

FLOYD CHEROKEE MEDICAL CENTER, LLC  
CENTRE, ALABAMA

---

FINANCIAL STATEMENTS

for the period of inception (April 10, 2018)  
to June 30, 2018

## CONTENTS

---

	<u>Pages</u>
Independent Auditor's Report	1-2
Financial Statements:	
Balance Sheet	3
Statement of Operations and Changes in Net Assets	4
Statement of Cash Flows	5
Notes to Financial Statements	6-18
Additional Information:	
Independent Auditor's Report on Supplemental Information	19
Board of Directors and Executive Officials (Unaudited)	20
Governmental Auditing Standards Report:	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Governmental Auditing Standards</i>	21-22

INDEPENDENT AUDITOR'S REPORT

The Board of Directors  
Floyd Cherokee Medical Center, LLC  
Centre, Alabama

**Report on the Financial Statements**

We have audited the accompanying financial statements of Floyd Cherokee Medical Center, LLC (FCMC), which comprise the balance sheet as of June 30, 2018, and the related statements of operations and changes in net assets, and cash flows for the period from inception (April 10, 2018) to June 30, 2018, and the related notes to the financial statements.

*Management's Responsibility for the Financial Statements*

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

*Auditor's Responsibility*

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

Continued

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

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Floyd Cherokee Medical Center, LLC as of June 30, 2018, and the results of its operations and changes in net assets and its cash flows for the initial period then ended in accordance with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2018, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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 FCMC's internal control over financial reporting and compliance.

*Draffin & Tucker, LLP*  
Albany, Georgia  
October 22, 2018

FLOYD CHEROKEE MEDICAL CENTER, LLC

BALANCE SHEET, June 30, 2018

---

ASSETS

Assets:

Cash and cash equivalents	\$ 1,451,861
Patient accounts receivable, net of estimated uncollectibles of approximately \$5,300,000	898,704
Other current assets	<u>316,521</u>
Total assets	\$ <u>2,667,086</u>

LIABILITIES AND NET ASSETS

Liabilities:

Accounts payable	\$ 352,014
Accrued salary	114,201
Accrued benefits	387,624
Other accrued expenses	191,535
Due to Floyd Healthcare Management, Inc.	<u>2,103,959</u>
Total liabilities	3,149,333
Net assets - unrestricted	( <u>482,247</u> )
Total liabilities and net assets	\$ <u>2,667,086</u>

See auditor's report and notes to financial statements.

FLOYD CHEROKEE MEDICAL CENTER, LLC

STATEMENT OF OPERATIONS  
AND CHANGES IN NET ASSETS  
for the period of inception (April 10, 2018) to June 30, 2018

---

Unrestricted revenues, gains and other support:	
Patient service revenue (net of contractual allowances and discounts)	\$ 1,523,436
Provision for bad debts	( 588,640)
Net patient service revenue	934,796
Contribution from Cherokee Authority for operations	1,000,000
Other operating revenue	<u>8,273</u>
Total revenue, gains, and other support	<u>1,943,069</u>
Expenses:	
Salaries and benefits	724,296
Medical supplies and other expense	611,644
Start up costs	<u>1,110,490</u>
Total expenses	<u>2,446,430</u>
Operating loss	( 503,361)
Nonoperating revenue:	
Unrestricted gifts and bequests	<u>21,114</u>
Excess expenses	( 482,247)
Net assets – unrestricted, beginning of period	<u>-</u>
Net assets – unrestricted, end of period	<u><u>\$ ( 482,247)</u></u>

See auditor's report and notes to financial statements.

FLOYD CHEROKEE MEDICAL CENTER, LLC

STATEMENT OF CASH FLOWS  
for the period of inception (April 10, 2018) to June 30, 2018

Cash flows from operating activities:	
Changes in net assets	\$( 482,247)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Provision for bad debts	588,640
Changes in:	
Patient accounts receivable	(1,487,344)
Other current assets	( 316,521)
Accounts payable and accrued expenses	636,127
Due to Floyd Healthcare Management, Inc.	<u>2,103,959</u>
Net cash provided by operating activities	1,042,614
Cash flows from investing activities:	
Cash received on lease	<u>409,247</u>
Net increase in cash and cash equivalents	1,451,861
Cash and cash equivalents, beginning of period	<u>          -</u>
Cash and cash equivalents, end of period	\$ <u>1,451,861</u>
Supplemental disclosures of cash flow information:	
Pursuant to the Lease Agreement described in Note 1, the non-cash liabilities transferred under the lease agreement are as follows:	
Accrued vacation liability	\$ 302,879
Utilities liability	49,882
Equipment lease	<u>56,486</u>
Total non-cash items received	\$ <u>409,247</u>

See auditor's report and notes to financial statements.

FLOYD CHEROKEE MEDICAL CENTER, LLC

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

1. Summary of Significant Accounting Policies

Organization

Floyd Cherokee Medical Center, LLC (FCMC) is an Alabama limited liability corporation that was created on April 10, 2018. Floyd Healthcare Management, Inc. (Corporation) is the sole member of FCMC. FCMC entered into a lease with an effective date of June 1, 2018 with the Cherokee County Health Care Authority (Cherokee Authority), an Alabama public corporation organized under the laws of the State of Alabama, to transfer control of Cherokee Medical Center to FCMC. Cherokee Medical Center is a 60-bed acute care hospital located in Centre, Alabama.

Use of Estimates

The preparation of financial statements in conformity 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.

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 Doubtful Accounts

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, FCMC analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, FCMC analyzes contractually due amounts, service dates, and service type and provides an allowance for doubtful accounts and a provision for bad debts, if necessary, based on the anticipated reimbursement. Management also reviews subsequent collection activity to assess the accuracy of the allowance estimated. For receivables associated with self-pay patients

Continued



FLOYD CHEROKEE MEDICAL CENTER, LLC

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2018

---

1. Summary of Significant Accounting Policies, Continued

Allowance for Doubtful Accounts, Continued

(which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), FCMC records a significant provision for bad debts in the period of service on the basis of prior payments, service date, service type, and its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

FCMC's allowance for doubtful accounts for self-pay patients was 98% of self-pay accounts receivable at June 30, 2018.

Net Patient Service Revenue

FCMC has agreements with third-party payors that provide for payments to FCMC 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 arrangements 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

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

Continued

FLOYD CHEROKEE MEDICAL CENTER, LLC

NOTES TO FINANCIAL STATEMENTS, Continued  
June 30, 2018

---

1. Summary of Significant Accounting Policies, Continued

Excess Expenses

The statement of operations and changes in net assets includes excess expenses as a performance indicator. Changes in unrestricted net assets which are excluded from the performance indicator, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

Risk Management

FCCM 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 and natural disasters. FCCM has purchased insurance to mitigate the risk of loss for these types of damages. See Notes 5 and 6 for more information.

Income Taxes

The Corporation is recognized as exempt by the IRS as an IRC Section 501(c)(3) entity and is the sole member of FCCM. As such, FCCM is deemed by the IRS to be a disregarded entity and takes the tax-exempt status of the Corporation.

The Corporation applies 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, the Corporation only recognizes the maximum benefit of each income tax position that is more than 50% likely of 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.

Continued

FLOYD CHEROKEE MEDICAL CENTER, LLC

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2018

---

1. Summary of Significant Accounting Policies, Continued

Income Taxes, Continued

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 June 30, 2018 or for the period then ended. The Corporation'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.

Accounting Pronouncement Not Yet Adopted

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This comprehensive standard provides guidance on net asset classification and required disclosures on liquidity and availability of resources, requires expanded disclosure about expense and investment returns, and eliminates the requirement to present or disclose the indirect method reconciliation if using the direct method when presenting cash flows. The standard is effective for annual periods beginning after December 15, 2017. FCMC expects to adopt the new guidance for the year ending June 30, 2019 and is continuing to evaluate the impact the guidance will have on the financial statements.

Subsequent Event

In preparing these financial statements, FCMC has evaluated events and transactions for potential recognition or disclosure through October 22, 2018, the date the financial statements were available to be issued.

2. Net Patient Service Revenue

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

Continued

FLOYD CHEROKEE MEDICAL CENTER, LLC

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2018

2. Net Patient Service Revenue, Continued

FCCMC recognizes patient service revenue associated with services provided to patients who have third-party coverage on the basis of anticipated collections and dates of service for services rendered. For uninsured patients that do not qualify for charity care, FCCMC recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of FCCMC's uninsured patients will be unable or unwilling to pay for the services provided. Thus, FCCMC records a significant provision for bad debts related to uninsured patients in the period the services are provided.

Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), from these major payor sources as of June 30, 2018 is as follows:

	Patient Service Revenue (Net of Contractual Allowances and Discounts)
Medicare	\$ 316,712
Third-party payors	518,021
Self-pay	<u>688,703</u>
Net patient service revenue before provision for bad debts	1,523,436
Less provision for bad debts	<u>588,640</u>
Net patient service revenue	\$ <u>934,796</u>

Revenue from the Medicare program accounted for approximately 34% of FCCMC's net patient revenue for the period ended June 30, 2018. 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 future. Cost report estimated reimbursement amounts are adjusted in subsequent periods as final settlements are determined.

Continued

FLOYD CHEROKEE MEDICAL CENTER, LLC

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2018

---

2. Net Patient Service Revenue, Continued

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

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

- Medicare

Inpatient acute care services 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.

FCCMC is reimbursed for certain reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by FCCMC and audits thereof by the Medicare Administrative Contractor (MAC). FCCMC'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 FCCMC.

- Medicaid

Inpatient services rendered to Medicaid program beneficiaries are reimbursed at an all-inclusive per diem rate on date of adjudication in a given state fiscal year plus an access payment. Outpatient services are paid based on a fee schedule. Annually a copy of the Medicare cost report is submitted to the Medicaid agency to assist the agency in monitoring the program.

Continued

FLOYD CHEROKEE MEDICAL CENTER, LLC

NOTES TO FINANCIAL STATEMENTS, Continued  
June 30, 2018

---

2. Net Patient Service Revenue, Continued

• Medicaid, Continued

Private hospitals are assessed a tax, to be paid in quarterly installments, equivalent to 5.5% of the net patient revenue in fiscal year 2014 for state fiscal year 2018. FCMC anticipates that the total amounts received for Medicaid patients under the new plan will more than offset the amount of the assessment tax. Private hospitals could be paid three payments for inpatient care; per diem for claims submitted, lump sum DSH and quarterly access payments based upon the Upper Payment Limit (UPL) calculation; and two payments for outpatient care; encounter payments and outpatient UPL.

FCMC was paid for DSH amounts and access payments based on upper payment limits in excess of provider tax payments during 2018 due to timing differences. These excess payments are reflected as deferred revenue in current liabilities.

• Other Arrangements

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

• Uninsured Patients

FCMC has adopted a Financial Assistance Policy (FAP) in accordance with Internal Revenue Code Section 501(r). Based on the FAP, following a determination of financial assistance eligibility based on federal poverty guidelines that are periodically updated, an individual will not be charged more than the Amounts Generally Billed (AGB) for emergency or other medical care provided to individuals with insurance covering that care. AGB is calculated by reviewing claims that have been paid in full (including deductibles and coinsurance paid by the patient) to FCMC for medically necessary care by Medicare and private health insurers during a 12-month look-back period.

Continued

FLOYD CHEROKEE MEDICAL CENTER, LLC

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2018

3. Uncompensated Charges

FCCMC was compensated for services at amounts less than its established rates. Charges foregone related to contractual agreements and provision for bad debts for 2018 were approximately \$5,100,000.

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

Gross patient charges	\$ <u>6,048,228</u>
Uncompensated charges:	
Medicare	1,764,308
Medicaid	999,120
Other allowances	1,761,364
Bad debts	<u>588,640</u>
Total uncompensated charges	<u>5,113,432</u>
Net patient service revenue	\$ <u>934,796</u>

4. Concentration of Credit Risk

FCCMC grants credit without collateral to 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 June 30, 2018 was as follows:

Medicare	38%
Other third-party payors	<u>62%</u>
Total	<u>100%</u>

FCCMC maintains deposits with financial institutions which exceed the Federal Depository insurance limits. At June 30, 2018, management believes the credit risk associated with these deposits is minimal.

Continued

FLOYD CHEROKEE MEDICAL CENTER, LLC

NOTES TO FINANCIAL STATEMENTS, Continued  
June 30, 2018

---

5. Employee Health Insurance

FCCM is included in the Corporation's employee health self-insurance program. The Corporation has a self-insurance program for employee health insurance under which a third-party administrator processes and pays claims. The Corporation reimburses the third-party administrator monthly for claims incurred and paid to other providers. The charges, less any deductibles and coinsurance for covered services provided to employees by the Corporation, are written off against gross patient service revenue. In addition, the Corporation has entered into a loss financing agreement with ten Georgia hospitals through a program developed by Georgia ADS, LLC. The program is designed to provide for the financing and payment of covered claims between \$150 thousand and \$500 thousand. The program also buys a reinsurance policy to cover claims reaching \$1 million. Further, the Corporation purchased additional insurance to cover claims up to \$2 million. Payments received from the program must be repaid over a specified period of time with interest. Under this self-insurance program, FCCM paid or accrued and expensed approximately \$50,000 for the period ended June 30, 2018.

6. Malpractice Insurance

FCCM is covered by a claims-made general and professional liability insurance policy with a specified deductible of \$50,000 per incident and excess coverage on a claims-made basis. Liability limits related to this policy in 2018 are \$1,000,000 per occurrence and \$3,000,000 in aggregate. In addition, FCCM is covered by the Corporation's umbrella policy that covers malpractice claims up to \$20 million in aggregate. FCCM uses a third-party administrator to review and analyze incidents that may result in a claim against FCCM. In conjunction with the third-party administrator, incidents are assigned reserve amounts for the ultimate liability that may result from an asserted claim.

Various claims and assertions have been made against FCCM in its normal course of providing services. In addition, other claims may be asserted arising from services provided to patients in the past. In the opinion of management, adequate provision has been made for losses which may occur from such asserted and unasserted claims that are not covered by liability insurance.

Continued



FLOYD CHEROKEE MEDICAL CENTER, LLC  
NOTES TO FINANCIAL STATEMENTS, Continued  
June 30, 2018

---

7. Commitments and Contingencies

Litigation

FCCMC is involved in litigation arising in the course of business. Pursuant to the Lease described in Note 1, all liabilities resulting from litigation not covered under FCCMC's insurance policy have been assumed by the Corporation. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on FCCMC'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 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. FCCMC has implemented a compliance plan focusing on such issues. There can be no assurance that FCCMC will not be subjected to future investigations with accompanying monetary damages.

Operating Leases

FCCMC leases various equipment and facilities under operating leases. Total rental expense in 2018 for all operating leases was approximately \$23,000.

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 FCCMC.

Continued

FLOYD CHEROKEE MEDICAL CENTER, LLC

NOTES TO FINANCIAL STATEMENTS, Continued  
June 30, 2018

---

8. Functional Expenses

FCCM provides general health care services to residents in Northeast Alabama. Expenses related to providing these services, at June 30, 2018, are as follows:

Health care services	\$ 1,028,921
General and administrative services:	
Management fee	125,000
Start up cost	1,110,490
Other	<u>182,019</u>
Total	\$ <u>2,446,430</u>

9. Cherokee Authority Contribution

The Cherokee Authority has agreed to make annual contributions to FCCM in support of operating Cherokee Medical Center. The contribution was \$1,000,000 in 2018 and is committed to be \$250,000 per year during the term of the lease.

10. Related Party Transactions

FCCM is a wholly owned member of the Corporation and the Corporation makes all payments to employees and vendors on behalf of FCCM. FCCM reimburses the Corporation for these expenditures. FCCM entered into a management agreement with the Corporation where FCCM pays the Corporation an annual management fee. In the period ending 2018, FCCM paid \$125,000 in management fees.

11. Fair Value of Financial Instruments

The following methods and assumptions were used by FCCM in estimating the fair value of its financial instruments:

- *Cash and cash equivalents, accounts payable, and accrued expenses:* The carrying amount reported in the balance sheet approximates its fair value due to the short-term nature of these instruments.

Continued

FLOYD CHEROKEE MEDICAL CENTER, LLC

NOTES TO FINANCIAL STATEMENTS, Continued

June 30, 2018

---

12. Lease on Cherokee Medical Center

On June 1, 2018, FCMC leased Cherokee Medical Center from the Cherokee County Healthcare Authority. Accordingly, the results of operations for Cherokee Medical Center have been included in the accompanying financial statements from that date forward. The lease was made for the purpose of strengthening the Corporation's competitive position in the Northeast Alabama service area.

As part of the lease agreement with Cherokee County Health Care Authority, FCMC received for operating use all land, building, equipment and supplies that were a part of Cherokee Medical Center as of the effective date of the lease. FCMC accounted for this transaction under business combination accounting. As such, FCMC recorded the assets acquired on the lease's effective date at fair market value as determined by a valuation study performed by a valuation expert. The valuation study primarily relied on the income approach and market approach in determining the fair market value. Under this methodology, the valuation study determined the value of the overall acquisition was de minimis. As such, the Cherokee Medical Center's land, building, equipment and supplies acquired under the lease are recorded at their fair market value which is zero. The major factors impacting the de minimis value were past and projected future operational losses and a limited population of potential buyers. As FCMC did not transfer any consideration for this transaction, there was no gain or goodwill recorded under business combination accounting.

The following assets and liabilities were recognized from the lease (at fair value):

Cash	\$ 409,247
Accrued vacation liability	( 302,879)
Utilities liability	( 49,882)
Equipment lease	( 56,486)
Total identifiable assets and liabilities	\$ <u>          -</u>

Continued

FLOYD CHEROKEE MEDICAL CENTER, LLC

NOTES TO FINANCIAL STATEMENTS, Continued  
June 30, 2018

---

13. Defined Contribution Plan

FCCM participates in the Corporation's 401(k) retirement plan. The plan is a defined contribution 401(k) profit sharing plan covering full-time employees over the age of eighteen who are not participating in the defined benefit pension plan. Employees may immediately contribute between 1% and 25% of their salary, subject to the maximum dollar limit allowed by the IRS. The Corporation will match 100% of the employee's contributions up to 3% of their salary plus 50% of the next 2% of the employee's contributions for all participating employees with at least one year of service and over 1,000 hours worked in a calendar year.

## ADDITIONAL INFORMATION

---

INDEPENDENT AUDITOR'S REPORT ON  
SUPPLEMENTAL INFORMATION

The Board of Directors  
Floyd Cherokee Medical Center, LLC  
Centre, Alabama

We have audited the accompanying financial statements of Floyd Cherokee Medical Center, LLC, as of June 30, 2018 and for the period of inception (April 10, 2018) to June 30, 2018, and our report thereon dated October 22, 2018, which expressed an unmodified opinion on the financial statements, appears on pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The information included in this report on page 20, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

*Driffin & Tucker, LLP*  
Albany, Georgia  
October 22, 2018

FLOYD CHEROKEE MEDICAL CENTER, LLC

BOARD OF DIRECTORS AND EXECUTIVE OFFICIALS (UNAUDITED)

June 30, 2018

---

<u>Name and Address</u>	<u>Title</u>	<u>Expiration of Term</u>
Kay Chumbler	Chairman	June 30, 2019
George A. Bosworth, M.D.	Vice Chairman	June 30, 2019
David Early	Board Member	June 30, 2020
Chad A. Hopper	Board Member	June 30, 2020
James J. Howell, Jr.	Board Member	June 30, 2021
Johna M. Lindsey	Board Member	June 30, 2021
Kurt Stuenkel	Secretary	
<u>Non-Voting Officers</u>		
Thomas H. Manning	Legal Counsel	
Brandon Reece	Administrator	
Susan Ingram	Corporate Secretary	

See independent auditor's report on supplemental 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*

The Board of Directors  
Floyd Cherokee Medical Center, LLC  
Centre, Alabama

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 accompanying financial statements of Floyd Cherokee Medical Center, LLC (FCMC), which comprise the balance sheet as of June 30, 2018, and the related statement of operations and changes in net assets, and cash flows for the period from inception (April 10, 2018) to June 30, 2018, and the related notes to the financial statements.

**Internal Control Over Financial Reporting**

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

Continued

21

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 FCMC's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

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

### **Purpose of This Audit**

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 FCMC's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering FCMC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Driffin & Tucker, LLP*  
Albany, Georgia  
October 22, 2018