

GEORGIA HEART  
HOSPITAL PROGRAM

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*Helping Enhance Access to Rural Treatment*

**Financial Statements**

**December 31, 2018**

# Georgia HEART Hospital Program, LLC

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## **Independent Auditor's Report**

To Georgia Community Foundation, Inc.  
Single Member of Georgia HEART Hospital Program, LLC

We have audited the accompanying balance sheet of Georgia HEART Hospital Program, LLC (the Company), as of December 31, 2018, and the related statements of operations, changes in member's equity and cash flows for the period from April 18, 2018 (Inception) to December 31, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our 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, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company'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 Georgia HEART Hospital Program, LLC as of December 31, 2018, and the results of its operations and its cash flows for the period from April 18, 2018 (Inception) to December 31, 2018 in accordance with accounting principles generally accepted in the United States of America.

### ***Supplemental Information***

The supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information is the representation of management. We have not audited or reviewed or compiled the supplemental information and, accordingly, do not express an opinion, a conclusion, nor provide any form of assurance on such supplemental information.

*Bennett Thacker LLP*

April 24, 2019

# Georgia HEART Hospital Program, LLC

## Balance Sheet December 31, 2018

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### Assets

Cash and cash equivalents	\$ 63,660
Accounts receivable	18,250
Prepaid expenses	<u>8,000</u>
Total current assets	89,910
Software costs, less accumulated amortization	<u>13,210</u>
Total assets	<u>\$ 103,120</u>

### Liabilities and Member's Equity

Accounts payable	\$ <u>15,100</u>
Total current liabilities	<u>15,100</u>
Commitments and contingencies (Note 2)	
Member's equity, 1,000 units issued and outstanding	<u>88,020</u>
Total liabilities and members' equity	<u>\$ 103,120</u>

*See accompanying notes to financial statements.*

# Georgia HEART Hospital Program, LLC

## Statement of Operations

For the Period from April 18, 2018 (Inception) to December 31, 2018

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Revenues:		
Fee income		\$ 1,607,120
Interest income		<u>4,263</u>
Total revenue		<u>1,611,383</u>
Expenses:		
Charitable contribution (Note 3)		850,000
Salaries, wages and benefits		392,860
Promotional fees		142,283
General and administrative		<u>138,220</u>
Total expenses		<u>1,523,363</u>
Net income		<u>\$ 88,020</u>

*See accompanying notes to financial statements.*

# Georgia HEART Hospital Program, LLC

## Statement of Changes in Member's Equity

For the Period from April 18, 2018 (Inception) to December 31, 2018

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Balance as of April 18, 2018	\$ -
Net income	<u>88,020</u>
Balance as of December 31, 2018	<u>\$ 88,020</u>

*See accompanying notes to financial statements.*

# Georgia HEART Hospital Program, LLC

## Statement of Cash Flows

For the Period from April 18, 2018 (Inception) to December 31, 2018

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Cash flows from operating activities:	
Net income	\$ 88,020
Reconciliation of net income to net cash provided by operating activities:	
Amortization expense	2,640
Changes in assets and liabilities:	
Accounts receivable	(18,250)
Prepaid expenses	(8,000)
Accounts payable	15,100
	<u>79,510</u>
Net cash provided by operating activities	<u>79,510</u>
Cash flows from investing activities:	
Purchases of software	<u>(15,850)</u>
Net cash used in investing activities	<u>(15,850)</u>
Net increase in cash and cash equivalents	63,660
Cash and cash equivalents, at April 18, 2018 (Inception)	<u>-</u>
Cash and cash equivalents, at end of year	<u>\$ 63,660</u>

*See accompanying notes to financial statements.*

# Georgia HEART Hospital Program, LLC

## Notes to Financial Statements December 31, 2018

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### **Note 1: Description of the Business and Summary of Significant Accounting Policies**

#### **Description of Business and Organization**

Georgia HEART Hospital Program, LLC (the Company) was formed as a limited liability company under the laws of the state of Georgia on April 18, 2018 (Inception) for the purpose of assisting qualified rural hospital organizations (RHOs) in the marketing and administration of contributions under the Georgia Rural Hospital Organization Expense Credit Program contained in Official Code of Georgia Annotated (O.C.G.A) § 48-7-29.20 (RHO Program).

Prior to Inception, due to Internal Revenue Service (IRS) private letter rulings limiting the ability of non-profit charitable entities to engage in consulting activities, Portage Charity Advisors, Inc. (Portage), a for-profit corporation duly formed under the laws of the State of Georgia, marketed and administered the RHO Program on behalf of qualified RHOs. During this time, to realize Portage's intent of operating on a non-profit basis, Portage and Georgia Community Foundation, Inc. (GCF), a 501(c)(3) tax-exempt organization, entered into a Donor Agreement, pursuant to which Portage agreed to contribute all of its annual net income to GCF. Due to a subsequent IRS ruling, which permits non-profit charitable entities to engage in consulting activities relating to their tax-exempt purposes, on the date of Inception, Portage, which was an S corporation for purposes of federal income tax purposes, converted into the Company, a single-member LLC. Thereafter, the single Member of the Company, James P. Kelly III (Kelly), contributed 100% of the issued and outstanding Member interests (1,000 shares) in the Company to GCF.

#### **Financial Statement Presentation**

The Company prepares its financial statements using the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America (GAAP).

#### **Use of Estimates in Financial Statements**

The preparation of financial statements in conformity with GAAP 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

#### **Cash and Cash Equivalents**

Cash and cash equivalents consists of highly liquid investments with maturities of three months or less at the date of purchase. These investments are carried at cost, which approximates fair value. At times, cash and cash equivalents may exceed federally insured amounts. The Company believes it mitigates any risks by depositing cash in major financial institutions.

#### **Accounts Receivable**

Accounts receivable are related to the fee income on hospital contributions received in January 2019 that were postmarked prior to December 31, 2018. A reserve for uncollectible accounts is established as deemed necessary based upon overall accounts receivable aging levels and a specific review of accounts. In the opinion of management, no reserve was deemed necessary as of December 31, 2018.



## **Software Costs**

The Company capitalizes software costs associated with developing the Company's website upon the point at which the website is ready for its intended use. Costs associated with developing the Company's website are expensed until the point at which the project has reached the development stage. Subsequent additions, modifications or upgrades to the Company's website are capitalized only to the extent that they allow the website to perform a task it previously did not perform. Website maintenance and training costs are expensed in the period in which they are incurred. Costs primarily included external direct costs for related development services. The Company amortizes these costs over the estimated useful life of three years. Amortization expense totaled \$2,640 for the period from Inception to December 31, 2018.

## **Recognition of Revenue**

Fee income is derived from services provided to the Company's participating RHOs to market and administer tax credit-eligible contributions to the RHO Program. The Company records revenue of 3.0% for all completed donations to RHOs, a statutory administration fee prescribed by Georgia law. For the period from Inception to December 31, 2018, the Company processed contributions of approximately \$54 million to RHOs participating with the Company.

## **Promotional Fees**

At the creation of the RHO Program, Portage, and upon conversion, the Company, entered into a partnership with Georgia Hospital Health Services, Inc. (GHHS), a wholly-owned subsidiary of Georgia Hospital Association, Inc. (GHA), to cooperate in promoting the RHO Program among eligible RHOs, most of which GHA has served for many years. On July 18, 2016, the Company entered into an Agreement with GHHS, pursuant to which the Company compensates GHHS at the rate of 8.33% of the Company's fee income collected each quarter from serving the Company's participating RHOs. As a result of the combined services and efforts resulting from this partnership, as of December 31, 2018, all of the RHOs eligible to participate in the RHO Program had selected the Company to exclusively provide them with RHO Credit Program contribution marketing and administration services. Also, in addition to important legislative enhancements to the RHO Program, the Company's partnership with GHHS resulted in taxpayers applying for all of the \$60 million RHO Program credits that were available in 2018. Pursuant to the Agreement, the Company paid GHHS \$133,873 in 2018, which is included in promotional fees on the accompanying statement of operations.

At the creation of the RHO Program, because C corporations are potential donors to RHOs, Portage, and upon conversion, the Company, entered into a partnership with Georgia Chamber of Commerce, Inc. (Georgia Chamber) to cooperate in promoting the RHO Program to potential C corporation donors. On August 16, 2016, the Company entered into an Agreement with Georgia Chamber, pursuant to which the Company compensates Georgia Chamber on a quarterly basis, at the rate of 8.33% of the Company's fee income relating to C corporation contributions to the Company's participating RHOs. Pursuant to the Agreement, the Company paid Georgia Chamber \$8,410 in 2018 which is included in promotional fees on the accompanying statement of operations.

## **Income Taxes**

The Company is deemed a disregarded entity under the Internal Revenue Code (the Code). The Company is a single-member LLC owned wholly by GCF, an organization defined by Section 512(a)(1) of the Code as a public charity. The Company's activities will be reflected on the GCF state and federal tax return. Accordingly, no provision or benefit for income taxes has been recorded in the accompanying financial statements.

The Company applies the provisions of accounting standards for income taxes. These standards require that a tax position be recognized or derecognized based on a 'more-likely-than-not' threshold. This applies to positions taken or expected to be taken in a tax return. The Company does not believe its financial statements include any material uncertain tax positions. The Company is subject to federal or state income tax examination by tax authorities for all years.

## **Fair Value of Financial Instruments**

The fair value of cash and cash equivalents approximates carrying values due to the relative liquidity or short-term nature of these instruments.

## **New Accounting Pronouncement**

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue with Contracts from Customers (Topic 606)*. The ASU introduced a comprehensive, principles-based framework for recognizing revenue, and, when effective, will supersede the current revenue recognition guidance, including industry-specific guidance. The guidance introduces a five-step model to achieve its core principal of the entity recognizing revenue to depict the transfer of goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Subsequent to the issuance of ASU 2014-09, the FASB issued a number of ASUs clarifying certain matters in ASU 2014-09. In August 2015, the original effective dates of ASU 2014-09 were deferred by one year through the issuance of ASU 015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*. ASU 2014-09 (as revised) will be effective for the Company beginning January 1, 2019. The Company is currently evaluating the impact of this standard on its financial statements.

## **Note 2: Commitments and Contingencies**

As of December 31, 2018, the Company was not aware of any pending or foreseen litigation. The Company, from time to time, may become involved in litigation arising in the ordinary course of business. For any such litigation that may arise, management will consult with legal counsel. Should management estimate any material adverse effect on the Company's business, financial condition or results of operations, such effect will be disclosed.

## **Note 3: Member's Equity**

The Company entered into an operating agreement (the Agreement) dated April 18, 2018 under the Georgia Limited Liability Company Act, which establishes, among other things, rights, obligations and privileges of membership. Membership consists of a sole member, GCF. Except as otherwise specifically provided for in the Agreement, the liability of the sole member is generally limited to its initial capital contribution. According to the Agreement, the sole member is not required to make any capital contributions or loans to the Company.

The Company shall continue in perpetuity until dissolution occurs upon the earlier of the following events: first, upon approval by the sole member, second, upon the entry of decree of judicial dissolution.

Pursuant to the terms of the Donor Agreement made and entered into between Portage, and upon conversion, the Company, and GCF, dated December 19, 2016, as amended, the Company, a wholly-owned GCF subsidiary, is required to contribute its annual net income (less a reasonable reserve for future expenses) to GCF. GCF must use the contribution to fund the Georgia Community Rural Health Fund (the Fund), a donor-advised fund for which Kelly serves as the donor-advisor and the income of which GCF must use to promote access to health care in rural Georgia. In 2018, the Company contributed \$850,000 to the Fund.

**Note 4: Related Party Transactions**

The Company operates out of the same offices as an entity, Georgia GOAL Scholarship Program, Inc. (GOAL), which operates another Georgia tax credit program. Accordingly, the Company reimburses GOAL for associated expenses, including rent, health insurance, supplies and telephone. For the period from Inception to December 31, 2018, the reimbursement for these expenses totaled \$45,027.

**Note 5: Subsequent Events**

The Company has evaluated events and transactions occurring subsequent to December 31, 2018, through the report date, which is the date these financial statements were available for issuance. All subsequent events requiring recognition or disclosure as of December 31, 2018, have been incorporated into these financial statements.

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**Unaudited Supplemental Information**

# Georgia HEART Hospital Program, LLC

## Unaudited Supplemental Information For the Year Ended December 31, 2018

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*The following unaudited supplemental information is provided in order to present total hospital contributions for participating qualified rural hospital organizations (RHOs) and the associated fee income for the year ended December 31, 2018 for Portage Charity Advisors, Inc. (Portage) and Georgia HEART Hospital Program, LLC (HEART).*

<u>Entity</u>	<u>Period of Operation</u>	<u>RHO Contributions</u>	<u>Fee Income</u>
Portage	January 1 to April 17, 2018	\$ 5,076,187	\$ 152,286
HEART	April 18 to December 31, 2018	<u>53,694,520</u>	<u>1,607,120</u>
Total		<u>\$ 58,770,707</u>	<u>\$ 1,759,406</u>

2018 fee income as a percentage of hospital revenues for HEART Participating Hospitals

2.99%