

THE BAXLEY AND APPLING COUNTY
HOSPITAL AUTHORITY
D/B/A APPLING HEALTHCARE SYSTEM
(A Component Unit of Appling County, Georgia)

FINANCIAL STATEMENTS

for the years ended August 31, 2018 and 2017

CONTENTS

	<u>Pages</u>
Independent Auditor's Report	1-3
Financial Statements:	
Balance Sheets	4-5
Statements of Revenues, Expenses and Changes in Net Position	6-7
Statements of Cash Flows	8-9
Notes to Financial Statements	10-33
Additional Information:	
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>	34-35



INDEPENDENT AUDITOR'S REPORT

Board of Trustees
The Baxley and Appling County Hospital Authority
D/B/A Appling Healthcare System
Baxley, Georgia

Report on the Financial Statements

We have audited the accompanying financial statements of The Baxley and Appling County Hospital Authority, D/B/A Appling Healthcare System (System), which comprise the balance sheets as of August 31, 2018 and 2017, the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 System'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 System'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 Baxley and Appling County Hospital Authority, D/B/A Appling Healthcare System as of August 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.

Other Matter

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.

Continued

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2019, on our consideration of the System'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 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 System'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 System's internal control over financial reporting and compliance.

Draffin & Tucker, LLP

Albany, Georgia
February 25, 2019

THE BAXLEY AND APPLING COUNTY
HOSPITAL AUTHORITY
D/B/A APPLING HEALTHCARE SYSTEM
(A Component Unit of Appling County, Georgia)

BALANCE SHEETS
August 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current assets:		
Cash	\$ 2,643,638	\$ 3,655,131
Patient accounts receivable, net of estimated uncollectibles of approximately \$5,250,000 in 2018 and \$8,385,000 in 2017	2,366,276	3,401,934
Supplies, at lower of cost (first-in, first-out) or market	569,267	561,417
Estimated third-party payor settlements	126,357	58,441
Other current assets	<u>1,455,046</u>	<u>773,894</u>
Total current assets	<u>7,160,584</u>	<u>8,450,817</u>
Capital assets:		
Non-depreciable capital assets	620,709	1,181,030
Depreciable capital assets, net of accumulated depreciation	<u>15,348,544</u>	<u>14,682,248</u>
Total capital assets, net of accumulated depreciation	<u>15,969,253</u>	<u>15,863,278</u>
Other assets:		
Other receivables	19,999	20,000
Restricted cash for debt service	<u>157,260</u>	<u>157,024</u>
Total other assets	<u>177,259</u>	<u>177,024</u>
Total assets	23,307,096	24,491,119
Deferred outflows of resources:		
Goodwill, net of accumulated amortization	<u>228,698</u>	<u>249,973</u>
Total assets and deferred outflows of resources	\$ <u>23,535,794</u>	\$ <u>24,741,092</u>

	<u>2018</u>	<u>2017</u>
LIABILITIES AND NET POSITION		
Current liabilities:		
Current maturities of long-term debt	\$ 638,763	\$ 600,812
Accounts payable	1,433,104	1,470,002
Accrued expenses	1,295,132	1,798,783
Estimated third-party payor settlements	<u>163,355</u>	<u>140,874</u>
Total current liabilities	3,530,354	4,010,471
Long-term debt, net of current maturities	<u>7,173,801</u>	<u>7,779,371</u>
Total liabilities	<u>10,704,155</u>	<u>11,789,842</u>
Net position:		
Net investment in capital assets	8,156,689	7,483,095
Restricted	156,384	156,384
Unrestricted	<u>4,518,566</u>	<u>5,311,771</u>
Total net position	<u>12,831,639</u>	<u>12,951,250</u>
Total liabilities and net position	\$ <u>23,535,794</u>	\$ <u>24,741,092</u>

The accompanying notes are an integral
part of these financial statements.

THE BAXLEY AND APPLING COUNTY
HOSPITAL AUTHORITY
D/B/A APPLING HEALTHCARE SYSTEM
(A Component Unit of Appling County, Georgia)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
for the years ended August 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating revenues:		
Net patient service revenue (net of provision for bad debts of approximately \$3,057,000 in 2018 and \$5,242,000 in 2017)	\$ 28,108,967	\$ 30,374,431
Other revenue	<u>306,670</u>	<u>690,461</u>
Total operating revenues	<u>28,415,637</u>	<u>31,064,892</u>
Operating expenses:		
Salaries and wages	11,812,734	13,301,134
Employee benefits	2,486,067	2,671,931
Supplies and other	7,352,499	7,354,454
Purchased services	6,613,750	5,684,943
Depreciation and amortization	<u>1,785,290</u>	<u>1,795,238</u>
Total operating expenses	<u>30,050,340</u>	<u>30,807,700</u>
Operating income (loss)	<u>(1,634,703)</u>	<u>257,192</u>
Nonoperating revenues (expenses):		
Interest expense	(421,083)	(376,251)
Noncapital grants and contributions	600,000	878,899
Gain (loss) on sale of capital assets	107,416	(18,131)
Rural hospital tax credit contributions	<u>647,270</u>	<u>-</u>
Total nonoperating revenues	<u>933,603</u>	<u>484,517</u>

Continued

THE BAXLEY AND APPLING COUNTY
HOSPITAL AUTHORITY
D/B/A APPLING HEALTHCARE SYSTEM
(A Component Unit of Appling County, Georgia)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION, Continued
for the years ended August 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Excess revenues (expenses) before capital grants and contributions	\$(701,100)	\$ 741,709
Capital grants and contributions	<u>581,489</u>	<u>291,762</u>
Increase (decrease) in net position	(119,611)	1,033,471
Net position at beginning of year	<u>12,951,250</u>	<u>11,917,779</u>
Net position at end of year	\$ <u>12,831,639</u>	\$ <u>12,951,250</u>

The accompanying notes are an integral part of these financial statements.

THE BAXLEY AND APPLING COUNTY
HOSPITAL AUTHORITY
D/B/A APPLING HEALTHCARE SYSTEM
(A Component Unit of Appling County, Georgia)

STATEMENTS OF CASH FLOWS
for the years ended August 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 29,405,860	\$ 31,041,272
Payments to suppliers and contractors	(14,707,629)	(13,370,501)
Payments to employees	(14,784,381)	(15,676,871)
Net cash provided (used) by operating activities	(86,150)	1,993,900
Cash flows from noncapital financing activities:		
Noncapital grants and contributions	600,000	878,899
Rural hospital tax credit contributions	<u>647,270</u>	<u>-</u>
Net cash provided by noncapital financing activities	<u>1,247,270</u>	<u>878,899</u>
Cash flows from capital and related financing activities:		
Capital grants and contributions	485,593	291,762
Proceeds from issuance of long-term debt	-	1,562,957
Principal paid on long-term debt	(567,619)	(384,520)
Interest paid on long-term debt	(423,673)	(384,436)
Purchase of property and equipment	(2,141,678)	(2,245,781)
Proceeds from sale of property and equipment	<u>475,000</u>	<u>-</u>
Net cash used by capital and related financing activities	(2,172,377)	(1,160,018)
Net increase (decrease) in cash	(1,011,257)	1,712,781
Cash, beginning of year	<u>3,812,155</u>	<u>2,099,374</u>
Cash, end of year	\$ <u>2,800,898</u>	\$ <u>3,812,155</u>
Reconciliation of cash to the balance sheets:		
Cash	\$ 2,643,638	\$ 3,655,131
Restricted cash for debt service	<u>157,260</u>	<u>157,024</u>
Total cash	\$ <u>2,800,898</u>	\$ <u>3,812,155</u>

Continued

THE BAXLEY AND APPLING COUNTY
HOSPITAL AUTHORITY
D/B/A APPLING HEALTHCARE SYSTEM
(A Component Unit of Appling County, Georgia)

STATEMENTS OF CASH FLOWS, Continued
for the years ended August 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$(1,634,703)	\$ 257,192
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	1,785,290	1,795,238
Provision for bad debts	3,057,155	5,241,613
Changes in:		
Patient accounts receivable	(2,021,497)	(5,348,578)
Supplies	(7,850)	(9,033)
Other current and noncurrent assets	(681,151)	(361,251)
Accounts payable	(44,930)	126,831
Accrued expenses	(493,029)	208,543
Estimated third-party payor settlements	(<u>45,435</u>)	<u>83,345</u>
Net cash provided (used) by operating activities	\$(<u>86,150</u>)	\$ <u>1,993,900</u>

Supplemental disclosures of cash flow information:

The Authority received a capital asset donation of a building with an acquisition value of \$95,896 during 2018.

The accompanying notes are an integral
part of these financial statements.

THE BAXLEY AND APPLING COUNTY
HOSPITAL AUTHORITY
D/B/A APPLING HEALTHCARE SYSTEM
(A Component Unit of Appling County, Georgia)

NOTES TO FINANCIAL STATEMENTS
August 31, 2018 and 2017

1. Summary of Significant Accounting Policies

Reporting Entity

The Baxley and Appling County Hospital Authority, D/B/A Appling Healthcare System (System) is a public corporation. It was created by the Board of Commissioners of Appling County, Georgia to operate, control, and manage the operations of Appling General Hospital (Hospital), a 34-bed acute care hospital and a 30-bed inpatient psychiatric facility; the Pavillion, a 101-bed skilled nursing facility. The County Commissioners nominate members for the Board of Trustees of the System. For this reason, the System is considered to be a component unit of Appling County, Georgia.

Use of Estimates

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

Enterprise Fund Accounting

The System uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

The System prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB).

Restricted Cash for Debt Service

Restricted cash for debt service includes cash restricted by lenders related to the USDA loan as discussed in Note 8.

Continued

THE BAXLEY AND APPLING COUNTY
HOSPITAL AUTHORITY
D/B/A APPLING HEALTHCARE SYSTEM
(A Component Unit of Appling County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
August 31, 2018 and 2017

1. Summary of Significant Accounting Policies, Continued

Allowance for Estimated Uncollectible Accounts

The System provides an allowance for estimated uncollectible 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.

Capital Assets

The System'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. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Land improvements	15 to 20 years
Buildings and building improvements	20 to 40 years
Equipment	3 to 7 years

Financing Costs

Costs related to the issuance of long-term debt are expensed in the period in which the debt was incurred.

Restricted Resources

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

Continued

THE BAXLEY AND APPLING COUNTY
HOSPITAL AUTHORITY
D/B/A APPLING HEALTHCARE SYSTEM
(A Component Unit of Appling County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
August 31, 2018 and 2017

1. Summary of Significant Accounting Policies, Continued

Net Position

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

Operating Revenues and Expenses

The System'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 System's principle 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.

Compensated Absences

The System's employees earn paid time off (PTO) at varying rates depending on years of service. PTO accumulates to a maximum of 400 hours. Employees are paid for accumulated PTO if they leave before retirement and are not terminated. The estimated amount of PTO payable is reported as a current liability in both 2018 and 2017.

Continued

THE BAXLEY AND APPLING COUNTY
HOSPITAL AUTHORITY
D/B/A APPLING HEALTHCARE SYSTEM
(A Component Unit of Appling County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
August 31, 2018 and 2017

1. Summary of Significant Accounting Policies, Continued

Net Patient Service Revenue

The System has agreements with third-party payors that provide for payments to the System 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.

Grants and Contributions

From time to time, the System receives grants from Appling County 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.

Charity Care

The System 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 System does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Continued

THE BAXLEY AND APPLING COUNTY
HOSPITAL AUTHORITY
D/B/A APPLING HEALTHCARE SYSTEM
(A Component Unit of Appling County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
August 31, 2018 and 2017

1. Summary of Significant Accounting Policies, Continued

Risk Management

The System is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years. The System is self-insured for employee health insurance (see Note 11). See Note 10 for additional information related to the System's general and professional coverage.

Income Taxes

The System is a governmental entity and is exempt from income taxes. Accordingly, no provision for income taxes has been considered in the accompanying financial statements.

Estimated Malpractice and Other Self-Insurance Costs

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

Impairment of Long-Lived Assets

The System evaluates on an ongoing basis the recoverability of its assets and deferred outflows of resources 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 and deferred outflows of resources 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 System has not recorded any impairment charges in the accompanying statements of revenues, expenses and changes in net position for the years ended 2018 and 2017.

Continued

THE BAXLEY AND APPLING COUNTY
HOSPITAL AUTHORITY
D/B/A APPLING HEALTHCARE SYSTEM
(A Component Unit of Appling County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
August 31, 2018 and 2017

1. Summary of Significant Accounting Policies, Continued

Recently Adopted Accounting Pronouncement

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

2. Net Patient Service Revenue

The System has agreements with third-party payors that provide for payments to the System at amounts different from its established rates. The System does not believe that there are any significant credit risks associated with receivables due from third-party payors.

Net revenue from the Medicare and Medicaid programs accounted for approximately 38% and 33%, respectively, of the System's net patient service revenue for the year ended August 31, 2018, and 41% and 30%, respectively, of the System's net patient service revenue for the year ended August 31, 2017. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

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

Continued

THE BAXLEY AND APPLING COUNTY
HOSPITAL AUTHORITY
D/B/A APPLING HEALTHCARE SYSTEM
(A Component Unit of Appling County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
August 31, 2018 and 2017

2. Net Patient Service Revenue, Continued

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

- Medicare

Inpatient acute care 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.

Inpatient psychiatric services rendered to Medicare program beneficiaries are paid at prospectively determined per diems.

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

The System is reimbursed for certain reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the System and audits thereof by the Medicare Administrative Contractor (MAC). The System'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 System. The System's Medicare cost reports have been audited by the MAC through August 31, 2015.

- 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 Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology.

Continued

THE BAXLEY AND APPLING COUNTY
HOSPITAL AUTHORITY
D/B/A APPLING HEALTHCARE SYSTEM
(A Component Unit of Appling County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
August 31, 2018 and 2017

2. Net Patient Service Revenue, Continued

• Medicaid, Continued

The System is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the System and audits thereof by the Medicaid fiscal intermediary. The System's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through August 31, 2015.

The System has also entered into contracts with certain managed care organizations to receive reimbursement for providing services to selected enrolled Medicaid beneficiaries. Payment arrangements with these managed care organizations 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 System participates in the Georgia Indigent Care Trust Fund (ICTF) Program. The System receives ICTF payments for treating a disproportionate number of Medicaid and other indigent patients. ICTF payments are based on the System's estimated uncompensated cost of services to Medicaid and uninsured patients. The net amount of ICTF payments recognized in net patient service revenue was approximately \$281,282 and \$362,000 for the years ended 2018 and 2017, respectively.

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 the UPL payment adjustments recognized in net patient service revenue was approximately \$763,692 and \$524,574 for the years ended 2018 and 2017, respectively.

Continued

THE BAXLEY AND APPLING COUNTY
HOSPITAL AUTHORITY
D/B/A APPLING HEALTHCARE SYSTEM
(A Component Unit of Appling County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
August 31, 2018 and 2017

2. Net Patient Service Revenue, Continued

• Medicaid, Continued

The state of Georgia enacted legislation known as the Provider Payment Agreement Act (Act) whereby hospitals in the state of Georgia are assessed a “provider payment” in the amount of 1.45% of their net patient revenue. The Act became effective July 1, 2010, the beginning of state fiscal year 2011. The provider payments are due on a quarterly basis to the Department of Community Health. The payments are to be used for the sole purpose of obtaining federal financial participation for medical assistance payments to providers on behalf of Medicaid recipients. The provider payment results in a corresponding increase in hospital payments on Medicaid services of approximately 11.88%. Approximately \$248,012 and \$227,905 relating to the Act is included in supplies and other in the accompanying statement of revenues, expenses and changes in net position for the years ended August 31, 2018 and 2017, respectively.

• Other Arrangements

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

3. Uncompensated Services

The System was compensated for services at amounts less than its established rates. Charges for uncompensated services for 2018 and 2017 were \$29,168,175 and \$36,420,400, respectively.

Uncompensated care includes charity and indigent care services of \$1,406,012 and \$1,169,712 in 2018 and 2017, respectively. The cost of charity and indigent care services provided during 2018 and 2017 was approximately \$748,000 and \$546,000, respectively computed by applying a total cost factor to the charges forgone.

Continued

THE BAXLEY AND APPLING COUNTY
HOSPITAL AUTHORITY
D/B/A APPLING HEALTHCARE SYSTEM
(A Component Unit of Appling County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
August 31, 2018 and 2017

3. Uncompensated Services, Continued

The following is a summary of uncompensated services and a reconciliation of gross patient charges to net patient service revenue for 2018 and 2017.

	<u>2018</u>	<u>2017</u>
Gross patient charges	\$ <u>57,277,142</u>	\$ <u>66,794,831</u>
Uncompensated services:		
Charity and indigent care	1,406,012	1,169,712
Medicare	10,553,649	14,296,118
Medicaid	2,131,306	2,736,451
Other allowances	12,020,053	12,976,506
Bad debts	<u>3,057,155</u>	<u>5,241,613</u>
Total uncompensated services	<u>29,168,175</u>	<u>36,420,400</u>
Net patient service revenue	\$ <u>28,108,967</u>	\$ <u>30,374,431</u>

4. Deposits

Deposits are classified on the balance sheets as follows:

	<u>2018</u>	<u>2017</u>
Cash – demand deposit accounts	\$ 2,643,638	\$ 3,655,131
Restricted for debt service – demand deposit accounts	<u>157,260</u>	<u>157,024</u>
Total	\$ <u>2,800,898</u>	\$ <u>3,812,155</u>

Continued

THE BAXLEY AND APPLING COUNTY
HOSPITAL AUTHORITY
D/B/A APPLING HEALTHCARE SYSTEM
(A Component Unit of Appling County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
August 31, 2018 and 2017

4. Deposits, Continued

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the System 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. The System's bank deposits at 2018 and 2017 are entirely insured or collateralized with direct loans to the System held by the financial institution.

5. Accounts Receivable and Payable

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

	<u>2018</u>	<u>2017</u>
Patient accounts receivable:		
Receivable from patients and their insurance carriers	\$ 4,964,341	\$ 7,407,084
Receivable from Medicare	1,626,895	2,697,722
Receivable from Medicaid	<u>1,025,311</u>	<u>1,682,625</u>
Total gross patient accounts receivable	7,616,547	11,787,431
Less allowance for uncollectible amounts and contractual adjustments	<u>5,250,271</u>	<u>8,385,497</u>
Patient accounts receivable, net	\$ <u>2,366,276</u>	\$ <u>3,401,934</u>
Accounts payable and accrued expenses:		
Payable to employees (including payroll taxes)	\$ 878,112	\$ 1,430,757
Payable to suppliers	1,433,104	1,470,002
Other	<u>417,020</u>	<u>368,026</u>
Total accounts payable and accrued expenses	\$ <u>2,728,236</u>	\$ <u>3,268,785</u>

Continued

THE BAXLEY AND APPLING COUNTY
HOSPITAL AUTHORITY
D/B/A APPLING HEALTHCARE SYSTEM
(A Component Unit of Appling County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
August 31, 2018 and 2017

6. Capital Assets

A summary of capital assets follows:

	2017 <u>Balance</u>	<u>Increase</u>	<u>Transfer</u>	<u>Decrease</u>	2018 <u>Balance</u>
Land	\$ 567,907	\$ -	\$ 77,500	\$(68,316)	\$ 577,091
Construction in progress	<u>613,123</u>	<u>1,510,153</u>	<u>(1,827,710)</u>	<u>(251,948)</u>	<u>43,618</u>
Total non-depreciable capital assets	<u>1,181,030</u>	<u>1,510,153</u>	<u>(1,750,210)</u>	<u>(320,264)</u>	<u>620,709</u>
Land improvements	452,643	-	18,396	(57,728)	413,311
Buildings and improvements	16,555,217	14,086	1,239,465	(335,498)	17,473,270
Fixed equipment	3,186,722	568,124	78,004	-	3,832,850
Major movable equipment	<u>13,282,872</u>	<u>397,310</u>	<u>414,345</u>	<u>(6,000)</u>	<u>14,088,527</u>
Total depreciable capital assets	<u>33,477,454</u>	<u>979,520</u>	<u>1,750,210</u>	<u>(399,226)</u>	<u>35,807,958</u>
Less accumulated depreciation and amortization for:					
Land improvements	(346,727)	(11,901)	-	12,383	(346,245)
Buildings and improvements	(7,229,561)	(474,803)	-	81,423	(7,622,941)
Fixed equipment	(1,884,122)	(212,216)	-	-	(2,096,338)
Major movable equipment	<u>(9,334,796)</u>	<u>(1,065,094)</u>	<u>-</u>	<u>6,000</u>	<u>(10,393,890)</u>
Total accumulated depreciation	<u>(18,795,206)</u>	<u>(1,764,014)</u>	<u>-</u>	<u>99,806</u>	<u>(20,459,414)</u>
Total depreciable capital assets, net	<u>14,682,248</u>	<u>(784,494)</u>	<u>1,750,210</u>	<u>(299,420)</u>	<u>15,348,544</u>
Total capital assets, net	<u>\$ 15,863,278</u>	<u>\$ 725,659</u>	<u>\$ -</u>	<u>\$(619,684)</u>	<u>\$ 15,969,253</u>

Continued

THE BAXLEY AND APPLING COUNTY
HOSPITAL AUTHORITY
D/B/A APPLING HEALTHCARE SYSTEM
(A Component Unit of Appling County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
August 31, 2018 and 2017

6. Capital Assets, Continued

	2016 <u>Balance</u>	Increase	Transfer	Decrease	2017 <u>Balance</u>
Land	\$ 517,095	\$ 50,812	\$ -	\$ -	\$ 567,907
Construction in progress	<u>748,224</u>	<u>1,120,972</u>	<u>(1,229,388)</u>	<u>(26,685)</u>	<u>613,123</u>
Total non-depreciable capital assets	<u>1,265,319</u>	<u>1,171,784</u>	<u>(1,229,388)</u>	<u>(26,685)</u>	<u>1,181,030</u>
Land improvements	452,643	-	-	-	452,643
Buildings and improvements	15,844,582	153,409	557,226	-	16,555,217
Fixed equipment	2,538,670	195,983	452,069	-	3,186,722
Major movable equipment	<u>13,232,997</u>	<u>751,288</u>	<u>220,093</u>	<u>(921,506)</u>	<u>13,282,872</u>
Total depreciable capital assets	<u>32,068,892</u>	<u>1,100,680</u>	<u>1,229,388</u>	<u>(921,506)</u>	<u>33,477,454</u>
Less accumulated depreciation and amortization for:					
Land improvements	(331,272)	(15,455)	-	-	(346,727)
Buildings and improvements	(6,750,911)	(478,650)	-	-	(7,229,561)
Fixed equipment	(1,696,374)	(187,748)	-	-	(1,884,122)
Major movable equipment	<u>(9,146,062)</u>	<u>(1,092,110)</u>	<u>-</u>	<u>903,376</u>	<u>(9,334,796)</u>
Total accumulated depreciation	<u>(17,924,619)</u>	<u>(1,773,963)</u>	<u>-</u>	<u>903,376</u>	<u>(18,795,206)</u>
Total depreciable capital assets, net	<u>14,144,273</u>	<u>(673,283)</u>	<u>1,229,388</u>	<u>(18,130)</u>	<u>14,682,248</u>
Total capital assets, net	\$ <u>15,409,592</u>	\$ <u>498,501</u>	\$ <u>-</u>	\$ <u>(44,815)</u>	\$ <u>15,863,278</u>

Continued

THE BAXLEY AND APPLING COUNTY
HOSPITAL AUTHORITY
D/B/A APPLING HEALTHCARE SYSTEM
(A Component Unit of Appling County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
August 31, 2018 and 2017

6. Capital Assets, Continued

The cost of assets under capital lease obligations was approximately \$44,000 at 2018 and 2017. Accumulated amortization related to the equipment under capital lease obligations was approximately \$23,000 and \$16,000 at 2018 and 2017, respectively.

7. Other Receivables

Other receivables consist primarily of loans to physicians through recruiting incentive arrangements. In general, the loans are being forgiven over a period of time in which the physician practices medicine in the Baxley and Appling County, Georgia area. If the physician discontinues medical practice in this area, the outstanding principal and accrued interest becomes due immediately. The amounts forgiven and charged to expense during 2018 and 2017 were approximately \$7,500 and \$88,000, respectively.

8. Long-Term Debt and Capital Leases

A summary of long-term debt and capital leases at August 31, 2018 and 2017, follows:

<u>Long-Term Debt</u>	<u>2018</u>	<u>2017</u>
USDA Community Facility loan, due in monthly installments of \$13,032, including interest at 2.875%, due June 16, 2031, secured by real estate.	\$ 1,593,332	\$ 1,699,844
Note payable, due in monthly installments of \$7,592, including interest at the greater of the index prime rate plus 1.00% with a minimum rate of 5.5%, due April 5, 2023, secured by real estate.	373,477	441,836

Continued

THE BAXLEY AND APPLING COUNTY
HOSPITAL AUTHORITY
D/B/A APPLING HEALTHCARE SYSTEM
(A Component Unit of Appling County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
August 31, 2018 and 2017

8. Long-Term Debt and Capital Leases, Continued

	<u>2018</u>	<u>2017</u>
<u>Long-Term Debt, Continued</u>		
Note payable, due in monthly installments of \$9,745, including interest at the greater of the Wall Street Journal prime rate plus 1.25% with a minimum rate of 5.25%, due July 8, 2032, secured by real estate.	\$ 485,330	\$ 510,905
Note payable, due in monthly installments of \$48,496, including interest at the greater of the Wall Street Journal prime rate plus 1.25% with a minimum rate of 5.25%, due October 25, 2029, secured by real estate.	4,908,718	5,205,253
Note payable, due in monthly installments of \$6,928, including interest of 4.25%, due August 22, 2024, secured by equipment.	437,988	500,000
<u>Capital Lease</u>		
Capital lease obligations, with interest rates ranging from 3.15% to 4.49%, collateralized by leased equipment.	<u>13,719</u>	<u>22,345</u>
Total long-term debt and capital lease obligations	7,812,564	8,380,183
Less: Current maturities of long-term debt	<u>638,763</u>	<u>600,812</u>
Long-term debt, net of current maturities	\$ <u>7,173,801</u>	\$ <u>7,779,371</u>

Continued

THE BAXLEY AND APPLING COUNTY
HOSPITAL AUTHORITY
D/B/A APPLING HEALTHCARE SYSTEM
(A Component Unit of Appling County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
August 31, 2018 and 2017

8. Long-Term Debt and Capital Leases, Continued

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

	<u>2017</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>2018</u> <u>Balance</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Community					
Facility Loan	\$ 1,699,844	\$ -	\$(106,512)	\$ 1,593,332	\$ 112,126
Notes payable	6,657,994	-	(452,481)	6,205,513	517,273
Leases	<u>22,345</u>	<u>-</u>	<u>(8,626)</u>	<u>13,719</u>	<u>9,364</u>
 Total long-term debt	 <u>\$ 8,380,183</u>	 <u>\$ -</u>	 <u>\$(567,619)</u>	 <u>\$ 7,812,564</u>	 <u>\$ 638,763</u>
	<u>2016</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>2017</u> <u>Balance</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Community					
Facility Loan	\$ 846,918	\$ 870,751	\$(17,825)	\$ 1,699,844	\$ 108,952
Notes payable	6,323,922	692,206	(358,134)	6,657,994	482,910
Leases	<u>30,906</u>	<u>-</u>	<u>(8,561)</u>	<u>22,345</u>	<u>8,950</u>
 Total long-term debt	 <u>\$ 7,201,746</u>	 <u>\$ 1,562,957</u>	 <u>\$(384,520)</u>	 <u>\$ 8,380,183</u>	 <u>\$ 600,812</u>

Continued

THE BAXLEY AND APPLING COUNTY
HOSPITAL AUTHORITY
D/B/A APPLING HEALTHCARE SYSTEM
(A Component Unit of Appling County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
August 31, 2018 and 2017

8. Long-Term Debt and Capital Leases, Continued

USDA Loan

In June 2016, the System obtained a community facility loan from the United States Department of Agriculture (USDA) in the amount of \$1.8 million, secured by real estate. The term of the loan is 15 years with an interest rate of 2.875%.

Under the terms of the USDA loan, the System is required to maintain a mortgage reserve fund sufficient to meet the current portion of the debt service requirements for the USDA loan as required by the original loan documents. The System was in compliance with this requirement at August 31, 2018. The mortgage reserve fund is presented with restricted cash for debt service and is included in restricted net position on the balance sheet.

Notes Payable

In October 2014, the System obtained a note from Pineland Bank (formerly Peoples State Bank and Trust) in the amount of \$6 million. The proceeds were used to consolidate all notes payable, capital leases, and the line-of-credit outstanding at that time. The term of the note is 15 years at a variable rate of prime plus 1.25%, with a minimum rate of 5.25%.

In April 2016, the System obtained a note from Pineland Bank (formerly Peoples State Bank and Trust) in the amount of \$526,894. The proceeds were used to purchase medical equipment. The term of the note is 7 years at a variable rate of prime plus 1.00%, with a minimum rate of 5.50%.

In August 2016, the System was approved for a loan from Pineland Bank (formerly Peoples State Bank and Trust) up to \$1.2 million. As of August 31, 2018, the System has drawn \$510,905. The term of the loan is 15 years at a variable rate of prime plus 1.25%, with a minimum rate of 5.25%.

In August 2017, the System was approved for a loan from Pineland Bank in the amount of \$501,571. The proceeds will be used to purchase a new CT Scanner in fiscal year 2018, which was requisitioned in 2017. The term of the loan is 7 years at a fixed interest rate of 4.25%.

Continued

THE BAXLEY AND APPLING COUNTY
HOSPITAL AUTHORITY
D/B/A APPLING HEALTHCARE SYSTEM
(A Component Unit of Appling County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
August 31, 2018 and 2017

8. Long-Term Debt and Capital Leases, Continued

Notes Payable, Continued

The System has a line-of-credit available at Pineland Bank in the amount of \$750,000. The terms require monthly interest payments at a variable rate, not to be less than 5.50% on any outstanding principal and matures May 30, 2019. As of August 31, 2018, the System has not drawn any amounts from the line-of-credit.

On October 18, 2018, the System obtained a note from Pineland Bank in the amount of \$1.1 million. The proceeds were used to purchase an MRI machine that was previously leased. The term of the note is 6 years at a fixed rate of 6.00%.

Capital Lease

In February 2015, the System entered into a capital lease, collateralized by leased equipment with an amortized cost of approximately \$21,000 and \$28,000 as of August 31, 2018 and 2017, respectively. The term of the lease is 5 years at a rate in the range of 3.15% to 4.49%.

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

<u>Year Ending</u> <u>August 31,</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 638,763	\$ 400,533
2020	660,163	373,759
2021	692,291	337,230
2022	730,928	298,594
2023	719,851	257,535
2024-2028	2,965,905	806,303
2029-2032	<u>1,404,663</u>	<u>68,463</u>
Total	\$ <u>7,812,564</u>	\$ <u>2,542,417</u>

Continued

THE BAXLEY AND APPLING COUNTY
HOSPITAL AUTHORITY
D/B/A APPLING HEALTHCARE SYSTEM
(A Component Unit of Appling County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
August 31, 2018 and 2017

9. Concentrations of Credit Risk

The System 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 August 31, 2018 and 2017, is as follows:

	<u>2018</u>	<u>2017</u>
Medicare	21 %	23 %
Blue Cross and other third-party payors	41 %	35 %
Patients	25 %	28 %
Medicaid	<u>13 %</u>	<u>14 %</u>
	<u>100 %</u>	<u>100 %</u>

10. Contingencies

The System has operating leases with various vendors, primarily for equipment. Future estimated minimum operating lease payments that have initial or remaining lease terms in excess of one year are as follows:

<u>Year Ending</u> <u>August 31,</u>	<u>Operating Lease</u> <u>Payments</u>
2019	\$ 464,586
2020	478,368
2021	<u>298,844</u>
Total	<u>\$ 1,241,798</u>

Rental expense under all operating lease agreements for the years ended August 31, 2018 and 2017 was approximately \$317,000 and \$310,000, respectively.

Continued

THE BAXLEY AND APPLING COUNTY
HOSPITAL AUTHORITY
D/B/A APPLING HEALTHCARE SYSTEM
(A Component Unit of Appling County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
August 31, 2018 and 2017

10. Contingencies, Continued

Malpractice Insurance

The System is covered by a claims-made general and professional liability insurance policy with a specified deductible per incident and excess coverage on a claims-made basis. The liability limits related to this policy are \$1 million per occurrence and \$5 million in aggregate in 2018 and 2017. Umbrella coverage is provided by Hudson Specialty Insurance Company for \$5 million per claim and annual aggregate. The System uses a third-party administrator to review and analyze incidents that may result in a claim against the System. Management believes these claims, if asserted, would be settled within the limits of insurance coverage.

Various claims and assertions are made against the System during the ordinary course of providing services. In addition, other claims may be asserted arising from services provided to patients in the past. It is the opinion of management that the System has adequate liability insurance protection to indemnify any material asserted or unasserted claims as of August 31, 2018.

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 System has implemented a compliance plan focusing on such issues. There can be no assurance that the System will not be subjected to future investigations with accompanying monetary damages.

Continued

THE BAXLEY AND APPLING COUNTY
HOSPITAL AUTHORITY
D/B/A APPLING HEALTHCARE SYSTEM
(A Component Unit of Appling County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
August 31, 2018 and 2017

10. 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 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. There can be no assurance that these changes will not adversely affect the System.

Litigation

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

11. Self-Insurance – Employee Health Plan

The System provides a self-insurance program for its employees under which a third-party administrator processes and pays claims. The System reimburses the third-party administrator monthly. The System has purchased stop-loss insurance coverage for claims in excess of \$80,000 for each individual employee. Under this self-insurance program, the System paid or accrued approximately \$1,379,000 and \$1,482,000 during the years ended August 31, 2018 and 2017, respectively.

Continued

THE BAXLEY AND APPLING COUNTY
HOSPITAL AUTHORITY
D/B/A APPLING HEALTHCARE SYSTEM
(A Component Unit of Appling County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
August 31, 2018 and 2017

12. Deferred Outflows of Resources

Deferred outflows of resources consisted of the following:

	<u>2018</u>	<u>2017</u>
Goodwill, net of amortization	\$ <u>228,698</u>	\$ <u>249,973</u>

Pursuant to the implementation of GASB Statement No. 69, the Authority's goodwill is reported net of accumulated amortization expense and is amortized over 15 years. Amortization expense is reported in depreciation and amortization in the amount of approximately \$21,000 for 2018 and 2017.

13. Employee Retirement Plan

The System has a defined contribution retirement plan pursuant to Section 403(b) of the Internal Revenue Code covering all employees that are 18 or older and work at least 20 hours a week. Under the terms of this plan, the System will contribute 50% of the employee's contributions not to exceed 6% of the employee's annual salary. The System's contributions will vest 20% for each year of service up to 100% vesting after five years of service. As of January 2012, the System suspended matching contributions indefinitely. The System may also make a discretionary contribution which is allocated to eligible employees based on the employee's compensation to total compensation of eligible employees. The System made no contributions during the years ended August 31, 2018 and 2017.

14. Special Purpose Sales Tax

The System entered into an agreement with Appling County, Georgia to secure funding for implementation of Electronic Health Records through a referendum held during 2012 approving a 1% sales and use tax in the County with \$1,750,000 allocated to the System over six years, which will be applied to the principal and interest payments of the note payable related to the project. As of August 31, 2018, the System has recorded approximately \$1,750,000 cumulative contributions from the referendum.

Continued

THE BAXLEY AND APPLING COUNTY
HOSPITAL AUTHORITY
D/B/A APPLING HEALTHCARE SYSTEM
(A Component Unit of Appling County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
August 31, 2018 and 2017

14. Special Purpose Sales Tax, Continued

The System entered into an agreement with Appling County, Georgia to secure funding for hospital renovations through a referendum held during 2017 approving a 1% sales and use tax in the County with \$3,000,000 allocated to the System over six years. As of August 31, 2018, the System has recorded approximately \$333,000 cumulative contributions from the referendum.

Special purpose sales tax funds are reflected in capital grants and contributions in the accompanying statements of revenues, expenses, and changes in net position.

15. Electronic Health Records Incentive Payments

The Health Information Technology for Economic and Clinical Health Act (HITECH Act) was enacted into law on February 17, 2009, as part of the American Recovery and Reinvestment Act of 2009 (ARRA). The HITECH Act includes provisions designed to increase the use of Electronic Health Records (EHR) by both physicians and hospitals. Beginning with federal fiscal year 2011 and extending through federal fiscal year 2016, eligible hospitals participating in the Medicare and Medicaid programs are eligible for reimbursement incentives based on successfully demonstrating meaningful use of its certified EHR technology. Conversely, those hospitals that do not successfully demonstrate meaningful use of EHR technology are subject to reductions in Medicare reimbursements beginning in FY 2015. On July 13, 2010, the Department of Health and Human Services (DHHS) released final meaningful use regulations. Meaningful use criteria are divided into three distinct stages: I, II and III. The final rules specify the initial criteria for physicians and eligible hospitals necessary to qualify for incentive payments; calculation of the incentive payment amounts; payment adjustments under Medicare for covered professional services and inpatient hospital services; eligible hospitals failing to demonstrate meaningful use of certified EHR technology; and other program participation requirements.

The final rule set the earliest interim payment date for the incentive payment at May 2011. The first year of the Medicare portion of the program is defined as the federal government fiscal year October 1, 2010 to September 30, 2011.

Continued

THE BAXLEY AND APPLING COUNTY
HOSPITAL AUTHORITY
D/B/A APPLING HEALTHCARE SYSTEM
(A Component Unit of Appling County, Georgia)

NOTES TO FINANCIAL STATEMENTS, Continued
August 31, 2018 and 2017

15. Electronic Health Records Incentive Payments, Continued

The Medicaid portion of the program will be administered by the Georgia Department of Community Health based upon the criteria in the final rules. In the first year of the Medicaid EHR incentive program, eligible hospitals must attest to having adopted, implemented, upgraded or demonstrated meaningful use of certified EHR technology. In the second and subsequent years, the hospitals will be subject to additional meaningful use criteria in order to continue receiving payments. The Medicaid EHR incentive was paid over three years.

The System recognizes income related to Medicare and Medicaid incentive payments using a grant model based upon when it has determined that it is reasonably assured that the System will be meaningfully using EHR technology for the applicable period and the cost report information is reasonably estimable.

The System successfully demonstrated meeting Medicare meaningful use of its certified EHR technology for Stage I prior to August 31, 2013, Stage II prior to August 31, 2014, Stage III prior to August 31, 2016, and Stage IV prior to August 31, 2017. The System has recognized approximately \$-0- in 2018 and \$224,000 in 2017 from Medicare. The amounts recognized in the current year are based on prior year settlement estimates. These funds are recorded in other revenue on the statements of revenues, expenses and changes in net position.

The System's attestation to the demonstration of meaningful use and other requirements under the Medicare and Medicaid EHR programs are subject to audit. If the System is selected for an audit, there is a possibility the incentive payments could be reduced or recouped based on the audit results.

16. Rural Hospital Tax Credit

The State of Georgia (State) passed legislation which allows individuals or corporations to receive a state tax credit for making a contribution to certain qualified rural hospital organizations. The System submitted the necessary documentation and was approved by the State to participate in the rural hospital tax credit program for program years 2017 and 2018. Contributions received under the program approximate \$46,000 and \$601,000 during program years 2017 and 2018, respectively. All contributions were received and recorded during fiscal year 2018.

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*



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*

Board of Trustees
The Baxley and Appling County Hospital Authority
D/B/A Appling Healthcare System
Baxley, 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 Baxley and Appling County Hospital Authority, D/B/A Appling Healthcare System (System), which comprise the balance sheet as of August 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 February 25, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System'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 System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

Continued

Let's Think Together.

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 System's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free from 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*.

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 System'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 System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Driffin + Tucker LLP

Albany, Georgia
February 25, 2019