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, 2024 and 2023

Draffin Tucker

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THE BAXLEY AND APPLING COUNTY
HOSPITAL AUTHORITY
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(A Component Unit of Appling County, Georgia)

FINANCIAL STATEMENTS

for the years ended August 31, 2024 and 2023

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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 Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of The Baxley and Appling County Hospital Authority, D/B/A Appling Healthcare System (System), a component unit of Appling County, Georgia, which comprise the balance sheets as of August 31, 2024 and 2023, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the System as of August 31, 2024 and 2023, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the System and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Continued

Emphasis of Matter

As discussed in Note 18 to the financial statements, the System has reported recurring operating losses. Management's evaluation of the events and conditions and management's plans to mitigate these matters are also described in Note 18. Our opinion is not modified with respect to that matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, no such opinion is expressed.

Continued

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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 also issued our report dated March 12, 2025 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 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 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
March 12, 2025

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

BALANCE SHEETS
August 31, 2024 and 2023

	2024	2023
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current assets:		
Cash	$ 526,076	$ 65,188
Patient accounts receivable, net of estimated uncollectibles of $10,160,927 in 2024 and $6,904,734 in 2023	4,265,950	2,457,935
Supplies	719,231	674,876
Estimated third-party payor settlements	224,176	637,284
Other current assets	1,566,912	1,712,168
Total current assets	7,302,345	5,547,451
Capital assets:		
Non-depreciable capital assets	872,959	1,279,855
Depreciable capital assets, net of accumulated depreciation	15,364,149	15,632,986
Intangible right-to-use lease assets and subscription IT assets, net of accumulated amortization	575,949	774,881
Total capital assets, net	16,813,057	17,687,722
Other assets:		
Restricted cash for debt service	159,369	158,732
Total assets	24,274,771	23,393,905
Deferred outflows of resources:		
Goodwill, net of accumulated amortization	101,567	122,327
Total assets and deferred outflows of resources	$ 24,376,338	$ 23,516,232

Continued

THE BAXLEY AND APPLING COUNTY
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D/B/A APPLING HEALTHCARE SYSTEM
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BALANCE SHEETS, Continued
August 31, 2024 and 2023

	2024	2023
LIABILITIES AND NET POSITION		
Current liabilities:		
Current maturities of long-term debt	$ 603,037	$ 679,179
Short-term debt	400,000	101,526
Current maturities of lease and subscription IT liabilities	205,843	231,916
Accounts payable	3,870,815	2,783,714
Accrued expenses	2,649,832	2,976,911
Unearned revenue	90,000	203,523
Estimated third-party payor settlements	168,828	37,266
Total current liabilities	7,988,355	7,014,035
Long-term debt, net of current maturities	6,370,255	4,160,768
Lease and subscription IT liabilities, net of current maturities	392,458	559,192
Total liabilities	14,751,068	11,733,995
Net position:		
Net investment in capital assets	9,241,465	12,056,667
Restricted	156,384	156,384
Unrestricted	227,421	(430,814)
Total net position	9,625,270	11,782,237
Total liabilities and net position	$ 24,376,338	$ 23,516,232

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, 2024 and 2023

	2024	2023
Operating revenues:		
Net patient service revenue (net of provision for bad debts of $7,777,918 in 2024 and $3,145,714 in 2023)	$ 28,892,785	$ 27,938,639
Other revenue	1,036,147	888,274
Total operating revenues	29,928,932	28,826,913
Operating expenses:		
Salaries and wages	14,773,435	14,605,730
Employee benefits	2,573,409	2,948,068
Supplies and other	7,390,503	8,028,634
Purchased services	7,759,937	7,459,594
Depreciation and amortization	1,779,711	2,184,576
Total operating expenses	34,276,995	35,226,602
Operating loss	(4,348,063)	(6,399,689)
Nonoperating revenues (expenses):		
Interest expense	(449,391)	(398,581)
Noncapital grants and contributions	1,005,888	1,033,567
CARES Act and ARPA funding	36,857	2,067,889
Rural hospital tax credit contributions	324,071	513,787
Total nonoperating revenues	917,425	3,216,662
Excess revenues (expenses) before capital grants and contributions	(3,430,638)	(3,183,027)
Capital grants and contributions	1,273,671	729,336
Decrease in net position	(2,156,967)	(2,453,691)
Net position, beginning of year	11,782,237	14,235,928
Net position, end of year	$ 9,625,270	$ 11,782,237

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, 2024 and 2023

	2024	2023
Cash flows from operating activities:		
Receipts from and on behalf of patients	$ 28,665,587	$ 28,727,921
Repayments of Medicare advance payments	-	(1,604,740)
Payments to suppliers and contractors	(13,943,282)	(14,699,507)
Payments to employees	(17,673,923)	(17,263,176)
Net cash used by operating activities	(2,951,618)	(4,839,502)
Cash flows from noncapital financing activities:		
Noncapital grants and contributions	1,005,888	1,033,567
Rural hospital tax credit contributions	324,071	443,462
Proceeds from issuance of short-term debt	1,058,080	103,145
Principal and interest paid on short-term debt	(759,606)	(1,619)
Net cash provided by noncapital financing activities	1,628,433	1,578,555
Cash flows from capital and related financing activities:		
Capital grants and contributions	1,177,848	650,931
Proceeds from issuance of long-term debt	2,688,121	-
Principal paid on long-term debt	(554,776)	(681,923)
Interest paid on long-term debt	(445,606)	(397,038)
Principal paid on lease and subscription IT liabilities	(234,599)	(435,795)
Interest paid on lease and subscription IT liabilities	(3,785)	(1,543)
Proceeds from sale of capital asset	-	25,000
Purchase of capital assets	(842,493)	(960,258)
Net cash provided (used) by capital and related financing activities	1,784,710	(1,800,626)
Net increase (decrease) in cash	461,525	(5,061,573)
Cash, beginning of year	223,920	5,285,493
Cash, end of year	$ 685,445	$ 223,920

Continued

THE BAXLEY AND APPLING COUNTY
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STATEMENTS OF CASH FLOWS, Continued
for the years ended August 31, 2024 and 2023

	2024	2023
Reconciliation of cash to the balance sheets:		
Cash	$ 526,076	$ 65,188
Restricted cash for debt service	159,369	158,732
Total cash	$ 685,445	$ 223,920
Reconciliation of operating loss to net cash flows used by operating activities:		
Operating loss	$ (4,348,063)	$ (6,399,689)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation and amortization	1,779,711	2,184,576
Provision for bad debts	7,777,918	3,144,974
Changes in:		
Patient accounts receivable	(9,585,933)	(3,150,796)
Supplies	(44,355)	81,951
Other current and noncurrent assets	164,412	(230,703)
Accounts payable	1,087,101	937,473
Accrued expenses	(327,079)	290,622
Medicare advance payments	-	(1,604,740)
Estimated third-party payor settlements	544,670	(93,170)
Net cash used by operating activities	$ (2,951,618)	$ (4,839,502)

Supplemental disclosures of cash flow information:

The System entered into lease obligations of approximately $42,000 in 2024.

In 2024, the System refinanced outstanding loans with Pineland Bank. See Note 8 for additional information.

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

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; and the Pavilion, 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.

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.

Supplies

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

Continued

1. Summary of Significant Accounting Policies, Continued

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. Leased assets is amortized on the straight-line method over the estimated useful life of the asset. Such amortization is included in depreciation and amortization in the financial statements. Subscription-based information technology arrangements are amortized on the straight-line method over the shorter of the subscription term or the estimated useful life of the underlying IT asset. Interest cost incurred on borrowed funds during the period of construction of capital assets is expensed in the period in which the cost is incurred.

Land improvements	15 to 20 years
Buildings and building improvements	20 to 40 years
Equipment	3 to 7 years
Right-to-use lease assets	1 to 5 years
Right-to-use subscription IT assets	2 to 9 years

Financing Costs

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

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 2024 and 2023.

Unearned Revenue

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. CARES Act and ARPA advance payments are reported as unearned revenue until all applicable eligibility requirements are met. See Note 17 for additional information.

Continued

1. Summary of Significant Accounting Policies, Continued

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.

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 System, 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*.

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.

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

1. Summary of Significant Accounting Policies, Continued

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 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.

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. The System received $1,005,888 and $1,033,567 in noncapital grants for the years ended 2024 and 2023, respectively. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses. See Note 17 for additional information regarding CARES Act and ARPA funding.

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 12). See Note 11 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.

Continued

1. Summary of Significant Accounting Policies, Continued

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 for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The impairment loss to be recognized is the amount by which the carrying value of the long-lived asset exceeds the asset's fair value. In most instances, the fair value is determined by discounted estimated future cash flows using an appropriate interest rate. The System has not recorded any impairment charges in the accompanying statements of revenues, expenses and changes in net position for the years ended 2024 and 2023.

Deferred Outflows of Resources

Deferred outflows of resources consist of goodwill, net of accumulated amortization, as of August 31, 2024 and 2023. See Note 13 for additional information.

Accounting Pronouncement Not Yet Adopted

In June 2022, the GASB issued Statement No. 101, Compensated Absences (GASB 101). GASB 101 updates the recognition, measurement, and disclosure guidance for compensated absences. The Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. GASB 101 is effective for fiscal years beginning after December 15, 2023. The System is currently evaluating the impact GASB 101 will have on its financial statements.

Prior Year Reclassifications

Certain reclassifications have been made to the fiscal year 2023 financial statements to conform to the fiscal year 2024 presentation. These reclassifications had no impact on the change in net position in the accompanying financial statements.

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.

Continued

2. Net Patient Service Revenue, Continued

Net revenue from the Medicare and Medicaid programs accounted for approximately 43% and 37%, respectively, of the System's net patient service revenue for the year ended August 31, 2024, and 43% and 42% respectively, of the System's net patient service revenue for the year ended August 31, 2023. 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 2024 net patient service revenue decreased approximately $37,000 due to prior year retroactive adjustments in excess of amounts previously estimated.

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 RACs have authority to pursue improper payments with a three year look back from the date the claim was paid. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medicaid programs.

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 based on a patient-driven payment methodology.

  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, 2022.

Continued

2. Net Patient Service Revenue, Continued

- 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.

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, 2021.

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 $857,584 and $1,377,508 for the years ended 2024 and 2023, 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 $838,414 and $827,634 for the years ended 2024 and 2023, respectively.

Continued

2. Net Patient Service Revenue, Continued

- Medicaid, Continued

The state of Georgia enacted legislation known as the Provider Payment Agreement Act (Act) whereby hospitals in the state of Georgia are assessed a “provider payment” in the amount of 1.45% of their net patient revenue. The 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%. $282,949 and $284,394 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, 2024 and 2023, respectively.

During 2022, Medicaid implemented the Medicaid CMOs Direct Payment Program (DPP). Under the DPP, eligible hospitals will receive increased Medicaid funding via an annual lump sum direct payment. The direct payment will be based on the difference between Medicare reimbursement and Medicaid payments using UPL calculations. The direct payment is made to the CMOs and the CMOs are required to transfer the payment to the hospital. The net amount of DPP payment adjustments recognized in net patient service revenue was $106,575 and $293,102 for the years ended 2024 and 2023, respectively.

During 2022, Medicaid implemented the Supplemental Quality Incentive (SQI) payment program for nursing homes that demonstrate improvement in one of four quality metrics. The nursing home demonstrated improvement in three of the four quality metrics and recognized SQI payments of $0 and $28,834 in net patient service revenue for the years ended 2024 and 2023, 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.

Continued

3. Uncompensated Services

The System was compensated for services at amounts less than its established rates. Charges for uncompensated services for 2024 and 2023 were $34,388,224 and $26,213,738, respectively.

Uncompensated care includes charity and indigent care services of $456,510 and $509,471 in 2024 and 2023, respectively. The cost of charity and indigent care services provided during 2024 and 2023 was approximately $251,000 and $335,000, respectively, computed by applying a total cost factor to the charges forgone.

The following is a summary of uncompensated services and a reconciliation of gross patient charges to net patient service revenue for 2024 and 2023.

	2024	2023
Gross patient charges	$ 63,281,009	$ 54,152,377
Uncompensated services:		
Charity and indigent care	456,510	509,471
Medicare	14,511,350	12,159,006
Medicaid	5,078,276	4,861,631
Supplemental Medicaid payments	(1,695,998)	(2,527,078)
Other allowances	8,260,168	8,065,734
Bad debts	7,777,918	3,144,974
Total uncompensated services	34,388,224	26,213,738
Net patient service revenue	$ 28,892,785	$ 27,938,639

4. Deposits

Deposits are classified on the balance sheets as follows:

	2024	2023
Cash - demand deposit accounts	$ 526,076	$ 65,188
Restricted cash for debt service - demand deposit account	159,369	158,732
Total	$ 685,445	$ 223,920

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 August 31, 2024 and 2023 were entirely insured or collateralized with direct loans to the System held by the financial institution.

Continued

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, 2024 and 2023, consisted of these amounts:

	2024	2023
Patient accounts receivable:		
Receivable from patients and their insurance carriers	$ 10,367,063	$ 6,653,237
Receivable from Medicare	2,197,868	1,302,999
Receivable from Medicaid	1,861,946	1,406,433
Total gross patient accounts receivable	14,426,877	9,362,669
Less allowance for uncollectible amounts and contractual adjustments	10,160,927	6,904,734
Patient accounts receivable, net	$ 4,265,950	$ 2,457,935
Accounts payable and accrued expenses:		
Payable to employees (including payroll taxes)	$ 844,464	$ 771,249
Payable to suppliers	3,870,815	2,783,714
Other	1,805,368	2,205,662
Total accounts payable and accrued expenses	$ 6,520,647	$ 5,760,625

Continued

6. Capital Assets

A summary of capital assets follows:

	2023 Balance	Increase	Transfer	Decrease	2024 Balance
Land	$ 568,809	$ -	$ -	$ -	$ 568,809
Construction in progress	711,046	524,294	(893,384)	(37,806)	304,150
Total non-depreciable capital assets	1,279,855	524,294	(893,384)	(37,806)	872,959
Land improvements	784,225	-	-	-	784,225
Buildings and improvements	20,816,588	236,451	728,384	(25,166)	21,756,257
Fixed equipment	6,435,769	43,289	-	-	6,479,058
Major movable equipment	16,163,708	75,819	165,000	(302,504)	16,102,023
Total depreciable capital assets	44,200,290	355,559	893,384	(327,670)	45,121,563
Less accumulated depreciation for:					
Land improvements	(430,604)	(24,676)	-	-	(455,280)
Buildings and improvements	(10,372,003)	(584,026)	-	25,166	(10,930,863)
Fixed equipment	(4,553,079)	(425,498)	-	-	(4,978,577)
Major movable equipment	(13,211,618)	(483,580)	-	302,504	(13,392,694)
Total accumulated depreciation	(28,567,304)	(1,517,780)	-	327,670	(29,757,414)
Total depreciable capital assets, net	15,632,986	(1,162,221)	893,384	-	15,364,149

Continued

6. Capital Assets, Continued

	2023 Balance	Increase	Transfer	Decrease	2024 Balance
Leased equipment	$ 81,080	$ 42,617	$ -	$ -	$ 123,697
Leased billboards	25,445	-	-	(25,445)	-
Total leased assets	106,525	42,617	-	(25,445)	123,697
Less accumulated amortization for:					
Leased equipment	(72,804)	(21,280)	-	-	(94,084)
Leased billboards	(2,118)	(2,374)	-	25,445	20,953
Total accumulated amortization	(74,922)	(23,654)	-	25,445	(73,131)
Intangible right-to-use lease assets, net	31,603	18,963	-	-	50,566
Subscription IT assets	1,574,190	-	-	(24,615)	1,549,575
Less accumulated amortization for subscription IT assets	(830,912)	(210,945)	-	17,665	(1,024,192)
Intangible right-to-use subscription IT assets, net	743,278	(210,945)	-	(6,950)	525,383
Total capital assets, net	$ 17,687,722	$ (829,909)	$ -	$ (44,756)	$ 16,813,057

Continued

6. Capital Assets, Continued

	2022 Balance	Increase	Transfer	Decrease	2023 Balance
Land	$ 593,809	$ -	$ -	$ (25,000)	$ 568,809
Construction in progress	993,339	930,444	(1,205,925)	(6,812)	711,046
Total non-depreciable capital assets	1,587,148	930,444	(1,205,925)	(31,812)	1,279,855
Land improvements	784,225	-	-	-	784,225
Buildings and improvements	19,539,423	71,240	1,205,925	-	20,816,588
Fixed equipment	6,218,047	217,722	-	-	6,435,769
Major movable equipment	16,213,273	28,597	-	(78,162)	16,163,708
Total depreciable capital assets	42,754,968	317,559	1,205,925	(78,162)	44,200,290
Less accumulated depreciation for:					
Land improvements	(405,684)	(24,920)	-	-	(430,604)
Buildings and improvements	(9,775,047)	(596,956)	-	-	(10,372,003)
Fixed equipment	(3,980,775)	(572,304)	-	-	(4,553,079)
Major movable equipment	(12,776,870)	(434,748)	-	-	(13,211,618)
Total accumulated depreciation	(26,938,376)	(1,628,928)	-	-	(28,567,304)
Total depreciable capital assets, net	15,816,592	(1,311,369)	1,205,925	(78,162)	15,632,986

Continued

6. Capital Assets, Continued

	2022 Balance	Increase	Transfer	Decrease	2023 Balance
Leased equipment	$ 102,033	$ -	$ -	$ (20,953)	$ 81,080
Leased billboards	25,445	-	-	-	25,445
Total leased assets	127,478	-	-	(20,953)	106,525
Less accumulated amortization for:					
Leased equipment	(48,536)	(24,268)	-	-	(72,804)
Leased billboards	(15,380)	(7,691)	-	20,953	(2,118)
Total accumulated amortization	(63,916)	(31,959)	-	20,953	(74,922)
Intangible right-to-use lease assets, net	63,562	(31,959)	-	-	31,603
Subscription IT assets	1,574,190	-	-	-	1,574,190
Less accumulated amortization for subscription IT assets	(416,423)	(414,489)	-	-	(830,912)
Intangible right-to-use subscription IT assets, net	1,157,767	(414,489)	-	-	743,278
Total capital assets, net	$ 18,625,069	$ (827,373)	$ -	$ (109,974)	$ 17,687,722

Continued

7. Short-Term Debt

In October 2022, the System obtained a line-of credit from Pineland Bank with a borrowing limit of $751,619. The revolving line-of-credit incurs monthly interest at a fixed per annum rate of 8.5% with an original maturity date of October 19, 2023. The line-of-credit was renewed and the maturity date is now November 14, 2025. The line is secured by property owned by the System. Activity on the line-of-credit during the year ended August 31, 2024 and 2023, was as follows:

	2023 Balance	Additions	Reductions	2024 Balance
Direct borrowing:				
Line-of-credit	$ 101,526	$ 1,058,080	$ (759,606)	$ 400,000

	2022 Balance	Additions	Reductions	2023 Balance
Direct borrowing:				
Line-of-credit	$ -	$ 103,145	$ (1,619)	$ 101,526

8. Long-Term Debt

A summary of long-term debt at August 31, 2024 and 2023, follows:

	2024	2023
USDA Community Facility loan, due in monthly installments of $13,032, including interest at 2.875%, due June 16, 2031, secured by real estate.	$ 855,437	$ 982,001
Note payable, due in monthly installments of $9,475, 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. Refinanced by new note payable on March 21, 2024.	-	365,587

Continued

8. Long-Term Debt, Continued

	2024	2023
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. Refinanced by new note payable on March 21, 2024.	$ -	$ 3,132,982
Note payable, due in monthly installments of $6,928, including interest of 4.25%, due August 22, 2024, secured by equipment. Refinanced by a new note payable on March 21, 2024.	-	86,708
Note payable, due in monthly installments of $2,538, including interest of 6.75%, due September 17, 2036, secured by real estate. Refinanced by new note payable on March 21, 2024.	-	272,669
Note payable, due in monthly installments of $73,489, including interest of 7.00%, due March 21, 2034, secured by equipment.	6,117,855	-
Total long-term debt	6,973,292	4,839,947
Less current maturities of long-term debt	603,037	679,179
Long-term debt, net of current maturities	$ 6,370,255	$ 4,160,768

Continued

8. Long-Term Debt, Continued

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

	2023 Balance	Additions	Reductions	2024 Balance	Amounts Due Within One Year
Direct borrowings:					
Community Facility Loan	$ 982,001	$ -	$ (126,564)	$ 855,437	$ 134,315
Notes payable	3,857,946	6,300,000	(4,040,091)	6,117,855	468,722
Total long-term debt	$ 4,839,947	$ 6,300,000	$ (4,166,655)	$ 6,973,292	$ 603,037

	2022 Balance	Additions	Reductions	2023 Balance	Amounts Due Within One Year
Direct borrowings:					
Community Facility Loan	$ 1,135,660	$ -	$ (153,659)	$ 982,001	$ 130,521
Notes payable	4,386,211	-	(528,265)	3,857,946	548,658
Total long-term debt	$ 5,521,871	$ -	$ (681,924)	$ 4,839,947	$ 679,179

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, 2024. The mortgage reserve fund is presented with restricted cash for debt service and is included in restricted net position on the balance sheet.

The USDA loan contains a provision that in an event of default, outstanding obligations may become immediately due and payable.

Continued

8. Long-Term Debt, Continued

Notes Payable

In October 2014, the System obtained a note from Pineland Bank 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 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%. As of April 18, 2023, the note was paid in full.

In August 2016, the System was approved for a loan from Pineland Bank up to $1.2 million. As of August 31, 2024, 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 obtained a loan from Pineland Bank in the amount of $501,571. The proceeds were used to purchase a new CT Scanner in fiscal year 2018. The term of the loan is 7 years at a fixed interest rate of 4.25%.

In September 2021, the System obtained a loan from Pineland Bank in the amount of $288,248. The proceeds were used to purchase a commercial building in fiscal year 2022. The term of the loan is 15 years at a variable rate of prime plus 2.00%, with a minimum rate of 6.75%.

In March 2024, the System obtained a loan from Pineland Bank in the amount of $6.3 million, of which approximately $4.1 million was used to repay all other obligations to Pineland Bank and the remaining portion of the loan was disbursed to the System. The term of the note is 10 years at a rate of 7%.

All notes payable contain a provision that in an event of default, outstanding obligations may become immediately due and payable.

Continued

8. Long-Term Debt, Continued

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

Year Ending August 31,	Principal	Interest
2025	$ 603,037	$ 435,211
2026	640,833	397,415
2027	681,194	357,054
2028	724,298	313,950
2029	770,339	267,909
2030-2034	3,553,591	578,081
Total	$ 6,973,292	$ 2,349,620

9. Leases and Subscription IT Liabilities

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

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

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

Continued

9. Leases and Subscription IT Liabilities, Continued

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

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

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

The System has subscription-based information technology arrangements (SBITAs). The System recognizes a subscription IT liability and an intangible right-to-use subscription asset (subscription IT asset) in its financial statements. At the commencement of the subscription term, which is when the subscription IT asset is placed into service, the System initially measures the subscription IT liability at the present value of subscription payments expected to be made during the subscription term. Subsequently, the subscription IT liability is reduced by the principal portion of subscription payments made. The subscription IT asset is initially measured as the initial amount of the subscription IT liability, adjusted for payments made at or before commencement of the subscription term, plus capitalizable implementation costs, less any incentives received from the SBITA vendor at or before the commencement of the subscription term. Subsequently, the subscription IT asset is amortized on a straight-line basis over its useful life.

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

- The System uses the implicit interest rate charged by the SBITA vendor as the discount rate. When the interest rate charged by the SBITA vendor is not readily determinable, the System generally uses its estimated incremental borrowing rate as the discount rate. Amortization of the discount on the subscription IT liability is included in interest expense in the financial statements.

- The subscription term includes the noncancellable period. Subscription payments included in the measurement of the subscription IT liability are composed of fixed payments and other payments that are reasonably certain of being required.

Continued

9. Leases and Subscription IT Liabilities, Continued

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

Subscription IT assets are reported with capital assets and subscription IT liabilities are reported with current and noncurrent liabilities on the balance sheets.

None of the SBITAs contain provisions for variable payments. Additionally, there are no other payments, such as termination penalties, not previously included in the measurement of the subscription IT liability.

Expenses for the leasing activity of the System as the lessee for the years ended August 31, 2024 and 2023, are as follows:

	2024	2023
Short term lease expense	$ -	$ 4,638
Right-to-use lease asset amortization	23,654	31,959
Lease liability interest expense	2,391	1,543
Total lease cost	$ 26,045	$ 38,140

The System has subscription-based information technology arrangements (SBITAs) that are used for various software licenses and remote hosting arrangements, which meet the capitalization criteria specified by generally accepted accounting principles.

Expenses for the SBITA activity of the System for the years ended August 31, 2024 and 2023, are as follows:

	2024	2023
Short term SBITA expense	$ 1,384,822	$ 731,352
Right-to-use subscription IT asset amortization	210,945	414,489
Subscription IT liability interest expense	20,159	29,897
Total subscription IT cost	$ 1,615,926	$ 1,175,738

Continued

9. Leases and Subscription IT Liabilities, Continued

A schedule of changes in the System's lease and subscription IT liabilities follows:

	2023 Balance	Additions	Reductions	2024 Balance	Amounts Due Within One Year
Lease liabilities	$ 32,825	$ 41,792	$ (23,093)	$ 51,524	$ 19,253
Subscription IT liabilities	758,283	-	(211,506)	546,777	186,590
Total lease and subscription IT liabilities	$ 791,108	$ 41,792	$ (234,599)	$ 598,301	$ 205,843

	2022 Balance	Additions	Reductions	2023 Balance	Amounts Due Within One Year
Lease liabilities	$ 65,252	$ -	$ (32,427)	$ 32,825	$ 20,410
Subscription IT liabilities	1,161,651	-	(403,368)	758,283	211,506
Total lease and subscription IT liabilities	$ 1,226,903	$ -	$ (435,795)	$ 791,108	$ 231,916

Continued

9. Leases and Subscription IT Liabilities, Continued

Scheduled principal and interest repayments on lease and subscription IT liabilities are as follows:

Year Ending	Lease Liabilities		Subscription IT Liabilities	
August 31,	Principal	Interest	Principal	Interest
2025	$ 19,253	$ 3,235	$ 186,590	$ 15,948
2026	7,442	2,458	83,355	10,510
2027	8,100	1,800	86,104	7,760
2028	8,816	1,084	86,363	4,920
2029-2033	7,913	412	104,365	2,132
Total	$ 51,524	$ 8,989	$ 546,777	$ 41,270

10. 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, 2024 and 2023, is as follows:

	2024	2023
Medicare	15%	14%
Blue Cross and other third-party payors	39%	44%
Patients	33%	27%
Medicaid	13%	15%
	100%	100%

Continued

11. Commitments and Contingencies

Malpractice Insurance

The System is covered by a claims-made general liability insurance policy with a specified deductible per incident and excess coverage on a claims-made basis. The System is covered by an occurrence professional liability insurance policy with a specified deductible per incident and excess coverage on an occurrence basis. The liability limits related to these policies are $1 million per occurrence and $3 million in aggregate in 2024 and 2023. Umbrella coverage is provided by MagMutual for $6 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, 2024.

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.

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.

Continued

11. Commitments and Contingencies, Continued

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.

12. 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 $1,245,000 and $1,781,000 during the years ended August 31, 2024 and 2023, respectively.

13. Deferred Outflows of Resources

Deferred outflows of resources consisted of the following:

	2024	2023
Goodwill, net of amortization	$ 101,567	$ 122,327

Pursuant to the implementation of GASB Statement No. 69, the System'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 2024 and 2023.

14. 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, 2024 and 2023.

15. Special Purpose Sales Tax

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, 2024, the System has recorded $3,000,000 cumulative contributions from the referendum.

A new SPLOST resolution was signed in 2023 to provide Appling Healthcare with $1,000,000 allocated to the System over six years for HVAC and Plumbing repair and maintenance. As of August 31, 2024, the System has recorded approximately $111,000 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.

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 during years 2017 through 2029. The System submitted the necessary documentation and was approved by the State to participate in the rural hospital tax credit program for program years 2024 and 2023. Contributions received under the program approximate $324,000 and $514,000 during fiscal years 2024 and 2023, respectively. The System will have to be approved by the State to participate in the program in each subsequent year.

17. Coronavirus (COVID-19)

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen. The outbreak has put an unprecedented strain on the U.S. healthcare system, disrupted or delayed production and delivery of materials and products in the supply chain, and caused staffing shortages. The extent of the impact of COVID-19 on the System's operational and financial performance depends on certain developments, including the duration and spread of the outbreak, remedial actions and stimulus measures adopted by local and federal governments, and impact on the System's customers, employees and vendors all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the System's financial position or results of operations is uncertain. The federal Public Health Emergency for COVID-19 expired on May 11, 2023.

On March 27, 2020, the President signed the Coronavirus Aid, Relief and Economic Security Act (CARES Act). Certain provisions of the CARES Act provide relief funds to hospitals and other healthcare providers. The funding will be used to support healthcare-related expenses or lost revenue attributable to COVID-19. The U.S. Department of Health and Human Services began distributing funds on April 10, 2020, to eligible providers in an effort to provide

Continued

17. Coronavirus (COVID-19), Continued

relief to both providers in areas heavily impacted by COVID-19 and those providers who are struggling to keep their doors open due to healthy patients delaying care and canceling elective services. On April 24, 2020, the Paycheck Protection Program and Health Care Enhancement Act was passed. This Act provides additional funding to replenish and supplement key programs under the CARES Act, including funds to health care providers for COVID-19 testing. On March 11, 2021, the American Rescue Plan Act (ARP) was passed. This Act provides additional funding to replenish and supplement key programs, including funds to hospitals and other providers that serve patients living in rural areas. Grant and contribution advance payments are reported as unearned revenue until all eligibility requirements are met. Recognized revenue is reported as nonoperating revenues in the statements of revenues, expenses and changes in net position.

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

The CARES Act also expanded the existing Medicare Accelerated and Advance Payment Program by allowing qualifying providers to receive an advanced Medicare payment. The advance payment will have to be repaid. Recoupment begins one year after the date of receipt of the advance payment. After that first year, Medicare will automatically recoup 25 percent of Medicare payments otherwise owed to the System for eleven months. At the end of the eleven-month period, recoupment will increase to 50 percent for another six months. If the total amount of advance payment has not been recouped during this time-period (a total of 29 months), CMS will issue a letter requiring repayment of any outstanding balance, subject to an interest rate of four percent. In April 2020, the System received $5,250,257 in advanced payments. The System repaid approximately $0 and $1,605,000 back to Medicare in fiscal year 2024 and 2023, respectively.

18. Financial Position

As reported in the accompanying financial statements, the System reported an operating loss of $4,348,063 and $6,399,689 in 2024 and 2023, respectively. Management's plan to improve the System's financial position is as follows:

- *Expense reduction*. The System is continuing to implement various strategies to reduce operating expenses. The following strategies have been implemented or are being considered:
    - The System will contract with a new Emergency Department provider group beginning March 1, 2025 to reduce contract expenses.

Continued

18. Financial Position, Continued

  - The System is evaluating full-time equivalent (FTE) benchmarks by department to ensure appropriate staffing levels and improve operational efficiency.
  - The medical insurance broker changed to provide pharmacy cost savings.
  - All hospital agreements and contracts are being reviewed to determine unused or duplicated services.
  - The System is switching to a new credit card processor to reduce credit card processing fees.

- *Revenue growth initiatives*. The following strategies have been identified and either implemented or are being considered:
  - Efforts are being made to increase the census for the nursing home, medical surgical unit, and behavioral health unit.
  - Efforts are being made to increase the utilization of the operating room and intensive outpatient program.
  - The System is expanding visits for one of the mid-level providers through rounding at the nursing home.
  - Strategic pricing adjustments are being made where appropriate.
  - Efforts are being made to increase collections from patient liabilities after insurance.
  - Contracts with insurance companies are being negotiated for potentially higher payment rates.
  - A third party vendor is being utilized to help locate insurance for self pay patients, identify presumptive charity care, and evaluate current collections agency.

- *Grant funding*. The following strategies have been identified and either implemented or are being considered:
  - An application was submitted for a rural hospital stabilization grant in the amount of $500,000.
  - An application was submitted for Congressionally Directed Spending funds in the amount of $1.3 million to upgrade the HVAC system.
  - Appling County commissioners approved a $2.5 million advancement for the System on February 4, 2025.
  - In efforts to increase contributions made to the System, management is working with the local Chamber of Commerce to increase awareness for the Rural Hospital Tax Credit program. See Note 16 for additional information on the program.

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, 2024, 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 March 12, 2025.

Report on 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) as a basis for designing 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.

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 entity'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.

Continued

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2024-001 and 2024-002 that we consider to be significant deficiencies.

Report on 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 financial statements. 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 System's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the System's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. The System's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

Draffin & Tucker, LLP

Albany, Georgia
March 12, 2025

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

SCHEDULE OF FINDINGS AND RESPONSES
August 31, 2024

Significant Deficiency 2024-001

Condition/Criteria: Estimates for accounts receivable allowances were not calculated based on current collection history and documentation for estimates was not maintained.

Cause: Processes are not in place to evaluate collection history and maintain documentation for adjustments to accounts receivable allowances.

Effect: The System's financial statements could be materially misstated.

Recommendation: It is recommended that allowances be adjusted according to current reimbursement percentages based on actual collection history to determine the collectability of the accounts and that documentation be maintained.

Views of responsible officials and planned corrective actions: While management recognizes that improvements and processes need to be made over time, since fiscal year end, an analysis of current reimbursement rates was performed and a reserve calculation based on current reimbursements has been implemented for month end. Management plans to update the reimbursement analysis and resulting reserve percentages on a semi-annual basis to ensure ongoing accuracy of accounts receivable allowances.

Significant Deficiency 2024-002

Condition/Criteria: Revenue for grants, SPLOST, and Georgia Heart should be recorded in the appropriate period when all eligibility requirements have been met.

Cause: Processes are not in place to ensure all revenue is recorded in the appropriate period.

Effect: The System's financial statements could be misstated due to errors not detected in a timely manner.

Recommendation: All grant and other revenue should be monitored for eligibility requirements for reimbursement. Once all requirements have been met, the revenue should be recognized. This control will help ensure the accurate reporting of the System's financial position and operations.

Views of responsible officials and planned corrective actions: A policy will be implemented to monitor recognition of revenue on a periodic basis.