

EFFINGHAM COUNTY HOSPITAL AUTHORITY
(A Component Unit of Effingham County, Georgia)

FINANCIAL STATEMENTS

for the years ended June 30, 2022 and 2021



C O N T E N T S

| | <u>Pages</u> |
|---|--------------|
| Independent Auditor's Report | 1-3 |
| Management's Discussion and Analysis | 4-8 |
| Financial Statements: | |
| Balance Sheets | 9-10 |
| Statements of Revenues, Expenses, and Changes in Net Position | 11 |
| Statements of Cash Flows | 12-13 |
| Notes to Financial Statements | 14-42 |



INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Effingham County Hospital Authority
Springfield, Georgia

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Effingham County Hospital Authority (Authority), a component unit of Effingham County, Georgia, which comprise the balance sheets as of June 30, 2022 and 2021, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Authority as of June 30, 2022 and 2021, 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As described in Note 1 to the financial statements, in 2022 the Authority adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

Emphasis of Matter

As discussed in Notes 14 and 19 to the financial statements, the Authority is fiscally dependent on Effingham County. Our opinion is not modified with respect to this matter.

Continued

Let's Think Together.®

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment of a reasonable user based on these financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

Continued

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 8 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2023, 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.

DRAFTING + TUCKER, LLP

Albany, Georgia
January 24, 2023

**Management's Discussion and Analysis
For the Year Ending June 30, 2022**

Our discussion and analysis of Hospital Authority of Effingham County's (Authority's) financial performance provides an overview of the Authority's financial activities for the fiscal years ended June 30, 2022, 2021, and 2020. Please read it in conjunction with the Authority's financial statements, which begin on page 9.

On November 1, 2016, pursuant to a lease and transfer agreement, the Authority implemented a reorganization plan to lease its facilities and transfer its operating assets, as defined in the agreement, to Effingham Hospital, Inc., a nonprofit corporation. Effingham Hospital, Inc. shares the same Board of Directors as the Authority. Further, Effingham Hospital, Inc. is so closely related to the primary government that it is, in effect, the same as the primary government. For this reason, Effingham Hospital, Inc. is a blended component unit of the Authority.

Financial Highlights

- The Authority's net position decreased in 2022 by approximately \$(3,758,000) or (32%), decreased in 2021 by approximately \$(3,714,000) or (24%), and decreased in 2020 by approximately \$(503,000) or (3%).
- The Authority reported an operating loss of approximately \$9,145,000 in 2022, an operating loss of approximately \$11,363,000 in 2021, and an operating loss of \$9,686,000 in 2020.
- Cash increased by \$187,989 or 17% in 2022, cash decreased by \$(9,711,773) or (90%) in 2021, and increased by \$9,959,856 or 1188% in 2020.
- The Authority's current assets decreased in 2022 by approximately \$(1,401,000) or (9%), decreased in 2021 by approximately \$(6,029,000) or (28%) and increased approximately \$7,119,000 or 50% in 2020.

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.

Management's Discussion and Analysis, Continued
For the Year Ending June 30, 2022

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

The balance sheet is designed to present information on all the Authority's assets and liabilities. The difference between assets and liabilities is reported as net position. Net position provides a basis for evaluating the capital structure of the Authority and assessing its liquidity and financial flexibility. Over time, an increase or decrease in the Authority's net position is one indicator of whether its financial strength is improving or deteriorating. It is recommended that the readers of these financial statements consider additional nonfinancial factors, 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.

The statement of revenues and expenses and changes in net position present changes to the Authority's net position during the most recent fiscal year end period. This statement measures the success of the Authority's operations during the years ended June 30, 2022 and 2021, and can be used to assess profitability and credit worthiness. Activities are reported as either operating or nonoperating. Operating revenues are generally earned by providing goods or services to patients, residents and other customers. Operating expenses are incurred to acquire or produce the goods and services to carry out the Authority's mission. Nonoperating revenues and expenses result from activities other than providing goods and services related to patient care. All changes in net position are reported as soon as the underlying events occurred regardless of the timing of related cash flow.

The Statement of Cash Flows

This statement describes the sources of cash, how the cash was used, and the change in cash balance during the reporting period. This statement aids in the assessment of the Authority's ability to generate future net cash flows and to meet the obligation and commitments as they come due. The primary source of operating cash flows was service revenues received from patients and residents and their public and provider insurance. Uses of these cash sources include payments as wages and benefits to employees and payments to suppliers and contractors for goods and services produced by the Authority.

Continued

Management's Discussion and Analysis, Continued
For the Year Ending June 30, 2022

The Authority's Net Position

The Authority's net position is the difference between its assets and liabilities reported on the balance sheets on pages 9 and 10. The Authority's net position changed in each of the past three years as reflected in Table 1 below.

Table 1: Balance Sheet

| | <u>2022</u> | Restated <u>2021</u> | <u>2020*</u> |
|--|--------------------------|--------------------------|--------------------------|
| Current assets | \$ 13,909,933 | \$ 15,310,894 | \$ 21,340,039 |
| Capital assets, net | 35,276,606 | 31,447,477 | 26,579,539 |
| Other noncurrent assets | <u>8,011,375</u> | <u>11,116,983</u> | <u>14,951,835</u> |
| Total assets | <u>\$ 57,197,914</u> | <u>\$ 57,875,354</u> | <u>\$ 62,871,413</u> |
| Current liabilities | \$ 16,723,135 | \$ 17,534,052 | \$ 14,503,464 |
| Lease liabilities, net of current maturities | 3,573,255 | 2,801,793 | - |
| Long-term debt | 24,967,884 | 25,494,423 | 30,366,278 |
| Medicare advance payments | 443,274 | 396,936 | 2,639,322 |
| Deferred inflows of resources | <u>3,600,000</u> | <u>-</u> | <u>-</u> |
| Total liabilities and deferred inflows of resources | <u>49,307,548</u> | <u>46,227,204</u> | <u>47,509,064</u> |
| Net position: | | | |
| Net investment in capital assets | 637,518 | (834,620) | (1,725,385) |
| Restricted | 5,123,657 | 4,708,146 | 4,216,924 |
| Unrestricted | <u>2,129,191</u> | <u>7,774,624</u> | <u>12,870,810</u> |
| Total net position | <u>7,890,366</u> | <u>11,648,150</u> | <u>15,362,349</u> |
| Total liabilities, deferred inflows of resources and net position | <u>\$ 57,197,914</u> | <u>\$ 57,875,354</u> | <u>\$ 62,871,413</u> |

The Authority continues to pay all debts within terms. Long-term debt is exclusively made up of funds borrowed for the modernization project, a capital lease to acquire the da Vinci Robotic Surgical System, a Cerner single source Electronic Medical Record (EMR) System with implementation that began in FY 2021, and Phase I implementation to be completed November 2022, a capital master lease program consisting of surgical tables, cardiology equipment, Dell computers, and a new 64 slice Computed Tomography (CT) unit and various other equipment. In 2021 and 2020, the Authority also received loan proceeds from the Paycheck Protection Program, established as part of the CARES Act. See Note 9 to the financial statements for additional information.

*The information presented for the fiscal year ending June 30, 2020, was not restated for the effect of GASB 87.

Continued

Management's Discussion and Analysis, Continued
For the Year Ending June 30, 2022

Table 2 summarizes the revenues and expenses for the periods ended June 30, 2022, 2021 and 2020:

Table 2: Statement of Revenue and Expense Data

| | <u>2022</u> | Restated <u>2021</u> | <u>2020*</u> |
|-------------------------------|----------------------|-------------------------|----------------------|
| Operating revenues | <u>\$ 63,000,483</u> | <u>\$ 57,703,835</u> | <u>\$ 57,946,321</u> |
| Expenses: | | | |
| Operating expenses | 68,756,350 | 65,375,664 | 64,833,286 |
| Depreciation and amortization | <u>3,389,261</u> | <u>3,691,401</u> | <u>2,799,426</u> |
| Total expenses | <u>72,145,611</u> | <u>69,067,065</u> | <u>67,632,712</u> |
| Operating loss | (9,145,128) | (11,363,230) | (9,686,391) |
| Nonoperating revenues | <u>5,387,344</u> | <u>8,064,199</u> | <u>9,183,008</u> |
| Excess expenses | (3,757,784) | (3,299,031) | (503,383) |
| Beginning net position | 11,648,150 | 15,362,349 | 15,865,732 |
| Implementation of GASB 87 | <u>-</u> | <u>(415,168)</u> | <u>-</u> |
| Ending net position | <u>\$ 7,890,366</u> | <u>\$ 11,648,150</u> | <u>\$ 15,362,349</u> |

The Authority's net position decreased in 2022 by approximately \$(3,758,000) or (32%). This decrease was impacted by the year over year 2021 to 2022 increase in operating expenses of approximately \$3,381,000 or 5%. The decrease in nonoperating revenues is due to the 2021 forgiveness recognition of the loan proceeds received in 2020 from the Paycheck Protection Program, established as part of the CARES Act. See Note 9 to the financial statements for additional information. The Authority's net position decreased in 2021 by approximately \$(3,714,000) or (24%) and decreased in 2020 by approximately \$(503,000) or 3%. The 2021 decrease was impacted by the year over year 2020 to 2021 increase in operating expenses of approximately \$1,434,000 or 2% and year over year 2019 to 2020 of \$8,444,000 or 15%. This increase in operating expenses was primarily the result of increases in contract labor due to employee shortages, increases in supply and drug costs and the addition of hospitalist services added in 2022. The 2022 and 2021 nonoperating revenues include grant funds received and recognized as a result of CARES Act and ARPA funding. See Note 19 to the financial statements for additional information.

Continued

Management's Discussion and Analysis, Continued
For the Year Ending June 30, 2022

Capital Assets and Long-Term Debt

A recap of the Authority's long-term debt outstanding at June 30, 2022, 2021, and 2020 is as follows:

| <u>Description</u> | <u>Interest Rates</u> | <u>Long-Term Debt</u> | | |
|--------------------------------|-----------------------|-----------------------|----------------------|----------------------|
| | | <u>2022</u> | <u>Restated 2021</u> | <u>2020*</u> |
| 2010 Series A | 5.75% | \$ 23,584,368 | \$ 24,527,008 | \$ 25,412,415 |
| Paycheck Protection Program | 1.00% | - | 410,550 | 4,152,601 |
| Leases - Equipment | 1.85% - 5.44% | 1,298,266 | 199,584 | 1,168,323 |
| Leases - Cerner Implementation | 0% | <u>1,686,983</u> | <u>1,551,767</u> | <u>1,724,186</u> |
| Total long-term debt | | <u>\$ 26,569,617</u> | <u>\$ 26,688,909</u> | <u>\$ 32,457,525</u> |

Per the modernization project debt agreements, all existing debt was retired prior to the start of the modernization project. The remaining debt was used for the modernization project.

At the end of 2022, the Authority had approximately \$35 million invested in capital assets, net. Additions during 2022 include renovations of patient care areas and administration, replacement of computers and various equipment, and additional operating room, pharmacy and radiology equipment leases.

See Notes 6 and 9 in the attached financial statements for additional information about capital assets and debt.

Contacting the Authority's Financial Management

This financial report is designed to provide our patients, suppliers, and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have any questions about this report or need additional financial information, please contact the Authority's management at Effingham Hospital, 459 Highway 119 South, Springfield, Georgia 31329.

EFFINGHAM COUNTY HOSPITAL AUTHORITY
(A Component Unit of Effingham County, Georgia)

BALANCE SHEETS
as of June 30, 2022 and 2021

| | <u>2022</u> | Restated <u>2021</u> |
|--|----------------------|-------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 1,274,606 | \$ 1,086,617 |
| Property tax receivable from Effingham County | 348 | 42,753 |
| Patient accounts receivable, net of allowances and estimated uncollectibles of approximately \$28,152,000 in 2022 and \$25,794,000 in 2021 | 9,464,952 | 10,593,910 |
| Supplies, at lower of cost (first-in, first-out) or market | 1,452,540 | 1,357,327 |
| Estimated third-party payor settlements | 1,153,861 | 1,367,386 |
| Other current assets | <u>563,626</u> | <u>862,901</u> |
| Total current assets | <u>13,909,933</u> | <u>15,310,894</u> |
| Noncurrent cash and investments: | | |
| Internally designated for capital improvements | 2,621,293 | 6,237,240 |
| Held by trustee under indenture | <u>5,123,657</u> | <u>4,708,146</u> |
| Total noncurrent cash and investments | <u>7,744,950</u> | <u>10,945,386</u> |
| Capital assets: | | |
| Non-depreciable | 9,768,518 | 6,905,105 |
| Depreciable, net of accumulated depreciation | 21,037,842 | 21,086,756 |
| Intangible right-to-use lease assets, net of accumulated amortization | <u>4,470,246</u> | <u>3,455,616</u> |
| Total capital assets, net | <u>35,276,606</u> | <u>31,447,477</u> |
| Other assets: | | |
| Notes receivable | 18,250 | 21,250 |
| Other assets | <u>248,175</u> | <u>150,347</u> |
| Total other assets | <u>266,425</u> | <u>171,597</u> |
| Total assets | <u>\$ 57,197,914</u> | <u>\$ 57,875,354</u> |

Continued

EFFINGHAM COUNTY HOSPITAL AUTHORITY
(A Component Unit of Effingham County, Georgia)

BALANCE SHEETS, Continued
as of June 30, 2022 and 2021

| | <u>2022</u> | Restated <u>2021</u> |
|--|----------------------|-------------------------|
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION | | |
| Current liabilities: | | |
| Current maturities of long-term debt | \$ 1,601,733 | \$ 1,194,486 |
| Current maturities of lease liabilities | 997,716 | 705,716 |
| Short-term debt | 3,498,500 | 2,496,229 |
| Accounts payable | 5,734,202 | 5,560,240 |
| Accrued expenses | 2,829,606 | 2,906,306 |
| Estimated third-party payor settlements | 1,473,444 | 2,660,163 |
| Medicare advance payments, current portion | <u>587,934</u> | <u>2,010,912</u> |
| Total current liabilities | 16,723,135 | 17,534,052 |
| Lease liabilities, net of current maturities | 3,573,255 | 2,801,793 |
| Long-term debt, net of current maturities | 24,967,884 | 25,494,423 |
| Medicare advance payments, net of current portion | <u>443,274</u> | <u>396,936</u> |
| Total liabilities | 45,707,548 | 46,227,204 |
| Deferred inflows of resources | <u>3,600,000</u> | <u>-</u> |
| Total liabilities and deferred inflows of resources | <u>49,307,548</u> | <u>46,227,204</u> |
| Net position: | | |
| Net investment in capital assets | 637,518 | (834,620) |
| Restricted: | | |
| Expendable | 5,123,657 | 4,708,146 |
| Unrestricted | <u>2,129,191</u> | <u>7,774,624</u> |
| Total net position | <u>7,890,366</u> | <u>11,648,150</u> |
| Total liabilities, deferred inflows of resources and net position | <u>\$ 57,197,914</u> | <u>\$ 57,875,354</u> |

See accompanying notes to financial statements.

EFFINGHAM COUNTY HOSPITAL AUTHORITY
(A Component Unit of Effingham County, Georgia)

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
for the years ended June 30, 2022 and 2021

| | <u>2022</u> | Restated <u>2021</u> |
|---|---------------------|-------------------------|
| Operating revenues: | | |
| Net patient service revenue (net of provision for bad debts of approximately \$11,795,000 in 2022 and \$15,544,000 in 2021) | \$ 62,196,049 | \$ 56,763,024 |
| Other revenue | <u>804,434</u> | <u>940,811</u> |
| Total operating revenues | <u>63,000,483</u> | <u>57,703,835</u> |
| Operating expenses: | | |
| Salaries and wages | 25,192,299 | 25,310,039 |
| Employee benefits | 3,665,406 | 3,938,149 |
| Supplies and other | 24,060,747 | 19,971,271 |
| Purchased services | 15,837,898 | 16,156,205 |
| Depreciation and amortization | <u>3,389,261</u> | <u>3,691,401</u> |
| Total operating expenses | <u>72,145,611</u> | <u>69,067,065</u> |
| Operating loss | <u>(9,145,128)</u> | <u>(11,363,230)</u> |
| Nonoperating revenues (expenses): | | |
| Property tax income from Effingham County | 3,600,000 | 3,600,000 |
| Investment income | 859 | 68,480 |
| Interest expense | (1,935,118) | (1,651,977) |
| Interest rebate | 569,784 | 603,985 |
| Forgiveness of PPP loan | 410,550 | 4,152,601 |
| Rural hospital tax credit contributions | 521,875 | 255,488 |
| Contribution from Effingham County | 692,330 | - |
| CARES Act and ARPA funding | <u>1,527,064</u> | <u>1,035,622</u> |
| Total nonoperating revenues | <u>5,387,344</u> | <u>8,064,199</u> |
| Excess expenses | <u>(3,757,784)</u> | <u>(3,299,031)</u> |
| Net position at beginning of year, as originally reported | 12,063,318 | 15,362,349 |
| Implementation of GASB Statement No. 87 | <u>(415,168)</u> | <u>(415,168)</u> |
| Net position at beginning of year, as restated | <u>11,648,150</u> | <u>14,947,181</u> |
| Net position at end of year | <u>\$ 7,890,366</u> | <u>\$ 11,648,150</u> |

See accompanying notes to financial statements.

EFFINGHAM COUNTY HOSPITAL AUTHORITY
(A Component Unit of Effingham County, Georgia)

STATEMENTS OF CASH FLOWS
for the years ended June 30, 2022 and 2021

| | <u>2022</u> | Restated <u>2021</u> |
|---|---------------------|-------------------------|
| Cash flows from operating activities: | | |
| Cash received from patients and payors | \$ 62,351,813 | \$ 51,921,282 |
| Cash paid on Medicare advance payments | (1,376,640) | (608,520) |
| Cash payments to vendors and other suppliers | (39,618,449) | (35,914,055) |
| Cash payments to employees | (28,931,405) | (29,167,469) |
| Cash received from other | <u>804,434</u> | <u>940,811</u> |
| Net cash used by operating activities | <u>(6,770,247)</u> | <u>(12,827,951)</u> |
| Cash flows from investing activities: | | |
| Interest on investments | 63,056 | 135,319 |
| Purchase of investments | (5,439,482) | (2,410,259) |
| Sales of investments | <u>8,667,641</u> | <u>6,190,341</u> |
| Net cash provided by investing activities | <u>3,291,215</u> | <u>3,915,401</u> |
| Cash flows from noncapital financing activities: | | |
| Property tax receipts from Effingham County | 7,242,405 | 3,607,888 |
| Contribution from Effingham County | 692,330 | - |
| CARES Act and ARPA funding | 1,527,064 | 1,035,622 |
| Rural hospital tax credit contributions | <u>521,875</u> | <u>255,488</u> |
| Net cash provided by noncapital financing activities | <u>9,983,674</u> | <u>4,898,998</u> |
| Cash flows from capital and related financing activities: | | |
| Proceeds from issuance of long-term debt | - | 410,550 |
| Proceeds from issuance of short-term debt | 1,002,271 | 2,500,000 |
| Principal paid on long-term debt | (1,598,882) | (1,372,465) |
| Principal paid on lease liabilities | (873,291) | (674,108) |
| Principal paid on short-term debt | - | (3,771) |
| Interest paid on long-term debt | (1,803,706) | (1,535,002) |
| Interest paid on lease liabilities | (131,412) | (116,975) |
| Interest rebate on long-term debt | 569,784 | 603,985 |
| Purchase of capital assets | <u>(3,065,902)</u> | <u>(5,382,409)</u> |
| Net cash used by capital and related financing activities | <u>(5,901,138)</u> | <u>(5,570,195)</u> |
| Net increase (decrease) in cash and cash equivalents | 603,504 | (9,583,747) |
| Cash and cash equivalents, beginning of year | <u>5,807,868</u> | <u>15,391,615</u> |
| Cash and cash equivalents, end of year | <u>\$ 6,411,372</u> | <u>\$ 5,807,868</u> |

Continued

EFFINGHAM COUNTY HOSPITAL AUTHORITY
(A Component Unit of Effingham County, Georgia)

STATEMENTS OF CASH FLOWS, Continued
for the years ended June 30, 2022 and 2021

| | <u>2022</u> | Restated <u>2021</u> |
|---|-----------------------|-------------------------|
| Reconciliation of cash and cash equivalents to the balance sheets: | | |
| Cash and cash equivalents in current assets | \$ 1,274,606 | \$ 1,086,617 |
| Noncurrent cash and investments: | | |
| Internally designated for capital improvements | 13,109 | 13,105 |
| Held by trustee under indenture | <u>5,123,657</u> | <u>4,708,146</u> |
| Total cash and cash equivalents | <u>\$ 6,411,372</u> | <u>\$ 5,807,868</u> |
| Reconciliation of operating loss to net cash flows from operating activities: | | |
| Operating loss | \$ (9,145,128) | \$ (11,363,230) |
| Adjustments to reconcile operating loss to net cash used by operating activities: | | |
| Depreciation | 3,389,261 | 3,691,401 |
| Provision for bad debts | 11,795,119 | 15,544,233 |
| Physician notes receivable write-off | 3,000 | 1,333 |
| Changes: | | |
| Accounts receivable | (10,666,161) | (17,891,814) |
| Supplies | (95,213) | (121,395) |
| Estimated third-party payor settlements | (2,349,834) | (3,102,681) |
| Other current assets | 299,275 | (247,427) |
| Other assets | (97,828) | 50,042 |
| Accounts payable | 173,962 | 532,201 |
| Accrued expenses | <u>(76,700)</u> | <u>79,386</u> |
| Net cash used by operating activities | <u>\$ (6,770,247)</u> | <u>\$ (12,827,951)</u> |

Supplemental disclosure of cash flow information:

- Effingham County Hospital Authority held investments at June 30, 2022 and 2021, with a fair value of \$2,608,184 and \$6,224,135, respectively. During 2022 and 2021, the net change in fair value of these investments was an increase and decrease of \$53,071 and \$275,449, respectively.
- The Authority entered into finance and lease obligations of \$3,826,893 and \$539,185 for new equipment in 2022 and 2021, respectively.
- See Note 9 for additional information regarding forgiveness of the Authority's Paycheck Protection Loan.

See accompanying notes to financial statements.

EFFINGHAM COUNTY HOSPITAL AUTHORITY
(A Component Unit of Effingham County, Georgia)

NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

1. Summary of Significant Accounting Policies

Reporting Entity

Effingham County Hospital Authority (Authority) is a public corporation. It was created by the Board of Commissioners of Effingham County, Georgia (County) to operate, control, and manage the operations of a hospital and a skilled nursing facility. The Board of County Commissioners nominates the Board of Directors of the Authority, and the Authority may not issue debt that will be guaranteed by the County without the County's approval. The Board of County Commissioners has guaranteed debt of the Authority. For these reasons, the Authority is considered to be a component unit of Effingham County, Georgia.

On November 1, 2016, pursuant to a lease and transfer agreement, the Authority implemented a corporate restructuring to lease its facilities and transfer its operating assets, as defined in the agreement, to Effingham Hospital, Inc. (Hospital), a nonprofit corporation for a period of 40 years. Effingham Hospital, Inc. shares the same Board of Directors as the Authority. For this reason, Effingham Hospital, Inc. is a blended component unit of the Authority. The activity presented in the accompanying financial statements and notes to the financial statements represent the operations of the Hospital.

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).

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with original maturities of three months or less. Certain money market deposits are considered cash and cash equivalents on the statement of cash flows.

Continued

EFFINGHAM COUNTY HOSPITAL AUTHORITY
(A Component Unit of Effingham County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2022 and 2021

1. Summary of Significant Accounting Policies, Continued

Allowance for Doubtful Accounts

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

Supplies

Supplies are stated at the lower of cost or market value, using the first-in, first-out method.

Noncurrent Cash and Investments

Noncurrent cash and investments include assets held by trustees under indenture agreements and designated assets set aside by the Board of Directors for capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes.

Investments in Debt and Equity Securities

Investments in debt and equity securities are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating revenue when earned.

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. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. The estimated useful life is assigned using AHA Useful Lives Guidelines listed below. Leased assets is amortized on the straight-line method over the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements.

| | |
|-------------------------------------|----------------|
| Land improvements | 15 to 20 Years |
| Buildings and building improvements | 20 to 40 Years |
| Equipment | 3 to 7 Years |
| Right-to-use lease assets | 3 to 10 Years |

Costs of Borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets is expensed in the period in which the cost is incurred.

Continued

EFFINGHAM COUNTY HOSPITAL AUTHORITY
(A Component Unit of Effingham County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2022 and 2021

1. Summary of Significant Accounting Policies, Continued

Financing Costs

Costs incurred in connection with the issuance of bonds and notes are expensed in the period in which they are incurred.

Compensated Absences

The Authority's employees earn personal time off (PTO) at varying rates depending on years of service. Employees may accumulate PTO up to a specified maximum. Any days above the maximum on June 30th every year will expire. Employees are allowed to cash in unused personal time off hours if they have satisfied certain criteria. Employees also earn extended days off (EDO) based on varying rates depending on years of service. Employees may accumulate EDO up to a specified maximum. After full time employees have exceeded the base accumulation, 25% of the accrued EDO above the base accumulation will be paid annually. A maximum EDO payment to any employee is 20 hours. Any days above the maximum on June 30th every year will expire. Employees are not paid for EDO if they leave or are terminated by the Authority.

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 expendable net position* are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Authority, including amounts deposited with trustees as required by revenue bond indentures. *Unrestricted net position* is the remaining net amount of assets and liabilities that do not meet the definition of *net investment in capital assets* or *the restricted net position*.

Operating Revenues and Expenses

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

Continued

EFFINGHAM COUNTY HOSPITAL AUTHORITY
(A Component Unit of Effingham County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2022 and 2021

1. Summary of Significant Accounting Policies, Continued

Net Patient Service Revenue

The Authority has agreements with third-party payors that provide for payments to the Authority at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement arrangements 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

The Authority occasionally receives grants from Effingham County, 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 revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenue and expenses. See Note 19 for additional information on CARES Act and ARPA funding.

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.

Income Taxes

The Authority is a governmental entity and is exempt from income taxes. Effingham Hospital, Inc. is a not-for-profit corporation that has been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code.

Continued

EFFINGHAM COUNTY HOSPITAL AUTHORITY
(A Component Unit of Effingham County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2022 and 2021

1. Summary of Significant Accounting Policies, Continued

Income Taxes, Continued

The Hospital applies accounting policies that prescribe when to recognize and how to measure the financial statement effects of income tax positions taken or expected to be taken on its income tax returns. These rules require management to evaluate the likelihood that, upon examination by the relevant taxing jurisdictions, those income tax positions would be sustained. Based on that evaluation, the Hospital only recognizes the maximum benefit of each income tax position that is more than 50% likely of being sustained. To the extent that all or a portion of the benefits of an income tax position are not recognized, a liability would be recognized for the unrecognized benefits, along with any interest and penalties that would result from disallowance of the position. Should any such penalties and interest be incurred, they would be recognized as operating expenses.

Based on the results of management's evaluation, no liability is recognized in the accompanying balance sheet for unrecognized income tax positions. Further, no interest or penalties have been accrued or charged to expense as of June 30, 2022 and 2021 or for the years then ended. The Hospital's tax returns are subject to possible examination by the taxing authorities. For federal income tax purposes, the tax returns essentially remain open for possible examination for a period of three years after the respective filing deadlines of those returns.

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, see Note 10. See Note 11 for additional information related to the Authority's general and professional coverage.

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 June 30, 2022 and 2021.

Continued

EFFINGHAM COUNTY HOSPITAL AUTHORITY
(A Component Unit of Effingham County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2022 and 2021

1. Summary of Significant Accounting Policies, Continued

Fair Value Measurements

GASB Statement No. 72 - *Fair Value Measurement and Application* defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is an exit price at the measurement date from the perspective of a market participant that controls the asset or is obligated for the liability. GASB 72 also establishes a hierarchy of inputs to valuation techniques used to measure fair value. If a price for an identical asset or liability is not observable, a government should measure fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs.

GASB 72 describes the following three levels of inputs that may be used:

- *Level 1:* Quoted prices (unadjusted) 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.

Deferred Inflows of Resources

Deferred inflows of resources represent the acquisition of the Authority's net position applicable to a future reporting period.

Deferred inflows of resources consist of deferred ad valorem tax revenues of approximately \$3,600,000 at June 30, 2022.

The Authority receives the proceeds of certain ad valorem tax revenues. The proceeds of taxes such as those received by the Authority (referred to as imposed nonexchange revenue transactions) are recorded as deferred inflows of resources by the recipient when an enforceable legal claim to the resources exists or the resources are received, whichever is first, and as revenue by the recipient in the period for which taxes are levied. See Note 14 for additional information related to property tax income.

Continued

EFFINGHAM COUNTY HOSPITAL AUTHORITY
(A Component Unit of Effingham County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2022 and 2021

1. Summary of Significant Accounting Policies, Continued

Recently Adopted Accounting Pronouncement

In June 2017, the GASB issued Statement No. 87, *Leases* (GASB 87). GASB 87 establishes standards of accounting and financial reporting by lessees and lessors and establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. GASB 87 will require a lessee to recognize a lease liability and an intangible right-to-use lease asset at the commencement of the lease term, with certain exceptions, and will require a lessor to recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term, with certain exceptions. The Authority adopted GASB 87 July 1, 2021 and retroactively implemented the statement effective July 1, 2020. The adoption of this statement resulted in an increase in lease obligations and related right-to-use lease assets of approximately \$3,642,000 as of July 1, 2020. The adoption had impact of approximately \$415,000 on net position.

Prior Year Reclassifications

Certain reclassifications have been made to the fiscal year 2021 financial statements to conform to the fiscal year 2022 presentation. These reclassifications has no impact on the change in net position in the accompanying financial statements.

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

Effective May 15, 2000, the Authority was granted Critical Access Hospital (CAH) designation by the Medicare Program. The CAH designation places certain restrictions on daily acute care inpatient census and an annual, average length of stay of acute care inpatients. Inpatient acute care and outpatient services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology.

Nursing home services rendered to Medicare program beneficiaries are paid based on a patient-driven payment methodology.

Continued

EFFINGHAM COUNTY HOSPITAL AUTHORITY
(A Component Unit of Effingham County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2022 and 2021

2. Net Patient Service Revenue, Continued

- Medicare, Continued

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 Medicare Administrative Contractor (MAC). The Authority's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Authority. The Authority's Medicare cost reports have been audited by the MAC through June 30, 2019.

- Medicaid

Inpatient acute care services rendered to Medicaid 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. Certain outpatient services rendered to the Medicaid program beneficiaries are 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 audited by the Medicaid fiscal intermediary through June 30, 2018.

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 \$502,000 and \$461,000 for the years ended June 30, 2022 and 2021, respectively.

Continued

EFFINGHAM COUNTY HOSPITAL AUTHORITY
(A Component Unit of Effingham County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2022 and 2021

2. Net Patient Service Revenue, Continued

- Medicaid, Continued

The Medicare, Medicaid and SCHIP Benefits Improvement and Protection Act of 2000 (BIPA) provides for payment adjustments to 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 \$1,641,000 and \$1,136,000 for the years ended June 30, 2022 and 2021, respectively.

During 2022, Medicaid implemented the Supplemental Quality Incentive (SQI) payment program for nursing homes that demonstrate improvement in one of four quality metrics. The nursing home demonstrated improvement in all four quality metrics and recognized SQI payments of approximately \$673,000 in net patient service revenue during 2022.

- Other Arrangements

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

- Uninsured Patients

Effingham Hospital, Inc. has a Financial Assistance Policy (FAP) in accordance with Internal Revenue Code Section 501(r). Based on the FAP, following a determination of financial assistance eligibility, an individual will not be charged more than the Amounts Generally Billed (AGB) for emergency or other medical care provided to individuals with insurance covering that care. AGB is calculated by reviewing claims that have been paid in full (including deductibles and coinsurance paid by the patient) to the Hospital for medically necessary care by Medicare and private health insurers during a 12-month look-back period.

Revenue from the Medicare and Medicaid programs accounted for approximately 17% and 17%, respectively, of the Authority's net patient service revenue for the year ended June 30, 2022, and 16% and 14%, respectively, of the Authority's net patient service revenue for the year ended June 30, 2021. 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.

Continued

EFFINGHAM COUNTY HOSPITAL AUTHORITY
(A Component Unit of Effingham County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2022 and 2021

2. Net Patient Service Revenue, Continued

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

3. Uncompensated Services

The Authority was compensated for services at amounts less than its established rates. Charges for uncompensated services for 2022 and 2021 were approximately \$135,929,000 and \$140,484,000, respectively.

Uncompensated care includes charity and indigent care services of approximately \$4,939,000 and \$5,085,000 in 2022 and 2021, respectively. The cost of charity and indigent care services provided during 2022 and 2021 was approximately \$1,847,000 and \$1,823,000, respectively computed by applying a total cost factor to the charges foregone.

The following is a summary of uncompensated services and a reconciliation of gross patient charges to net patient service revenue for 2022 and 2021:

| | <u>2022</u> | <u>2021</u> |
|------------------------------|-----------------------|-----------------------|
| Gross patient charges | <u>\$ 198,125,297</u> | <u>\$ 197,247,129</u> |
| Uncompensated services: | | |
| Charity and indigent care | 4,938,784 | 5,084,644 |
| Medicare | 23,828,713 | 26,781,322 |
| Medicaid | 12,970,758 | 13,782,755 |
| Other allowances | 82,395,874 | 79,291,151 |
| Bad debts | <u>11,795,119</u> | <u>15,544,233</u> |
| Total uncompensated services | <u>135,929,248</u> | <u>140,484,105</u> |
| Net patient service revenue | <u>\$ 62,196,049</u> | <u>\$ 56,763,024</u> |

Continued

EFFINGHAM COUNTY HOSPITAL AUTHORITY
(A Component Unit of Effingham County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2022 and 2021

3. Uncompensated Services, Continued

The Authority accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies of the Authority. Essentially, these policies define charity services as those services for which no payment is anticipated. In assessing a patient's ability to pay, the Authority utilizes the generally recognized Federal Poverty Guidelines, but also includes certain cases where incurred charges are significant when compared to the patient's income. These charges are not included in net patient service revenues. The costs and expenses incurred in providing these services are included in the Authority's excess revenues (expenses) in the statements of revenues, expenses, and changes in net position.

4. Deposits and Investments

As discussed in Note 1, the Authority's investments are generally carried at fair value.

Deposits and investments as of June 30, 2022 and 2021, are classified in the accompanying financial statements as follows:

| | <u>2022</u> | <u>2021</u> |
|--|---------------------|----------------------|
| Balance sheets: | | |
| Cash and cash equivalents | \$ 1,274,606 | \$ 1,086,617 |
| Noncurrent cash and investments: | | |
| Internally designated for capital improvements | 2,621,293 | 6,237,240 |
| Held by trustee under indenture | <u>5,123,657</u> | <u>4,708,146</u> |
| Total | <u>\$ 9,019,556</u> | <u>\$ 12,032,003</u> |
| Deposits and investments consist of the following: | | |
| Deposits with financial institutions | <u>\$ 6,411,372</u> | <u>\$ 5,807,868</u> |
| Cash and cash equivalents | 2,047,983 | 5,351,038 |
| Debt securities | <u>560,201</u> | <u>873,097</u> |
| Total investments | <u>2,608,184</u> | <u>6,224,135</u> |
| Total deposits and investments | <u>\$ 9,019,556</u> | <u>\$ 12,032,003</u> |

Continued

EFFINGHAM COUNTY HOSPITAL AUTHORITY
(A Component Unit of Effingham County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2022 and 2021

4. Deposits and Investments, Continued

Disclosure Relating to Custodial Credit Risk

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 June 30, 2022 and 2021, the Authority owned approximately \$560,000 and \$873,000, respectively, in securities that were uninsured, unregistered, and held by the Authority's brokerage firm in the brokerage firm's name. Securities held in the Authority's brokerage account are protected by insurance coverage in the amount of \$500,000 through the Securities Investor Protection Corporation (SIPC). In addition, the Authority's brokerage firms provide additional insurance protection for amounts in excess of the SIPC limit. The Authority's bank deposits at June 30, 2022 and 2021, are entirely insured or collateralized with securities held by the pledging financial institution's designated trustee in the Authority's name.

At June 30, 2022, the Hospital had deposits at major financial institutions which exceeded Federal Depository Insurance limits. Management believes the credit risk related to these deposits is minimal.

Disclosure Relating to Interest Rate Risk

The Authority manages its exposure to declines in fair values from rising interest rates by investing in debt securities with short to intermediate maturities. As of June 30, 2022 and 2021, the Authority had the following investments in debt securities and weighted average maturities:

| | <u>2022</u> | | <u>2021</u> | |
|------------------|-------------------|---|-------------------|---|
| | <u>Amount</u> | <u>Weighted Average Maturity (In Years)</u> | <u>Amount</u> | <u>Weighted Average Maturity (In Years)</u> |
| Debt securities: | | | | |
| Corporate bonds | \$ 476,048 | 2.5 | \$ 783,258 | 2.7 |
| Municipal bonds | <u>84,153</u> | <u>4.2</u> | <u>89,839</u> | <u>1.3</u> |
| Total | <u>\$ 560,201</u> | <u>6.7</u> | <u>\$ 873,097</u> | <u>4.0</u> |

Continued

EFFINGHAM COUNTY HOSPITAL AUTHORITY
(A Component Unit of Effingham County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2022 and 2021

4. Deposits and Investments, Continued

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The Authority manages its exposure to credit risk by requiring in its investment policy, that securities be rated “BBB” or greater by a nationally recognized rating agency. The investment policy allows the financial advisor to invest in U.S. Treasury securities, corporate bonds, corporate senior secured notes, certificates-of-deposit, and municipal bonds.

As of June 30, 2022 and 2021, the Authority’s investments in debt securities had the following ratings:

| | | Rating as of June 30, 2022 | | |
|-----------------------|-------------------|----------------------------|-------------------|-------------------|
| | <u>Amount</u> | <u>AA</u> | <u>A</u> | <u>BBB</u> |
| Debt securities: | | | | |
| Corporate bonds | \$ 476,048 | \$ - | \$ 129,891 | \$ 346,157 |
| Municipal bonds | <u>84,153</u> | <u>84,153</u> | <u>-</u> | <u>-</u> |
| Total debt securities | <u>\$ 560,201</u> | <u>\$ 84,153</u> | <u>\$ 129,891</u> | <u>\$ 346,157</u> |
| | | Rating as of June 30, 2021 | | |
| | <u>Amount</u> | <u>AA</u> | <u>A</u> | <u>BBB</u> |
| Debt securities: | | | | |
| Corporate bonds | \$ 783,258 | \$ 255,920 | \$ 85,460 | \$ 441,878 |
| Municipal bonds | <u>89,839</u> | <u>-</u> | <u>89,839</u> | <u>-</u> |
| Total debt securities | <u>\$ 873,097</u> | <u>\$ 255,920</u> | <u>\$ 175,299</u> | <u>\$ 441,878</u> |

Disclosures Relating to Concentration of Credit Risk

The Authority’s investment policy prohibits investments in any one issuer (other than U.S. Treasury securities and money market mutual funds) that are in excess of 5% of the Authority’s total investments. Accordingly, the Authority did not own investments from any one issuer in excess of 5% as of June 30, 2022 and 2021.

Continued

EFFINGHAM COUNTY HOSPITAL AUTHORITY
(A Component Unit of Effingham County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2022 and 2021

5. Accounts Receivable and Payable

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Authority at June 30, 2022 and 2021, consisted of these amounts:

| | <u>2022</u> | <u>2021</u> |
|---|---------------------|----------------------|
| Patient accounts receivable: | | |
| Receivables from patients and their insurance carriers | \$ 31,345,609 | \$ 30,116,272 |
| Receivable from Medicare | 4,295,157 | 4,295,157 |
| Receivable from Medicaid | <u>1,976,310</u> | <u>1,976,310</u> |
| Total gross patient accounts receivable | 37,617,076 | 36,387,739 |
| Less contractual allowances and estimated uncollectibles | <u>28,152,124</u> | <u>25,793,829</u> |
| Patient accounts receivable, net | <u>\$ 9,464,952</u> | <u>\$ 10,593,910</u> |
| Accounts payable and accrued expenses: | | |
| Payable to employees (including payroll taxes) | \$ 2,828,753 | \$ 2,901,635 |
| Payable to suppliers | 3,707,972 | 4,328,306 |
| Other | <u>2,027,083</u> | <u>1,236,605</u> |
| Total accounts payable and accrued expenses | <u>\$ 8,563,808</u> | <u>\$ 8,466,546</u> |

Continued

EFFINGHAM COUNTY HOSPITAL AUTHORITY
(A Component Unit of Effingham County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2022 and 2021

6. Capital Assets

Capital asset changes for the years ended June 30, 2022 and 2021, were as follows:

| | Restated 2021 <u>Balance</u> | <u>Additions</u> | <u>Retirements</u> | <u>Transfers</u> | 2022 <u>Balance</u> |
|---|------------------------------------|---------------------|--------------------|--------------------|------------------------|
| Land | \$ 619,242 | \$ - | \$ - | \$ 2,641,477 | \$ 3,260,719 |
| Construction-in-progress | <u>6,285,863</u> | <u>3,787,594</u> | <u>-</u> | <u>(3,565,658)</u> | <u>6,507,799</u> |
| Total capital assets not being depreciated | <u>6,905,105</u> | <u>3,787,594</u> | <u>-</u> | <u>(924,181)</u> | <u>9,768,518</u> |
| Buildings and improvements | 31,434,275 | 180,308 | - | 787,084 | 32,401,667 |
| Equipment | <u>27,021,082</u> | <u>1,275,854</u> | <u>-</u> | <u>137,097</u> | <u>28,434,033</u> |
| Total capital assets being depreciated | <u>58,455,357</u> | <u>1,456,162</u> | <u>-</u> | <u>924,181</u> | <u>60,835,700</u> |
| Less accumulated depreciation for: | | | | | |
| Buildings and improvements | 15,474,977 | 1,217,589 | - | - | 16,692,566 |
| Equipment | <u>21,893,624</u> | <u>1,211,668</u> | <u>-</u> | <u>-</u> | <u>23,105,292</u> |
| Total accumulated depreciation | <u>37,368,601</u> | <u>2,429,257</u> | <u>-</u> | <u>-</u> | <u>39,797,858</u> |
| Capital assets being depreciated, net | <u>21,086,756</u> | <u>(973,095)</u> | <u>-</u> | <u>924,181</u> | <u>21,037,842</u> |
| Leased equipment | 4,186,755 | 1,974,634 | (101,843) | - | 6,059,546 |
| Less: accumulated amortization for leased equipment | <u>731,139</u> | <u>960,004</u> | <u>(101,843)</u> | <u>-</u> | <u>1,589,300</u> |
| Intangible right-to-use lease assets, net | <u>3,455,616</u> | <u>1,014,630</u> | <u>-</u> | <u>-</u> | <u>4,470,246</u> |
| Total capital assets, net | <u>\$ 31,447,477</u> | <u>\$ 3,829,129</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 35,276,606</u> |

Continued

EFFINGHAM COUNTY HOSPITAL AUTHORITY
(A Component Unit of Effingham County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2022 and 2021

6. Capital Assets, Continued

| | Restated 2020 <u>Balance</u> | <u>Additions</u> | <u>Retirements</u> | <u>Transfers</u> | Restated 2021 <u>Balance</u> |
|---|------------------------------------|---------------------|--------------------|------------------|------------------------------------|
| Land | \$ 619,242 | \$ - | \$ - | \$ - | \$ 619,242 |
| Construction-in-progress | <u>2,238,979</u> | <u>4,302,237</u> | <u>-</u> | <u>(255,353)</u> | <u>6,285,863</u> |
| Total capital assets not being depreciated | <u>2,858,221</u> | <u>4,302,237</u> | <u>-</u> | <u>(255,353)</u> | <u>6,905,105</u> |
| Buildings and improvements | 31,206,154 | 24,926 | - | 203,195 | 31,434,275 |
| Equipment | <u>25,913,678</u> | <u>1,055,246</u> | <u>-</u> | <u>52,158</u> | <u>27,021,082</u> |
| Total capital assets being depreciated | <u>57,119,832</u> | <u>1,080,172</u> | <u>-</u> | <u>255,353</u> | <u>58,455,357</u> |
| Less accumulated depreciation for: | | | | | |
| Buildings and improvements | 14,056,160 | 1,418,817 | - | - | 15,474,977 |
| Equipment | <u>20,352,179</u> | <u>1,541,445</u> | <u>-</u> | <u>-</u> | <u>21,893,624</u> |
| Total accumulated depreciation | <u>34,408,339</u> | <u>2,960,262</u> | <u>-</u> | <u>-</u> | <u>37,368,601</u> |
| Capital assets being depreciated, net | <u>22,711,493</u> | <u>(1,880,090)</u> | <u>-</u> | <u>255,353</u> | <u>21,086,756</u> |
| Leased equipment | 3,666,855 | 519,900 | - | - | 4,186,755 |
| Less: accumulated amortization for leased equipment | <u>-</u> | <u>731,139</u> | <u>-</u> | <u>-</u> | <u>731,139</u> |
| Intangible right-to-use lease assets, net | <u>3,666,855</u> | <u>(211,239)</u> | <u>-</u> | <u>-</u> | <u>3,455,616</u> |
| Total capital assets, net | <u>\$ 29,236,569</u> | <u>\$ 2,210,908</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 31,447,477</u> |

Continued

EFFINGHAM COUNTY HOSPITAL AUTHORITY
(A Component Unit of Effingham County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2022 and 2021

7. Notes Receivable

Notes receivable consist primarily of loans to physicians under recruiting arrangements and secured by promissory notes. In general, the loans are being forgiven over a period of time in which the physician practices medicine in Springfield, Georgia. If the physician discontinues medical practice in this town, the outstanding principal and accrued interest become due immediately. The amount forgiven and charged to expense during 2022 and 2021 was approximately \$3,000 and \$1,000, respectively.

Notes receivable also consist of educational loans to employees secured by promissory notes. In general, the educational loans are forgiven over a period of time in which the employee works for the Authority. If the employee leaves the Authority, the outstanding principal and accrued interest become due immediately.

8. Short-Term Debt

In 2021, the Board of Directors of the Authority approved the establishment of an unsecured revolving line-of-credit with a borrowing limit of \$3,500,000. The outstanding balance on the revolving line-of-credit was \$3,498,500 and \$2,496,229 at June 30, 2022 and 2021, respectively. Interest is recalculated at a floating rate per annum equal to 30-day LIBOR plus 3% and accrues from the date of disbursement on the unpaid balance until the principal balance is paid in full. The line-of-credit was paid off with the issuance of the 2022 Revenue Certificates. See Note 9 for additional information. Activity on the Authority's lines-of-credit during the years ended June 30, 2022 and 2021, follows:

| | <u>2021</u> <u>Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>2022</u> <u>Balance</u> |
|----------------|-------------------------------|---------------------|-------------------|-------------------------------|
| Line-of-credit | <u>\$ 2,496,229</u> | <u>\$ 1,002,271</u> | <u>\$ -</u> | <u>\$ 3,498,500</u> |
| | <u>2020</u> <u>Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>2021</u> <u>Balance</u> |
| Line-of-credit | <u>\$ -</u> | <u>\$ 2,500,000</u> | <u>\$ 3,771</u> | <u>\$ 2,496,229</u> |

Continued

EFFINGHAM COUNTY HOSPITAL AUTHORITY
(A Component Unit of Effingham County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2022 and 2021

9. Long-Term Debt

A summary of long-term debt at June 30, 2022 and 2021 follows:

| | <u>2022</u> | Restated <u>2021</u> |
|---|----------------------|-------------------------|
| 2010 Series A Revenue Certificates payable in varying semi-annual amounts ranging from \$1,167,125 to \$1,213,925. Interest rates on coupons are 5.75% payable semiannually on April 20 and October 20. | \$ 23,584,368 | \$ 24,527,008 |
| Financed equipment, with interest rate ranging from 1.85% - 5.44% and monthly and quarterly payments ranging from \$714 to \$33,938. | 1,298,266 | 199,584 |
| Paycheck Protection Program, with interest rate of 1.00%. | - | 410,550 |
| Cerner Implementation, with interest rate of 0.00% and quarterly payments of \$54,620. | <u>1,686,983</u> | <u>1,551,767</u> |
| | 26,569,617 | 26,688,909 |
| Less current maturities of long-term debt | <u>1,601,733</u> | <u>1,194,486</u> |
| Long-term debt | <u>\$ 24,967,884</u> | <u>\$ 25,494,423</u> |

Continued

EFFINGHAM COUNTY HOSPITAL AUTHORITY
(A Component Unit of Effingham County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2022 and 2021

9. Long-Term Debt, Continued

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

| | Restated 2021 <u>Balance</u> | <u>Additions</u> | <u>Reductions</u> | 2022 <u>Balance</u> | Amounts Due Within <u>One Year</u> |
|----------------------|------------------------------------|---------------------|---------------------|------------------------|--|
| Direct Borrowings: | | | | | |
| Notes Payable | \$ 1,962,317 | \$ 469,446 | \$ 744,780 | \$ 1,686,983 | \$ 218,480 |
| Financed Equipment | 199,584 | 1,420,696 | 322,014 | 1,298,266 | 379,681 |
| Revenue Bonds: | | | | | |
| Mortgage | <u>24,527,008</u> | <u>-</u> | <u>942,640</u> | <u>23,584,368</u> | <u>1,003,572</u> |
| Total long-term debt | <u>\$ 26,688,909</u> | <u>\$ 1,890,142</u> | <u>\$ 2,009,434</u> | <u>\$ 26,569,617</u> | <u>\$ 1,601,733</u> |

| | Restated 2020 <u>Balance</u> | <u>Additions</u> | <u>Reductions</u> | Restated 2021 <u>Balance</u> | Amounts Due Within <u>One Year</u> |
|----------------------|------------------------------------|-------------------|---------------------|------------------------------------|--|
| Direct Borrowings: | | | | | |
| Notes Payable | \$ 5,876,787 | \$ 410,550 | \$ 4,325,020 | \$ 1,962,317 | \$ 172,419 |
| Financed Equipment | 514,223 | - | 314,639 | 199,584 | 79,427 |
| Revenue Bonds: | | | | | |
| Mortgage | <u>25,412,415</u> | <u>-</u> | <u>885,407</u> | <u>24,527,008</u> | <u>942,640</u> |
| Total long-term debt | <u>\$ 31,803,425</u> | <u>\$ 410,550</u> | <u>\$ 5,525,066</u> | <u>\$ 26,688,909</u> | <u>\$ 1,194,486</u> |

In December 2010, the Authority issued Federally Taxable Recovery Zone Economic Development Bonds (Direct Pay) in the form of 2010 Series A Bonds for \$28,640,000 and 2010 Series B bonds for \$2,300,000. In connection with this bond issue, the Federal Housing Administration (FHA) issued a commitment dated December 6, 2010, which was assigned to the FHA approved lender Berkadia Commercial Mortgage LLC (Berkadia) for a mortgage in the amount of \$30,940,000. The proceeds from the bond issue were used to acquire Government National Mortgage Association (GNMA) Securities from Berkadia which are securitizations of the mortgage loan to the Authority. In addition, the Authority is required to deposit certain amounts with the trustee for interest payments. During the construction period, the Authority requested monies from Berkadia in the form of draws. As each draw was funded by Berkadia, the draws were securitized as GNMA securities and sold to the bond trustee. In 2013, the construction project was completed and the Series A and B bonds have been fully secured by GNMA securities, which are held in trust. The Berkadia mortgage is collateralized by the assets and revenues derived from the assets of the Authority.

Continued

EFFINGHAM COUNTY HOSPITAL AUTHORITY
(A Component Unit of Effingham County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2022 and 2021

9. Long-Term Debt, Continued

The Bonds are special limited obligations of the Authority and are secured by the revenues and income derived from the trust estate, which consists of the proceeds of the bond issue, the deposits held by the trustee and the GNMA securities. The Authority does not have access to the trust accounts. Subsequent to year end, the bonds were refinanced with the issuance of the Series 2022 Refunding and Improvement Revenue Anticipation Certificate in the amount of \$29,785,000 with an interest rate of 3.43% and a maturity date of April 1, 2037. Interest payments are paid semi-annually while principal payments are paid annually. In addition to paying off the 2010 Series A bonds, the proceeds from the Series 2022 were used to pay off the line-of-credit of approximately \$3,500,000 and fund new projects in the amount of \$1,770,000.

The mortgage established a debt service reserve fund. The deposits related to this account are included in the assets held by trustee under indenture in the balance sheets. The mortgage also requires the Authority to meet certain measures of financial and operational performance as long as the mortgage is outstanding. The Authority is in compliance with these requirements.

In 2022 and 2021, the Authority entered into finance agreements with interest rates ranging from 1.85% to 5.44% with monthly and quarterly payments ranging from \$714 to \$33,938. The financed equipment is collateralized by the equipment.

On April 18, 2020, the Authority received loan proceeds in the amount of \$4,152,601 under the Paycheck Protection Program (PPP). The PPP, established as part of the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable after the covered period as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the covered period. The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1 percent, with a deferral of payments for the first ten months after the covered period. During 2021, the Authority received full forgiveness approval from Small Business Administration (SBA). The gain on forgiveness is reported as nonoperating revenues in the statements of revenues, expenses and changes in net position.

On March 31, 2021, the Authority received a 2nd draw with loan proceeds in the amount of \$410,550 under the Paycheck Protection Program (PPP). The unforgiven portion of the PPP loan is payable over five years at an interest rate of 1 percent, with a deferral of payments for the first ten months after the covered period. The Authority believes it has used the proceeds for purposes consistent with the PPP. The Authority will recognize any forgiveness of the loan at the time the Authority is legally released from the debt. During 2022, the Authority received full forgiveness approval from Small Business Administration (SBA). The gain on forgiveness is reported as nonoperating revenues in the statements of revenues, expenses and changes in net position.

In March 2020, the Authority entered into a Cerner implementation agreement for an electronic health record system with a 0.00% interest rate with quarterly payments of \$54,620. The note payable is collateralized by the equipment.

Continued

EFFINGHAM COUNTY HOSPITAL AUTHORITY
(A Component Unit of Effingham County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2022 and 2021

9. Long-Term Debt, Continued

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

| <u>Year Ending June 30:</u> | <u>Revenue Bonds</u> | | <u>Direct Borrowings</u> | |
|-----------------------------|----------------------|----------------------|--------------------------|-----------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
| 2023 | \$ 1,003,572 | \$ 1,452,539 | \$ 218,480 | \$ - |
| 2024 | 1,068,442 | 1,387,669 | 218,480 | - |
| 2025 | 1,137,505 | 1,318,605 | 218,480 | - |
| 2026 | 1,211,033 | 1,245,077 | 218,480 | - |
| 2027 | 7,335,608 | 4,944,943 | 218,480 | - |
| 2028-2032 | 10,033,419 | 2,247,131 | 594,583 | - |
| 2033-2037 | <u>1,794,789</u> | <u>47,291</u> | <u>-</u> | <u>-</u> |
| Total | <u>\$ 23,584,368</u> | <u>\$ 12,643,255</u> | <u>\$ 1,686,983</u> | <u>\$ -</u> |

| <u>Year Ending June 30:</u> | <u>Financed Equipment</u> | |
|-----------------------------|---------------------------|-------------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2023 | \$ 379,681 | \$ 49,486 |
| 2024 | 391,021 | 33,932 |
| 2025 | 326,762 | 17,974 |
| 2026 | 173,670 | 5,126 |
| 2027 | <u>27,132</u> | <u>765</u> |
| Total | <u>\$ 1,298,266</u> | <u>\$ 107,283</u> |

The 2010A Bonds were issued as "Recovery Zone Economic Development Bonds" for purposes of the Revenue Recovery Act, Section 6431 of the Code. Pursuant to the Revenue Recovery Act and the Code, the Authority receives cash subsidy payments from the United States Department of the Treasury equal to 45% of the interest payable on the 2010A Bonds on or about each interest payment date. The rebate of approximately \$ and \$ for 2022 and 2021, respectively. The cash payment does not constitute a full faith and credit guarantee of the United States government, but is required to be paid by the United States Treasury under the Revenue Recovery Act. Pursuant to the provisions of IRS Notice 2009-50, 2009-26 I.R.B. 1118, the State of Georgia was allocated \$355,785,000 of the national Recovery Zone Economic Development Bond volume cap. The Authority received an allocation from the State of Georgia for the 2010A Bonds and has designated the 2010A Bonds as Recovery Zone Economic Development Bonds in order to receive Revenue Recovery Zone Bonds Federal Direct Payments. The Revenue Recovery Zone Bonds Federal Direct Payments are not pledged as security for the 2010A Bonds.

Continued

EFFINGHAM COUNTY HOSPITAL AUTHORITY
(A Component Unit of Effingham County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2022 and 2021

9. Long-Term Debt, Continued

The Revenue Certificates and direct borrowings contain a provision that in a continuing event of default, outstanding obligations may become immediately due and payable.

10. Employee Health Insurance

The Authority has a self-insurance program under which a third-party administrator processes and pays claims. The Authority reimburses the third-party administrator for claims incurred and paid and has purchased stop-loss insurance coverage for claims in excess of \$100,000 for each individual employee. Total expenses relative to this plan were approximately \$1,295,000 and \$2,002,000 for 2022 and 2021, respectively.

11. Malpractice Insurance

The Authority is covered by a general and professional liability insurance policy with a specified deductible per incident and excess coverage on a claims-made basis. Liability limits related to this policy in 2022 and 2021 are \$1,000,000 per occurrence and \$3,000,000 in aggregate. The Authority uses a third-party administrator to review and analyze incidents that may result in a claim against the Authority.

Various claims and assertions have been made against the Authority in its normal course of providing services. In addition, other claims may be asserted arising from services provided to patients in the past. In the opinion of management, adequate consideration has been made for losses which may occur from such asserted and unasserted claims that are not covered by liability insurance.

12. Retirement Plan

The Authority provides retirement benefits for its employees through the Effingham Hospital TSA Plan (Plan), a defined contribution plan. Effingham Hospital administers the Plan. Plan provisions and contribution requirements are established and may be amended by the Authority's Board of Directors. Employees are eligible to participate in the elective deferral portion of the Plan on his/her first day of employment. Employees are eligible to participate in the discretionary contributions portion of the Plan upon attainment of two years of service. Employees may make contributions to the Plan such that total contributions do not exceed the maximum annual amount as set periodically by the Internal Revenue Service. Employee contributions to the Plan were approximately \$367,000 and \$483,000 for the years ended June 30, 2022 and 2021, respectively. The Authority contributes equal to 3% of the budgeted compensation of eligible employees each year. The contribution is allocated to the employee's retirement account based on the ratio of employee compensation to total compensation of eligible employees. The Authority's contributions to the Plan were approximately \$131,000 and \$356,000 for the years ended June 30, 2022 and 2021, respectively.

Continued

EFFINGHAM COUNTY HOSPITAL AUTHORITY
(A Component Unit of Effingham County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2022 and 2021

12. Retirement Plan, Continued

Employees are vested immediately in their contributions. Vesting in the Authority's contribution portion of their accounts is based on years of continuous services. Forfeited nonvested accounts may be used to pay Plan expenses. The Authority recognized no forfeitures in pension expense during 2022 or 2021.

13. Commitments and Contingencies

Compliance Plan

The healthcare industry has 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 national 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. No assurance can be made that the Authority will not be subjected to future investigations with accompanying monetary damages.

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 these provisions are and will be funded in part by reductions in payments by government programs, including Medicare and Medicaid. No assurance can be made that these changes will not adversely affect the Authority.

Litigation

The Authority is involved in litigation and regulatory investigations arising in the normal 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. See malpractice insurance disclosures in Note 11.

Continued

EFFINGHAM COUNTY HOSPITAL AUTHORITY
(A Component Unit of Effingham County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2022 and 2021

14. Property Tax Income

During 2010, Effingham County (County) entered into an agreement with the Authority to make monthly payments to support the continuous operation of the Authority. The County guaranteed a minimum monthly payment of \$300,000, totaling to a minimum annual payment of \$3,600,000. These payments will continue until the 2010 Bonds have been paid in full and are not required to be paid back by the Authority. To fund the payments to the Authority, the County levied an annual tax on all taxable property located within the boundaries of the County.

15. Fair Values of Financial Instruments

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

- *Cash and cash equivalents, estimated third-party payor settlements, short-term debt, Medicare advance payments, accounts payable and accrued expenses:* The carrying amount reported in the balance sheets approximates their fair value due to the short-term nature of these instruments.
- *Noncurrent investments:* These assets consist primarily of cash and cash equivalents and debt securities. See Note 16 for fair value measurements.
- *Long-term debt:* The fair value of the Authority's remaining long-term debt is estimated based on the quoted market value for same or similar debt instruments.

The carrying amounts and fair values of the Authority's long-term debt at June 30, 2022 and 2021, are as follows:

| | <u>2022</u> | | <u>2021</u> | |
|----------------|----------------------------|----------------------|---|--------------------------------|
| | <u>Carrying Amount</u> | <u>Fair Value</u> | <u>Restated Carrying Amount</u> | <u>Restated Fair Value</u> |
| Long-term debt | <u>\$ 26,569,617</u> | <u>\$ 27,051,917</u> | <u>\$ 26,688,909</u> | <u>\$ 27,452,192</u> |

Continued

EFFINGHAM COUNTY HOSPITAL AUTHORITY
(A Component Unit of Effingham County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2022 and 2021

16. Fair Value Measurement

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, and Level 3 inputs are significant unobservable inputs.

The Authority has the following fair value measurements as of June 30, 2022 and 2021:

| | <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>June 30, 2022</u> | | | | |
| Cash and cash equivalents | \$ 2,047,983 | \$ 2,047,983 | \$ - | \$ - |
| Municipal bonds | 84,153 | - | 84,153 | - |
| Corporate bonds | <u>476,048</u> | <u>-</u> | <u>476,048</u> | <u>-</u> |
| Total | <u>\$ 2,608,184</u> | <u>\$ 2,047,983</u> | <u>\$ 560,201</u> | <u>\$ -</u> |
| <u>June 30, 2021</u> | | | | |
| Cash and cash equivalents | \$ 5,351,038 | \$ 5,351,038 | \$ - | \$ - |
| Municipal bonds | 89,839 | - | 89,839 | - |
| Corporate bonds | <u>783,258</u> | <u>-</u> | <u>783,258</u> | <u>-</u> |
| Total | <u>\$ 6,224,135</u> | <u>\$ 5,351,038</u> | <u>\$ 873,097</u> | <u>\$ -</u> |

Municipal bonds and corporate bonds classified in Level 2 of the fair value hierarchy are estimated using a third-party pricing service utilizing daily market data.

Continued

EFFINGHAM COUNTY HOSPITAL AUTHORITY
(A Component Unit of Effingham County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2022 and 2021

17. Concentration 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 follows:

| | <u>2022</u> | <u>2021</u> |
|--------------------------|-------------|-------------|
| Medicare | 12% | 16% |
| Medicaid | 3% | 4% |
| Blue Cross | 8% | 12% |
| Other third-party payors | 44% | 58% |
| Patients | <u>33%</u> | <u>10%</u> |
| Total | <u>100%</u> | <u>100%</u> |

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 contributing to certain qualified rural hospital organizations during calendar years 2017 through 2024. The Hospital submitted the necessary documentation and was approved by the State to participate in the rural hospital tax credit program for calendar years 2021 and 2022. Contributions received under the program approximated \$522,000 and \$255,000 during fiscal years 2022 and 2021, respectively. The Hospital will have to be approved by the State to participate in the program in each subsequent year.

19. Coronavirus (COVID-19)

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen. The outbreak has put an unprecedented strain on the U.S. healthcare system, disrupted or delayed production and delivery of materials and products in the supply chain, and caused staffing shortages. The extent of the impact of COVID-19 on the Authority's operational and financial performance depends on certain developments, including the duration and spread of the outbreak, remedial actions and stimulus measures adopted by local and federal governments, and impact on the Authority's customers, employees and vendors all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the Authority's financial position or results of operations is uncertain.

On March 27, 2020, the President signed the *Coronavirus Aid, Relief and Economic Security Act* (CARES Act). Certain provisions of the CARES Act provide relief funds to hospitals and other healthcare providers. The funding will be used to support healthcare-related expenses or lost revenue attributable to COVID-19. The U.S. Department of Health and Human Services began distributing funds on April 10, 2020, to eligible providers in an effort to provide relief to both providers in areas heavily impacted by COVID-19 and those providers who are struggling to keep their doors open due to healthy patients delaying care and canceling

Continued

EFFINGHAM COUNTY HOSPITAL AUTHORITY
(A Component Unit of Effingham County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2022 and 2021

19. Coronavirus (COVID-19), Continued

elective services. On April 24, 2020, the *Paycheck Protection Program and Health Care Enhancement Act* was passed. This Act provides additional funding to replenish and supplement key programs under the CARES Act, including funds to health care providers for COVID-19 testing. On March 11, 2021, the *American Rescue Plan Act* (ARP) was passed. This Act provides additional funding to replenish and supplement key programs, including funds to hospitals and other providers that serve patients living in rural areas. Grant and contribution advance payments are reported as unearned revenue until all eligibility requirements are met. Recognized revenue is reported as nonoperating revenues in the statements of revenues, expenses and changes in net position. The Authority received and recognized \$1,527,064 and \$1,035,622 in grant stimulus funding in fiscal years 2022 and 2021, respectively.

CARES Act and ARPA funding may be subject to audits. While the Authority currently believes its use of the funds is in compliance with applicable terms and conditions, there is a possibility payments could be recouped based on changes in reporting requirements or audit results.

The CARES Act also expanded the existing Medicare Accelerated and Advance Payment Program by allowing qualifying providers to receive an advanced Medicare payment. The advance payment will have to be repaid. Recoupment begins one year after the date of receipt of the advance payment. After that first year, Medicare will automatically recoup 25 percent of Medicare payments otherwise owed to the Authority for eleven months. At the end of the eleven-month period, recoupment will increase to 50 percent for another six months. If the Authority is unable to repay the total amount of the advanced payments during this time-period (a total of 29 months), CMS will issue letters requiring repayment of any outstanding balance, subject to an interest rate of four percent. In April 2020, the Authority received \$3,016,368 in advanced payments. Through June 30, 2022, \$1,985,160 of the advance has been repaid. The current portion of the outstanding balance in current liabilities is \$587,934 with the remaining balance of approximately \$443,274 included with long-term liabilities as of June 30, 2022.

During 2022, Effingham County provided the Authority with approximately \$692,000 to provide relief of the effects of COVID-19 on operations.

Continued

EFFINGHAM COUNTY HOSPITAL AUTHORITY
(A Component Unit of Effingham County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2022 and 2021

20. Leases

The Authority is a lessee for noncancellable lease assets. The Authority recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in its financial statements. At the commencement of a lease, the Authority initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made on or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

Key estimates and judgments related to leases include how the Authority determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The Authority uses the implicit interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided or cannot be imputed, the Authority generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the Authority is reasonably certain to exercise.

The Authority monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with capital assets and lease liabilities are reported with current and noncurrent liabilities on the balance sheets.

None of the leases contain provisions for variable payments or residual value guarantees. Additionally, there are no other payments such as residual value guarantees or termination penalties, not previously included in the measurement of the lease liability reflected as outflows of resources.

Continued

EFFINGHAM COUNTY HOSPITAL AUTHORITY
(A Component Unit of Effingham County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
June 30, 2022 and 2021

20. Leases, Continued

A schedule of changes in the Authority's lease liabilities for 2022 and 2021 follows:

| | <u>2021</u> <u>Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>2022</u> <u>Balance</u> | Amounts Due Within <u>One Year</u> |
|-------------------|-------------------------------|------------------|-------------------|-------------------------------|--|
| Lease liabilities | \$ 3,507,509 | \$ 1,936,753 | \$ 873,291 | \$ 4,570,971 | \$ 997,716 |
| | <u>2020</u> <u>Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>2021</u> <u>Balance</u> | Amounts Due Within <u>One Year</u> |
| Lease liabilities | \$ 3,642,432 | \$ 539,185 | \$ 674,108 | \$ 3,507,509 | \$ 705,716 |

Scheduled principal and interest payments are as follows:

| <u>Year Ending June 30:</u> | <u>Principal</u> | <u>Interest</u> |
|-----------------------------|---------------------|-------------------|
| 2023 | \$ 997,716 | \$ 130,671 |
| 2024 | 919,407 | 99,765 |
| 2025 | 737,053 | 72,578 |
| 2026 | 567,351 | 52,486 |
| 2027 | 556,628 | 35,161 |
| 2028-2032 | <u>792,816</u> | <u>53,434</u> |
| Total | <u>\$ 4,570,971</u> | <u>\$ 444,095</u> |

Expenses for the leasing activity of the Authority as the lessee for the years ended June 30, 2022 and 2021, are as follows:

| | <u>2022</u> | <u>2021</u> |
|---------------------------------------|---------------------|---------------------|
| Short-term lease expense | \$ 436,041 | \$ 372,748 |
| Right-to-use lease asset amortization | 960,004 | 731,139 |
| Lease liability interest expense | <u>131,412</u> | <u>116,975</u> |
| Total lease cost | <u>\$ 1,527,457</u> | <u>\$ 1,220,862</u> |