HOSPITAL AUTHORITY OF BAINBRIDGE
DECATUR COUNTY, GEORGIA
(A Component Unit of Decatur County, Georgia)

FINANCIAL STATEMENTS

for the years ended March 31, 2019 and 2018

CONTENTS

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Hospital Authority of Bainbridge
Decatur County, Georgia

We have audited the accompanying financial statements of Hospital Authority of Bainbridge, Decatur County, Georgia (Authority) (a component unit of Decatur County, Georgia), which comprise the balance sheets as of March 31, 2019 and 2018, the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Continued

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hospital Authority of Bainbridge, Decatur County, Georgia as of March 31, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Substantial Doubt about the Authority's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Authority will continue as a going concern. As discussed in Note 19 to the financial statements, the Authority has suffered recurring losses from operations and resulting cash flow difficulties. These issues indicate that substantial doubt exists about the Authority's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding those matters are also described in Note 19. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Draffin & Tucker, LLP
Albany, Georgia
August 20, 2019

Management's Discussion and Analysis
For the Year Ending March 31, 2019

Our discussion and analysis of the Hospital Authority of Bainbridge, Decatur County, Georgia's (Authority) financial performance provides an overview of the Authority's financial activities during the fiscal years ended March 31, 2019, 2018, and 2017. Please read it in conjunction with the Authority's financial statements and accompanying notes.

Financial Highlights

The Authority's fiscal year 2019 represented a step forward when compared to its performance for fiscal year 2018. Overall gross revenue was down $8.8 million or (6.6%) while net revenue was only down $1,229,174 or (2.7%) primarily due to an improvement of $8.7 million in deductions. Factors affecting the Authority's financial performance included an increase of $1,471,994 or 21.2% in employee benefits primarily due to an increase in employee health plan costs of $1,862,929 or 32.7%. The Authority also experienced an increase of approximately $1,546,007 or 38.4% in charges related to uncompensated care for charity and indigent patients. Total charges related to uncompensated charity and indigent care was $5.6 million. Total bad debt charges dropped from $9.0 million to $7.6 million. Total expenses for the year decreased $781,780 or 1.6%.

Using This Annual Report

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

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

Our analysis of the Authority's finances begins on page 7. One of the most important questions asked about the Authority's finances is, "Is the Authority as a whole better or worse off as a result of the year's activities?" The balance sheet and the statement of revenues, expenses, and changes in net position report information about the Authority's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using 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.

These two statements report the Authority's net position and changes in it. You can think of the Authority's net position – the difference between assets and liabilities – as one way to measure the Authority's financial health, or financial position. Over time, increases or decreases in the Authority's net position are 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 Authority's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Authority.

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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 on the balance sheet. The following table summarizes the balance sheets as of March 31, 2019, 2018 and 2017:

Balance Sheet

	2019	2018	2017
Current assets	$ 12,566,454	$ 11,181,485	$ 11,456,717
Capital assets, net	12,895,210	13,088,003	13,579,741
Other non-current assets	2,093,615	3,004,278	3,100,807
Total assets	$ 27,555,279	$ 27,273,766	$ 28,137,265
Current liabilities	$ 13,485,859	$ 11,353,467	$ 9,008,441
Long-term debt	10,445,379	11,286,596	12,099,088
Total liabilities	23,931,238	22,640,063	21,107,529
Net position:			
Net investment in capital assets	3,530,617	4,332,506	5,338,970
Restricted	1,100,111	1,441,301	738,818
Unrestricted	(1,006,687)	(1,140,104)	951,948
Total net position	3,624,041	4,633,703	7,029,736
Total liabilities and net position	$ 27,555,279	$ 27,273,766	$ 28,137,265

Current assets increased by approximately $1,384,969 primarily due to an increase in net patient accounts receivable and other receivables. The Authority has worked to improve its revenue cycle and, while improvements have occurred, work still needs to be done especially to reduce the growth in accounts receivable. Effective January 1, 2019 the Authority outsourced much of its revenue cycle in an effort to improve results. Since this time, the percent collection on accounts has grown from 28.2% to 30.1%. Management is working to continue improvement in upfront collections, as well as educating clinical and non-clinical staff on how to improve documentation which will help the organization accurately reflect the care and acuity of their patients. In spite of these efforts, the effects of industry trends in health care insurance, such as shifting more responsibility to the patient though increased coinsurance and deductibles continues to affect the Authority's ability to collect.

Current liabilities increased by $2,132,392 due to an increase in accounts payable of approximately $1,073,716. In addition, short-term debt increased $617,633.

The following table summarizes the revenues and expenses for the years ended March 31, 2019, 2018 and 2017:

Statement of Revenue and Expense Data

	2019	2018	2017
Operating revenue	$ 45,063,480	$ 46,292,654	$ 45,540,558
Expenses:			
Operating expenses	47,190,301	47,799,738	43,283,095
Depreciation	1,377,298	1,549,641	1,504,622
Total expenses	48,567,599	49,349,379	44,787,717
Operating income (loss)	(3,504,119)	(3,056,725)	752,841
Nonoperating revenues (expenses)	224,668	(279,394)	(535,887)
Rural Hospital Tax Credit	1,666,043	307,748	-
Capital contributions	603,746	632,338	516,482
Change in net position	(1,009,662)	(2,396,033)	733,436
Net position at beginning of year	4,633,703	7,029,736	6,296,300
Net position at end of year	$ 3,624,041	$ 4,633,703	$ 7,029,736

Decreases in overall volumes for the Authority resulted in decreases in gross patient charges of $8,795,720 while net patient service revenue decreased $162,962 or 0.4%. This was offset by an increase in other revenue of $1,380,265 and an increase of $1,358,295 in receipts from the Rural Hospital Tax Credit. The Authority's provision for bad debts decreased by $1,460,627 due to a slight improvement in payer mix and improved collection efforts.

Total operating expenses decreased by $781,780 or 1.6%. Salaries and wages increased by $219,624 or 1%. Employee health and welfare costs increased by approximately $1.4 million primarily due to higher employee health claim costs, while professional and purchased services decreased by $808,139 or 11.2%. Medical supply costs also dropped by $1.5 million or 12.9%.

Capital Assets and Long-Term Debt

A recap of the Authority's long-term debt and capital lease obligations outstanding at March 31, 2019 and 2018 follows:

Description	Interest Rates	Long-Term Debt 2019	Long-Term Debt 2018
Revenue Certificates, Series 2017A	2.990%	$ 9,330,000	$ 9,330,000
Revenue Certificates, Series 2017B	2.990%	1,430,000	2,040,000
Capital lease obligations	Various	526,596	729,088
Total long-term debt and capital lease obligations		$ 11,286,596	$ 12,099,088

The Authority's investment in capital assets for 2019 is summarized in the table below:

Capital Assets	Amount
Computer equipment and software	$ 135,311
Remodel and upgrade projects	786,618
Medical equipment	257,835
Other	16,086
Total	$ 1,195,850

See Notes 6 and 8 in the financial statements for additional information about capital assets and long-term debt.

Contacting the Authority's Financial Management

This financial report is designed to provide a general overview of the Authority's finances. If you have questions about this report or need additional information, contact the Authority finance department at Hospital Authority of Bainbridge, Decatur County, Georgia, 1500 East Shotwell Street, Bainbridge, GA 31717.

HOSPITAL AUTHORITY OF BAINBRIDGE, DECATUR COUNTY, GEORGIA
(A Component Unit of Decatur County, Georgia)

BALANCE SHEETS
March 31, 2019 and 2018

	2019	2018
ASSETS		
Current assets:		
Cash	$ 860,249	$ 699,408
Current investments restricted by bond indenture for debt service	630,000	610,000
Patient accounts receivable, net of allowance for doubtful accounts of approximately $17,900,000 in 2019 and $13,800,000 in 2018	8,055,589	7,991,346
Other receivables	2,175,157	1,073,947
Inventories, at lower of cost (first-in, first-out) or market	540,102	521,473
Prepaid expenses	305,357	285,311
Total current assets	12,566,454	11,181,485
Noncurrent cash and investments:		
Internally designated for capital improvements	102,604	71,917
Restricted by insurance carrier for self-insurance	742,104	739,911
Restricted by bond indenture for capital improvements	492,003	1,302,591
Restricted by bond indenture for debt service	358,007	550,662
Total noncurrent cash and investments	1,694,718	2,665,081
Capital assets:		
Land	729,484	729,484
Construction in progress	473,725	295,583
Depreciable capital assets, net of accumulated depreciation	11,692,001	12,062,936
Total capital assets, net of accumulated depreciation	12,895,210	13,088,003
Other assets:		
Notes receivable	371,357	319,757
Other assets	27,540	19,440
Total other assets	398,897	339,197
Total assets	$ 27,555,279	$ 27,273,766

	2019	2018
LIABILITIES AND NET POSITION		
Current liabilities:		
Current installments of long-term debt	$ 630,000	$ 610,000
Current portion of capital lease obligation	211,217	202,492
Short-term debt	654,850	37,217
Accounts payable	9,113,104	8,039,388
Accrued liabilities	2,477,350	2,062,792
Estimated third-party payor settlements – Medicaid	399,338	291,338
Estimated third-party payor settlements – Medicare	-	110,240
Total current liabilities	13,485,859	11,353,467
Long-term debt:		
Long-term debt, excluding current installments	10,130,000	10,760,000
Capital lease obligations, excluding current portion	315,379	526,596
Total long-term debt	10,445,379	11,286,596
Total liabilities	23,931,238	22,640,063
Net position:		
Net investment in capital assets	3,530,617	4,332,506
Restricted:		
Expendable for self-insurance	742,104	739,911
Expendable for bond indenture	358,007	550,662
Unrestricted	(1,006,687)	(989,376)
Total net position	3,624,041	4,633,703
Total liabilities and net position	$ 27,555,279	$ 27,273,766

See accompanying notes to financial statements.

HOSPITAL AUTHORITY OF BAINBRIDGE, DECATUR COUNTY, GEORGIA
(A Component Unit of Decatur County, Georgia)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
for the years ended March 31, 2019 and 2018

	2019	2018
Operating revenues:		
Net patient service revenue (net of provision for bad debts of approximately $7,600,000 in 2019 and $9,000,000 in 2018)	$ 40,676,070	$ 40,839,032
County contributions for indigent care	1,422,044	1,513,106
Reference laboratory	636,866	2,992,281
Other revenue	2,328,500	948,235
Total operating revenues	45,063,480	46,292,654
Operating expenses:		
Salaries and wages	22,303,347	22,083,723
Employee health and welfare	8,423,419	6,951,425
Medical supplies and other	10,047,072	11,539,988
Professional fees	3,465,629	4,168,878
Purchased services	2,950,834	3,055,724
Depreciation and amortization	1,377,298	1,549,641
Total operating expenses	48,567,599	49,349,379
Operating loss	(3,504,119)	(3,056,725)
Nonoperating revenues (expenses):		
Interest expense	(389,741)	(368,557)
Rural hospital tax credit contributions	1,666,043	307,748
Other income	614,409	89,163
Total nonoperating revenues	1,890,711	28,354
Excess expenses before contributions	(1,613,408)	(3,028,371)
Capital contributions	95,000	145,261
Decatur County contribution from sales tax funds for capital expenditures	508,746	487,077
Decrease in net position	(1,009,662)	(2,396,033)
Net position at beginning of year	4,633,703	7,029,736
Net position at end of year	$ 3,624,041	$ 4,633,703

See accompanying notes to financial statements.

HOSPITAL AUTHORITY OF BAINBRIDGE, DECATUR COUNTY, GEORGIA
(A Component Unit of Decatur County, Georgia)

STATEMENTS OF CASH FLOWS
for the years ended March 31, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Receipts from and on behalf of patients	$ 43,895,788	$ 47,277,068
Payments to vendors and other suppliers	(15,492,003)	(16,423,716)
Payments to employees and related benefits	(30,363,808)	(29,328,930)
Net cash provided (used) by operating activities	(1,960,023)	1,524,422
Cash flows from noncapital financing activities:		
Principal paid on long-term debt (Series 2017B)	(610,000)	-
Interest paid on long-term debt (Series 2017B)	(59,651)	(58,108)
Proceeds from issuance of short-term debt	2,170,152	2,204,518
Principal paid on short-term debt	(1,552,519)	(2,167,301)
Interest paid on short-term debt	(1,255)	(9,402)
Rural hospital tax credit contributions	1,666,043	307,748
Other noncapital contributions	272,065	72,869
Net cash provided by noncapital financing activities	1,884,835	350,324
Cash flows from capital and related financing activities:		
Purchase of capital assets	(1,132,343)	(1,062,082)
Proceeds on the sale of capital assets	319,555	2,090
Interest paid on long-term debt	(328,835)	(301,047)
Payments on capital lease obligations	(202,492)	(194,127)
Donation from Foundation for capital purchases	95,000	145,261
Decatur County sales tax funds	508,746	487,077
Net cash used by capital and related financing activities	(740,369)	(922,828)
Cash flows from investing activities:		
Investment income	34,135	18,384
Proceeds from sale of investments	1,902,076	-
Purchase of investments	(959,464)	(451,902)
Net cash provided (used) by investing activities	976,747	(433,518)
Net increase in cash	161,190	518,400
Cash at beginning of year	771,325	252,925
Cash at end of year	$ 932,515	$ 771,325

Continued

HOSPITAL AUTHORITY OF BAINBRIDGE, DECATUR COUNTY, GEORGIA
(A Component Unit of Decatur County, Georgia)

STATEMENTS OF CASH FLOWS, Continued
for the years ended March 31, 2019 and 2018

	2019	2018
Reconciliation of cash to the balance sheets:		
Cash in current assets	$ 860,249	$ 699,408
Cash in noncurrent cash and investments	72,266	71,917
Total cash	$ 932,515	$ 771,325
Reconciliation of operating loss to net cash flows provided (used) by operating activities:		
Operating loss	$(3,504,119)	$(3,056,725)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation and amortization	1,377,298	1,549,641
Provision for bad debts	7,585,893	9,046,520
Changes in:		
Patient accounts receivable	(7,650,136)	(8,203,153)
Estimated third-party payor settlements	(2,240)	627,678
Inventories	(18,629)	(74,471)
Other current assets	(1,121,256)	127,445
Notes receivable	(51,600)	(54,925)
Accounts payable	1,010,208	1,856,193
Accrued liabilities	414,558	(293,781)
Net cash provided (used) by operating activities	$(1,960,023)	$ 1,524,422

See accompanying notes to financial statements.

1. Summary of Significant Accounting Policies

Reporting Entity

The Hospital Authority of Bainbridge, Decatur County, Georgia (Authority) is a public corporation which operates and manages Memorial Hospital, Memorial Manor Nursing Home and Willow Ridge Assisted Living Facility. Decatur County, Georgia appoints five members to the Board of Directors and the City of Bainbridge, Georgia appoints two members to the Board of Directors. For this reason, the Authority is considered a component unit of Decatur County, Georgia.

Use of Estimates

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

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).

Allowance For Doubtful Accounts

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

Noncurrent Cash and Investments

Restricted investments include amounts externally defined for use by bond indenture and insurance carrier.

Designated investments primarily include assets set aside by the Board of Directors for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes.

Continued

1. Summary of Significant Accounting Policies, Continued

Restricted Resources

When the Authority has both restricted and unrestricted resources available to finance a particular program, it is the Authority's 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 7 years

The Authority capitalizes capital purchases exceeding $500 and a useful life of three years or longer.

Financing Costs

Costs incurred in connection with the issuance of debt are expensed in the period in which they are incurred.

Compensated Absences

The Authority's employees earn vacation days at varying rates depending on years of service. Employees may accumulate vacation time up to a specified maximum. Any days above the maximum will expire on December 31st every year. Once five years of continuous employment is complete, the employee is eligible to receive payment for all accrued vacation days as long as the employee gave proper notice of leaving or retirement. If the Authority terminated an employee, the employee was not eligible to receive payment for any accrued vacation days. Employees also earn sick leave benefits based on varying rates depending on years of service. Employees may accumulate sick leave up to a specified maximum. No payment will be made for unused sick leave. The estimated amount of vacation payable is reported as a current liability in both 2019 and 2018.

Continued

1. Summary of Significant Accounting Policies, Continued

Net Position

Net position of the Authority is classified into three components. *Net investment in capital assets* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net position* is noncapital assets reduced by liabilities related to those assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Authority, including amounts deposited with trustees as required by revenue certificates, discussed in Note 8. *Unrestricted net position* is the remaining net amount of assets and liabilities that does not meet the definition of *net investment in capital assets* or the *restricted net position*.

Operating Revenues and Expenses

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

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.

Continued

1. Summary of Significant Accounting Policies, Continued

Grants and Contributions

The Authority occasionally receives grants from Decatur County and Memorial Hospital Foundation, Inc., 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 considered in the accompanying financial statements.

Impairment of Long-Lived Assets

The Authority evaluates on an ongoing basis the recoverability of its assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The impairment loss to be recognized is the amount by which the carrying value of the long-lived asset exceeds the asset's fair value. In most instances, the fair value is determined by discounted estimated future cash flows using an appropriate interest rate. The Authority has not recorded any impairment charges in the accompanying statements of revenues, expenses and changes in net position for the years ended March 31, 2019 and 2018.

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; 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 medical malpractice claims as discussed in Note 11.

Self-Insurance Costs

The provisions for claims under self-insurance plans include estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Continued

1. Summary of Significant Accounting Policies, Continued

Fair Value Measurements

GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is an exit price at the measurement date from the perspective of a market participant that controls the asset or is obligated for the liability. GASB 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. 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.

Accounting Pronouncement Not Yet Adopted

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

Prior Year Reclassifications

Certain reclassifications have been made to the fiscal year 2018 financial statements to conform to the fiscal year 2019 presentation. These reclassifications had no impact on the change in net position in the accompanying financial statements.

Continued

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.

Revenue from the Medicare and Medicaid programs accounted for approximately 28% and 25% of the Authority's net patient revenue for 2019 and 24% and 28% of the Authority's net patient revenue for 2018. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

The Authority believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. However, there has been an increase in regulatory initiatives at the state and federal levels including the initiation of the Recovery Audit Contractor (RAC) program and Medicaid Integrity Contractor (MIC) program. These programs were created to review Medicare and Medicaid claims for medical necessity and coding appropriateness. The RAC's have authority to pursue improper payments with a three year look back from the date the claim was paid. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medicaid programs.

A summary of the payment arrangements with major third-party payors follows:

- Medicare

  Inpatient and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

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

  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 classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Authority. The Authority's Medicare cost reports have been audited by the MAC through March 31, 2015.

Continued

2. Net Patient Service Revenue, Continued

- Medicaid

  Inpatient services rendered to Medicaid program beneficiaries are paid at a prospectively determined rate per admission. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Outpatient services rendered to the Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology.

  The Authority is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicaid fiscal intermediary. The Authority's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through March 31, 2016.

  The Authority has also entered into contracts with certain managed care organizations (CMOs) to receive reimbursement for providing services to selected enrolled Medicaid beneficiaries. Payment arrangements with these CMOs consist primarily of prospectively determined rates per discharge, discounts from established charges, or prospectively determined per diems.

  Long-term care services are reimbursed by the Medicaid program based on a prospectively determined per diem. The per diem is determined by the facility's historical allowable operating costs adjusted for certain incentives and inflation factors.

  The Authority participates in the Georgia Indigent Care Trust Fund (ICTF) Program. The Authority receives ICTF payments for treating a disproportionate number of Medicaid and other indigent patients. ICTF payments are based on the Authority's estimated uncompensated cost of services to Medicaid and uninsured patients. The ICTF is funded through intergovernmental transfers from participating public hospitals and matching federal funds. The net amount of ICTF payments recognized in net patient service revenue was approximately $1,062,000 and $955,000 for the years ended March 31, 2019 and 2018, respectively.

  The Medicare, Medicaid and SCHIP Benefits Improvement and Protection Act of 2000 (BIPA) provides for payment adjustments for certain facilities based on the Medicaid Upper Payment Limit (UPL). 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 $2,345,000 and $2,423,000 for the years ended March 31, 2019 and 2018, respectively. For 2019 and 2018, the Authority recorded a receivable for ICTF and UPL funds of approximately $1,744,000 and $550,000, respectively.

Continued

2. Net Patient Service Revenue, Continued

- Medicaid, Continued

  The state of Georgia enacted legislation known as the Provider Payment Agreement Act (Act) whereby hospitals in the state of Georgia are assessed a "provider payment" in the amount of 1.45% of their net patient revenue. The provider payments are due on a quarterly basis to the Department of Community Health. The payments are to be used for the sole purpose of obtaining federal financial participation for medical assistance payments to providers on behalf of Medicaid recipients. The provider payment results in an increase in hospital payments on Medicaid services of approximately 11.88%. Approximately $904,000 and $925,000 relating to the Act is included in medical supplies and other in the accompanying statement of revenues, expenses and changes in net position for the years ended March 31, 2019 and 2018, respectively.

- Other Arrangements

  The Authority has also 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. Uncompensated Charges

The Authority was compensated for services at amounts less than its established rates. Charges foregone related to contractual agreements and provision for bad debts for 2019 and 2018 were approximately $84,100,000 and $92,700,000, respectively.

Uncompensated charges include charity and indigent care services of approximately $5,600,000 and $4,000,000 in 2019 and 2018, respectively. The cost of charity and indigent care services provided during 2019 and 2018 was approximately $2,200,000 and $1,500,000, respectively computed by applying a total cost factor to the charges forgone.

Continued

3. Uncompensated Charges, Continued

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

	2019	2018
Gross patient charges	$ 124,761,334	$ 133,557,054
Uncompensated charges:		
Charity and indigent charges	5,569,068	4,023,061
Medicare	36,084,683	41,839,575
Medicaid	19,949,623	22,990,860
Other	14,895,997	14,818,006
Bad debts	7,585,893	9,046,520
Total uncompensated charges	84,085,264	92,718,022
Net patient service revenue	$ 40,676,070	$ 40,839,032

4. Deposits and Investments

Deposits and investments are carried at cost which approximates fair value and consist of cash, certificates of deposit and money market accounts.

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

	2019	2018
Balance sheets:		
Cash	$ 860,249	$ 699,408
Current investments restricted by bond indenture for debt service	630,000	610,000
Noncurrent cash and investments:		
Internally designated for capital improvements	102,604	71,917
Restricted by insurance carrier for self-insurance	742,104	739,911
Restricted by bond indenture for capital improvements	492,003	1,302,591
Restricted by bond indenture for debt service	358,007	550,662
Total	$ 3,184,967	$ 3,974,489

Continued

4. Deposits and Investments, Continued

	2019	2018
Deposits and investments consist of the following:		
Deposits with financial institutions	$ 932,515	$ 771,325
Certificates of deposit	742,103	739,911
Money market funds	1,510,349	2,463,253
Total deposits and investments	$ 3,184,967	$ 3,974,489

State law requires collateralization of all deposits with federal depository insurance and other acceptable collateral in specific amounts. The Authority's bylaws require that all bank balances be insured or collateralized by U.S. government securities held by the pledging financial institution's trust department in the name of the Authority. As of year-end, the Authority's bank balances are collateralized as follows:

	2019	2018
Insured (FDIC) or collateralized with securities held by the Authority	$ 841,967	$ 590,435
Collateralized by securities held by the pledging financial institution's trust department in the Authority's name	924,748	1,446,165
Total (bank balance)	$ 1,766,715	$ 2,036,600
Carrying amount (book balance)	$ 1,674,618	$ 1,511,236

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Authority does not have an investment policy for custodial credit risk. At March 31, 2019 and 2018, the Authority owned approximately $1,510,000 and $2,463,000, respectively, in securities that were unsecured and held by the Authority's brokerage firm in the Authority's name.

Continued

5. Accounts Receivable and Payable

Patient accounts receivable and accounts payable (including accrued liabilities) reported as current assets and liabilities by the Authority at March 31, 2019 and 2018 consisted of these amounts:

	2019	2018
Patient Accounts Receivable		
Receivable from patients and their insurance carriers	$ 19,252,096	$ 13,992,084
Receivable from Medicare	5,225,219	6,037,677
Receivable from Medicaid	1,486,498	1,712,579
Total gross patient accounts receivable	25,963,813	21,742,340
Less allowance for uncollectible amounts and contractual adjustments	17,908,224	13,750,994
Patient accounts receivable, net	$ 8,055,589	$ 7,991,346
Accounts Payable and Accrued Liabilities		
Payable to employees (including payroll taxes and other benefits)	$ 1,925,565	$ 1,739,473
Payable to suppliers	9,113,104	8,039,388
Payable to other	551,785	323,319
Total accounts payable and accrued liabilities	$ 11,590,454	$ 10,102,180

Continued

6. Capital Assets

A summary of capital assets for the years ended March 31, 2019 and 2018 follows:

	2018 Balance	Increase	Decrease	2019 Balance
Land	$ 729,484	$ -	$ -	$ 729,484
Building and improvements	25,069,561	560,157	-	25,629,718
Equipment	19,097,565	457,553	(170,474)	19,384,644
Construction in progress	295,585	695,574	(517,434)	473,725
Total capital assets	45,192,195	1,713,284	(687,908)	46,217,571
Less accumulated depreciation:				
Building and improvements	16,303,201	505,672	-	16,808,873
Equipment	15,800,991	871,625	(159,128)	16,513,488
Total accumulated depreciation	32,104,192	1,377,297	(159,128)	33,322,361
Net capital assets	$ 13,088,003	$ 335,987	$(528,780)	$ 12,895,210

	2017 Balance	Increase	Decrease	2018 Balance
Land	$ 729,484	$ -	$ -	$ 729,484
Building and improvements	24,983,026	86,535	-	25,069,561
Equipment	18,350,732	1,089,432	(342,599)	19,097,565
Construction in progress	411,559	159,044	(275,018)	295,585
Total capital assets	44,474,801	1,335,011	(617,617)	45,192,195
Less accumulated depreciation:				
Building and improvements	15,801,102	502,099	-	16,303,201
Equipment	15,093,958	1,047,542	(340,509)	15,800,991
Total accumulated depreciation	30,895,060	1,549,641	(340,509)	32,104,192
Net capital assets	$ 13,579,741	$(214,630)	$(277,108)	$ 13,088,003

Accumulated amortization for equipment under capital lease obligations was approximately $466,177 and $310,785 at March 31, 2019 and 2018, respectively.

Continued

7. Short-Term Debt

A summary of short-term debt at March 31, 2019 and 2018 follows:

	2018 Balance	Additions	Reductions	2019 Balance
First State Bank of Blakely note payable	$ 37,217	$ -	$(37,217)	$ -
First National Bank notes payable	-	2,170,152	(1,515,302)	654,850
Total short-term debt	$ 37,217	$ 2,170,152	$(1,552,519)	$ 654,850

	2017 Balance	Additions	Reductions	2018 Balance
First State Bank of Blakely note payable	$ -	$ 220,000	$(182,783)	$ 37,217
First National Bank notes payable	-	1,984,518	(1,984,518)	-
Total short-term debt	$ -	$ 2,204,518	$(2,167,301)	$ 37,217

- First State Bank of Blakely note payable, principal amount of $220,270 with interest accrued monthly at an interest rate of 5.00%. Final payment made on May 10, 2018.

- First National Bank notes payable, multiple notes initiated with principal amounts ranging from $106,000 to $1,000,000 and interest rates ranging from 2.15% to 3.15% to meet obligations related to the intergovernmental transfer funds for ICTF and UPL funds during the fiscal years 2019 and 2018. All notes initiated during fiscal year 2018 were paid in full during the fiscal year. At March 31, 2019, one note payable remained outstanding for $654,850 with an interest rate of 2.45%. Principal and interest paid off in full on June 28, 2019.

Continued

8. Long-Term Debt

A summary of long-term debt at March 31, 2019 and 2018, follows:

	2019	2018
Revenue Certificates – Series 2017A, payable in annual installments ranging from $520,000 beginning September 1, 2021 to $925,000 on September 1, 2032, with 2.99% interest paid semi-annually.	$ 9,330,000	$ 9,330,000
Revenue Certificates – Series 2017B, payable in annual installments ranging from $610,000 beginning September 1, 2018 to $150,000 on September 1, 2021, with 2.99% interest paid semi-annually.	1,430,000	2,040,000
Total long-term debt	10,760,000	11,370,000
Less current installments of long-term debt	630,000	610,000
Long-term debt, excluding current installments	$ 10,130,000	$ 10,760,000
Capital lease obligations, at varying rates of interest, collateralized by leased equipment and software.	$ 526,596	$ 729,088
Less current portion of capital lease obligation	211,217	202,492
Capital lease obligations, excluding current portion	$ 315,379	$ 526,596

In March 2017, the Authority issued Revenue Certificates, Series 2017A and 2017B, collectively Series 2017 Certificates, in the amount of $9,330,000 and $2,040,000, respectively. The Series 2017A *Certificates* were issued for the purpose of (i) refinancing certain outstanding capital indebtedness of the Authority and (ii) financing or refinancing the acquisition, renovation, and equipping of existing healthcare related facilities owned and operated by the Authority. The Series 2017B Certificates were issued for the purpose of refinancing certain outstanding operating indebtedness of the Authority.

As a result of refinancing the outstanding debt, the Authority will increase its total debt service requirements by approximately $3,300,000, which results in an economic loss (the difference between the present value of the debt service payments on the old and new debt) of approximately $250,000.

Continued

8. Long-Term Debt, Continued

The Series 2017 Certificates are special, limited obligations of the Authority payable from and secured by a pledge of and lien on the gross revenues of the Authority.

The Series 2017A Certificates are subject to optional redemption by the Authority on or after March 1, 2026, in whole at any time or in part on any interest payment date, in reverse order of maturities, at a redemption price equal to 100% principal amount being redeemed, plus accrued interest. The Series 2017B Certificates are not subject to optional redemption.

The Authority and the City of Bainbridge (City) entered into a contract in which the City agreed to pay to or for the account of the Authority amounts sufficient to pay the debt service on the Series 2017 Certificates, up to the seven mil limitation described in the Hospital Authority's Law, to the extent other forms of payment from the Authority or Decatur County, Georgia, as discussed in Note 14, are not sufficient. This agreement also grants the City a first lien on the real estate owned by the Authority as of March 1, 2017 and, to the extent provided therein, a second lien on the Authority's net accounts receivable.

Under the terms of the Series 2017 Certificates, the Authority is required to maintain certain deposits with a trustee. These deposits are reported as noncurrent investments restricted by bond indenture.

	2018 Balance	Additions	Reductions	2019 Balance	Amounts Due Within One Year
Revenue certificates	$ 11,370,000	$ -	$(610,000)	$ 10,760,000	$ 630,000
Capital leases	729,088	-	(202,492)	526,596	211,217
Total long-term obligations	$ 12,099,088	$ -	$(812,492)	$ 11,286,596	$ 841,217

	2017 Balance	Additions	Reductions	2018 Balance	Amounts Due Within One Year
Revenue certificates	$ 11,370,000	$ -	$ -	$ 11,370,000	$ 610,000
Capital leases	923,215	-	(194,127)	729,088	202,492
Total long-term obligations	$ 12,293,215	$ -	$(194,127)	$ 12,099,088	$ 812,492

Continued

8. Long-Term Debt, Continued

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

	Long-Term Debt		Capital Lease Obligations	
Year Ending March 31:	Principal	Interest	Principal	Interest
2020	$ 630,000	$ 312,306	$ 211,217	$ 18,201
2021	650,000	293,170	220,318	9,130
2022	670,000	273,436	95,061	1,063
2023	690,000	253,104	-	-
2024	710,000	232,174	-	-
2025-2029	3,050,000	825,240	-	-
2030-2033	4,360,000	215,729	-	-
Total	$ 10,760,000	$ 2,405,159	$ 526,596	$ 28,394

9. Pension

The Memorial Hospital and Manor Retirement Savings Plan (Plan) is a 403(b) plan and was established by the Authority and administered by VALIC to provide benefits at retirement to substantially all employees of the Authority. Plan provisions and contribution requirements are established and may be amended by the Authority's Board of Directors.

Employees contribute a portion of their pre-tax wages and the Authority funds a matching contribution at its discretion. Employees are vested immediately in their contributions. Vesting in the Authority's contribution portion of their accounts is based on years of continuous service. Forfeited nonvested accounts are held and applied to reduce future employer contributions.

For the years ended March 31, 2019 and 2018, the Authority contributed approximately $105,000 and $59,000 in discretionary funds, respectively. The Authority had no liability outstanding related to the Plan at March 31, 2019 or 2018.

Continued

10. 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 March 31, 2019 and 2018 was as follows:

	2019	2018
Medicare	24%	33%
Medicaid	9%	12%
Third-party payors	40%	28%
Self-pay patients	27%	27%
Total	100%	100%

11. Self-Insurance

The Authority has a self-insurance program for employee health insurance under which a third-party administrator processes and pays claims. The Authority reimburses the third-party administrator monthly for claims incurred and paid. The Authority has purchased stop-loss insurance coverage for claims in excess of $125,000 for each individual employee. During 2017, the Authority also entered the Decatur County Healthcare Cooperative Series of Sentinel Indemnity, LLC, a captive insurance Plan, along with Decatur County, Georgia and the City of Bainbridge. The captive agreement provides additional stop-loss coverage for claims in excess of $350,000 for each individual employee. The investment in the captive plan is included in other assets on the balance sheet. Under these self-insurance programs, the Authority incurred expenses of approximately $5,938,000 and $4,915,000 including administrative fees, during the years ended March 31, 2019 and 2018, respectively.

The Authority has a partial self-insurance program for medical malpractice liability claims. The Authority is self-insured up to $1,000,000 per claim and has purchased liability coverage above $1,000,000 per claim and $3,000,000 in the aggregate. The Authority uses a third-party administrator to review and analyze incidents that may result in a claim against the Authority. The Authority has designated assets, as required by the liability policy, to be used for liabilities resulting from claims for which the Authority may ultimately be responsible.

12. Contingencies

Various claims and assertions are made against the Authority during the ordinary course of business. It is the opinion of management and management’s legal counsel that any losses that may result from such claims and assertions would not materially affect the operations or financial position of the Authority as of and for the years ended March 31, 2019 and 2018. In addition, the state of Georgia legislature passed tort reform which could limit the amount of certain settlements.

Continued

13. Related Organization

The Memorial Hospital Foundation, Inc. (Foundation) was created to support and promote the health care programs, operations, and activities of the Authority. The Foundation's funds are distributed to the Authority in amounts and in periods determined by the Foundation's Board of Directors, who may also restrict the use of funds for capital needs.

A summary of the Foundation's assets and net assets, and changes in net assets (not included in the Authority's statements) for the years ended March 31, 2019 and 2018 are as follows:

	2019	2018
Assets	$ 1,363,250	$ 1,377,126
Net assets	$ 1,363,250	$ 1,377,126
Contribution revenues	$ 48,801	$ 70,641
Investing gains	40,033	69,185
Change in net unrealized gains and losses on marketable securities	(3,155)	43,980
Operating expenses	(4,555)	(25,195)
Contributions to Memorial Hospital and Manor	(95,000)	(145,261)
Change in net assets without donor restrictions	(13,876)	13,350
Net assets at beginning of year	1,377,126	1,363,776
Net assets at end of year	$ 1,363,250	$ 1,377,126

14. Decatur County Contributions

The Authority receives 12% of the 1% Special Purpose Local Option Sales Tax (SPLOST) revenue from Decatur County, Georgia annually. These funds are restricted for capital improvements and capital equipment and are used each year by the Authority. The SPLOST program is approved by the county commissioners and citizens of Decatur County every five years. The current SPLOST contract ends on March 31, 2021.

Beginning in calendar year 2015 and continuing for ten years, Decatur County, Georgia has agreed to commit up to two mills per year to fund unreimbursed indigent care provided by the Authority. For fiscal years 2019 and 2018, these amounts are reported in operating revenues on the statements of revenues, expenses and changes in net position.

Continued

15. Health Care Reform

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

16. Regulatory Compliance

The healthcare industry has recently been subjected to increased scrutiny from governmental agencies at both the federal and state level with respect to compliance with regulations. Areas of noncompliance identified at the federal level include Medicare and Medicaid, Internal Revenue Service, and other regulations governing the healthcare industry. In addition, the Reform Legislation includes provisions aimed at reducing fraud, waste, and abuse in the healthcare industry. These provisions allocate significant additional resources to federal enforcement agencies and expand the use of private contractors to recover potentially inappropriate Medicare and Medicaid payments. The Authority has implemented a compliance plan focusing on such issues. There can be no assurance that the Authority will not be subjected to future investigations with accompanying monetary damages.

17. Fair Values of Financial Instruments

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

- *Cash, accounts payable, accrued liabilities and estimated third-party payor settlements:* The carrying amount reported in the balance sheet approximates its fair value due to the short-term nature of these instruments.

- *Current and noncurrent cash and investments:* These assets consist primarily of cash, certificates of deposit and money market accounts. The carrying amount reported in the balance sheet approximates fair value.

- *Long-term debt:* The fair value of the Authority's long-term debt is estimated using discounted cash flow analyses, based on the Authority's current incremental borrowing rates for similar types of borrowing arrangements.

Continued

17. Fair Values of Financial Instruments, Continued

The carrying amounts and fair values of the Authority's long-term debt at March 31, 2019 and 2018 are as follows:

	2019		2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	$ 10,760,000	$ 11,570,000	$ 11,370,000	$ 11,050,000

18. Economic Dependency

As discussed in Note 14, the Authority receives significant funding from Decatur County, Georgia tax revenues. In addition, the Authority obtained support from Decatur County and the City of Bainbridge to refinance long-term debt during 2017 through the issuance of revenue certificates. The support from Decatur County and the City of Bainbridge must continue into the future for the Authority to remain financially viable for years to come.

19. Going Concern

The Authority has faced and continues to face financial difficulty due to operating losses, minimal cash reserves, and increasing accounts payable. Management has developed a long-term strategic plan that is designed to position the Authority for long-term success. Management is also focusing on improving the financial performance in the near term by focusing on revenue cycle enhancements to reduce denials and improve collection rates, cost structure reductions such as a focus on improving productivity, and aggressively managing expenses.

Over the past year, management has implemented a number of changes in the revenue cycle to improve communication, documentation and billing to improve collections. These changes include outsourcing much of the revenue cycle functions effective January 1, 2019. Key performance indicators such as cash collections, claims denials, late charges, and overall collection rate have been refined and become part of the weekly revenue cycle discussions to keep the team focused on continual improvement. Management will use cash flow improvements to address increased accounts payable balances until normal levels are reached.

Management continues to review productivity by department to look for ways to effectively manage staffing to volumes. Non-salary expenses such as employee benefits, contract labor, supply expense, and service contracts are being reviewed and analyzed for appropriateness and opportunities to reduce or eliminate cost.

Continued

19. Going Concern, Continued

One of the most significant financial improvement steps the Authority put in place subsequent to the fiscal year 2019 is related to the employee health plan. While this change does not significantly change benefits to the employees and their families, the plan design change is expected to reduce the cost of benefits paid by approximately $1,000,000. The Authority is also exploring a targeted rate increase since rates have not been updated since 2017. This increase is projected to generate approximately $450,000 in additional net revenue in 2020.

Management has focused on new revenue opportunities to increase the market share of the Authority. During 2019, a new advanced wound care service opened which should serve over 200 patients a year and drive incremental net revenue to the Authority. Also, a new inpatient medical detox program opened which will provide a much needed service to the community and generate additional net revenue.

The Authority experienced significant contributions from the Rural Hospital Tax Credit program during 2019 as reported in nonoperating revenues. Subsequent to fiscal year 2019, the Authority received additional calendar year 2019 contributions of approximately $500,000. As the calendar year 2019 statewide limit has not been reached, the Authority continues to pursue donations under this program.