HOSPITAL AUTHORITY OF
STEPHENS COUNTY, GEORGIA
(A Component Unit of Stephens County, Georgia)

FINANCIAL STATEMENTS

for the years ended September 30, 2025 and 2024

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Hospital Authority of Stephens County, Georgia
Toccoa, Georgia

Opinion

We have audited the accompanying financial statements of the Hospital Authority of Stephens County, Georgia (Authority), a component unit of Stephens County, Georgia, which comprise the balance sheets as of September 30, 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 Authority as of September 30, 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 16 to the financial statements, the Authority has reported operating losses, current liabilities exceed current assets, and has a net position deficiency. Management's evaluation of the events and conditions and management's plans to mitigate these matters are also described in Note 16. Our opinion is not modified with respect to that matter.

Continued

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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 Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards 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 we:

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

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

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

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

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

Continued

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 10 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplemental Schedule Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of the Authority as a whole. The accompanying Combining Schedule of Revenue and Expenses information for Stephens County Hospital, Personal Care Facilities, and Stephens County Hospital Physician Group, is presented for purposes of additional analysis, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information, is fairly stated in all material respects in relation to the basic financial statements as a whole.

Draffin & Tucker, LLP

Albany, Georgia
July 20, 2026

HOSPITAL AUTHORITY OF STEPHENS COUNTY, GEORGIA

(A Component Unit of Stephens County, Georgia)

Management's Discussion and Analysis

September 30, 2025 and 2024

The Hospital Authority of Stephens County, Georgia (Authority) includes Stephens County Hospital, two personal care facilities, and physician practices. The Stephens County Hospital provides inpatient, outpatient, and emergency care services for residents of Stephens County, Georgia, and surrounding areas and is licensed for 96 inpatient beds. The two personal care facilities are licensed for a total of 92 beds and provide a level of care less than that of a nursing home.

FINANCIAL HIGHLIGHTS

- Assets decreased $679,036 (-3%)
- Operating expenses increased $206,901 (0.4%)
- Operating loss was $180,901
- Operating margin was -0.3%

OVERVIEW OF THE FINANCIAL STATEMENTS

This Discussion and Analysis is intended to serve as an introduction to the Authority's financial statements. The financial statements are comprised of three components: 1) financial statements, 2) notes to the financial statements, and 3) supplemental schedule. The financial statements include the Balance Sheets, Statements of Revenues, Expenses and Changes in Net Position, and Statements of Cash Flows for the years ending September 30, 2025 and 2024. The Authority utilizes the enterprise fund method of accounting. This method provides both long-term and short-term financial information and requires that revenue and expenses are recognized on the full accrual basis. The Balance Sheet presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Short-term changes in total assets correlating with an inverse change in net liabilities may also serve as a useful indicator of an improving or deteriorating financial position. The Statements of Revenues, Expenses and Changes in Net position present information showing how the Authority's net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

Continued

FINANCIAL ANALYSIS

Assets

Total assets of the Authority decreased by $679,036 (-3%) due primarily to the overall decrease in capital assets. Due to cash flow issues, fewer capital projects have been planned.

Table 1: Summary of Assets

	2025	2024	2023
Current and other assets	$ 7,967,168	$ 7,991,431	$ 7,142,819
Capital assets	14,880,270	15,535,043	17,168,008
Total assets	$ 22,847,438	$ 23,526,474	$ 24,310,827

Liabilities and Net Position

Total liabilities of the Authority decreased $147,768 (-1%) due mainly to the repayments on long-term debt, lease, and subscription IT liabilities.

Table 2: Summary of Liabilities and Net Position

	2025	2024	2023
Long-term debt	$ 8,467,241	$ 9,515,640	$ 10,390,000
Other liabilities	19,331,415	18,430,784	20,214,166
Total liabilities	27,798,656	27,946,424	30,604,166
Net position	(4,951,218)	(4,419,950)	(6,293,339)
Total liabilities and net position	$ 22,847,438	$ 23,526,474	$ 24,310,827

Continued

Net Patient Service Revenue

Inpatient revenue decreased $3,534,047 (-17%), outpatient revenue increased $5,677,123 (12%), and emergency room revenue increased $2,065,907 (4%). Uncompensated services (contractual adjustments and bad debts) increased $5,875,372 (7%).

Table 3: Summary of Net Patient Service Revenue

	2025	2024	2023
Gross patient service revenue:			
Inpatient	$ 17,545,804	$ 21,079,851	$ 23,951,484
Outpatient	54,589,386	48,912,263	35,425,311
Emergency	48,812,694	46,746,787	35,179,429
Physicians	18,041,145	16,056,413	15,352,363
Personal care facilities	2,915,572	2,854,739	2,582,932
Gross patient service revenue	141,904,601	135,650,053	112,491,519
Uncompensated services:			
Medicare	48,880,811	45,656,565	35,408,661
Medicaid	4,736,714	6,512,390	3,713,969
Insurance	27,558,635	25,904,183	24,922,269
Charity/indigent	5,198,778	788,916	409,895
Bad debts	7,673,879	9,311,411	7,673,979
Total uncompensated care	94,048,817	88,173,465	72,128,773
Net patient service revenue	$ 47,855,784	$ 47,476,588	$ 40,362,746

Continued

Operating Expenses

Operating expenses increased $206,901 (0.4%).

Table 4: Summary of Operating Expenses

	2025	2024	2023
Salaries, wages, and employee benefits	$ 27,906,231	$ 27,543,265	$ 26,072,163
Professional fees	11,115,301	11,367,246	11,205,086
Supplies and other	7,048,402	6,345,475	6,198,864
Depreciation and amortization	1,818,312	2,024,388	2,284,392
Other	4,489,620	4,890,591	4,512,769
Total operating expenses	$ 52,377,866	$ 52,170,965	$ 50,273,274

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2025, the Authority had $14,880,270 invested in capital assets, net of accumulated depreciation, as detailed in Table 5.

Table 5: Capital Assets, Net of Accumulated Depreciation

	2025	2024	2023
Land	$ 255,787	$ 255,787	$ 255,787
Construction-in-progress	840,791	94,694	34,512
Land improvements	301,405	330,926	368,783
Buildings	11,292,327	12,000,901	12,769,575
Equipment	1,622,083	1,883,241	2,169,041
Intangible right-to-use lease and subscription IT assets	567,877	969,494	1,570,310
Total capital assets	$ 14,880,270	$ 15,535,043	$ 17,168,008

During 2025, the Authority had capital asset additions of $1,065,769.

Continued

Long-Term Debt

At September 30, 2025, the Authority had $8,467,241 in debt borrowings outstanding, as summarized in Table 6. At September 30, 2025, the Authority had $9 in unspent proceeds from the 2017 Series Certificates that will be used for future capital purchases.

Table 6: Long-Term Debt

	2025	2024	2023
2017 Series Certificates	$ 8,370,000	$ 9,400,000	$ 10,390,000
Bank loans	97,241	115,640	-
Total long-term debt	$ 8,467,241	$ 9,515,640	$ 10,390,000

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Management believes that, despite continued challenges facing rural healthcare providers, Stephens County Hospital (SCH) remains well positioned to meet the healthcare needs of its community through disciplined financial stewardship and strategic investment in clinical services.

Throughout the year, management continued to focus on strengthening local access to healthcare through strategic recruitment and expansion of key service lines. In September 2025, SCH successfully recruited a new orthopedic surgeon beginning work in December 2025, significantly expanding access to orthopedic care for residents of Stephens County and the surrounding region. To support this growth, SCH is opening a new orthopedic clinic in Toccoa in summer 2026 while also establishing a new orthopedic practice location in Hartwell, Georgia. These investments are designed to improve patient access, reduce outmigration for orthopedic services, and create a stronger regional orthopedic program that serves communities throughout Northeast Georgia.

SCH was also able to realize growth in General and Endoscopic Surgery during FY 2025. This has a direct and supportive impact on SCH's financial position. SCH will look to continue to expand surgical volume in 2026 with another goal of removing locum tenens expense and directly contracting with all surgeons. This provides greater clinical consistency, and significant cost savings.

Operational improvements remained a central focus throughout the year. Leadership continued efforts to improve patient throughput, strengthen physician recruitment, enhance clinical quality, and carefully manage operating expenses. These initiatives, combined with strategic investments in new service lines and technology, have positioned SCH to better serve the healthcare needs of North Georgia while maintaining financial stability during a period of significant industry change.

Continued

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET, Continued

Although reimbursement pressures, workforce shortages, inflation, and increasing uncompensated care continue to present challenges for rural healthcare providers, SCH remains committed to responsible stewardship of its resources. Management continues to prioritize investments that improve patient care, expand access to specialty services, and strengthen SCH's long-term sustainability.

Looking ahead, SCH is well positioned to build upon the progress achieved during FY 2025. Expansion of orthopedic services, continued development of the cardiovascular program, ongoing physician recruitment, enhanced telemedicine capabilities, and strategic capital investments will continue to improve access to high-quality healthcare for the communities SCH serves. Management remains confident that these initiatives will strengthen both SCH's clinical capabilities and financial position while fulfilling its mission to serve the healthcare needs of the citizens of Stephens County and the surrounding region for years to come.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the Authority's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Stephens County Hospital, Administration, 163 Hospital Drive, Toccoa, Georgia 30577.

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HOSPITAL AUTHORITY OF STEPHENS COUNTY, GEORGIA
(A Component Unit of Stephens County, Georgia)

Balance Sheets
September 30, 2025 and 2024

	2025	2024
ASSETS		
Current assets:		
Cash and cash equivalents	$ 616,807	$ 419,880
Current portion of funds held by trustee	235	26,592
Patient accounts receivable, net of estimated uncollectibles of $15,609,000 in 2025 and $16,718,000 in 2024	4,682,083	4,941,904
Estimated third-party payor settlements	-	85,518
Other receivables	1,257,929	1,139,707
Supplies, at lower of cost (first-in, first-out) or market	1,316,050	1,217,088
Prepaid expenses	94,055	160,721
Total current assets	7,967,159	7,991,410
Noncurrent cash and investments:		
Restricted for capital acquisition under indenture agreement	9	21
Held by trustee under indenture agreement	235	26,592
	244	26,613
Less amount required to meet current obligations	(235)	(26,592)
Total noncurrent cash and investments	9	21
Capital assets:		
Land	255,787	255,787
Construction-in-progress	840,791	94,694
Depreciable capital assets, net of accumulated depreciation	13,215,815	14,215,068
Intangible right-to-use lease assets and subscription IT assets, net of accumulated amortization	567,877	969,494
Total capital assets, net	14,880,270	15,535,043
Total assets	$ 22,847,438	$ 23,526,474

Continued

HOSPITAL AUTHORITY OF STEPHENS COUNTY, GEORGIA
(A Component Unit of Stephens County, Georgia)

Balance Sheets, Continued
September 30, 2025 and 2024

	2025	2024
LIABILITIES AND NET POSITION		
Current liabilities:		
Current maturities of long-term debt	$ 1,092,690	$ 1,048,399
Current maturities of lease and subscription IT liabilities	367,839	529,645
Accounts payable	14,228,964	14,081,198
Accrued expenses	3,547,219	3,154,046
Estimated third-party payor settlements	111,638	186,794
Unearned revenue	862,144	-
Total current liabilities	20,210,494	19,000,082
Long-term debt, net of current maturities	7,374,551	8,467,241
Lease and subscription IT liabilities, net of current maturities	213,611	479,101
Total liabilities	27,798,656	27,946,424
Net position:		
Net investment in capital assets	5,831,588	5,010,678
Restricted under indenture agreement	235	26,592
Unrestricted	(10,783,041)	(9,457,220)
Total net position	(4,951,218)	(4,419,950)
Total liabilities and net position	$ 22,847,438	$ 23,526,474

See accompanying notes to financial statements.

HOSPITAL AUTHORITY OF STEPHENS COUNTY, GEORGIA
(A Component Unit of Stephens County, Georgia)

Statements of Revenues, Expenses and Changes in Net Position
for the years ended September 30, 2025 and 2024

	2025	2024
Operating revenues:		
Net patient service revenue (net of provision for bad debts of $7,674,000 in 2025 and $9,311,000 in 2024)	$ 47,855,784	$ 47,476,588
Other revenue	4,341,181	2,231,658
Total operating revenues	52,196,965	49,708,246
Operating expenses:		
Salaries and wages	23,802,682	22,784,441
Employee benefits	4,103,549	4,758,824
Professional fees	11,115,301	11,367,246
Supplies and other	7,048,402	6,345,475
Utilities	1,618,717	1,608,097
Repairs and maintenance	1,580,140	1,254,072
Depreciation and amortization	1,818,312	2,024,388
Insurance	1,190,162	1,646,605
Rent	100,601	381,817
Total operating expenses	52,377,866	52,170,965
Operating loss	(180,901)	(2,462,719)
Nonoperating revenues (expenses):		
Investment income	5,920	14,600
Interest expense	(458,037)	(557,595)
Employee retention tax credit	-	4,879,103
Total nonoperating revenues (expenses)	(452,117)	4,336,108
Excess revenues (expenses)	(633,018)	1,873,389
Capital contributions	101,750	-
Increase (decrease) in net position	(531,268)	1,873,389
Net position, beginning of year	(4,419,950)	(6,293,339)
Net position, end of year	$(4,951,218)	$(4,419,950)

See accompanying notes to financial statements.

HOSPITAL AUTHORITY OF STEPHENS COUNTY, GEORGIA
(A Component Unit of Stephens County, Georgia)

Statements of Cash Flows
for the years ended September 30, 2025 and 2024

	2025	2024
Cash flows from operating activities:		
Receipts from and on behalf of patients	$ 48,125,967	$ 47,478,979
Payments to employees	(27,499,861)	(27,373,068)
Payments to suppliers and contractors	(22,656,075)	(24,489,122)
Other receipts	4,341,181	2,231,658
Net cash provided (used) by operating activities	2,311,212	(2,151,553)
Cash flows from noncapital financing activities:		
Proceeds from short-term debt	1,436,928	725,000
Principal paid on short-term debt	(1,436,928)	(725,000)
Interest paid on short-term debt	(9,440)	(4,833)
Employee retention credit	-	4,879,103
Net cash provided (used) by noncapital financing activities	(9,440)	4,874,270
Cash flows from capital and related financing activities:		
Principal paid on long-term debt	(1,048,399)	(990,000)
Interest paid on long-term debt	(428,788)	(514,655)
Principal paid on lease and subscription IT liabilities	(557,505)	(626,512)
Interest paid on lease and subscription IT liabilities	(33,006)	(38,040)
Purchase of capital assets	(1,033,330)	(275,783)
Capital contributions	963,894	-
Net cash used by capital and related financing activities	(2,137,134)	(2,444,990)
Cash flows from investing activities:		
Investment income	5,920	14,600
Net cash provided by investing activities	5,920	14,600
Net increase in cash and cash equivalents	170,558	292,327
Cash and cash equivalents, beginning of year	446,493	154,166
Cash and cash equivalents, end of year	$ 617,051	$ 446,493

Continued

HOSPITAL AUTHORITY OF STEPHENS COUNTY, GEORGIA
(A Component Unit of Stephens County, Georgia)

Statements of Cash Flows, Continued
for the years ended September 30, 2025 and 2024

	2025	2024
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash and cash equivalents	$ 616,807	$ 419,880
Restricted for capital acquisition under indenture agreement	9	21
Held by trustee under indenture agreement	235	26,592
Total cash and cash equivalents	$ 617,051	$ 446,493
Reconciliation of operating loss to net cash flows provided (used) by operating activities:		
Operating loss	$(180,901)	$(2,462,719)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation and amortization	1,818,312	2,024,388
Provision for bad debts	7,673,879	9,311,411
Changes in:		
Patient accounts receivable	(7,414,058)	(9,677,569)
Estimated third-party payor settlements	10,362	368,549
Other receivables	(118,222)	(469,152)
Supplies	(98,962)	25,051
Prepaid expenses	66,666	72,219
Accounts payable	147,766	(1,513,928)
Accrued expenses	406,370	170,197
Net cash provided (used) by operating activities	$ 2,311,212	$(2,151,553)

Supplemental disclosures of cash flow information:

- The Authority entered into lease liabilities of approximately $130,000 for new equipment in 2025.
- The Authority financed equipment of approximately $116,000 in 2024.

See accompanying notes to financial statements.

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

Reporting Entity

The Hospital Authority of Stephens County, Georgia (Authority) is a public body corporate and politic organized under the Hospital Authorities Law of the State of Georgia. The Authority was established on September 6, 1949 by the Board of Commissioners of Stephens County, Georgia. The Authority is governed by a seven-member board of trustees appointed by the Stephens County Commissioners and Stephens County has guaranteed debt of the Authority. For these reasons, the Authority is considered to be a component unit of Stephens County, Georgia.

The Authority owns and operates Stephens County Hospital, which provides short-term inpatient, outpatient, and emergency care to residents of Stephens County and the surrounding area. The Authority also owns and operates two personal care facilities, Clary Care Center and Wilkinson Center (collectively, Personal Care Facilities).

Stephens County Hospital Physician Group, LLC (SCHPG) is a not-for-profit organization whose sole member is the Authority. SCHPG operations consist of employing physicians and contracts with the Authority to provide physician services. SCHPG is a blended component unit of the Authority.

Stephens County Emergency Physicians, Inc. (SCEP) is a not-for-profit organization whose sole member is the Authority. SCEP has not had any operations since February 1, 2017. SCEP is a blended component unit of the Authority.

Use of Estimates

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

Enterprise Fund Accounting

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

Continued

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

Cash and Cash Equivalents

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

Allowance for Uncollectible Accounts

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

Noncurrent Cash and Investments

Noncurrent cash and investments include assets held by trustee under indenture agreement; and assets restricted for capital acquisition under indenture agreement. Amounts required to meet current liabilities of the Authority have been reclassified to current assets in the balance sheet.

Fair Value Measurements

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

- *Level 1:* Quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date. The fair value hierarchy gives the highest priority to Level 1 inputs.

- *Level 2:* Observable inputs such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

- *Level 3:* Unobservable inputs for an asset or liability. The fair value hierarchy gives the lowest priority to Level 3 inputs.

Continued

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

Capital Assets

The Authority's capital assets are reported at historical cost. Contributed capital assets are reported at their acquisition value at the time of their donation. Assets costing more than $2,500 with an estimated useful life of at least three years are capitalized. 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 the asset lives listed below. Leased assets are amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the asset. 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. Such amortization is included in depreciation and amortization in the financial statements.

Land improvements	5 to 25 Years
Buildings and building improvements	5 to 40 Years
Equipment, computers and furniture	3 to 20 Years
Right-to-use lease assets	1 to 5 Years
Right-to-use subscription IT assets	1 to 5 Years

Costs of Borrowing

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

Financing Cost

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

Compensated Absences

The Authority's employees earn paid time off (PTO) at varying rates depending on years of service. PTO hours accumulate and may be carried over to the next year. However, an employee's PTO accrual may not exceed 240 hours. An employee may receive a payout of PTO hours, subject to certain restrictions. Employees are also entitled to have their accrued PTO paid at the time of termination. The Authority 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 as a current liability in both 2025 and 2024.

Continued

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

Unearned Revenue

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

Net Position

Net position of the Authority is classified into three components. *Net investment in capital assets* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net position* is noncapital assets reduced by liabilities related to those assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Authority, including amounts deposited with trustees as required by revenue bond indentures, discussed in Note 9. *Unrestricted net position* is the remaining net amount of assets and liabilities that do not meet the definition of *net investment in capital assets* or the *restricted net position.*

Operating Revenues and Expenses

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

Grants and Contributions

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

Continued

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

Net Patient Service Revenue

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

Charity Care

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

Restricted Resources

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

Risk Management

The Authority is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years. The Authority is self-insured for employee health insurance and for the deductible portion of its general and professional liability insurance policy as discussed in Note 12.

Income Taxes

The Authority is a governmental entity and has been recognized as tax-exempt under the Internal Revenue Code. Accordingly, no provision for income taxes has been provided.

SCHPG and SCEP are not-for-profit organizations that have been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code.

Continued

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

Income Taxes, Continued

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

Based on the results of management's evaluation, no liability is recognized in the accompanying balance sheet for unrecognized income tax positions. Further, no interest or penalties have been accrued or charged to expense as of September 30, 2025 and 2024, or for the years then ended. SCHPG and SCEP's tax returns are subject to possible examination by the taxing authorities. For federal income tax purposes, the tax returns essentially remain open for possible examination for a period of three years after the respective filing deadlines of those returns.

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 Authority evaluates on an ongoing basis the recoverability of its assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The impairment loss to be recognized is the amount by which the carrying value of the long-lived asset exceeds the assets fair value. In most instances, the fair value is determined by discounted estimated future cash flows using an appropriate interest rate. The Authority has not recorded any impairment charges in the accompanying statements of revenues, expenses and changes in net position for the years ended September 30, 2025 and 2024.

Continued

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

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. GASB 101 is effective for fiscal years beginning after December 15, 2023. The Authority adopted GASB 101 on October 1, 2024. The adoption of GASB 101 did not have a material effect on the prior period financial statements. Therefore, no restatement of the prior period was necessary.

2. Net Patient Service Revenue

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

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 Authority believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. However, there has been an increase in regulatory initiatives at the state and federal levels including the initiation of the Recovery Audit Contractor (RAC) program and 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.

Continued

2. Net Patient Service Revenue, Continued

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

- Medicare

  The Authority has received Medicare dependent hospital (MDH) classification from Medicare. As an MDH, inpatient services rendered to Medicare program beneficiaries are paid at a blend of a hospital specific rate and a prospectively determined rate per discharge. The hospital specific rate is calculated for a base period and adjusted annually by an updating factor. The prospectively determined rate per discharge varies according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The inpatient services and certain other reimbursable items are paid at a tentative rate with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare Administrative Contractor (MAC).

  The Authority's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Authority. The Authority's Medicare cost reports have been audited by the MAC through September 30, 2021. Revenue from the Medicare program accounted for approximately 52% and 49% of the Authority's net patient service revenue for the years ended September 30, 2025 and 2024, respectively.

- Medicaid

  Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per admission. Outpatient services are generally paid under a cost reimbursement methodology. The Authority is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicaid fiscal intermediary. The Authority's Medicaid cost reports have been settled by the Medicaid fiscal intermediary through September 30, 2021. Revenue from the Medicaid program accounted for approximately 15% and 13% of the Authority's net patient service revenue for the years ended September 30, 2025 and 2024, respectively.

  The Authority has also entered into contracts with certain care management organizations (CMOs) to receive reimbursement for providing services to selected enrolled Medicaid beneficiaries. Payment arrangements with these CMOs consist primarily of prospectively determined rates per discharge and discounts from established charges, or prospectively determined per diems.

Continued

2. Net Patient Service Revenue, Continued

- Medicaid, Continued

The Authority participates in the Indigent Care Trust Fund (ICTF) Program. The Authority receives ICTF payments for treating a disproportionate number of Medicaid and other indigent patients. ICTF payments are based on the Authority's estimated uncompensated cost of services to Medicaid and uninsured patients. The net amount of ICTF payments recognized in net patient service revenues was approximately $2,250,000 and $2,420,000 for the years ended September 30, 2025 and 2024, respectively. The balance sheet reflects a receivable of approximately $-0- and $1,071,000 at September 30, 2025 and 2024, respectively related to SFY 2024 payments.

The Authority also participates in the Medicaid Upper Payment Limit (UPL) Program. The UPL payment adjustments are based on a measure of the difference between Medicaid payments and the amount that could be paid based on Medicare payment principles. The net amount of UPL payment adjustments recognized in net patient service revenue was approximately $617,000 and $406,000 for the years ended September 30, 2025 and 2024, respectively. The balance sheet reflects a receivable of approximately $333,000 and $68,000 related to SFY 2025 and SFY 2024 payments, respectively.

Hospitals in Georgia are assessed a "provider payment" in the amount of 1.45% of their net patient revenue. The provider payments are due on a quarterly basis to the State of Georgia. The payments are to be used for the sole purpose of obtaining federal financial participation for medical assistance payments to providers on behalf of Medicaid recipients. The provider payment results in a corresponding increase in Medicaid payments for hospital services of approximately 11.88%. The Authority expensed provider payments of approximately $430,000 and $441,000 in 2025 and 2024, respectively. The expense amounts are included in supplies in the accompanying statements of revenues, expenses and changes in net position.

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 approximately $966,000 and $-0- during 2025 and 2024, respectively. The balance sheet reflects a receivable of approximately $925,000 and $-0- related to SFY 2025 and SFY 2024 payments, respectively.

Continued

2. Net Patient Service Revenue, Continued

- Uninsured

  The Authority provides emergency and other medically necessary care regardless of a patient's ability to pay. The Authority has a Financial Assistance Policy (FAP) to assist those patients who cannot pay for all or part of their care. Based on the FAP, the calculation of the discount for patients qualified for a partial charity care adjustment will be based on the Authority's Medicare reimbursement rate (or amounts generally billed to individuals who have insurance coverage, or AGB). This discount is updated annually when new rates are received. AGB is calculated by reviewing claims that have been paid in full for medically necessary care by the Authority's three best insurance payers. The Authority provides services without charge or at amounts less than its established rates to patients that are approved under the FAP. Patient household income in relation to the federal poverty guidelines and certain special circumstances criteria are included in the determination of qualification.

- Other Arrangements

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

Continued

3. Uncompensated Care

The Authority was compensated for services at amounts less than its established rates (gross patient charges).

Uncompensated care includes charity and indigent care services of approximately $5,199,000 and $789,000 in 2025 and 2024, respectively. The cost of charity and indigent care services provided during 2025 and 2024 were approximately $1,916,000 and $303,000, respectively, computed by applying a total cost factor to the charges foregone.

The following is a summary of uncompensated services and a reconciliation of gross patient charges to net patient service revenue for 2025 and 2024:

	2025	2024
Gross patient charges	$ 141,904,601	$ 135,650,053
Uncompensated services:		
Medicare	48,880,811	45,656,565
Medicaid	4,736,714	6,512,390
Insurance	27,558,635	25,904,183
Charity/indigent	5,198,778	788,916
Bad debts	7,673,879	9,311,411
Total uncompensated care	94,048,817	88,173,465
Net patient service revenue	$ 47,855,784	$ 47,476,588

Total charges related to uncompensated charity and indigent care increased during the fiscal year, due to the use of a presumptive charity tool.

4. Deposits and Investments

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to them. State law requires collateralization of all deposits with federal depository insurance (FDIC) and other acceptable collateral in specific amounts. The Authority's deposits are secured by FDIC, collateral posted by financial institutions, and the Georgia Secure Deposit Program. As of September 30, 2025 and 2024, the Authority's deposits were entirely insured or collateralized.

Continued

4. Deposits and Investments, Continued

Custodial Credit Risk - Investments

For an investment, this is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Authority's investments are held in the Authority's name by a custodial bank that is the agent of the Authority.

Interest Rate Risks

The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates. The Authority's held by trustee funds are invested in a money market fund with a weighted average maturity of 45 days at September 30, 2025 and 42 days at September 30, 2024.

Credit Risk

The Authority's money market investment carried a rating of AAAm by Standard & Poor's at both September 30, 2025 and 2024.

The carrying amounts of deposits and investments are included in the Authority's balance sheet as follows:

	2025	2024
Deposits	$ 616,816	$ 419,901
Investments	235	26,592
Total	$ 617,051	$ 446,493

Included in the following balance sheet captions:

	2025	2024
Cash and cash equivalents	$ 616,807	$ 419,880
Noncurrent cash and investments:		
Restricted for capital acquisition under indenture agreement	9	21
Held by trustee under indenture agreement	235	26,592
Total	$ 617,051	$ 446,493

The Authority's investments consist of a money market fund. The fair value of the money market fund is measured using Level 1 inputs.

Continued

5. Accounts Receivable and Payable

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Authority at September 30, 2025 and 2024 consisted of these amounts:

	2025	2024
Patient accounts receivable:		
Receivable from patients and their insurance carriers	$ 12,680,127	$ 11,009,163
Receivable from Medicare	5,434,504	8,123,832
Receivable from Medicaid	2,176,121	2,526,767
Total patient accounts receivable	20,290,752	21,659,762
Less allowance for uncollectible amounts	15,608,669	16,717,858
Patient accounts receivable, net	$ 4,682,083	$ 4,941,904
Accounts payable and accrued expenses:		
Payable to employees (including payroll taxes)	$ 3,463,325	$ 3,056,955
Payable to suppliers	13,574,611	13,409,584
Accrued interest payable	83,894	97,091
Patient refunds	654,353	671,614
Total accounts payable and accrued expenses	$ 17,776,183	$ 17,235,244

6. Concentrations of Credit Risk

The Authority grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at September 30, 2025 and 2024, was as follows:

	2025	2024
Medicare	33%	26%
Medicaid	18%	23%
Blue Cross	18%	21%
Other third-party payors	26%	24%
Patients	5%	6%
Total	100%	100%

Continued

7. Capital Assets

Capital asset additions, retirements, and balances for the years ended September 30, 2025 and 2024 were as follows:

	Balance September 30, 2024	Additions	Transfers/ Retirements	Balance September 30, 2025
Land	$ 255,787	$ -	$ -	$ 255,787
Construction-in-progress	94,694	874,793	(128,696)	840,791
Land improvements	1,804,172	-	-	1,804,172
Buildings	35,353,113	104,560	-	35,457,673
Equipment	37,758,694	86,416	94,184	37,939,294
Totals at historical cost	75,266,460	1,065,769	(34,512)	76,297,717
Less accumulated depreciation for:				
Land improvements	(1,473,246)	(29,521)	-	(1,502,767)
Buildings	(23,352,212)	(813,134)	-	(24,165,346)
Equipment	(35,875,453)	(441,758)	-	(36,317,211)
Total accumulated depreciation	(60,700,911)	(1,284,413)	-	(61,985,324)
Capital assets, net	14,565,549	(218,644)	(34,512)	14,312,393
Leased equipment	1,547,260	132,282	(550,561)	1,128,981
Less accumulated amortization for leased equipment	(1,104,828)	(243,399)	550,561	(797,666)
Intangible right-to-use lease assets, net	442,432	(111,117)	-	331,315
Subscription IT assets	1,340,921	-	-	1,340,921
Less accumulated amortization for subscription IT assets	(813,859)	(290,500)	-	(1,104,359)
Intangible right-to-use subscription IT assets, net	527,062	(290,500)	-	236,562
Total capital assets, net	$ 15,535,043	$(620,261)	$(34,512)	$ 14,880,270

Continued

7. Capital Assets, Continued

	Balance September 30, 2023	Additions	Transfers/ Retirements	Balance September 30, 2024
Land	$ 255,787	$ -	$ -	$ 255,787
Construction-in-progress	34,512	77,728	(17,546)	94,694
Land improvements	1,804,172	-	-	1,804,172
Buildings	35,303,475	49,638	-	35,353,113
Equipment	37,477,091	264,057	17,546	37,758,694
Totals at historical cost	74,875,037	391,423	-	75,266,460
Less accumulated depreciation for:				
Land improvements	(1,435,389)	(37,857)	-	(1,473,246)
Buildings	(22,533,900)	(818,312)	-	(23,352,212)
Equipment	(35,308,050)	(567,403)	-	(35,875,453)
Total accumulated depreciation	(59,277,339)	(1,423,572)	-	(60,700,911)
Capital assets, net	15,597,698	(1,032,149)	-	14,565,549
Leased equipment	1,547,260	-	-	1,547,260
Less accumulated amortization for leased equipment	(794,514)	(310,314)	-	(1,104,828)
Intangible right-to-use lease assets, net	752,746	(310,314)	-	442,432
Subscription IT assets	1,340,921	-	-	1,340,921
Less accumulated amortization for subscription IT assets	(523,357)	(290,502)	-	(813,859)
Intangible right-to-use subscription IT assets, net	817,564	(290,502)	-	527,062
Total capital assets, net	$ 17,168,008	$(1,632,965)	$ -	$ 15,535,043

Continued

8. Short-Term Debt

A summary of the Authority's short-term debt at September 30, 2025 and 2024 follows:

	Balance September 30, 2024	Additions	Reductions	Balance September 30, 2025
Direct borrowing:				
Noncapital promissory note	$ -	$ 1,436,928	$(1,436,928)	$ -

	Balance September 30, 2023	Additions	Reductions	Balance September 30, 2024
Direct borrowing:				
Noncapital promissory note	$ -	$ 725,000	$(725,000)	$ -

- Noncapital promissory note with a variable interest rate. Interest due monthly and principal due at maturity. The promissory note contains a provision that upon default the lender may declare outstanding obligations immediately due and payable. The debt was paid off in December 2023.

- Noncapital promissory note with a variable interest rate. Interest due monthly and principal due at maturity. The promissory note contains a provision that upon default the lender may declare outstanding obligations immediately due and payable. The debt was paid off January 2025.

- Noncapital promissory note with a variable interest rate. Interest due monthly and principal due at maturity. The promissory note contains a provision that upon default the lender may declare outstanding obligations immediately due and payable. The debt was paid off June 2025.

- Subsequent to year end, the Authority entered into two additional noncapital promissory notes in the amounts of $710,848 with 8% interest and $905,089 with 8.25% interest. The proceeds will be used to make the intergovernmental transfer for participation in the ICTF program.

Continued

9. Long-Term Debt

A schedule of changes in the Authority's long-term debt for 2025 and 2024 follows:

	Balance September 30, 2024	Additions	Reductions	Balance September 30, 2025	Amounts Due Within One Year
Direct borrowings/ placements:					
Series 2017A	$ 5,905,000	$ -	$(640,000)	$ 5,265,000	$ 665,000
Series 2017B	3,495,000	-	(390,000)	3,105,000	405,000
Note payable	115,640	-	(18,399)	97,241	22,690
Total long-term debt	$ 9,515,640	$ -	$(1,048,399)	$ 8,467,241	$ 1,092,690

	Balance September 30, 2023	Additions	Reductions	Balance September 30, 2024	Amounts Due Within One Year
Direct borrowings/ placements:					
Series 2017A	$ 6,540,000	$ -	$(635,000)	$ 5,905,000	$ 640,000
Series 2017B	3,850,000	-	(355,000)	3,495,000	390,000
Note payable	-	115,640	-	115,640	18,399
Total long-term debt	$ 10,390,000	$ 115,640	$(990,000)	$ 9,515,640	$ 1,048,399

The terms and due dates of the Authority's long-term debt at September 30, 2025 and 2024, follow:

- Series 2017A Certificates - $9,500,000 Revenue Anticipation Certificates, Series 2017A, interest at 3.25%, principal maturing in varying annual amounts, due July 2032, secured by a pledge of the Authority's gross revenues. The Series 2017A Certificates contain a provision that in an event of default, the owners of more than 50% of the principal amount outstanding may declare the bonds due and payable immediately.
- Series 2017B Certificates - $5,500,000 Revenue Anticipation Certificates, Federally Taxable Series 2017B, interest at 4.73%, principal maturing in varying annual amounts, due July 2032, secured by a pledge of the Authority's gross revenues. The Series 2017B Certificates contain a provision that in an event of default, the owners of more than 50% of the principal amount outstanding may declare the bonds due and payable immediately.
- Financed equipment - at 8.7% interest, collateralized by equipment with a cost of $115,640 at September 30, 2024.

Continued

9. Long-Term Debt, Continued

In June 2017, the Authority issued $9,500,000 Revenue Anticipation Certificates, Series 2017A (Series 2017A) and $5,500,000 Revenue Anticipation Certificates, Federally Taxable Series 2017B (Series 2017B) (collectively, Series 2017 Certificates). The proceeds of the Series 2017 Certificates were used for the purpose of refunding the Series 2006 Certificates, refinancing a term loan, and financing the costs of adding to, extending, improving, and equipping the Authority's existing hospital and related facilities. The refunding of the Series 2006 Certificates resulted in a decrease of total cash flows required to service the debt by approximately $359,000 over the remaining life of the bonds and an economic gain of approximately $138,000.

Under the terms of the Series 2017 Certificates, the Authority is required to make monthly deposits of at least one-twelfth of the principal and interest becoming due each January and July to a sinking fund. The Authority was not in compliance with this schedule during fiscal years 2025 or 2024. Such deposits are included in the balance sheet as held by trustee under indenture agreement.

Under the terms of an Intergovernmental Contract entered into simultaneously with the issuance of the Series 2017 Certificates, Stephens County agreed to provide funds to meet the annual principal and interest payments on the bonds should the Authority have insufficient funds in the sinking fund to make such payments. No such payments were made by Stephens County in 2025 or 2024.

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

	Direct Borrowings/Placements	
Year Ending September 30,	Principal	Interest
2026	$ 1,092,690	$ 325,649
2027	1,129,737	323,602
2028	1,171,969	280,601
2029	1,217,845	236,132
2030	1,240,000	191,653
2031-2032	2,615,000	296,346
Total	$ 8,467,241	$ 1,653,983

Continued

10. Leases and Subscription IT Liabilities

The Authority is a lessee for noncancellable lease assets. The Authority recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in its financial statements. At the commencement of a lease, the Authority initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made 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 Authority determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The Authority uses the implicit interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided or cannot be imputed, the Authority generally uses its estimated incremental borrowing rate as the discount rate for leases.

- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the Authority is reasonably certain to exercise.

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

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

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

The Authority has subscription-based information technology arrangements (SBITAs). The Authority 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 Authority 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 the subscription payments made. The subscription IT asset is

Continued

10. Leases and Subscription IT Liabilities, Continued

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 Authority determines (1) the discount rate it uses to discount the expected subscription payments to present value, (2) subscription term, and (3) subscription payments.

- The Authority 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 Authority 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.

The Authority 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 Authority as the lessee for the years ended September 30, 2025 and 2024, are as follows:

	2025	2024
Short-term lease expense	$ 128,530	$ 381,817
Right-to-use lease asset amortization	243,399	310,314
Lease liability interest expense	15,581	19,961
Total lease cost	$ 387,510	$ 712,092

Continued

10. Leases and Subscription IT Liabilities, Continued

The Authority 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 Authority for the years ended September 30, 2025 and 2024 are as follows

	2025	2024
Short-term SBITA expense	$ 53,261	$ 98,995
Right-to-use subscription IT asset amortization	290,500	290,502
Subscription IT liability interest expense	14,040	25,170
Total subscription cost	$ 357,801	$ 414,667

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

	2024 Balance	Additions	Reductions	2025 Balance	Amounts Due Within One Year
Lease liabilities	$ 467,218	$ 130,209	$(247,538)	$ 349,889	$ 136,278
Subscription IT liabilities	541,528	-	(309,967)	231,561	231,561
Total lease and subscription IT liabilities	$ 1,008,746	$ 130,209	$(557,505)	$ 581,450	$ 367,839

	2023 Balance	Additions	Reductions	2024 Balance	Amounts Due Within One Year
Lease liabilities	$ 796,101	$ -	$(328,883)	$ 467,218	$ 219,679
Subscription IT liabilities	839,157	-	(297,629)	541,528	309,966
Total lease and subscription IT liabilities	$ 1,635,258	$ -	$(626,512)	$ 1,008,746	$ 529,645

Continued

10. Leases and Subscription IT Liabilities, Continued

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

Year Ending September 30,	Lease Liabilities Principal	Lease Liabilities Interest	Subscription IT Liabilities Principal	Subscription IT Liabilities Interest
2026	$ 136,278	$ 12,698	$ 231,561	$ 6,651
2027	79,894	8,497	-	-
2028	77,953	4,975	-	-
2029	47,607	1,924	-	-
2030	8,157	127	-	-
Total	$ 349,889	$ 28,221	$ 231,561	$ 6,651

11. Employee Retirement Plan

The Authority provides retirement benefits for its employees through the Stephens County Hospital Defined Contribution Plan (Plan). The Plan is administered by Milliman, Inc. Plan provisions and contribution requirements are established and may be amended by the Authority's Board of Trustees. Employees are eligible on the first day of each Plan quarter immediately following or coincident with their employment date. The Authority may make discretionary nonelective contributions to the Plan. Employees are vested in the Authority's contributions based on a 3-year grade beginning with the third year of employment. Plan forfeitures reduce the Authority's nonelective contributions. The Authority made contributions of approximately $260,000 and $184,000 to the Plan in 2025 and 2024, respectively.

12. Insurance Arrangements

Liability Insurance

The Authority has claims-made insurance coverage for professional liability and general liability. The insurance policies have limits of $1,000,000 per claim and $3,000,000 annual aggregate. The Authority's deductible is $50,000 for individual claims or $200,000 annual aggregate. The Authority also has an umbrella policy with a limit of $3,000,000 per claim and $3,000,000 annual aggregate.

Continued

12. Insurance Arrangements, Continued

Employee Health Insurance

The Authority has a self-insured health plan for its employees. The Authority has purchased stop loss insurance to supplement the health plan, which will reimburse the Authority for individual claims in excess of $95,000 annually. The Authority incurred expenses related to this plan of approximately $2,096,000 and $2,878,000 for the years ended September 30, 2025 and 2024, respectively. Estimated accruals for claims incurred but not reported have been recorded in accrued expenses in the balance sheet. Estimated accruals were approximately $2,228,000 and $1,814,000 at September 30, 2025 and 2024, respectively.

13. Commitments and Contingencies

Litigation

The Authority is subject to litigation and regulatory investigation arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without a material adverse effect on the Authority's future financial position or results from operations.

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 Services, and other regulations governing the healthcare industry. In addition, the Reform Legislation includes provisions aimed at reducing fraud, waste, and abuse in the healthcare industry. These provisions allocate significant additional resources to federal enforcement agencies and expand the use of private contractors to recover potentially inappropriate Medicare and Medicaid payments. The Authority has implemented a compliance plan focusing on such issues. There can be no assurance that the Authority will not be subjected to future investigations with accompanying monetary damages.

Health Care Reform

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

Continued

14. Stephens County Contributions and Management Fees

In 2017, the Authority and Stephens County entered into an Intergovernmental Contract (IC). Under the IC, Stephens County shall annually pay the Authority seven-tenths (7/10) of one mill of the county's tax digest for indigent care. The IC continues until July 2032. The Authority received payments of approximately $570,000 and $522,000 under the IC in 2025 and 2024, respectively. The payments are reported in net patient service revenue in the accompanying statements of revenues, expenses, and changes in net position.

The Authority and Stephens County entered into Agreements whereby Stephens County would pay the Authority a management fee for managing the provision of emergency medical services in Stephens County. The latest Agreement was entered into in July 2024 and has a term of five years. The management fee will be adjusted in each subsequent year by the Consumer Price Index. The Authority received management fees of approximately $1,679,000 and $1,062,000 under these Agreements in 2025 and 2024, respectively. The management fees are reported in other revenue in the accompanying statements of revenues, expenses, and changes in net position.

15. Rural Hospital Tax Credit Contributions

The State of Georgia (State) passed legislation which will allow individuals or corporations to receive a State tax credit for making a contribution to certain qualified rural hospital organizations during calendar years 2017 through 2029. The Authority submitted the necessary documentation and was approved by the State to participate in the rural hospital tax credit program for calendar years 2017 through 2025. Contributions received under the program were approximately $965,000 and $909,000 during fiscal years 2025 and 2024, respectively. Recognized revenue is reported as other revenue in the statements of revenues, expenses, and changes in net position. The Authority will have to be approved by the State to participate in the program in each subsequent year.

16. Management's Plan

As reported in the accompanying financial statements, the Authority reported an operating income (loss) of $(180,901) and $(2,462,719) in 2025 and 2024, respectively. The Authority had a net position of $(4,951,218) and $(4,419,950) as of September 30, 2025 and 2024, respectively.

Continued

16. Management's Plan, Continued

Management's plan to improve the Authority's financial position is as follows:

Revenue Enhancement

The Authority is continuing to enhance certain service lines as well as develop new services to increase revenue. The following strategies have been implemented or are being considered:

- Continued development of cardiology program
- Enhancements to the general and endoscopic surgery programs
- Expansion of orthopedic services
- Securing additional grant funding
- Pursuing additional Rural Hospital Tax Credit contributions
- Enhanced telemedicine capabilities

Cost Controls

Management continues to monitor all expenses and continues to explore opportunities to optimize, reduce, replace or simply not renew existing contracts. The following strategies have been implemented or are being considered:

- Directly contracting with surgeons and reducing locum tenens expense
- Renegotiated existing EMS agreement with the County

Assess New Opportunities

Management is evaluating future opportunities for expansion of services, operational improvements and other opportunities. The following opportunities are being evaluated:

- Increased surgical availability
- Financial viability of ancillary services
- Strategic partnership opportunities for service line support

Continued

17. Employee Retention Credit

The CARES Act provided for an employee retention credit (ERC), which is a refundable tax credit against certain employment taxes of up to $5,000 per employee for eligible employers. The tax credit is equal to 50% of qualified wages paid to employees during a quarter, capped at $10,000 for qualified wages per employee through December 31, 2021. The Authority qualified for the tax credits under the CARES Act and filed Form 941-X Adjusted Employer's Quarterly Federal Tax Return of Claim for Refund for the eligible quarters. The Authority received refunds of approximately $4,879,000, net of related expenses, during 2024, and has recognized the refunds in nonoperating revenues. The ECR may be subject to IRS examination. While the Authority currently believes it qualified to receive the tax credits, there is a possibility payments could be recouped based on IRS examination results.

SUPPLEMENTAL SCHEDULE

HOSPITAL AUTHORITY OF STEPHENS COUNTY, GEORGIA
(A Component Unit of Stephens County, Georgia)

COMBINING SCHEDULE OF REVENUES AND EXPENSES
for the years ended September 30, 2025 and 2024

	Stephens County Hospital		Personal Care Facilities		Stephens County Hospital Physician Group		Total	
	2025	2024	2025	2024	2025	2024	2025	2024
Operating revenues:								
Net patient service revenue	$ 34,152,729	$ 35,797,133	$ 2,894,585	$ 2,854,739	$ 10,808,470	$ 8,824,716	$ 47,855,784	$ 47,476,588
Other revenue	4,487,946	2,379,722	(154,589)	(148,064)	7,824	-	4,341,181	2,231,658
Total operating revenues	38,640,675	38,176,855	2,739,996	2,706,675	10,816,294	8,824,716	52,196,965	49,708,246
Operating expenses:								
Salaries and wages	18,463,430	17,393,154	1,771,345	1,722,778	3,567,907	3,668,509	23,802,682	22,784,441
Employee benefits	4,091,594	4,742,085	-	80	11,955	16,659	4,103,549	4,758,824
Professional fees	7,652,855	8,041,478	125,651	130,885	3,336,795	3,194,883	11,115,301	11,367,246
Supplies and other	6,555,552	5,854,634	239,343	241,740	253,507	249,101	7,048,402	6,345,475
Utilities	1,392,413	1,376,368	192,950	201,043	33,354	30,686	1,618,717	1,608,097
Repairs and maintenance	1,537,979	1,215,153	23,031	28,549	19,130	10,370	1,580,140	1,254,072
Depreciation and amortization	1,668,185	1,872,024	150,127	152,364	-	-	1,818,312	2,024,388
Insurance	1,152,509	1,586,519	-	-	37,653	60,086	1,190,162	1,646,605
Rent	79,371	328,821	-	-	21,230	52,996	100,601	381,817
Total operating expenses	42,593,888	42,410,236	2,502,447	2,477,439	7,281,531	7,283,290	52,377,866	52,170,965
Operating income (loss)	(3,953,213)	(4,233,381)	237,549	229,236	3,534,763	1,541,426	(180,901)	(2,462,719)
Nonoperating revenues (expenses):								
Investment income	5,920	14,600	-	-	-	-	5,920	14,600
Interest expense	(458,037)	(557,595)	-	-	-	-	(458,037)	(557,595)
Employee retention tax credit	-	4,879,103	-	-	-	-	-	4,879,103
Total nonoperating revenues (expenses)	(452,117)	4,336,108	-	-	-	-	(452,117)	4,336,108
Excess revenues (expenses)	(4,405,330)	102,727	237,549	229,236	3,534,763	1,541,426	(633,018)	1,873,389
Capital contributions	101,750	-	-	-	-	-	101,750	-
Increase (decrease) in net position	$(4,303,580)	$ 102,727	$ 237,549	$ 229,236	$ 3,534,763	$ 1,541,426	$(531,268)	$ 1,873,389

See independent auditor's report.

Draffin Tucker

Board of Trustees
Hospital Authority of Stephens County, Georgia
Toccoa, Georgia

In planning and performing our audit of the financial statements of the Hospital Authority of Stephens County, Georgia as of and for the year ended September 30, 2025, in accordance with auditing standards generally accepted in the United States of America, we considered the entity'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 entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity'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 significant deficiencies or material weaknesses and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and/or material weaknesses.

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 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. We consider the deficiencies in the Authority's internal control presented in the attachment to this letter to be material weaknesses.

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 in the Authority's internal control presented in the attachment to this letter to be a significant deficiency.

This communication is intended solely for the information and use of management, Board of Trustees, others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Draffin & Tucker, LLP

Albany, Georgia
July 20, 2026

Hospital Authority of Stephens County, Georgia

Material Weaknesses
September 30, 2025

IT Internal Controls

Issue:

Insufficient evidence was provided to prove that the Authority 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.

Potential Effects:

Policies and processes are not in place to safeguard the Authority against data breaches and protect patient information. Therefore, patient and financial information is at risk.

Recommendation:

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

Segregation of Duties

Issue:

There is a lack of segregation of duties in various processes including the financial reporting, cash, materials management, and accounts payable functions.

Potential Effects:

While no specific misstatements were noted due to segregation issues, the potential for misappropriation exists when appropriate safeguards are not in place.

Recommendation:

To ensure appropriate reporting and physical safeguard of assets, certain responsibilities such as authorization, recordkeeping, and custody should be appropriately segregated, a robust review process should be implemented.

Reconciliations

Issue:	Reconciliations, including cash, fixed assets and accounts payable are not reconciled timely to supporting documentation. Variances are identified but not corrected in a timely fashion.
Potential Effects:	The Authority's financial statements could be materially misstated due to errors not detected in a timely manner.
Recommendation:	All balance sheet accounts on the general ledger should be accurately reconciled to the appropriate subsidiary ledger and/or supporting documentation and all variances investigated on a regular basis. This control will help ensure the accurate reporting of the Authority's financial position and operations.

Manual Journal Entries

Issue:	Manual journal entries are not reviewed and approved by a second person.
Potential Effects:	Lack of review and approval can lead to duplicate or fraudulent entries causing the financial statements to be misstated.
Recommendation:	We recommend all journal entries be reviewed by a second person to alleviate segregation of duties issues.