

THE HOSPITAL AUTHORITY OF JEFFERSON COUNTY  
AND THE CITY OF LOUISVILLE, GEORGIA  
(A Component Unit of Jefferson County, Georgia)



FINANCIAL STATEMENTS

for the years ended December 31, 2018 and 2017

## CONTENTS

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	<u>Pages</u>
Independent Auditor's Report	1-2
Financial Statements:	
Balance Sheets	3-4
Statements of Revenues, Expenses and Changes in Net Position	5
Statements of Cash Flows	6-7
Notes to Financial Statements	8-25
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	26-27
Schedule of Findings	28-30



## INDEPENDENT AUDITOR'S REPORT

The Hospital Authority of Jefferson County and  
The City of Louisville, Georgia  
Louisville, Georgia

### **Report on the Financial Statements**

We have audited the accompanying financial statements of The Hospital Authority of Jefferson County and The City of Louisville, Georgia, which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

Continued

Let's Think Together.

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Hospital Authority of Jefferson County and The City of Louisville, Georgia, as of December 31, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Required Supplementary Information***

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

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have issued our report dated April 22, 2019, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

*Draffin & Tucker, LLP*

Atlanta, Georgia  
April 22, 2019

THE HOSPITAL AUTHORITY OF JEFFERSON COUNTY  
AND THE CITY OF LOUISVILLE, GEORGIA  
(A Component Unit of Jefferson County, Georgia)

Balance Sheets  
December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>Assets</b>		
<i>Current assets:</i>		
Cash and cash equivalents	\$ 738,000	\$ 184,000
Patient accounts receivable, net of estimated uncollectibles of \$717,000 in 2018 and \$1,872,000 in 2017	1,062,000	1,157,000
Estimated third-party payor settlements	192,000	169,000
City and county capital contributions receivable	88,000	3,000
Rural hospital tax credit contributions receivable	-	119,000
Supplies, at lower of cost (first-in, first-out) or market	180,000	165,000
Other current assets	<u>14,000</u>	<u>14,000</u>
Total current assets	<u>2,274,000</u>	<u>1,811,000</u>
<i>Noncurrent cash and cash equivalents:</i>		
Held by trustee for debt service	25,000	28,000
Restricted by bond covenant for capital acquisitions	<u>87,000</u>	<u>70,000</u>
Total noncurrent cash and cash equivalents	<u>112,000</u>	<u>98,000</u>
<i>Capital assets:</i>		
Land	76,000	76,000
Construction-in-progress	33,000	70,000
Depreciable capital assets, net of accumulated depreciation	<u>4,272,000</u>	<u>4,307,000</u>
Total capital assets, net of accumulated depreciation	<u>4,381,000</u>	<u>4,453,000</u>
<i>Other assets:</i>		
Prepaid recruitment expense	<u>44,000</u>	<u>56,000</u>
Total assets	<u>\$ 6,811,000</u>	<u>\$ 6,418,000</u>

	<u>2018</u>	<u>2017</u>
<b>Liabilities and Net Position</b>		
<i>Current liabilities:</i>		
Current maturities of long-term debt	\$ 209,000	\$ 183,000
Current portion of County interim support contract payments	120,000	120,000
Accounts payable	1,149,000	804,000
Accrued expenses	554,000	458,000
Estimated third-party payor settlements	<u>8,000</u>	<u>22,000</u>
Total current liabilities	<u>2,040,000</u>	<u>1,587,000</u>
<i>Long-term liabilities:</i>		
Long-term debt, net of current maturities	1,084,000	1,219,000
County interim support contract payments, net of current portion	<u>300,000</u>	<u>420,000</u>
Total long-term liabilities	<u>1,384,000</u>	<u>1,639,000</u>
Total liabilities	<u>3,424,000</u>	<u>3,226,000</u>
<i>Net position:</i>		
Net investment in capital assets	3,088,000	3,051,000
Restricted for capital acquisitions	87,000	70,000
Unrestricted	<u>212,000</u>	<u>71,000</u>
Total net position	<u>3,387,000</u>	<u>3,192,000</u>
Total liabilities and net position	<u>\$ 6,811,000</u>	<u>\$ 6,418,000</u>

See accompanying notes to financial statements.

THE HOSPITAL AUTHORITY OF JEFFERSON COUNTY  
AND THE CITY OF LOUISVILLE, GEORGIA  
(A Component Unit of Jefferson County, Georgia)

Statements of Revenues, Expenses and Changes in Net Position  
Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating revenues:		
Net patient service revenue (net of provision for bad debts of \$1,647,000 in 2018 and \$1,880,000 in 2017)	\$ 10,552,000	\$ 9,373,000
Other	<u>104,000</u>	<u>265,000</u>
Total operating revenues	<u>10,656,000</u>	<u>9,638,000</u>
Operating expenses:		
Salaries and wages	6,431,000	6,209,000
Employee benefits	935,000	995,000
Supplies and drugs	893,000	809,000
Professional fees	928,000	747,000
Purchased services	1,615,000	891,000
Depreciation and amortization	408,000	376,000
Other	<u>1,548,000</u>	<u>1,535,000</u>
Total operating expenses	<u>12,758,000</u>	<u>11,562,000</u>
Operating loss	( <u>2,102,000</u> )	( <u>1,924,000</u> )
Nonoperating revenues (expenses):		
Interest expense	( 54,000 )	( 50,000 )
Rural hospital tax credit contributions	661,000	231,000
County contributions for indigent care	<u>1,366,000</u>	<u>1,182,000</u>
Total nonoperating revenues	<u>1,973,000</u>	<u>1,363,000</u>
Excess expenses before capital grants and contributions	( 129,000 )	( 561,000 )
City and county capital contributions for bond payments	201,000	201,000
County contributions for capital asset purchases	7,000	156,000
Capital grants	<u>116,000</u>	<u>106,000</u>
Change in net position	195,000	( 98,000 )
Net position, beginning of year	<u>3,192,000</u>	<u>3,290,000</u>
Net position, end of year	\$ <u>3,387,000</u>	\$ <u>3,192,000</u>

See accompanying notes to financial statements.

THE HOSPITAL AUTHORITY OF JEFFERSON COUNTY  
AND THE CITY OF LOUISVILLE, GEORGIA  
(A Component Unit of Jefferson County, Georgia)

Statements of Cash Flows  
Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 10,610,000	\$ 9,465,000
Payments to suppliers and contractors	( 4,642,000)	(4,149,000)
Payments to employees	( 7,270,000)	(7,169,000)
Other receipts	<u>104,000</u>	<u>265,000</u>
Net cash used by operating activities	<u>( 1,198,000)</u>	<u>(1,588,000)</u>
Cash flows from noncapital financing activities:		
County contributions for indigent care	1,366,000	1,182,000
Proceeds from County interim support contract payments	-	200,000
Repayment of County interim support contract payments	( 120,000)	( 60,000)
Rural hospital tax credit contributions	<u>780,000</u>	<u>112,000</u>
Net cash provided by noncapital financing activities	<u>2,026,000</u>	<u>1,434,000</u>
Cash flows from capital and related financing activities:		
Proceeds from issuance of long-term debt	-	288,000
Principal paid on long-term debt	( 190,000)	( 155,000)
Interest paid on long-term debt	( 54,000)	( 50,000)
Purchase of capital assets	( 255,000)	( 617,000)
Capital contributions from city and county	116,000	201,000
County contributions for capital purchases	7,000	156,000
Capital grants	<u>116,000</u>	<u>106,000</u>
Net cash used by capital and related financing activities	<u>( 260,000)</u>	<u>( 71,000)</u>
Net increase (decrease) in cash and cash equivalents	568,000	( 225,000)
Cash and cash equivalents, beginning of year	<u>282,000</u>	<u>507,000</u>
Cash and cash equivalents, end of year	\$ <u>850,000</u>	\$ <u>282,000</u>

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THE HOSPITAL AUTHORITY OF JEFFERSON COUNTY  
AND THE CITY OF LOUISVILLE, GEORGIA  
(A Component Unit of Jefferson County, Georgia)

Statements of Cash Flows, Continued  
Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash and cash equivalents in current assets	\$ 738,000	\$ 184,000
Cash and cash equivalents in noncurrent assets:		
Held by trustee for debt service	25,000	28,000
Restricted by bond covenant for capital acquisitions	<u>87,000</u>	<u>70,000</u>
Total cash and cash equivalents	\$ <u>850,000</u>	\$ <u>282,000</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$(2,102,000)	\$(1,924,000)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation and amortization	408,000	376,000
Provision for bad debts	1,647,000	1,880,000
Changes in:		
Patient accounts receivable	(1,552,000)	(1,764,000)
Estimated third-party payor settlements	( 37,000)	( 24,000)
Supplies	( 15,000)	-
Other current assets	-	58,000
Prepaid recruitment expense	12,000	4,000
Accounts payable	345,000	( 229,000)
Accrued expenses	<u>96,000</u>	<u>35,000</u>
Net cash used by operating activities	\$ <u>(1,198,000)</u>	\$ <u>(1,588,000)</u>
Noncash capital financing activities:		
Capital assets acquired through capital lease	\$ <u>81,000</u>	\$ <u>-</u>

See accompanying notes to financial statements.

THE HOSPITAL AUTHORITY OF JEFFERSON COUNTY  
AND THE CITY OF LOUISVILLE, GEORGIA  
(A Component Unit of Jefferson County, Georgia)

Notes To Financial Statements  
December 31, 2018 and 2017

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

*Reporting entity.* The Hospital Authority of Jefferson County and The City of Louisville, Georgia (Authority) is a public body corporate and politic organized under the Hospital Authorities Law of the State of Georgia. The members of the Authority are comprised of five (5) individuals representing Jefferson County and two (2) individuals representing the City of Louisville. The Authority is considered a component unit of Jefferson County (County).

The Authority owns and operates Jefferson Hospital (Hospital), a thirty-seven (37) bed acute care hospital, and rural health clinics located in Louisville, Wadley and Wrens, Georgia (Clinics). The accompanying financial statements include the operations of the Hospital and the Clinics.

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

Significant items subject to such estimates and assumptions include the determination of the allowances for uncollectible accounts and contractual adjustments and estimated third-party payor settlements. In particular, laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates associated with these programs will change by a material amount in the near term.

*Enterprise fund accounting.* The Authority uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. The Authority prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB).

*Risk management.* The Authority is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

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

Continued

THE HOSPITAL AUTHORITY OF JEFFERSON COUNTY  
AND THE CITY OF LOUISVILLE, GEORGIA  
(A Component Unit of Jefferson County, Georgia)

Notes To Financial Statements, Continued  
December 31, 2018 and 2017

**1. Description of Reporting Entity and 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 collectibility of the accounts receivable. As accounts are known to be uncollectible, the account is charged against the allowance.

*Noncurrent cash and cash equivalents.* Noncurrent cash and cash equivalents include assets held by trustee for debt service and capital acquisitions as required by revenue bond indentures and USDA loan agreement. Assets consist of cash and money market accounts.

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

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

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

*Costs of borrowing.* Interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. None of the Authority's interest cost was capitalized in either 2018 or 2017.

Costs incurred in connection with the issuance of loans are expensed in the period incurred.

*Compensated absences.* The Authority's employees earn paid time off at varying rates depending on years of service. Employees may accumulate paid time off up to a specified maximum. Employees who retire or resign in good standing will be eligible for payment of accumulated paid time off upon their resignation. The estimated amount of accumulated paid time off is reported as a current liability in 2018 and 2017.

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THE HOSPITAL AUTHORITY OF JEFFERSON COUNTY  
AND THE CITY OF LOUISVILLE, GEORGIA  
(A Component Unit of Jefferson County, Georgia)

Notes To Financial Statements, Continued  
December 31, 2018 and 2017

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

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

*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.

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

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

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

Continued

THE HOSPITAL AUTHORITY OF JEFFERSON COUNTY  
AND THE CITY OF LOUISVILLE, GEORGIA  
(A Component Unit of Jefferson County, Georgia)

Notes To Financial Statements, Continued  
December 31, 2018 and 2017

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

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

*Income taxes.* The Authority is a governmental entity and is recognized as tax-exempt. Accordingly, no provision for income taxes has been considered in the accompanying financial statements.

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

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

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

Continued

THE HOSPITAL AUTHORITY OF JEFFERSON COUNTY  
AND THE CITY OF LOUISVILLE, GEORGIA  
(A Component Unit of Jefferson County, Georgia)

Notes To Financial Statements, Continued  
December 31, 2018 and 2017

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

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

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

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

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

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

Continued

THE HOSPITAL AUTHORITY OF JEFFERSON COUNTY  
AND THE CITY OF LOUISVILLE, GEORGIA  
(A Component Unit of Jefferson County, Georgia)

Notes To Financial Statements, Continued  
December 31, 2018 and 2017

**2. Net Patient Service Revenue**

The Authority has agreements with third-party payors that provide for payments to the Authority at amounts different from its established rates. The Authority does not believe that there are any significant credit risks associated with receivables due from third-party payors. A summary of the payment arrangements with major third-party payors follows:

- *Medicare.* Inpatient and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Certain other reimbursable items are reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare Administrative Contractor (MAC). The Authority's Medicare cost reports have been settled by the MAC through December 31, 2014. Revenue from the Medicare program accounted for approximately 29% and 33% of the Authority's net patient service revenue for 2018 and 2017, respectively.
- *Medicaid.* Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates. Certain outpatient services rendered to 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 settled by the Medicaid fiscal intermediary through December 31, 2015. Revenue from the Medicaid program accounted for approximately 16% and 14% of the Authority's net patient service revenue for 2018 and 2017, respectively.

The Authority has also entered into contracts with certain care management 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.

The Authority participates in the Medicaid Upper Payment Limit (UPL) program. The UPL payment adjustments are based on a measure of the difference between Medicaid payments and the amount that could be paid based on Medicare payment principles. The net amount of UPL payment adjustments recognized in net patient service revenue was approximately \$48,000 in each of the years ended December 31, 2018 and 2017.

Continued

THE HOSPITAL AUTHORITY OF JEFFERSON COUNTY  
AND THE CITY OF LOUISVILLE, GEORGIA  
(A Component Unit of Jefferson County, Georgia)

Notes To Financial Statements, Continued  
December 31, 2018 and 2017

**2. Net Patient Service Revenue, Continued**

- *Medicaid, continued.* 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 \$371,000 and \$106,000 for the years ended December 31, 2018 and 2017, respectively.

Hospitals in Georgia are assessed a "provider payment" in the amount of 1.45% of their net patient service revenue. The provider payments are due on a quarterly basis to the State of Georgia. The payments are to be used for the sole purpose of obtaining federal financial participation for medical assistance payments to providers on behalf of Medicaid recipients. The provider payment will result in a corresponding increase in Medicaid payments for hospital services of approximately 11.88%. The Authority made provider payments to the State of Georgia of approximately \$86,000 and \$104,000 in 2018 and 2017, respectively. The payments are included in other expense in the accompanying statements of revenues, expenses and changes in net position.

Compliance with Medicare and Medicaid laws and regulations are subject to government review and interpretation. The Centers for Medicare and Medicaid Services (CMS) created the Recovery Audit Contractor (RAC) program and the Medicaid Integrity Contractor (MIC) program to perform audits of providers to identify overpayments and to ultimately decrease the payment of inappropriate Medicare and Medicaid claims. Noncompliance with Medicare and Medicaid laws and regulations can lead to fines, penalties and exclusion from the Medicare and Medicaid programs. No liabilities were accrued by the Authority at December 31, 2018 or 2017 related to claims subject to audit by the RAC or MIC. No RAC or MIC recoveries occurred during 2018 or 2017.

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

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THE HOSPITAL AUTHORITY OF JEFFERSON COUNTY  
AND THE CITY OF LOUISVILLE, GEORGIA  
(A Component Unit of Jefferson County, Georgia)

Notes To Financial Statements, Continued  
December 31, 2018 and 2017

**3. Charity Care**

Charges excluded from revenue under the Authority's charity care policy were approximately \$342,000 and \$376,000 for the years ended 2018 and 2017, respectively.

**4. Bank Deposits**

*Custodial credit risk.* Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Authority will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. State law requires collateralization of all deposits with federal depository insurance and other acceptable collateral in specific amounts. The Authority's bank deposits at December 31, 2018 and 2017 are entirely insured or collateralized with securities held by the pledging financial institution's designated trustee in the Authority's name.

**5. Accounts Receivable and Payable**

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Authority at December 31, 2018 and 2017 consisted of these amounts:

	<u>2018</u>	<u>2017</u>
Patient accounts receivable:		
Receivable from patients and their insurance carriers	\$ 1,192,000	\$ 2,726,000
Receivable from Medicare	452,000	207,000
Receivable from Medicaid	<u>135,000</u>	<u>96,000</u>
Total patient accounts receivable	1,779,000	3,029,000
Less allowance for uncollectible amounts	( <u>717,000</u> )	( <u>1,872,000</u> )
Patient accounts receivable, net	\$ <u>1,062,000</u>	\$ <u>1,157,000</u>

Continued

THE HOSPITAL AUTHORITY OF JEFFERSON COUNTY  
AND THE CITY OF LOUISVILLE, GEORGIA  
(A Component Unit of Jefferson County, Georgia)

Notes To Financial Statements, Continued  
December 31, 2018 and 2017

**5. Accounts Receivable and Payable, Continued**

	<u>2018</u>	<u>2017</u>
Accounts payable and accrued expenses:		
Payable to employees (including payroll taxes)	\$ 534,000	\$ 435,000
Payable to suppliers	1,149,000	804,000
Accrued interest	<u>20,000</u>	<u>23,000</u>
Total accounts payable and accrued expenses	<u>\$ 1,703,000</u>	<u>\$ 1,262,000</u>

**6. Concentrations of Credit Risk**

The Authority grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at December 31, 2018 and 2017 was as follows:

	<u>2018</u>	<u>2017</u>
Medicare	31%	17%
Medicaid	13%	8%
Blue Cross	18%	5%
Other third-party payors	32%	65%
Patients	<u>6%</u>	<u>5%</u>
	<u>100%</u>	<u>100%</u>

Continued

THE HOSPITAL AUTHORITY OF JEFFERSON COUNTY  
AND THE CITY OF LOUISVILLE, GEORGIA  
(A Component Unit of Jefferson County, Georgia)

Notes To Financial Statements, Continued  
December 31, 2018 and 2017

**7. Capital Assets**

Capital asset additions, retirements, and balances for the years ended December 31, 2018 and 2017 are as follows:

	Balance December 31, <u>2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	Balance December 31, <u>2018</u>
Land	\$ 76,000	\$ -	\$ -	\$ -	\$ 76,000
Construction-in-progress	70,000	114,000	-	(151,000)	33,000
Land improvements	184,000	-	-	-	184,000
Buildings and improvements	7,270,000	6,000	-	53,000	7,329,000
Equipment	<u>5,811,000</u>	<u>216,000</u>	<u>-</u>	<u>98,000</u>	<u>6,125,000</u>
Totals at historical cost	<u>13,411,000</u>	<u>336,000</u>	<u>-</u>	<u>-</u>	<u>13,747,000</u>
Less accumulated depreciation for:					
Land improvements	( 149,000)	( 7,000)	-	-	( 156,000)
Buildings and improvements	( 3,800,000)	(185,000)	-	-	( 3,985,000)
Equipment	<u>( 5,009,000)</u>	<u>(216,000)</u>	<u>-</u>	<u>-</u>	<u>( 5,225,000)</u>
Total accumulated depreciation	<u>( 8,958,000)</u>	<u>(408,000)</u>	<u>-</u>	<u>-</u>	<u>( 9,366,000)</u>
Capital assets, net	\$ <u>4,453,000</u>	\$ <u>( 72,000)</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>4,381,000</u>

Continued

THE HOSPITAL AUTHORITY OF JEFFERSON COUNTY  
AND THE CITY OF LOUISVILLE, GEORGIA  
(A Component Unit of Jefferson County, Georgia)

Notes To Financial Statements, Continued  
December 31, 2018 and 2017

**7. Capital Assets, Continued**

	Balance December 31, <u>2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	Balance December 31, <u>2017</u>
Land	\$ 76,000	\$ -	\$ -	\$ -	\$ 76,000
Construction-in-progress	-	70,000	-	-	70,000
Land improvements	184,000	-	-	-	184,000
Buildings and improvements	7,248,000	22,000	-	-	7,270,000
Equipment	<u>5,590,000</u>	<u>525,000</u>	<u>(304,000)</u>	<u>-</u>	<u>5,811,000</u>
Totals at historical cost	<u>13,098,000</u>	<u>617,000</u>	<u>(304,000)</u>	<u>-</u>	<u>13,411,000</u>
Less accumulated depreciation for:					
Land improvements	( 141,000)	( 8,000)	-	-	( 149,000)
Buildings and improvements	( 3,622,000)	(178,000)	-	-	( 3,800,000)
Equipment	<u>( 5,123,000)</u>	<u>(190,000)</u>	<u>304,000</u>	<u>-</u>	<u>( 5,009,000)</u>
Total accumulated depreciation	<u>( 8,886,000)</u>	<u>(376,000)</u>	<u>304,000</u>	<u>-</u>	<u>( 8,958,000)</u>
Capital assets, net	\$ <u>4,212,000</u>	\$ <u>241,000</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>4,453,000</u>

Construction-in-progress consists of building renovations. There were no construction commitments at December 31, 2018.

**8. Prepaid Recruitment Expense**

The Authority provides enlistment loans to physicians. The Authority requires a commitment by the recipients for an employment period. The loans are forgiven contingent upon the completion of the required employment periods. Amounts forgiven and charged to expense were \$12,000 and \$4,000 during 2018 and 2017, respectively. The amount of loans deferred to expense in future years was \$44,000 and \$56,000 at December 31, 2018 and 2017, respectively.

Continued

THE HOSPITAL AUTHORITY OF JEFFERSON COUNTY  
AND THE CITY OF LOUISVILLE, GEORGIA  
(A Component Unit of Jefferson County, Georgia)

Notes To Financial Statements, Continued  
December 31, 2018 and 2017

**9. Long-Term Debt**

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

	Balance December 31, <u>2017</u>	<u>Additions</u>	<u>Reductions</u>	Balance December 31, <u>2018</u>	Amounts Due Within <u>One Year</u>
Series 2003 Revenue					
Certificates	\$ 990,000	\$ -	\$(150,000)	\$ 840,000	\$ 155,000
First State Bank	88,000	-	-	88,000	5,000
USDA – Mammography	124,000	-	( 15,000)	109,000	16,000
USDA – CT	200,000	-	( 19,000)	181,000	18,000
Capital lease	<u>-</u>	<u>81,000</u>	<u>( 6,000)</u>	<u>75,000</u>	<u>15,000</u>
Total long-term debt	<u>\$ 1,402,000</u>	<u>\$ 81,000</u>	<u>\$(190,000)</u>	<u>\$ 1,293,000</u>	<u>\$ 209,000</u>
	Balance December 31, <u>2016</u>	<u>Additions</u>	<u>Reductions</u>	Balance December 31, <u>2017</u>	Amounts Due Within <u>One Year</u>
Series 2003 Revenue					
Certificates	\$ 1,130,000	\$ -	\$(140,000)	\$ 990,000	\$ 150,000
First State Bank	-	88,000	-	88,000	-
USDA – Mammography	139,000	-	( 15,000)	124,000	16,000
USDA – CT	<u>-</u>	<u>200,000</u>	<u>-</u>	<u>200,000</u>	<u>17,000</u>
Total long-term debt	<u>\$ 1,269,000</u>	<u>\$ 288,000</u>	<u>\$(155,000)</u>	<u>\$ 1,402,000</u>	<u>\$ 183,000</u>

*Long-term debt.* The terms and due dates of the Authority's long-term debt at December 31, 2018 and 2017, follows:

- *2003 Series Revenue Certificates* – fixed interest rate of 3.97% per annum. The Bonds were issued in the principal amount of \$2,500,000 and mature over a period of 20 years. Principal payments are due annually on July 1 of each year and interest is payable January 1 and July 1 of each year. The revenues of the Authority have been assigned to the payment of principal and interest on the Bonds. The proceeds of the Bonds were used to finance the renovation and expansion of the Authority's emergency services department, as well as refinance existing indebtedness.

Continued

THE HOSPITAL AUTHORITY OF JEFFERSON COUNTY  
AND THE CITY OF LOUISVILLE, GEORGIA  
(A Component Unit of Jefferson County, Georgia)

Notes To Financial Statements, Continued  
December 31, 2018 and 2017

**9. Long-Term Debt, Continued**

- *Note payable to First State Bank* – interest at 6.00% per annum, payable in monthly interest only installments with principal and interest due at maturity, due April 2019, collateralized by equipment. Refinanced after year end with interest at 6.50% per annum, payable in monthly installments of \$1,000 with a balloon payment for the remaining balance due March 2022.
- *Note payable to United States Department of Agriculture (USDA) - Mammography* – interest at 4.00% per annum, payable in annual installments of \$21,000, due August 2024, collateralized by equipment.
- *Note payable to United States Department of Agriculture (USDA) - CT* – interest at 2.75% per annum, payable in annual installments of \$23,000, due October 2027, collateralized by equipment.
- *Capital lease obligation* – imputed interest at 5.95%, collateralized by leased equipment with a cost of \$81,000 and accumulated amortization of \$7,000 at December 31, 2018.

Under the terms of the 2003 Series Revenue Certificates and the notes payable to USDA, the Authority is required to maintain certain deposits with a trustee. At December 31, 2018 and 2017, the Authority was not in compliance with the 2003 Series Revenue Certificates requirements. At December 31, 2018 and 2017, the Authority was not in compliance with the USDA loan requirements.

The Certificates also place limits on the incurrence of additional borrowings and requires that the Authority produce a debt service coverage ratio equal to or exceeding 110% during each year. The Authority produced the required debt service coverage ratio in 2018 but not 2017. In years the Authority does not produce the required ratio, the Authority must employ a management consultant to examine the rates, fees and charges of the Authority and the methods of operation to make recommendations to enable the Authority to produce the required ratio.

Continued

THE HOSPITAL AUTHORITY OF JEFFERSON COUNTY  
AND THE CITY OF LOUISVILLE, GEORGIA  
(A Component Unit of Jefferson County, Georgia)

Notes To Financial Statements, Continued  
December 31, 2018 and 2017

**9. Long-Term Debt, Continued**

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

<u>Year Ending December 31</u>	<u>Long-Term Debt</u>		<u>Capital Lease Obligation</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 194,000	\$ 49,000	\$ 15,000	\$ 4,000
2020	203,000	41,000	14,000	3,000
2021	214,000	33,000	16,000	2,000
2022	281,000	21,000	18,000	1,000
2023	220,000	12,000	12,000	-
2024-2027	<u>106,000</u>	<u>7,000</u>	<u>-</u>	<u>-</u>
Total	\$ <u>1,218,000</u>	\$ <u>163,000</u>	\$ <u>75,000</u>	\$ <u>10,000</u>

**10. County Interim Support Contract Payments**

Effective September 1, 2016, the Authority and the County entered into an Intergovernmental Contract (Interim Support Contract) whereby the County will pay the Authority interim support payments of \$100,000 per month beginning September 1, 2016 and continuing until a subsequent intergovernmental contract is executed.

On July 24, 2017, the Authority and the County entered into an Intergovernmental Contract (Continuing Support Contract) whereby the County will increase the millage rate three (3) mills and pay the Authority the tax revenue generated by the additional millage. The Continuing Support Contract is effective July 1, 2017 and continues until at least June 30, 2019. Under the terms of the Continuing Support Contract, the Authority agrees to repay the County \$600,000 of the funds paid to the Authority under the Interim Support Contract at the rate of \$10,000 per month, to be withheld from the payments the County makes to the Authority under the Continuing Support Contract.

Continued

THE HOSPITAL AUTHORITY OF JEFFERSON COUNTY  
AND THE CITY OF LOUISVILLE, GEORGIA  
(A Component Unit of Jefferson County, Georgia)

Notes To Financial Statements, Continued  
December 31, 2018 and 2017

**10. County Interim Support Contract Payments, Continued**

Scheduled repayments of the County Interim Support Contract payments are as follows:

<u>Year Ending December 31:</u>	<u>Amount</u>
2019	\$ 120,000
2020	120,000
2021	120,000
2022	<u>60,000</u>
Total	\$ <u>420,000</u>

**11. Retirement Plan**

The Authority provides retirement benefits for its employees through the Jefferson Hospital Retirement Plan (Plan). The Plan is a defined contribution plan. The Authority's Chief Executive Officer (CEO) administers the Plan. Plan provisions and contribution requirements are established and may be amended by the CEO. All employees are immediately eligible to make elective deferrals under the Plan. Employees are eligible for matching employer contributions after 6 months of employment and attainment of age 21. Employees may make elective deferrals to the Plan up to 6% of compensation (no defined minimum amount). Employee contributions to the Plan were approximately \$148,000 and \$139,000 during 2018 and 2017, respectively. The Authority may, at its sole discretion, make matching employer contributions to the Plan. The Authority did not make any contributions to the Plan during 2018 or 2017. Employees are vested in their contributions immediately and vested in the Authority's matching contributions after two years of service. Matching forfeitures may be used to reduce future Authority contributions or used to pay Plan administration expenses.

Continued



THE HOSPITAL AUTHORITY OF JEFFERSON COUNTY  
AND THE CITY OF LOUISVILLE, GEORGIA  
(A Component Unit of Jefferson County, Georgia)

Notes To Financial Statements, Continued  
December 31, 2018 and 2017

12. **Commitments and Contingencies**

- *Operating leases.* The Authority leases various equipment under operating leases expiring in various years through 2023. Total rental expense in 2018 and 2017 for all operating leases was approximately \$288,000 and \$243,000, respectively. Future minimum operating lease payments are as follows:

<u>Year Ending December 31:</u>	<u>Amount</u>
2019	\$ 186,000
2020	\$ 144,000
2021	\$ 134,000
2022	\$ 115,000
2023	\$ 91,000

- *Compliance plan.* The healthcare industry has recently been subjected to increased scrutiny from governmental agencies at both the national 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. The Authority has implemented a compliance plan focusing on such issues. There can be no assurance that the Authority will not be subjected to future investigations with accompanying monetary damages.
- *Litigation.* The Authority is subject to litigation and regulatory investigations arising in the ordinary course of business. After consultation with legal counsel, management estimates that such matters would not have a material adverse effect on the Authority's financial position or results from operations.
- *Insurance arrangements.* The Authority has claims-made insurance coverage for professional liability and occurrence insurance coverage for general liability. The insurance policies have limits of \$1,000,000 per claim/occurrence and \$3,000,000 annual aggregate. The Authority is self-insured to cover the deductible portion of its general and professional insurance policy. The Authority's deductible is \$25,000 for individual claims and \$75,000 annual aggregate. The deductible amount per claim applies separately to each coverage. One aggregate amount applies to the policies.

Continued

THE HOSPITAL AUTHORITY OF JEFFERSON COUNTY  
AND THE CITY OF LOUISVILLE, GEORGIA  
(A Component Unit of Jefferson County, Georgia)

Notes To Financial Statements, Continued  
December 31, 2018 and 2017

**12. Commitments and Contingencies, Continued**

- *Health care reform.* There has been increasing pressure on Congress and some state legislatures to control and reduce the cost of healthcare at the national and state levels. Legislation has been passed that includes cost controls on healthcare providers, insurance market reforms, delivery system reforms and various individual and business mandates among other provisions. The cost of certain provisions will be funded in part by reductions in payments by government programs, including Medicare and Medicaid. There can be no assurance that these changes will not adversely affect the Authority.

**13. County and City Contributions**

The Authority has a contract with Jefferson County, the City of Louisville, the City of Wrens, and the City of Wadley (collectively, the County and Cities) whereby the County and Cities will provide annual contributions to the Authority to make payments on the 2003 Bonds. Contributions provided during 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Jefferson County	\$ 150,000	\$ 150,000
City of Louisville	30,000	30,000
City of Wrens	16,000	16,000
City of Wadley	<u>5,000</u>	<u>5,000</u>
Total	<u>\$ 201,000</u>	<u>\$ 201,000</u>

In July 2013, the Authority and the County entered into an Intergovernmental Contract whereby the County would pay the Authority \$200,000 per year for indigent care. Payments began February 15, 2014 and end January 14, 2022. Payments provided during 2018 and 2017 were \$200,000 and \$200,000 respectively.

As discussed in Note 10, during 2016 the Authority and the County entered into the Interim Support Contract. The Authority received \$1,000,000 from the County under the Interim Support Contract. The Authority will repay the County \$600,000 of the funds received under the Interim Support Contract at the rate of \$10,000 per month, beginning July 1, 2017. The Authority recognized revenue of \$400,000 in 2017 related to the Interim Support Contract.

Continued

THE HOSPITAL AUTHORITY OF JEFFERSON COUNTY  
AND THE CITY OF LOUISVILLE, GEORGIA  
(A Component Unit of Jefferson County, Georgia)

Notes To Financial Statements, Continued  
December 31, 2018 and 2017

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**13. County and City Contributions, Continued**

Also as discussed in Note 10, during 2017 the Authority and the County entered into the Continuing Support Contract. The County will increase the millage rate three (3) mills and pay the Authority the tax revenue generated by the additional millage. The Continuing Support Contract is effective July 1, 2017 and continues until at least June 30, 2019. Payments received under the Continuing Support Contract were approximately \$1,166,000 and \$582,000 during 2018 and 2017, respectively.

The County also provides certain sales tax funds to the Authority to make capital purchases. Sales tax funds received by the Authority were approximately \$7,000 and \$156,000 in 2018 and 2017, respectively.

**14. Rural Hospital Tax Credit Contributions**

The State of Georgia (State) passed legislation which will allow individuals or corporations to receive a State tax credit for making a contribution to certain qualified rural hospital organizations during calendar years 2017 through 2021. The Authority submitted the necessary documentation and was approved by the State to participate in the rural hospital tax credit program for 2017 and 2018. Contributions received under the program approximated \$661,000 and \$231,000 during 2018 and 2017, respectively. The Authority will have to be approved by the State to participate in the program in each subsequent year.

**15. Subsequent Event**

In March 2019, the Authority entered into an equipment finance agreement for \$323,000 to finance the purchase of equipment.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL  
CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS*

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL  
CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS*

The Hospital Authority of Jefferson County and  
The City of Louisville, Georgia  
Louisville, Georgia

We have audited, in accordance with the 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, the financial statements of The Hospital Authority of Jefferson County and The City of Louisville, Georgia (Authority), which comprise the balance sheet as of December 31, 2018, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 22, 2019.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Continued

Let's Think Together.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings to be a material weakness (2018-001).

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings to be a significant deficiency (2018-002).

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **The Hospital Authority of Jefferson County and The City of Louisville, Georgia's Response to Findings**

The Authority's response to the findings identified in our audit are described in the accompanying schedule of findings. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Draffin & Tucker, LLP*

Atlanta, Georgia

April 22, 2019

THE HOSPITAL AUTHORITY OF JEFFERSON COUNTY  
AND THE CITY OF LOUISVILLE, GEORGIA  
(A Component Unit of Jefferson County, Georgia)

Schedule of Findings  
December 31, 2018

**Material Weakness**

**2018-001 Funds Required by Bonds and Notes Payable**

<b>Condition:</b>	The Debt Service Reserve Fund and Renewal and Extension Fund, required by the Series 2003 Bonds, and the Reserve Fund, required by the USDA note payable, were not properly funded at year end.
<b>Criteria:</b>	Internal controls should be in place to ensure the proper funding of the accounts and that funds are not used for nonallowable expenditures.
<b>Cause:</b>	During 2013, management withdrew funds from the Debt Service Reserve Fund to use for operations. During 2016, management used funds from the Renewal and Extension Fund for nonallowable expenditures. The funds have not been put back into the accounts. During 2018 and 2017, management did not make the required annual deposits to the Reserve Fund.
<b>Effect:</b>	The Authority is not in compliance with all bond covenants.
<b>Recommendation:</b>	The Authority should immediately fund the accounts to the proper balances.
<b>Views of Responsible Officials and Planned Corrective Actions:</b>	Management will gradually fund the required accounts as the cash position of the Authority improves to allow funding. Management is implementing various revenue enhancement and expense reduction strategies to improve the Authority's financial position.

Continued

THE HOSPITAL AUTHORITY OF JEFFERSON COUNTY  
AND THE CITY OF LOUISVILLE, GEORGIA  
(A Component Unit of Jefferson County, Georgia)

Schedule of Findings, Continued  
December 31, 2018

**Significant Deficiency**

**2018-002 Information Technology**

**Conditions/causes:**

The Authority has the following deficiencies relating to information technology controls:

- A periodic review of active users is not being performed.
- The CFO's user security includes read/write privileges on the general ledger.
- No formal change management policy and procedures exist. A test database is not available to test changes prior to implementation.

**Criteria:**

- Internal controls should be in place to review the list of active users.
- Internal controls should be in place to limit the CFO's read/write privileges.
- Internal controls should be in place to test changes prior to implementation.

**Potential effects:**

- Terminated employees could gain access to the system.
- The CFO could circumvent segregation of duties with the ability to make changes to the general ledger.
- Changes made to the system could have an adverse effect on the functionality of the system if not properly tested.

Continued



THE HOSPITAL AUTHORITY OF JEFFERSON COUNTY  
AND THE CITY OF LOUISVILLE, GEORGIA  
(A Component Unit of Jefferson County, Georgia)

Schedule of Findings, Continued  
December 31, 2018

**Significant Deficiency, Continued**

**2018-002 Information Technology, Continued**

**Recommendations:**

- A periodic review of all users should be performed to ensure they are accurate and that applications permission for each user is accurate.
- The CFO's user security should be changed to only allow read privileges on the general ledger.
- A test database should be created and used for testing changes to the system prior to implementation.

**Views of Responsible  
Officials and Planned  
Corrective Actions:**

- Management will have Information Technology Services and Human Resources conduct a quarterly review of system users to ensure that all users are valid employees and that their application permission is applicable to their job function.
- Management is aware of the internal control weakness of the CFO having read/write privileges, but believes operations would be greatly hampered by the CFO having read only privileges. Management will develop alternative internal control measures to compensate for this weakness.
- Information Technology Services relies on the test database from our IT vendor (CPSI) and has not created an internal test database. Due to limited resources, management does not recommend formalizing a test database at this time, and propose to continue to rely on the IT vendor database for testing changes and applications prior to implementation in the production environment.