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, 2025 and 2024

Draffin Tucker

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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, 2025 and 2024

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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, 2025 and 2024, 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, 2025 and 2024, 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 April 24, 2026 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
April 24, 2026

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

BALANCE SHEETS
August 31, 2025 and 2024

	2025	2024
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current assets:		
Cash	$ 1,244,265	$ 526,076
Patient accounts receivable, net of estimated uncollectibles of $10,968,782 in 2025 and $10,160,927 in 2024	4,274,305	4,265,950
Supplies	678,015	719,231
Estimated third-party payor settlements	198,343	224,176
Other current assets	1,647,171	1,566,912
Total current assets	8,042,099	7,302,345
Capital assets:		
Non-depreciable capital assets	597,955	872,959
Depreciable capital assets, net of accumulated depreciation	14,744,215	15,364,149
Intangible right-to-use lease assets and subscription IT assets, net of accumulated amortization	685,972	575,949
Total capital assets, net	16,028,142	16,813,057
Other assets:		
Restricted cash for debt service	160,007	159,369
Total assets	24,230,248	24,274,771
Deferred outflows of resources:		
Goodwill, net of accumulated amortization	83,376	101,567
Total assets and deferred outflows of resources	$ 24,313,624	$ 24,376,338

Continued

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

BALANCE SHEETS, Continued
August 31, 2025 and 2024

	2025	2024
LIABILITIES AND NET POSITION		
Current liabilities:		
Current maturities of long-term debt	$ 634,640	$ 603,037
Short-term debt	650,000	400,000
Current maturities of lease and subscription IT liabilities	157,651	205,843
Accounts payable	2,785,189	3,870,815
Accrued expenses	3,665,828	2,649,832
Unearned revenue	502,025	90,000
Estimated third-party payor settlements	155,860	168,828
Total current liabilities	8,551,193	7,988,355
Long-term debt, net of current maturities	5,738,417	6,370,255
Lease and subscription IT liabilities, net of current maturities	554,711	392,458
Total liabilities	14,844,321	14,751,068
Net position:		
Net investment in capital assets	8,942,723	9,241,465
Restricted	156,384	156,384
Unrestricted	370,196	227,421
Total net position	9,469,303	9,625,270
Total liabilities and net position	$ 24,313,624	$ 24,376,338

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, 2025 and 2024

	2025	2024
Operating revenues:		
Net patient service revenue (net of provision for bad debts of $5,082,583 in 2025 and $7,777,918 in 2024)	$ 30,640,432	$ 28,892,785
Other revenue	944,316	1,036,147
Total operating revenues	31,584,748	29,928,932
Operating expenses:		
Salaries and wages	15,000,266	14,773,435
Employee benefits	3,068,650	2,573,409
Supplies and other	7,801,837	7,390,503
Purchased services	7,789,279	7,759,937
Depreciation and amortization	1,636,085	1,779,711
Total operating expenses	35,296,117	34,276,995
Operating loss	(3,711,369)	(4,348,063)
Nonoperating revenues (expenses):		
Interest expense	(524,018)	(449,391)
Noncapital grants and contributions	3,369,945	1,005,888
CARES Act and ARPA funding	-	36,857
Rural hospital tax credit contributions	542,808	324,071
Total nonoperating revenues	3,388,735	917,425
Excess revenues (expenses) before capital grants and contributions	(322,634)	(3,430,638)
Capital grants and contributions	166,667	1,273,671
Increase (decrease) in net position	(155,967)	(2,156,967)
Net position, beginning of year	9,625,270	11,782,237
Net position, end of year	$ 9,469,303	$ 9,625,270

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, 2025 and 2024

	2025	2024
Cash flows from operating activities:		
Receipts from and on behalf of patients	$ 31,589,258	$ 28,665,587
Payments to suppliers and contractors	(16,802,951)	(13,943,282)
Payments to employees	(17,052,920)	(17,673,923)
Net cash used by operating activities	(2,266,613)	(2,951,618)
Cash flows from noncapital financing activities:		
Noncapital grants and contributions	3,764,954	1,005,888
Rural hospital tax credit contributions	542,808	324,071
Proceeds from issuance of short-term debt	250,000	1,058,080
Principal and interest paid on short-term debt	-	(759,606)
Net cash provided by noncapital financing activities	4,557,762	1,628,433
Cash flows from capital and related financing activities:		
Capital grants and contributions	270,847	1,177,848
Proceeds from issuance of long-term debt	-	2,688,121
Principal paid on long-term debt	(600,235)	(554,776)
Interest paid on long-term debt	(501,304)	(445,606)
Principal paid on lease and subscription IT liabilities	(237,436)	(234,599)
Interest paid on lease and subscription IT liabilities	(22,714)	(3,785)
Purchase of capital assets	(481,480)	(842,493)
Net cash provided (used) by capital and related financing activities	(1,572,322)	1,784,710
Net increase in cash	718,827	461,525
Cash, beginning of year	685,445	223,920
Cash, end of year	$ 1,404,272	$ 685,445

Continued

THE BAXLEY AND APPLING COUNTY
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STATEMENTS OF CASH FLOWS, Continued
for the years ended August 31, 2025 and 2024

	2025	2024
Reconciliation of cash to the balance sheets:		
Cash	$ 1,244,265	$ 526,076
Restricted cash for debt service	160,007	159,369
Total cash	$ 1,404,272	$ 685,445
Reconciliation of operating loss to net cash flows used by operating activities:		
Operating loss	$ (3,711,369)	$ (4,348,063)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation and amortization	1,636,085	1,779,711
Provision for bad debts	5,082,583	7,777,918
Changes in:		
Patient accounts receivable	(5,090,938)	(9,585,933)
Supplies	41,216	(44,355)
Other current and noncurrent assets	(167,425)	164,412
Accounts payable	(1,085,626)	1,087,101
Accrued expenses	1,015,996	(327,079)
Estimated third-party payor settlements	12,865	544,670
Net cash used by operating activities	$ (2,266,613)	$ (2,951,618)

Supplemental disclosures of cash flow information:

The System entered into lease obligations of approximately $67,000 in 2025 and $42,000 in 2024.

The System entered into subscription IT obligations of approximately $284,000 in 2025.

The System refinanced outstanding loans with Pineland Bank in 2024. 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 are 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 System estimates how much of the accumulated leave is more likely than not to be used as paid leave during employment and upon termination and recognizes that portion as a liability for compensated absences. The estimated amount of compensated absences is reported with accrued expenses on the balance sheet in both 2025 and 2024.

Unearned Revenue

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grant revenue is reported as unearned revenue until all applicable eligibility requirements are met.

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 recognized $3,369,945 and $1,005,888 in noncapital grants for the years ended 2025 and 2024, respectively. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses. See Note 17 for additional information.

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 2025 and 2024.

Deferred Outflows of Resources

Deferred outflows of resources consist of goodwill, net of accumulated amortization, as of August 31, 2025 and 2024. See Note 13 for additional information.

Recently Adopted Accounting Pronouncement

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. The System adopted GASB 101 on September 1, 2024. The adoption of GASB 101 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.

Continued

2. Net Patient Service Revenue, Continued

Net revenue from the Medicare and Medicaid programs accounted for approximately 34% and 36%, respectively, of the System's net patient service revenue for the year ended August 31, 2025, and 43% and 37% respectively, of the System's net patient service revenue for the year ended August 31, 2024. 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 2025 and 2024 net patient service revenue decreased approximately $43,000 and $37,000, respectively, 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, 2023.

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 $1,300,560 and $857,584 for the years ended 2025 and 2024, 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 $1,144,643 and $838,414 for the years ended 2025 and 2024, 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%. $256,069 and $282,949 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, 2025 and 2024, 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 $235,093 and $106,575 for the years ended 2025 and 2024, 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 2025 and 2024 were $33,684,032 and $34,388,224, respectively.

Uncompensated care includes charity and indigent care services of $618,990 and $456,510 in 2025 and 2024, respectively. The cost of charity and indigent care services provided during 2025 and 2024 was approximately $345,000 and $251,000, 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 2025 and 2024.

	2025	2024
Gross patient charges	$ 64,324,464	$ 63,281,009
Uncompensated services:		
Charity and indigent care	618,990	456,510
Medicare	17,408,556	14,511,350
Medicaid	6,435,923	5,078,276
Supplemental Medicaid payments	(2,680,296)	(1,695,998)
Other allowances	6,818,276	8,260,168
Bad debts	5,082,583	7,777,918
Total uncompensated services	33,684,032	34,388,224
Net patient service revenue	$ 30,640,432	$ 28,892,785

Continued

4. Deposits

Deposits are classified on the balance sheets as follows:

	2025	2024
Cash - demand deposit accounts	$ 1,244,265	$ 526,076
Restricted cash for debt service - demand deposit account	160,007	159,369
Total	$ 1,404,272	$ 685,445

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, 2025 and 2024 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, 2025 and 2024, consisted of these amounts:

	2025	2024
Patient accounts receivable:		
Receivable from patients and their insurance carriers	$ 11,747,645	$ 10,367,063
Receivable from Medicare	1,776,586	2,197,868
Receivable from Medicaid	1,718,856	1,861,946
Total gross patient accounts receivable	15,243,087	14,426,877
Less allowance for uncollectible amounts and contractual adjustments	10,968,782	10,160,927
Patient accounts receivable, net	$ 4,274,305	$ 4,265,950
Accounts payable and accrued expenses:		
Payable to employees (including payroll taxes)	$ 1,060,853	$ 844,464
Payable to suppliers	2,785,189	3,870,815
Other	2,604,975	1,805,368
Total accounts payable and accrued expenses	$ 6,451,017	$ 6,520,647

Continued

6. Capital Assets

A summary of capital assets follows:

	2024 Balance	Increase	Transfer	Decrease	2025 Balance
Land	$ 568,809	$ -	$ -	$ -	$ 568,809
Construction in progress	304,150	293,785	(531,328)	(37,461)	29,146
Total non-depreciable capital assets	872,959	293,785	(531,328)	(37,461)	597,955
Land improvements	784,225	-	-	-	784,225
Buildings and improvements	21,756,257	179,354	531,328	-	22,466,939
Fixed equipment	6,479,058	68,033	-	-	6,547,091
Major movable equipment	16,102,023	-	-	-	16,102,023
Total depreciable capital assets	45,121,563	247,387	531,328	-	45,900,278
Less accumulated depreciation for:					
Land improvements	(455,280)	(24,258)	-	-	(479,538)
Buildings and improvements	(10,930,863)	(605,963)	-	-	(11,536,826)
Fixed equipment	(4,978,577)	(339,798)	-	-	(5,318,375)
Major movable equipment	(13,392,694)	(428,630)	-	-	(13,821,324)
Total accumulated depreciation	(29,757,414)	(1,398,649)	-	-	(31,156,063)
Total depreciable capital assets, net	15,364,149	(1,151,262)	531,328	-	14,744,215

Continued

6. Capital Assets, Continued

	2024 Balance	Increase	Transfer	Decrease	2025 Balance
Leased equipment	$ 123,697	$ 65,357	$ -	$ (62,128)	$ 126,926
Total leased assets	123,697	65,357	-	(62,128)	126,926
Less accumulated amortization for:					
Leased equipment	(73,131)	(24,442)	-	62,128	(35,445)
Total accumulated amortization	(73,131)	(24,442)	-	62,128	(35,445)
Intangible right-to-use lease assets, net	50,566	40,915	-	-	91,481
Subscription IT assets	1,549,575	282,102	-	(201,963)	1,629,714
Less accumulated amortization for subscription IT assets	(1,024,192)	(212,994)	-	201,963	(1,035,223)
Intangible right-to-use subscription IT assets, net	525,383	69,108	-	-	594,491
Total capital assets, net	$ 16,813,057	$ (747,454)	$ -	$ (37,461)	$ 16,028,142

Continued

6. Capital Assets, Continued

	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	(51,851)	(21,280)	-	-	(73,131)
Leased billboards	(23,071)	(2,374)	-	25,445	-
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

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, 2025 and 2024, was as follows:

	2024 Balance	Additions	Reductions	2025 Balance
Direct borrowing:				
Line-of-credit	$ 400,000	$ 250,000	$ -	$ 650,000

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

8. Long-Term Debt

A summary of long-term debt at August 31, 2025 and 2024, follows:

	2025	2024
USDA Community Facility loan, due in monthly installments of $13,032, including interest at 2.875%, due June 16, 2031, secured by real estate.	$ 717,613	$ 855,437
Note payable, due in monthly installments of $73,489, including interest of 7.00%, due March 21, 2034, secured by equipment.	5,655,444	6,117,855
Total long-term debt	6,373,057	6,973,292
Less current maturities of long-term debt	634,640	603,037
Long-term debt, net of current maturities	$ 5,738,417	$ 6,370,255

Continued

8. Long-Term Debt, Continued

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

	2024 Balance	Additions	Reductions	2025 Balance	Amounts Due Within One Year
Direct borrowings:					
Community Facility Loan	$ 855,437	$ -	$ (137,824)	$ 717,613	$ 138,227
Notes payable	6,117,855	-	(462,411)	5,655,444	496,413
Total long-term debt	$ 6,973,292	$ -	$ (600,235)	$ 6,373,057	$ 634,640

	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

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, 2025. 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 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%.

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

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

Year Ending August 31,	Principal	Interest
2026	$ 634,640	$ 403,608
2027	675,067	363,181
2028	717,410	320,838
2029	764,416	273,832
2030	798,828	224,524
2031-2034	2,782,696	377,434
Total	$ 6,373,057	$ 1,963,417

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.

Continued

9. Leases and Subscription IT Liabilities, Continued

- 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.

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.

Continued

9. Leases and Subscription IT Liabilities, Continued

- 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.

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, 2025 and 2024, are as follows:

	2025	2024
Right-to-use lease asset amortization	$ 24,442	$ 23,654
Lease liability interest expense	4,181	2,391
Total lease cost	$ 28,623	$ 26,045

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.

Continued

9. Leases and Subscription IT Liabilities, Continued

Expenses for the SBITA activity of the System for the years ended August 31, 2025 and 2024, are as follows:

	2025	2024
Short term SBITA expense	$ 1,153,854	$ 1,384,822
Right-to-use subscription IT asset amortization	212,994	210,945
Subscription IT liability interest expense	18,535	20,159
Total subscription IT cost	$ 1,385,383	$ 1,615,926

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

	2024 Balance	Additions	Reductions	2025 Balance	Amounts Due Within One Year
Lease liabilities	$ 51,524	$ 67,149	$ (24,442)	$ 94,231	$ 20,186
Subscription IT liabilities	546,777	284,348	(212,994)	618,131	137,465
Total lease and subscription IT liabilities	$ 598,301	$ 351,497	$ (237,436)	$ 712,362	$ 157,651

	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

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
2026	$ 20,186	$ 4,283	$ 137,465	$ 18,092
2027	21,264	3,204	141,999	13,557
2028	22,415	2,054	144,102	8,873
2029	20,246	898	148,856	4,119
2030-2033	10,120	128	45,709	352
Total	$ 94,231	$ 10,567	$ 618,131	$ 44,993

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, 2025 and 2024, is as follows:

	2025	2024
Medicare	12%	15%
Blue Cross and other third-party payors	50%	39%
Patients	27%	33%
Medicaid	11%	13%
	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 2025 and 2024. 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, 2025.

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 $1,485,000 and $1,245,000 during the years ended August 31, 2025 and 2024, respectively.

13. Deferred Outflows of Resources

Deferred outflows of resources consisted of the following:

	2025	2024
Goodwill, net of amortization	$ 83,376	$ 101,567

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 $18,000 and $21,000 for 2025 and 2024, respectively.

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, 2025 and 2024.

Continued

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, 2025, 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, 2025, the System has recorded approximately $278,000 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 2025 and 2024. Contributions received under the program approximate $543,000 and $324,000 during fiscal years 2025 and 2024, respectively. The System will have to be approved by the State to participate in the program in each subsequent year.

17. County Support

Appling County allocates $1,000,000 per year in its budget to Appling Healthcare in compensation for the contractual EMS services and in additional fiscal support for operations. In February of 2025, the Board of Commissioners signed an intergovernmental agreement to provide the System with a $2.5 million advance on future allocations. In order to repay the advance, the County will reduce its $1 million allocation to the System by $250,000 each year beginning in 2026 until the advance is repaid in full. In 2025, $1,500,000 of this advance was received and recognized with noncapital grants and contributions.

18. Financial Position

As reported in the accompanying financial statements, the System reported an operating loss of $3,711,369 and $4,348,063 in 2025 and 2024, respectively. Management continues to implement and evaluate strategies intended to improve the System’s financial position, operational efficiency, and cash flow. Current efforts include the following:

Continued

18. Financial Position, Continued

- *Expense reduction and operational efficiency*. The System continues to implement strategies to reduce operating expenses and improve efficiency across departments. These efforts include:

    - Ongoing review of contracted services and vendor agreements to identify opportunities for cost savings, eliminate duplicative services, and renegotiate unfavorable terms.
    - Continued evaluation of staffing levels, productivity, and full-time equivalent benchmarks by department to better align labor resources with patient volumes and operational needs.
    - Continued monitoring of employee benefit costs and pharmacy-related expenses for additional savings opportunities.
    - Review of purchased services, supply utilization, and other discretionary spending areas to identify cost containment opportunities.
    - Continued focus on improving departmental accountability for financial performance and operational oversight.

- *Revenue cycle and reimbursement improvement initiatives*. The System is actively focused on strengthening revenue cycle performance and improving reimbursement through the following efforts:

    - Ongoing assessment of business office and revenue cycle processes, including billing, follow-up, denial management, accounts receivable performance, and contract management to proactively identify, quantify, and recover payor underpayments, ensure compliance with negotiated reimbursement terms, and support strategic payor contract negotiations and expansion of participation in provider networks.
    - Continued efforts to improve clinical documentation, provider chart completion, and charge capture in order to support timely billing and reduce unbilled accounts.
    - Increased focus on collection of patient liabilities and optimization of point-of-service and post-service collections.
    - Continued review and negotiation of third-party payor contracts where appropriate to improve reimbursement rates.
    - Evaluation of reimbursement opportunities through Medicaid eligibility and related analyses intended to support supplemental payment programs and other reimbursement enhancements.
    - Continued use of third-party support to identify insurance coverage for self-pay patients, evaluate presumptive charity care, and improve overall collections performance.

Continued

18. Financial Position, Continued

- *Volume growth and service line initiatives.* Management continues to pursue strategies to improve volumes and optimize existing service lines, including:

    - Continued efforts to increase census and utilization in the nursing home, medical surgical unit, behavioral health unit, and other core service areas.
    - Continued focus on increasing utilization of the operating room and outpatient services.
    - Evaluation of provider coverage models and service arrangements, including radiology and other contracted clinical services, to support quality, access, turnaround times, and financial sustainability.

- *Leadership, systems, and process improvement.* Management continues to strengthen financial and operational processes through the following efforts:

    - Ongoing stabilization and optimization of workflows following the transition from MEDITECH Magic to MEDITECH Expanse, including improved reporting, validation of financial and operational data, and refinement of departmental processes.
    - Continued leadership focus on accountability, alignment, and process improvement across departments.

- *Liquidity and external funding support*. The System continues to pursue opportunities to support liquidity and capital needs through the following efforts:

    - Continued monitoring of cash flow and working capital needs, with management prioritizing initiatives that improve collections and preserve liquidity.
    - Ongoing efforts to secure grant funding and other external support for eligible operational and capital needs.
    - Continued promotion of the Rural Hospital Tax Credit program to increase community support and contributions to the System. See Note 16 for additional information on the program.
    - Participation in Rural Health Transformation funding initiatives designed to support financial stability, care delivery transformation, and long-term sustainability for rural healthcare providers.
    - Continued utilization of local governmental support previously approved for the System. See Note 17 for 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 *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, 2025, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 24, 2026.

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.

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

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

Continued

timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2025-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as item 2025-002 to be a significant deficiency.

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
April 24, 2026

SCHEDULE OF FINDINGS AND RESPONSES
August 31, 2025

Material Weakness 2025-001

Condition/Criteria: Estimates for accounts receivable allowances were not calculated based on current collection history.

Cause: The methodology used to estimate allowances on patient accounts receivable was not updated to account for current collection rates.

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: Management maintains that this finding was an isolated incident directly resulting from a recent system conversion. At fiscal year-end, there was insufficient historical data within the new system to accurately recalculate and cure the reimbursement rate analysis. Since year-end, management has captured the necessary data to perform a comprehensive analysis of actual collection history. A revised reserve calculation based on these current rates has now been implemented for the month-end close process. To ensure ongoing accuracy, management will update this reimbursement analysis quarterly.

Continued

Significant Deficiency 2025-002

Condition/Criteria: Insufficient evidence was provided to prove that the System has established IT controls to manage user access, oversee program and other changes to the IT environment, govern IT operations, or implement formal policies and incident response plans.

Cause: Policies and processes are not in place to safeguard the System against data breaches and protect patient information.

Effect: The System could be putting patient and financial information at risk.

Recommendation: A renewed emphasis on the security program from the System should be put in place to reevaluate the absence of IT controls and how to implement the controls in the future.

Views of responsible officials and planned corrective actions: Management concurs with the recommendation. We recognize that the system conversion has created a new policy framework and a transitional period for our IT control environment. Management is currently formalizing IT general controls (ITGCs) within this new framework to address user access, change management, and incident response. These policies will be fully implemented and documented by June 30th, 2026, to ensure the ongoing security of patient and financial information.