |

17. Investment Income

A summary of investment income for 2018 and 2017 follows:

| | <u>2018</u> | <u>2017</u> |
|--|----------------------|----------------------|
| Interest and dividends | \$ 7,880,000 | \$ 7,053,000 |
| Realized gains (losses) from sale of investments | (4,480,000) | 1,086,000 |
| Unrealized gains on investments | 17,577,000 | 15,954,000 |
| Rental income, net of expenses | (163,000) | (133,000) |
| Loss on disposal of capital assets | (773,000) | - |
| Other income | <u>63,000</u> | <u>8,000</u> |
| Net investment income | \$ <u>20,104,000</u> | \$ <u>23,968,000</u> |

Continued

TIFT COUNTY HOSPITAL AUTHORITY
(A Component Unit of Tift County, Georgia)

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

18. 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 years 2017 and 2018. Contributions received under the program approximated \$2,032,000 during fiscal year 2018. The Authority will have to be approved by the State to participate in the program in each subsequent year.

19. Subsequent Event

On December 19, 2018, the Authority entered into a Lease and Transfer Agreement, a Workforce Transfer Agreement, and a Workforce Services Agreement with Tift Regional Health System, Inc. (System). Under the Workforce Transfer Agreement, the Authority will transfer all of its workforce (employees and independent contractors) to the System on or before January 1, 2019. Under the Lease and Transfer Agreement, the Authority will lease certain real property and improvements and transfer its operating assets to the System on or about March 1, 2019 (Commencement Date). The Authority will continue to operate the facilities during the interim period between January 1, 2019 and the Commencement Date. Under the Workforce Services Agreement, the System will provide the services of the workforce to the Authority until the Commencement Date.

INDEPENDENT AUDITOR'S REPORT ON
SUPPLEMENTAL INFORMATION

Board of Trustees
Tift County Hospital Authority
Tifton, Georgia

We have audited the financial statements of Tift County Hospital Authority as of and for the years ended September 30, 2018 and 2017, and our report thereon dated December 20, 2018, which expressed an unmodified opinion on those financial statements, appears on pages 1 through 3. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The information included in this report on page 46, inclusive, is presented for purposes of additional analysis of the financial statements rather than to present the statements of revenue 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 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.

Driffin & Tucker, LLP

Atlanta, Georgia
December 20, 2018

TIFT COUNTY HOSPITAL AUTHORITY
(A Component Unit of Tift County, Georgia)
Statements of Revenues and Expenses – Individual Facilities (In Thousands)
September 30, 2018 and 2017

| | Tift Regional Medical Center | | Cook Medical Center | | CareAlliance: An Accountable Care Organization, LLC | | Intercompany Eliminations | | Total | |
|---|---------------------------------|------------------|------------------------|--------------------|---|---------------|------------------------------|-------------|------------------|------------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Operating revenues: | | | | | | | | | | |
| Net patient service revenue (net of provision for bad debts) | \$ 387,821 | \$ 366,941 | \$ 15,755 | \$ 17,299 | \$ - | \$ - | \$ - | \$ - | \$ 403,576 | \$ 384,240 |
| EHR meaningful use incentive revenue | 125 | 112 | 12 | - | - | - | - | - | 137 | 112 |
| Other revenue | <u>4,852</u> | <u>4,378</u> | <u>345</u> | <u>149</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>5,197</u> | <u>4,527</u> |
| Total operating revenues | <u>392,798</u> | <u>371,431</u> | <u>16,112</u> | <u>17,448</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>408,910</u> | <u>388,879</u> |
| Operating expenses: | | | | | | | | | | |
| Salaries and wages | 155,680 | 141,070 | 8,667 | 8,675 | - | - | - | - | 164,347 | 149,745 |
| Employee benefits | 39,656 | 37,736 | 2,690 | 2,446 | - | - | - | - | 42,346 | 40,182 |
| Supplies and drugs | 67,146 | 62,698 | 1,635 | 1,754 | - | - | - | - | 68,781 | 64,452 |
| Contract and purchased services | 22,820 | 16,100 | 1,359 | 1,255 | 46 | - | - | - | 24,225 | 17,355 |
| Physician services | 14,848 | 15,470 | 104 | 879 | - | - | - | - | 14,952 | 16,349 |
| Depreciation and amortization | 27,906 | 23,463 | 610 | 1,543 | - | - | - | - | 28,516 | 25,006 |
| Other expense | <u>32,582</u> | <u>29,937</u> | <u>2,288</u> | <u>2,318</u> | <u>263</u> | <u>474</u> | <u>-</u> | <u>-</u> | <u>35,133</u> | <u>32,729</u> |
| Total operating expenses | <u>360,638</u> | <u>326,474</u> | <u>17,353</u> | <u>18,870</u> | <u>309</u> | <u>474</u> | <u>-</u> | <u>-</u> | <u>378,300</u> | <u>345,818</u> |
| Operating income (loss) | <u>32,160</u> | <u>44,957</u> | <u>(1,241)</u> | <u>(1,422)</u> | <u>(309)</u> | <u>(474)</u> | <u>-</u> | <u>-</u> | <u>30,610</u> | <u>43,061</u> |
| Nonoperating revenues (expenses): | | | | | | | | | | |
| Investment income | 20,920 | 23,968 | - | - | (816) | - | - | - | 20,104 | 23,968 |
| Rural hospital tax credit contributions | 1,199 | - | 833 | - | - | - | - | - | 2,032 | - |
| Interest expense | <u>(4,262)</u> | <u>(3,944)</u> | <u>(231)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(4,493)</u> | <u>(3,944)</u> |
| Total nonoperating revenues | <u>17,857</u> | <u>20,024</u> | <u>602</u> | <u>-</u> | <u>(816)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>17,643</u> | <u>20,024</u> |
| Excess revenues (expenses) | 50,017 | 64,981 | (639) | (1,422) | (1,125) | (474) | - | - | 48,253 | 63,085 |
| Transfers from affiliated entities | 316 | 294 | - | - | - | - | - | - | 316 | 294 |
| Intercompany transfers | <u>7,717</u> | <u>(394)</u> | <u>(8,842)</u> | <u>(80)</u> | <u>1,125</u> | <u>474</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Change in net position | \$ <u>58,050</u> | \$ <u>64,881</u> | \$ <u>(9,481)</u> | \$ <u>(1,502)</u> | \$ <u>-</u> | \$ <u>-</u> | \$ <u>-</u> | \$ <u>-</u> | \$ <u>48,569</u> | \$ <u>63,379</u> |

See report on supplemental information.