TANNER MEDICAL CENTER, INC.

COMBINED FINANCIAL STATEMENTS

for the years ended June 30, 2018 and 2017

CONTENTS

Draffin & Tucker, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Member:
THE AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Tanner Medical Center, Inc.
Carrollton, Georgia

Report on the Financial Statements

We have audited the accompanying combined financial statements of Tanner Medical Center, Inc. (Medical Center), which comprise the combined balance sheets as of June 30, 2018 and 2017, the related combined statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined financial statements based on our audits. We conducted our audits 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 combined financial statements are free from material misstatement.

Continued

P.O. Box 71309
2617 Gillionville Road
Albany, GA 31708-1309
Tel. (229) 883-7878
Fax (229) 435-3152

Five Concourse Parkway
Suite 1250
Atlanta, GA 30328
Tel. (404) 220-8494
Fax (229) 435-3152

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Medical Center's preparation and fair presentation of the combined 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 Medical Center'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 combined 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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of Tanner Medical Center, Inc. as of June 30, 2018 and 2017, and the results of its operations, changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the combined financial statements, in 2018, Tanner Medical Center Alabama, Inc. entered into a lease agreement with Randolph County Health Care Authority. As a result, the assets, certain liabilities and operations of a new hospital facility in Wedowee, Alabama were transferred to Tanner Medical Center Alabama, Inc. Our opinion is not modified with respect to this matter.

Draffin & Tucker, LLP

Albany, Georgia
January 7, 2019

TANNER MEDICAL CENTER, INC.

COMBINED BALANCE SHEETS
as of June 30, 2018 and 2017

	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 117,138,722	$ 107,064,490
Assets limited as to use – current portion	7,638,004	7,870,543
Patient accounts receivable, net of allowances and estimated uncollectibles of $166,908,000 in 2018 and $140,760,000 in 2017	57,375,500	53,508,573
Supplies, at lower of cost and net realizable value	7,719,093	6,539,455
Estimated third-party payor settlements	24,098	484,998
Other current assets	15,212,422	16,309,432
Total current assets	205,107,839	191,777,491
Assets limited as to use:		
Internally designated	282,232,622	249,144,874
Held by trustee under indenture for debt obligations	46,994,705	72,078,870
Assets limited as to use – current portion	(7,638,004)	(7,870,543)
Noncurrent assets limited as to use	321,589,323	313,353,201
Property and equipment, net	321,720,869	257,429,428
Interest in net assets of Tanner Medical Center Foundation, Inc.	12,753,591	9,576,559
Other assets:		
Physician notes receivable and other	5,596,366	4,444,866
Goodwill and intangible assets	3,636,000	3,636,000
Total other assets	9,232,366	8,080,866
Total assets	$ 870,403,988	$ 780,217,545

	2018	2017
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt	$ 8,290,000	$ 4,420,000
Accounts payable	19,345,319	18,310,141
Accrued salaries	22,039,468	21,776,768
Other accrued expenses	10,501,758	8,088,819
Estimated third-party payor settlements	4,018,383	3,252,331
Total current liabilities	64,194,928	55,848,059
Long-term debt, net of current portion:		
Notes payable	4,466,667	-
Revenue certificates payable	162,443,928	167,281,712
Total long-term debt, net of current portion	166,910,595	167,281,712
Total liabilities	231,105,523	223,129,771
Net assets:		
Unrestricted	628,531,654	548,850,113
Temporarily restricted	7,645,081	6,420,389
Permanently restricted	3,121,730	1,817,272
Total net assets	639,298,465	557,087,774
Total liabilities and net assets	$ 870,403,988	$ 780,217,545

See accompanying notes to financial statements.

TANNER MEDICAL CENTER, INC.

COMBINED STATEMENTS OF OPERATIONS
for the years ended June 30, 2018 and 2017

	2018	2017
Unrestricted revenues, gains, and other support:		
Patient service revenue (net of contractual allowances and discounts)	$ 580,144,528	$ 530,897,473
Provision for bad debts	(72,759,143)	(57,378,381)
Net patient service revenue	507,385,385	473,519,092
Other revenue	7,836,134	7,310,092
Total revenues, gains, and other support	515,221,519	480,829,184
Expenses:		
Salaries	205,568,125	195,269,652
Employee benefits	46,249,685	42,502,764
Contracted services	30,107,612	21,869,941
Purchased services	22,553,835	22,469,936
Supplies and drugs	89,218,398	71,259,425
Insurance	3,127,676	3,043,880
Depreciation	35,263,279	31,667,337
Interest and amortization	3,850,669	4,191,098
Other	37,464,878	39,287,857
Total expenses	473,404,157	431,561,890
Operating income	41,817,362	49,267,294

Continued

TANNER MEDICAL CENTER, INC.

COMBINED STATEMENTS OF OPERATIONS, Continued
for the years ended June 30, 2018 and 2017

	2018	2017
Other income (loss):		
Contributions and other	$ 693,475	$ 88,938
Investment income	19,705,843	10,859,372
Loss on sale of assets	(160,919)	(2,121,407)
Net unrealized gains (losses) on investments	(2,517,262)	12,777,807
Loss on extinguishment of debt	-	(3,494,186)
Lease and transfer agreement with Randolph County Health Care Authority	19,401,279	-
Total other income	37,122,416	18,110,524
Excess of revenues over expenses	78,939,778	67,377,818
Change in interest in net assets of Tanner Medical Foundation, Inc.	647,882	304,372
Contributions and transfers from affiliated entities	93,881	677,401
Increase in unrestricted net assets	$ 79,681,541	$ 68,359,591

See accompanying notes to financial statements.

TANNER MEDICAL CENTER, INC.

COMBINED STATEMENTS OF CHANGES IN NET ASSETS
for the years ended June 30, 2018 and 2017

	2018	2017
Unrestricted net assets:		
Excess of revenues over expenses	$ 78,939,778	$ 67,377,818
Change in interest in net assets of Tanner Medical Foundation, Inc.	647,882	304,372
Contributions and transfers from affiliated entities	93,881	677,401
Increase in unrestricted net assets	79,681,541	68,359,591
Temporarily restricted net assets:		
Change in interest in net assets of Tanner Medical Foundation, Inc.	1,224,692	908,786
Permanently restricted net assets:		
Change in interest in net assets of Tanner Medical Foundation, Inc.	1,304,458	100,000
Increase in net assets	82,210,691	69,368,377
Net assets, beginning of year	557,087,774	487,719,397
Net assets, end of year	$ 639,298,465	$ 557,087,774

See accompanying notes to financial statements.

TANNER MEDICAL CENTER, INC.

COMBINED STATEMENTS OF CASH FLOWS
for the years ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Changes in net assets	$ 82,210,691	$ 69,368,377
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Net realized and unrealized losses on investments	(8,173,885)	(17,791,392)
Change in interest in net assets of Tanner Medical Foundation, Inc.	(3,177,032)	(1,313,158)
Loss on disposal of assets	160,919	2,121,407
Contributions and transfers from affiliated entities	(93,881)	(677,401)
Lease and transfer agreement with Randolph County Health Care Authority	(19,401,279)	-
Depreciation	35,263,279	31,667,337
Amortization	(547,784)	(300,023)
Forgiveness of physician notes receivable	656,109	998,366
Provision for bad debts	72,759,143	57,378,381
Loss on extinguishment of debt	-	3,494,186
Goodwill amortization and impairment loss	-	71,115
Increase (decrease) in:		
Patient accounts receivable	(76,626,070)	(68,863,393)
Other current assets	(82,628)	(3,852,537)
Physician notes receivable	(799,902)	(950,211)
Other assets	(1,007,707)	(524,666)
Accounts payable	1,538,994	600,759
Other accrued expenses	2,171,823	(5,391,841)
Estimated third-party payor settlements	1,226,952	1,494,738
Net cash provided by operating activities	86,077,742	67,530,044
Cash flows from investing activities:		
Purchases of property and equipment	(80,220,479)	(41,459,947)
Proceeds from sale of investments	166,400,195	131,994,470
Purchase of investments	(166,229,893)	(153,694,823)
Net cash used by investing activities	(80,050,177)	(63,160,300)

Continued

COMBINED STATEMENTS OF CASH FLOWS, Continued
for the years ended June 30, 2018 and 2017

	2018	2017
Cash flows from financing activities:		
Issuance of long-term debt	$ 12,000,000	$ 40,650,485
Payments on long-term debt	(7,953,333)	(43,872,572)
Net cash provided (used) by financing activities	4,046,667	(3,222,087)
Net increase in cash and cash equivalents	10,074,232	1,147,657
Cash and cash equivalents, beginning of year	107,064,490	105,916,833
Cash and cash equivalents, end of year	$ 117,138,722	$ 107,064,490

Supplemental disclosure of cash flow information:

- Cash paid for interest net of capitalized interest in 2018 and 2017 was $4,391,000 and $4,142,000, respectively.
- Pursuant to the lease and transfer agreement described in Note 1, the Medical Center entered into a lease to acquire the replacement facility for Wedowee Hospital. As a result of the lease, approximately $19 million in fixed assets was transferred to the Medical Center.

See accompanying notes to financial statements.

1. Summary of Significant Accounting Policies

Organization

Tanner Medical Center, Inc. (Medical Center) is a not-for-profit healthcare system. The Medical Center provides inpatient, outpatient and emergency care services to residents of West Georgia and surrounding areas. Admitting physicians are primarily practitioners in the local area and employed physicians.

Tanner Medical Center, Inc. includes the following:

- Tanner Medical Center/Carrollton, established to provide comprehensive health care services through the operation of a 181-bed acute care hospital in Carrollton, Georgia.

- Tanner Medical Center/Villa Rica, established to provide comprehensive health care services through the operation of a 40-bed acute care hospital and Willowbrook at Tanner/Villa Rica, a 92-bed psychiatric facility in Villa Rica, Georgia.

- Tanner Medical Center/Higgins General Hospital, established to provide comprehensive health care services through the operation of a 25-bed critical access hospital in Bremen, Georgia.

- Tanner Medical Group, established to operate physician practices in West Georgia and Eastern Alabama.

- Tanner Medical Center/East Alabama, established to provide comprehensive health care services through the operation of a 15-bed acute care hospital in Wedowee, Alabama.

Tanner Medical Center, Inc. is responsible for allocating resources and for approving budgets, major contracts and debt financing for all entities.

Principles of Combination

The accompanying combined financial statements include the accounts of Tanner Medical Center, Inc., Tanner Medical Center/Carrollton, Tanner Medical Center/Villa Rica, Willowbrook at Tanner/Villa Rica, Tanner Medical Center/Higgins General Hospital, Tanner Medical Group, Tanner Medical Center/East Alabama and certain Auxiliary activities. All significant intercompany transactions have been eliminated.

Continued

1. Summary of Significant Accounting Policies, Continued

Leases Between Related Entities

Effective July 1, 1988, under a plan of reorganization, the Carroll City-County Hospital Authority which owns and previously operated Tanner Medical Center doing business as Tanner Medical Center/Carrollton and Tanner Medical Center/Villa Rica, leased Tanner Medical Center and its related facilities, along with a transfer of all other assets and liabilities, to Tanner Medical Center, Inc., a non-profit corporation which was created to lease and operate Tanner Medical Center and its related facilities for the benefit of the general public.

The initial term of the lease is for forty (40) years. The lease was amended in 2008 to extend the term of the lease until 2048. Lease payments by Tanner Medical Center, Inc. to the Authority, or to the holder thereof as the Authority may direct, will comprise the debt payment and the note payments affecting the properties.

Upon termination of the lease agreement, Tanner Medical Center, Inc., shall reconvey, retransfer and reassign to the Authority the leased premises, plus its assets as then existing subject to such debt or other liabilities as may be applicable thereto.

Lease and Transfer Agreement with the Hospital Authority of the City of Bremen and County of Haralson, Georgia

During 1998, the Hospital Authority of the City of Bremen and County of Haralson, Georgia entered into a lease and transfer agreement with Tanner Medical Center, Inc. to become effective on October 1, 1998. The purpose and intent of the agreement was to transfer control over all the real property, operating assets, and existing Higgins General Hospital operations to Tanner Medical Center, Inc. from the Authority. The original lease was terminated and a new lease was agreed to during the 2002 fiscal year.

Lease and Transfer Agreement with the Randolph County Health Care Authority

During 2016, the Randolph County Health Care Authority (Authority) entered into a lease and transfer agreement with Tanner Medical Center Alabama, Inc. in which the Authority built a replacement facility for Wedowee Hospital. The replacement facility opened November 14, 2017 as Tanner Medical Center – East Alabama. Accordingly, the results of operations for Tanner Medical Center – East Alabama have been included in the accompanying combined financial statements from that date forward. The purpose and intent of the agreement was to transfer control over all the real property, operating assets, and operations to Tanner Medical Center Alabama, Inc. from the Authority. The primary reason for the agreement is to ensure the long-term availability and accessibility of quality health care to the residents of Randolph

Continued

1. Summary of Significant Accounting Policies, Continued

Lease and Transfer Agreement with the Randolph County Health Care Authority, Continued

County. The lease is 35 years with an option to terminate after the first five. As a result of the lease and transfer agreement, a provisional amount of approximately $19 million in net fixed assets was recognized. There was minimal consideration transferred in the form of nominal rent payments over the term of the lease.

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities 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, the Medical Center 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, the Medical Center analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (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), the Medical Center records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or

Continued

1. Summary of Significant Accounting Policies, Continued

Allowance for Doubtful Accounts, Continued

unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Medical Center's allowance for doubtful accounts for self-pay patients was 97.2% and 98.3% for fiscal years 2018 and 2017, respectively. In addition, the Medical Center's self-pay write-offs increased approximately $17,000,000 from $35,000,000 for fiscal year 2017 to $52,000,000 for fiscal year 2018. The increase was a result of changes to the bad debt policy and collection vendors. The Medical Center updated its charity care and insured discount policies during 2018. The Medical Center does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write-offs from third-party payors.

Inventories

Inventories are stated at current market prices which approximates lower of cost and net realizable value as determined on a first-in, first-out basis.

Assets Limited As to Use

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value on the balance sheet. Investments without a readily determinable fair value are evaluated for the applicability of the cost or equity method. Investments qualifying for the equity method are stated at quoted net asset value of shares held at year end. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in excess of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from excess of revenues over expenses unless the investments are trading securities.

Assets limited as to use primarily include assets held by trustees under indenture agreements, and designated assets set aside by the Board of Directors for future capital improvements and employee benefits, over which the Board retains control and may at its discretion subsequently use for other purposes. Amounts required to meet current liabilities of the Medical Center have been reclassified on the balance sheet at June 30, 2018 and 2017.

Continued

1. Summary of Significant Accounting Policies, Continued

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Approximately $2,684,000 and $2,655,000 in interest was capitalized during fiscal years ended June 30, 2018 and 2017, respectively.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from the excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Goodwill and Intangible Assets

Goodwill and intangible assets with indefinite lives are tested for impairment annually and more frequently in the event of an impairment indicator. Intangible assets with definite lives are amortized over their respective estimated useful lives, and reviewed whenever events or circumstances indicate impairment may exist.

The Medical Center assesses qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, the Medical Center determines it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is required. If the two-step impairment test is determined to be necessary, and in step two the carrying value of a reporting unit's goodwill exceeds its implied fair value, an impairment loss equal to the difference will be recorded.

Continued

1. Summary of Significant Accounting Policies, Continued

Goodwill and Intangible Assets, Continued

As of June 30, 2018 and 2017, the Medical Center had goodwill and intangible assets of approximately $3,636,000, which is subject to the impairment tests prescribed under the authoritative guidance. In accordance with the accounting standard, the Medical Center has elected June 30th as its annual impairment assessment date. The Medical Center completed its annual impairment assessment and concluded that no material goodwill or indefinite lived intangible asset impairment charge was required.

Beneficial Interest in Net Assets of Foundation

The Medical Center accounts for the activities of its related Foundation in accordance with FASB ASC 958-20, *Not-For-Profit Entities, Financially Interrelated Entities*. FASB ASC 958-20 established reporting standards for transactions in which a donor makes a contribution to a not-for-profit organization which accepts the assets on behalf of or transfers these assets to a beneficiary which is specified by the donor. Tanner Medical Foundation, Inc. accepts assets on behalf of Tanner Medical Center, Inc.

Deferred Financing Costs

Costs related to the issuance of long-term debt were deferred and are being amortized to interest expense using the straight-line method over the life of the related debt which approximates the effective interest method. These costs are reported on the combined balance sheets as a direct deduction from the carrying amount of the related debt liability.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Medical Center has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Medical Center in perpetuity.

Excess of Revenues over Expenses

The statement of operations includes excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, 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 purposes of acquiring such assets.)

Continued

1. Summary of Significant Accounting Policies, Continued

Net Patient Service Revenue

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center 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 Medical Center 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 Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Endowments

Endowments are provided to the Medical Center on a voluntary basis by individuals and private organizations. Permanent endowments require that the principal or purchasing power of the endowment be retained in perpetuity. If a donor has not provided specific instructions, state law permits the Medical Center's Board of Directors to authorize for expenditure the net appreciation of the investments of endowment funds.

Donor Restricted Gifts

Unconditional promises to give cash and other assets to the Medical Center are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of operations as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying combined financial statements.

Continued

1. Summary of Significant Accounting Policies, Continued

Estimated Malpractice and Other Self-Insurance Costs

The provisions for estimated medical malpractice claims and other claims under self-insurance plans include estimates of the ultimate costs for both reported claims and claims incurred, but not reported.

Income Taxes

The Medical Center is a not-for-profit corporation that has been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code.

The Medical Center 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 Medical Center 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.

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 and 2017 or for the years then ended. The Medical Center'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.

Tanner Medical Group is part of a tax-exempt organization pursuant to Section 501(c)(3) of the Internal Revenue Code. The affiliated business services provided are, however, subject to unrelated business income taxes and a Form 990-T, Exempt Organization Business Income Tax Return is filed for these services.

Continued

1. Summary of Significant Accounting Policies, Continued

Impairment of Long-Lived Assets

The Medical Center 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. An impairment loss is required to be recognized if the carrying value of the asset exceeds the undiscounted future net cash flows associated with that asset. The impairment loss to be recognized is the amount by which the carrying value of the long-lived asset exceeds the asset's fair value. In most instances, the fair value is determined by discounted estimated future cash flows using an appropriate interest rate. The Medical Center has not recorded any impairment charges in the accompanying combined statements of operations and changes in net assets for the years ended June 30, 2018 and 2017.

Fair Value Measurements

FASB ASC 820, *Fair Value Measurement and Disclosures* defines fair value as the amount that would be received for an asset or paid to transfer a liability (i.e., an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC 820 also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. FASB ASC 820 describes the following three levels of inputs that may be used:

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

- *Level 2:* Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.

- *Level 3:* Unobservable inputs when there is little or no market data available, thereby requiring an entity to develop its own assumptions. The fair value hierarchy gives the lowest priority to Level 3 inputs.

Prior Year Reclassifications

Certain reclassifications have been made to the fiscal year 2017 combined financial statements to conform to the fiscal year 2018 presentation. These reclassifications had no impact on the change in net assets in the accompanying combined financial statements.

Continued

1. Summary of Significant Accounting Policies, Continued

Accounting Pronouncements Not Yet Adopted

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which is a new comprehensive revenue recognition standard. The new guidance, including subsequent amendments, is effective for the Medical Center as of July 1, 2018. The Medical Center is continuing to evaluate the impact the guidance will have on the financial statements.

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. The Medical Center 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, the Medical Center has evaluated events and transactions for potential recognition or disclosure through January 7, 2019, the date the combined financial statements were issued.

2. Net Patient Service Revenue

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

Revenue from the Medicare and Medicaid programs accounted for approximately 26% and 8%, respectively, of the Medical Center's net patient revenue for the year ended 2018 and 29% and 7%, respectively of the Medical Center's net patient revenue for the year ended 2017. 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. Estimated reimbursement amounts are adjusted in subsequent periods as final settlements are determined.

Continued

2. Net Patient Service Revenue, Continued

The Medical Center 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 the 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.

  Inpatient psychiatric services rendered to Medicare program beneficiaries are paid at prospectively determined per diems.

  The Medical Center is reimbursed for certain reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicare Administrative Contractor (MAC). The Medical Center'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 Medical Center. The Medical Center's Medicare cost reports have been audited by the MAC through June 30, 2015.

- Medicaid (Georgia Facilities)

  Inpatient acute care services rendered to Medicaid program beneficiaries are paid at a prospectively determined rate per admission. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Outpatient services rendered to the Medicaid program beneficiaries are reimbursed under a cost

2. Net Patient Service Revenue, Continued

- Medicaid (Georgia Facilities), Continued

reimbursement methodology. The Medical Center is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicaid fiscal intermediary. The Medical Center's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through June 30, 2015.

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

During 2010, the state of Georgia enacted legislation known as the Provider Payment Agreement Act (Act) whereby hospitals in the state of Georgia are assessed a "provider payment" in the amount of 1.45% of their net patient revenue. The Act became effective July 1, 2010, the beginning of state fiscal year 2011. The provider payments are due on a quarterly basis to the Department of Community Health. The payments are to be used for the sole purpose of obtaining federal financial participation for medical assistance payments to providers on behalf of Medicaid recipients. The provider payment will result in an increase in hospital payments on Medicaid services of approximately 11.88%. Approximately $5,017,000 and $4,306,000 relating to the Act is included in other expenses in the accompanying statement of operations for the years ended June 30, 2018 and 2017, respectively.

- Medicaid (Alabama Facility)

Inpatient services rendered to Medicaid program beneficiaries are reimbursed at an all-inclusive per diem rate based on date of adjudication in a given state fiscal year plus an Upper Payment Limit payment. Outpatient services are paid based upon a fee schedule.

- Blue Cross (Alabama Facility)

Inpatient services rendered to Blue Cross subscribers are paid at prospectively determined per diems. Outpatient services are paid on an enhanced ambulatory patient group (EAPG) methodology. Under this methodology, the Medical Center is reimbursed at prospectively determined rates per service.

Continued

2. Net Patient Service Revenue, Continued

- Other Arrangements

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

- Uninsured Patients

  The Medical Center has 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, 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 the Medical Center for medically necessary care by Medicare and private health insurers during a 12-month look-back period.

The Medical Center recognizes patient service revenue associated with services provided to patients with third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for community financial aid, the Medical Center recognizes revenue on the basis of its discounted rates for services provided. On the basis of historical experience, a significant portion of the Medical Center's uninsured patients are unable or unwilling to pay for the services provided. Thus, the Medical Center records a significant provision for uncollectible accounts 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), recognized during the years ended June 30, 2018 and 2017 from these major payor sources is as follows:

	Patient Service Revenue (Net of Contractual Allowances and Discounts)				
	Medicare	Medicaid	Third-Party Payors	Self-Pay	Total All Payors
2018	$ 123,096,474	$ 38,108,033	$ 360,609,128	$ 58,330,893	$ 580,144,528
2017	$ 128,420,547	$ 30,214,665	$ 325,023,284	$ 47,238,977	$ 530,897,473

Continued

3. Uncompensated Services

The Medical Center was compensated for services at amounts less than its established rates. Charges for uncompensated services for June 30, 2018 and 2017 were $933,444,722 and $856,812,900, respectively.

Uncompensated care includes charity and indigent care services of $30,928,291 and $27,901,540 in June 30, 2018 and 2017, respectively. The cost of charity and indigent care services provided during June 30, 2018 and 2017 was $10,161,907 and $9,051,306, respectively computed by applying total cost factor to the charges forgone.

The following is a summary of uncompensated services and a reconciliation of gross patient charges to net patient service revenue for June 30, 2018 and 2017:

	2018	2017
Gross patient charges	$ 1,440,830,107	$ 1,330,331,992
Uncompensated services:		
Charity and indigent care	30,928,291	27,901,540
Medicare	448,365,411	406,256,350
Medicaid	143,860,588	138,925,093
Other allowances	237,531,289	226,351,536
Bad debts	72,759,143	57,378,381
Total uncompensated care	933,444,722	856,812,900
Net patient service revenue	$ 507,385,385	$ 473,519,092

Continued

4. Assets Limited as to Use

The composition of assets limited as to use at June 30, 2018 and 2017, is set forth in the following table. Investments are stated at fair value and are classified as trading securities.

	2018	2017
Internally designated for capital acquisition:		
Cash and cash equivalents	$ 5,122,126	$ 2,403,919
Mutual funds – equity	39,403,362	38,055,373
Mutual funds – international	57,111,362	64,283,488
Stocks and options	42,739,873	37,445,912
U.S. corporate bonds	42,477,708	35,965,247
Federal agency bonds	36,734,205	14,839,821
Municipal bonds	4,600,923	3,700,055
Alternative mutual funds	51,487,515	48,869,842
Alternative investments-limited partnership	1,112,403	1,199,756
	280,789,477	246,763,413
Internally designated for employee benefits:		
Cash and cash equivalents	1,443,145	819,120
Mutual funds – equity	-	387,578
Stocks and options	-	1,031,169
U.S. corporate bonds	-	143,594
	1,443,145	2,381,461
Held by trustee under indenture:		
Cash and cash equivalents	46,994,705	72,078,870
Total assets limited as to use	329,227,327	321,223,744
Less current portion	7,638,004	7,870,543
	$ 321,589,323	$ 313,353,201

Continued

4. Assets Limited as to Use, Continued

Alternative investments are those investments for which a readily determinable fair value does not exist (that is, they are not listed on national exchanges or over-the-counter markets, nor are quoted market prices available from sources such as financial publications, the exchanges, or the National Association of Securities Dealers Quotations System). The underlying assets in these alternative investments can range from marketable securities to complex and/or nonliquid investments.

The primary vehicles related to alternative investments are fund of fund structures. A fund of hedge funds is an investment vehicle whose portfolio consists of shares in a number of hedge funds. The fund of funds – which may also be called a collective investment or a multi-manager investment – simply holds a portfolio of other investment funds instead of investing directly in securities such as stocks, bonds, commodities or derivatives.

Funds of hedge funds simply follow this strategy by constructing a portfolio of other hedge funds. How the underlying hedge funds are chosen can vary. A fund of hedge funds may invest only in hedge funds using a particular management strategy. Or, a fund of hedge funds may invest in hedge funds using many different strategies in an attempt to gain exposure to all of them. The benefit of owning any fund of fund is experienced management and diversification.

The fair values of alternative investments have been estimated using the net asset value per share of the investments. These securities have no unfunded commitments and offer monthly to quarterly liquidity with a 10 to 95 day notice period.

Corporate Bonds, Municipal Bonds, Federal Agency Bonds: The unrealized losses on the Medical Center's investment in bonds relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition.

Stocks and Options, Mutual Funds, Alternative Investments: The Medical Center's investments in stocks and options, mutual funds, and alternative investments consist primarily of investments in common stock.

The Medical Center's investments are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying combined financial statements.

Continued

4. Assets Limited as to Use, Continued

Investment income and gains and losses for assets limited as to use and cash and cash equivalents are comprised of the following for the years ending June 30, 2018 and 2017:

	2018	2017
Income (loss):		
Interest and dividends	$ 9,014,696	$ 5,845,787
Realized gains on sales of securities	10,691,147	5,013,585
Unrealized gain (losses) on investments	(2,517,262)	12,777,807
Total	$ 17,188,581	$ 23,637,179

5. Property and Equipment

A summary of property and equipment at June 30, 2018 and 2017 follows:

	2018	2017
Land	$ 24,782,366	$ 23,688,699
Land improvements	9,008,446	5,651,323
Buildings	331,229,834	280,425,538
Equipment	194,148,840	185,826,459
Equipment under capital lease obligations	100,000	100,000
	559,269,486	495,692,019
Less accumulated depreciation	288,155,900	262,372,351
	271,113,586	233,319,668
Construction in process	50,607,283	24,109,760
Property and equipment, net	$ 321,720,869	$ 257,429,428

See Note 1 for details of land and buildings under capital lease obligations. Depreciation expense for the years ended June 30, 2018 and 2017 amounted to approximately $35,263,000 and $31,667,000, respectively. Accumulated depreciation for equipment under capital lease obligations was $47,917 and $45,417 at June 30, 2018 and 2017, respectively. Construction contracts exist for various projects at year end with a total commitment of approximately $80,088,000. At June 30, 2018, the remaining commitment on these contracts approximated $29,770,000.

Continued

6. Physician Notes Receivable

Physician notes receivable consist primarily of loans secured by promissory notes to physicians under recruiting arrangements. In general, the loans are being forgiven over a period of time in which the physician practices medicine within the healthcare system of the Medical Center. If the physician discontinues medical practice, the outstanding principal and accrued interest becomes due immediately. The amounts forgiven and charged to expense during 2018 and 2017 were approximately $656,000 and $998,000, respectively.

Physician notes receivable also consist of educational loans to employees. In general, the educational loans are forgiven over a period of time in which the employee works for the Medical Center.

7. Deferred Financing Costs

Bond issue costs and loan origination fees are amortized over the life of the debt instrument. Amortization expense for the years ended June 30, 2018 and 2017 amounted to approximately $165,000 and $241,000, respectively.

8. Goodwill and Intangible Assets

A summary of goodwill and intangible assets at June 30, 2018 and 2017 follows:

	2018	2017
Goodwill and intangible assets	$ 3,636,000	$ 3,636,000

The goodwill and intangible assets are related to the Medical Center's purchase of a multiple sclerosis infusion therapy business. The goodwill and intangible assets are evaluated annually for impairment.

Continued

8. Goodwill and Intangible Assets, Continued

The changes in the carrying amount of goodwill and intangible assets for the years ended June 30, 2018 and 2017 follows:

	2018	2017
Balance at beginning of year:		
Goodwill and intangible assets	$ 8,168,332	$ 8,168,332
Accumulated amortization and impairment losses	(4,532,332)	(4,461,217)
	3,636,000	3,707,115
Goodwill and intangible assets acquired during the year	-	-
Amortization and impairment losses	-	(71,115)
	-	(71,115)
Balance at end of year:		
Goodwill and intangible assets	8,168,332	8,168,332
Accumulated amortization and impairment losses	(4,532,332)	(4,532,332)
	$ 3,636,000	$ 3,636,000

9. Long-Term Debt

A summary of long-term debt for the years ended June 30, 2018 and 2017 follows:

	2018	2017
Revenue Certificates, Series 2008, bearing interest of 4.00%, maturing in installments of $795,000 each July 1 until 2018. The certificates are collateralized by a pledge of the Tanner Medical Center's gross receipts.	$ 795,000	$ 1,560,000
Revenue Certificates, Series 2010, bearing interest of 3.25% to 5.00%, maturing in installments of $1,480,000 to $3,415,000 each July 1 until 2028. The certificates are collateralized by a pledge of the Tanner Medical Center's gross receipts.	22,165,000	25,415,000

Continued

9. Long-Term Debt, Continued

	2018	2017
Revenue Certificates, Series 2015, bearing interest of 3.00% to 5.00%, maturing in installments of $1,415,000 to $4,450,000 each July 1 until 2045. The certificates are collateralized by a pledge of the Tanner Medical Center's gross receipts.	$ 71,560,000	$ 71,560,000
Revenue Certificates, Series 2016, bearing interest of 3.00% to 5.00%, maturing in installments of $845,000 to $1,845,000 each July 1 until 2038. The certificates are collateralized by a pledge of the Medical Center's gross receipts.	26,150,000	26,150,000
Revenue Certificates, Series 2016B, bearing interest of 2.00% to 5.00%, maturing in installments of $80,000 to $2,545,000 each July 1 until 2040. The certificates are collateralized by a pledge of the Medical Center's gross receipts.	36,450,000	36,855,000
Note payable, bearing a variable rate of interest, maturing in monthly installments of $333,333 until October 2020. The note is collateralized.	8,466,667	-
	165,586,667	161,540,000
Less current portion	8,290,000	4,420,000
	157,296,667	157,120,000
Plus net unamortized premium and bond issuance costs	9,613,928	10,161,712
Total	$ 166,910,595	$ 167,281,712

The long-term debt relates to the Revenue Anticipation Certificates, Series 2008, 2010, 2015, 2016 and 2016B, issued by the Carroll City-County Hospital Authority (Authority). The lease agreement states that the payments required under the Trust Indenture and the Certificates shall be made by Tanner Medical Center, Inc., as rent.

Continued

9. Long-Term Debt, Continued

Series 2008 Revenue Certificates were issued by the Authority for the purpose of funding the construction of a new 58,858 square foot, one-story, patient care addition to the Tanner Medical Center – Villa Rica facility and the construction, renovation and equipping of a portion of the existing Tanner Medical Center – Carrollton facility relating to certain cardiovascular services. On March 1, 2016, the 2008 Series were partially defeased with proceeds from the 2016 Series. Under the terms of an escrow agreement, amounts received have been deposited into an irrevocable trust and invested in general obligations of the United States in order to redeem the remaining 2008 Series Certificates on July 1, 2018. The difference between the reacquisition price and the net carrying amount, $3,163,098, was recognized as a loss on defeasance on Tanner Medical Center's statement of operations as other income (loss) in 2016. The outstanding balance on the defeased 2008 Series as of June 30, 2018 is $26,225,000.

Series 2010 Revenue Certificates were issued by the Authority in August 2010 for the purpose of (a) financing the cost of the acquisition, construction, renovation, equipping, and installation of certain additions, extensions and improvements to the Tanner Medical Center, (b) refunding all of the Authority's then outstanding Revenue Anticipation Certificates Series 1998A, and (c) refunding all of the Authority's then outstanding Revenue Anticipation Certificates Series 2001. On September 26, 2016, the 2010 Series were partially defeased with proceeds from the 2016B Series. Under the terms of an escrow agreement, amounts received have been deposited into an irrevocable trust and invested in general obligations of the United States in order to redeem the remaining 2010 Series Certificates on July 1, 2030. The difference between the reacquisition price and the net carrying amount, $3,494,186, was recognized as a loss on defeasance on Tanner Medical Center's statement of operations as other income (loss) in 2017. The outstanding balance on the defeased 2010 Series as of June 30, 2018 is $37,548,000.

On July 1, 2015, the Authority issued $71,560,000 of Series 2015 Revenue Anticipation Certificates for the benefit of Tanner Medical Center, Inc. A portion of the proceeds of the Series 2015 Certificates will be used to finance or refinance the cost of the acquisition, construction, renovation, equipping and installation of (a) certain additions, extensions and improvements to the Tanner Medical Center/Carrollton, including facility improvements, central energy plan improvements, and furnishings (b) new health pavilion facilities and furnishings, and (c) certain real estate (collectively, the "Project"). Tanner Medical Center, Inc. has received or applied for all required certificate of need approvals relating to the Project and will make payments on behalf of the Authority as they become due.

Continued

9. Long-Term Debt, Continued

On March 1, 2016, the Authority issued $26,255,000 of Series 2016 Revenue Anticipation Certificates for the purpose of refunding the outstanding 2008 Series, maturing in the year 2019 and thereafter.

On September 26, 2016, the Authority issued $36,855,000 of Series 2016B Revenue Anticipation Certificates for the purpose of refunding a portion of the Series 2010 Certificates, maturing in the year 2021 and thereafter.

On September 15, 2017, Tanner Medical Center, Inc. entered into a promissory note with United Community Bank for $12,000,000 for the purpose of obtaining working capital. Payments are due monthly, with a maturity date of October 1, 2020.

Under the terms of the Revenue Note Indenture, the Authority is required to maintain certain deposits with a trustee. Such deposits are included with assets limited as to use in the balance sheet of Tanner Medical Center, Inc. The Revenue Note Indenture also places limits on the incurrence of additional borrowings and requires that Tanner Medical Center, Inc. satisfy certain measures of financial performance as long as notes are outstanding.

Should Tanner Medical Center, Inc. not be able to make payments on any Series of certificates, Carroll County has agreed to levy annually an ad valorem tax sufficient to enable the Authority to meet the obligations under the respective terms.

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

	Long-Term Debt
2019	$ 8,290,000
2020	8,680,000
2021	5,361,667
2022	5,105,000
2023	5,355,000
Thereafter	132,795,000
Total	$ 165,586,667

Continued

10. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30, 2018 and 2017:

	2018	2017
Adams Park Fund	$ 400,000	$ -
Auxiliary General Fund	199,810	222,638
Cancer Patient Assistance Fund	256,404	262,901
Roy Richards, Sr. Cancer Center Fund	463,961	423,564
Employee Humanitarian Assistance Fund	659,950	622,396
Frank and Libby Thomasson Fund	224,810	224,810
Heart Center Fund	343,815	51,165
Indigent Care Fund	258,420	227,325
Magnolia Ball Fund	499,372	469,240
James and Jeraldine Tanner Fund	579,154	579,154
Tanner Hospice Care	1,203,405	1,159,988
TMC/Villa Rica General Fund	153,586	139,970
Other	2,402,394	2,037,238
Total	$ 7,645,081	$ 6,420,389

Permanently restricted net assets at June 30, 2018 and 2017, are restricted to:

	2018	2017
Bowdon Clinic Endowment Fund	$ 450,990	$ 450,990
Roy Richards, Sr. Endowment for Cancer Care	750,000	750,000
Gilreath Endowment for Cancer Care	348,511	348,511
Sally and Francis Tanner NICU Endowment Fund	1,204,291	-
Other permanently restricted	367,938	267,771
Total	$ 3,121,730	$ 1,817,272

Continued

10. Temporarily and Permanently Restricted Net Assets

Endowment Fund

Tanner Medical Foundation's donor-restricted endowment funds were established to support health care services. As required by generally accepted accounting principles, net assets associated with the endowment fund are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of Tanner Medical Foundation has interpreted the Georgia Uniform Prudent Management of Institutional Funds Act (GUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of its gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by GUPMIFA. In accordance with GUPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Foundation, and (7) the Foundation's investment policies.

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets over the long-term. Endowment assets include assets of donor-restricted funds that the Foundation must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce positive results while assuming a moderate level of investment risk. Investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk. The asset mix guidelines have a target of 60% equities, 15% alternative investments and 25% fixed income. The Foundation's current spending policy is to distribute an amount equal to the total investment return which is expendable to support health care services.

Continued

11. Defined Contribution Plan

The Medical Center has a 401(k) defined contribution plan and a 403(b) defined contribution plan. The 401(k) plan covers substantially all employees 18 years of age or older. Prior to January 1, 2017, employees were also required to complete 30 days of service. Employees are 100% vested in employee contributions and become 100% vested in employer contributions after three years of vesting service. Prior to January 1, 2017, the 403(b) plan covered substantially all employees. Employees were 100% vested in employee contributions. Effective January 1, 2017, the 403(b) plan was frozen.

Prior to January 1, 2017, the Medical Center, at its sole discretion, had agreed to match up to 5% of employee contributions in the 401(k) plan. Effective January 1, 2017, the plan was restated to match 4% of employee contributions at 100% and 50% of the next 2% of employee contributions in the 401(k) plan. The Medical Center's contributions to the plan were approximately $8,521,000 and $7,632,000 for the years ended June 30, 2018 and 2017, respectively.

12. Concentrations of Credit Risk

The Medical Center is located in West Georgia and East Alabama. The Medical Center 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 is:

	2018	2017
Medicare	34%	39%
Medicaid	12%	11%
Third-party payors	39%	37%
Patients	15%	13%
Total	100%	100%

At June 30, 2018, the Medical Center had deposits at major financial institutions which exceeded Federal Depository Insurance limits. Management believes the credit risks related to these deposits is minimal.

Continued

13. Contingencies

Compliance Plan

The healthcare industry has recently been subjected to increased scrutiny from governmental agencies at both the national and state level with respect to compliance with regulations. Areas of noncompliance identified at the national level include Medicare and Medicaid, Internal Revenue Service, and other regulations governing the healthcare industry. In addition, the Reform Legislation includes provisions aimed at reducing fraud, waste, and abuse in the healthcare industry. These provisions allocate significant additional resources to federal enforcement agencies and expand the use of private contractors to recover potentially inappropriate Medicare and Medicaid payments. The Medical Center has implemented a compliance plan focusing on such issues. There can be no assurance that the Medical Center will not be subjected to future investigations with accompanying monetary damages.

Litigation

The Medical Center is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Medical Center’s future financial position or results from operations. See malpractice insurance disclosures in Note 15.

Health Care Reform

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

14. Employee Health and Workers’ Compensation Insurance

Tanner Medical Center, Inc. is self-insured for its employee group health and workers’ compensation insurance. The Medical Center has estimated and recorded accruals for claims incurred but not reported or paid prior to the fiscal year end. The Medical Center has reinsurance with insurance companies in which the premiums are included as expense and reinsurance recoveries offset expense. Under these self-insurance programs, the Medical Center paid or accrued approximately $22,718,000 and $24,013,000 during fiscal years ended June 30, 2018 and 2017, respectively.

Continued

15. Malpractice Insurance

The Medical Center is covered by a claims-made general and professional liability insurance policy with a specified deductible per incident and excess coverage on a claims-made basis. The self-insured retention related to this policy in 2018 and 2017 is $100,000 per claim and $400,000 in aggregate. Liability limits related to this policy in 2018 and 2017 are $1 million per occurrence and $3 million in aggregate. The Medical Center uses a third-party administrator to review and analyze incidents that may result in a claim against the Medical Center. In conjunction with the third-party administrator, incidents are assigned reserve amounts for the ultimate liability that may result from an asserted claim. The Medical Center also uses independent actuaries to estimate the ultimate costs, if any, of the settlement of such claims.

Various claims and assertions have been made against the Medical Center 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.

Obligations covered by reinsurance contracts are included in the reserves for professional liability risks, as the Medical Center remains liable to the extent the reinsurers do not meet their obligations under the reinsurance contracts. The amounts recoverable under the reinsurance contracts include approximately $2,079,000 at June 30, 2018 and 2017, recorded in other current assets on the balance sheet.

16. Functional Expenses

The Medical Center provides general health care services to residents within its geographic location. Expenses related to providing these services are as follows:

	2018	2017
Health care services	$ 378,663,998	$ 342,094,933
Management and general	94,740,159	89,466,957
Total	$ 473,404,157	$ 431,561,890

Continued

17. Fair Values of Financial Instruments

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

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

- *Assets limited as to use:* Amounts reported in the balance sheet are at fair value. See Note 18 for fair value measurement disclosures.

- *Long-term debt:* The fair value of the Medical Center's debt is estimated using discounted cash flow analyses, based on the Medical Center's current incremental borrowing rates for similar types of borrowing arrangements. Based on inputs used in determining the estimated fair value, the Medical Center's debt would be classified as Level 2 in the fair value hierarchy.

The carrying amounts and fair values of the Medical Center's long-term debt at June 30, 2018 and 2017 are as follows:

	June 30, 2018		June 30, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	$ 176,692,332	$ 174,219,514	$ 173,184,598	$ 174,217,225

Continued

18. Fair Value Measurement

Fair values of assets measured on a recurring basis at June 30, 2018 and 2017 are as follows:

		Fair Value Measurements at Reporting Date Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2018				
Assets:				
Cash and cash equivalents	$ 53,559,976	$ 53,559,976	$ -	$ -
Mutual funds – equity	39,403,362	39,403,362	-	-
Mutual funds – international	57,111,362	57,111,362	-	-
Stocks and options	42,739,873	42,739,873	-	-
U.S. corporate bonds	42,477,708	39,827,937	2,649,771	-
Federal agency bonds	36,734,205	36,734,205	-	-
Municipal bonds	4,600,923	2,189,142	2,411,781	-
Alternative mutual funds	51,487,515	51,487,515	-	-
Total assets in fair value hierarchy	328,114,924	$ 323,053,372	$ 5,061,552	$ -
Investments measured at net asset value	1,112,403			
Total assets at fair value	$ 329,227,327			

Continued

18. Fair Value Measurement, Continued

		Fair Value Measurements at Reporting Date Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2017				
Assets:				
Cash and cash equivalents	$ 75,301,909	$ 75,301,909	$ -	$ -
Mutual funds – equity	38,442,951	38,442,951	-	-
Mutual funds – international	64,283,488	64,283,488	-	-
Stocks and options	38,477,081	38,477,081	-	-
U.S. corporate bonds	36,108,841	36,108,841	-	-
Federal agency bonds	14,839,821	14,839,821	-	-
Municipal bonds	3,700,055	3,700,055	-	-
Alternative mutual funds	48,869,842	48,869,842	-	-
Total assets in fair value hierarchy	320,023,988	$ 320,023,988	$ -	$ -
Investments measured at net asset value	1,199,756			
Total assets at fair value	$ 321,223,744			

Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets valued using Level 2 inputs are based primarily on quoted prices for similar investments in active or inactive markets. Financial assets using Level 2 inputs were primarily valued using pricing models maximizing the use of observable inputs for similar securities. Valuation techniques utilized to determine fair value are consistently applied.

All assets and liabilities have been valued using a market approach.

Continued

19. Indigent Care Trust Fund

The Medical Center qualified as a Medicaid disproportionate share medical center for the years ended June 30, 2018 and 2017. By qualifying, the Medical Center received approximately $4,334,000 and $4,106,000 in payment adjustments in 2018 and 2017, respectively. All of these payments are reflected in net patient service revenue.

20. Medicaid Upper Payment Limit

The Medicare, Medicaid, and SCHIP Benefits Improvement and Protection Act of 2000 (BIPA) provide for enhanced payments to Medicaid providers under the Upper Payment Limit (UPL) methodology. Subsequent to the implementation of the UPL methodology, federal budget concerns have led to reconsideration of the BIPA legislation with possible elimination of enhanced Medicaid payments. Legislation has been enacted to reduce the level of UPL payments in future periods. The 2018 and 2017 financial statements include enhanced payments of approximately $4,137,000 and $1,493,000, respectively.

21. Related Organization

Tanner Medical Foundation, Inc. (Foundation) was established to raise funds to support the operation of the Medical Center. The Foundation's bylaws provide that all funds raised, except for funds acquired for the operation of the Foundation, be distributed to or be held for the benefit of the Medical Center. The Foundation's general funds, which represent the Foundation's unrestricted resources, are distributed to the Medical Center in amounts and in periods determined by the Foundation's Board of Directors, who may also restrict the use of general funds for hospital plant replacement or expansion or other specific purposes. A summary of the Foundation's assets, liabilities, net assets, results of operations, and changes in net assets follows. The Medical Center's interest in the net assets of the Foundation is reported as a noncurrent asset in the balance sheets.

	June 30,	
	2018	2017
Assets:		
Cash and cash equivalents	$ 3,546,072	$ 2,713,921
Unconditional promises to give	290,000	-
Investments	8,957,686	6,896,449
Other assets	5,556	5,059
Total assets	$ 12,799,314	$ 9,615,429

Continued

21. Related Organization, Continued

	June 30, 2018	June 30, 2017
Liabilities and net assets:		
Accounts payable	$ 4,399	$ 4,981
Other liabilities	41,324	33,889
Total liabilities	45,723	38,870
Net assets	12,753,591	9,576,559
Total liabilities and net assets	$ 12,799,314	$ 9,615,429
Revenue	$ 4,575,024	$ 3,230,621
Expenses	1,397,992	1,917,463
Excess of revenue over expenses	3,177,032	1,313,158
Net assets, beginning of year	9,576,559	8,263,401
Net assets, end of year	$ 12,753,591	$ 9,576,559

ADDITIONAL INFORMATION

Draffin & Tucker, LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON
COMBINING AND SUPPLEMENTARY INFORMATION

The Board of Directors
Tanner Medical Center, Inc.
Carrollton, Georgia

We have audited the combined financial statements of Tanner Medical Center, Inc. as of and for the years ended June 30, 2018 and 2017, and our report thereon dated January 7, 2019, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The combining information on pages 46 through 51 is presented for purposes of additional analysis of the combined financial statements rather than to present the financial position, and results of operations of the individual companies, and it is not a required part of the combined financial statements. Accordingly, we do not express an opinion on the financial position, and results of operations of the individual companies.

The combining information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. Such information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combined information on pages 46 through 51 is fairly stated in all material respects in relation to the combined financial statements as a whole.

Continued

P.O. Box 71309
2617 Gillionville Road
Albany, GA 31708-1309
Tel. (229) 883-7878
Fax (229) 435-3152

Five Concourse Parkway
Suite 1250
Atlanta, GA 30328
Tel. (404) 220-8494
Fax (229) 435-3152

The statistical data on pages 44 and 45, which is the responsibility of management, also is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the combined financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Draffin & Tucker, LLP

Albany, Georgia
January 7, 2019

TANNER MEDICAL CENTER, INC.

STATISTICAL DATA
for the years ended June 30, 2018 and 2017

	(Unaudited) 2018	(Unaudited) 2017
Inpatient days:		
Medical/surgical days	49,209	42,378
Behavioral health	26,312	26,099
Skilled nursing	4,322	5,382
Total inpatient days	79,843	73,859
Average daily inpatient census	219	202
Adjusted average daily census	639	593
Admissions:		
Medical/surgical	11,967	11,050
Behavioral health	4,371	4,308
Skilled nursing	358	442
Total admissions	16,696	15,800
Admissions by payor:		
Medicare – routine	6,832	6,384
Medicare – behavioral health	555	574
Medicaid	4,595	4,308
Other	4,714	4,534
Total admissions by payor	16,696	15,800
Average length of stay	4.8	4.7
Patient days by payor:		
Medicare – routine	35,294	31,229
Medicare – behavioral	4,478	4,754
Medicaid	19,581	17,977
Other	20,490	19,899
Total patient days by payor	79,843	73,859

Continued

STATISTICAL DATA, Continued
for the years ended June 30, 2018 and 2017

	(Unaudited) 2018	(Unaudited) 2017
Deliveries	1,717	1,633
Surgery cases	9,836	9,856
Emergency room visits	123,304	118,078
Outpatient visits	318,870	310,752
Tanner Medical Group visits	340,963	372,932
Adjusted patient days	233,044	216,991

See accompanying auditor's report on supplemental information.

TANNER MEDICAL CENTER, INC.

COMBINING BALANCE SHEETS
June 30, 2018

	Tanner Medical Center/Carrollton	Tanner Medical Center/ Villa Rica	Tanner Medical Center/Higgins General Hospital	Tanner Medical Group	Georgia Facilities	Tanner East Alabama	Medical Center Subtotal	Foundation, Auxiliary and Net EJE's	Balance At June 30, 2018
ASSETS									
Current assets:									
Cash and cash equivalents	$ 104,721,701	$ 22,337	$ 148,028	$ 9,864,686	$ 114,756,752	$ 2,201,795	$ 116,958,547	$ 180,175	$ 117,138,722
Due from related parties	-	154,625,387	33,930,981	-	188,556,368	-	188,556,368	(188,556,368)	-
Assets limited as to use – current portion	7,638,004	-	-	-	7,638,004	-	7,638,004	-	7,638,004
Patient accounts receivable, net	32,647,909	17,281,268	3,870,724	2,797,176	56,597,077	778,423	57,375,500	-	57,375,500
Supplies, at lower of cost and net realizable value	4,706,852	2,065,831	500,268	287,727	7,560,678	120,609	7,681,287	37,806	7,719,093
Estimated third-party payor settlements		-	-	24,098	24,098	-	24,098	-	24,098
Other current assets	12,553,153	1,656,678	183,578	150,339	14,543,748	663,755	15,207,503	4,919	15,212,422
Total current assets	162,267,619	175,651,501	38,633,579	13,124,026	389,676,725	3,764,582	393,441,307	(188,333,468)	205,107,839
Assets limited as to use:									
Internally designated	282,232,622	-	-	-	282,232,622	-	282,232,622	-	282,232,622
Held by trustee under indenture	46,994,705	-	-	-	46,994,705	-	46,994,705	-	46,994,705
Assets limited as to use – current portion	(7,638,004)	-	-	-	(7,638,004)	-	(7,638,004)	-	(7,638,004)
Noncurrent assets limited as to use	321,589,323	-	-	-	321,589,323	-	321,589,323	-	321,589,323
Property and equipment, net	182,187,362	67,610,372	22,303,297	25,603,667	297,704,698	24,016,171	321,720,869	-	321,720,869
Interest in net assets of Tanner Medical Foundation, Inc.	-	-	-	-	-	-	-	12,753,591	12,753,591
Other assets:									
Physician notes receivable and other	5,596,366	-	-	-	5,596,366	-	5,596,366	-	5,596,366
Goodwill and intangible assets	-	3,636,000	-	-	3,636,000	-	3,636,000	-	3,636,000
Total other assets	5,596,366	3,636,000	-	-	9,232,366	-	9,232,366	-	9,232,366
Total assets	$ 671,640,670	$ 246,897,873	$ 60,936,876	$ 38,727,693	$ 1,018,203,112	$ 27,780,753	$ 1,045,983,865	$(175,579,877)	$ 870,403,988

See accompanying auditor's report on supplementary information.

TANNER MEDICAL CENTER, INC.

COMBINING BALANCE SHEETS
June 30, 2018

	Tanner Medical Center/Carrollton	Tanner Medical Center/ Villa Rica	Tanner Medical Center/Higgins General Hospital	Tanner Medical Group	Georgia Facilities	Tanner East Alabama	Medical Center Subtotal	Foundation, Auxiliary and Net EJE's	Balance At June 30, 2018
LIABILITIES AND NET ASSETS									
Current liabilities:									
Current portion of long-term debt	$ 8,290,000	$ -	$ -	$ -	$ 8,290,000	$ -	$ 8,290,000	$ -	$ 8,290,000
Due to related parties	(18,686,829)	-	-	201,271,835	182,585,006	5,979,417	188,564,423	(188,564,423)	-
Accounts payable	12,862,604	4,194,106	737,396	762,258	18,556,364	759,011	19,315,375	29,944	19,345,319
Accrued salaries	17,757,703	1,845,391	1,009,433	1,301,029	21,913,556	125,912	22,039,468	-	22,039,468
Other accrued expenses	10,293,990	201,233	-	-	10,495,223	6,535	10,501,758	-	10,501,758
Estimated third-party payor settlements	2,127,831	1,543,461	306,360	-	3,977,652	40,731	4,018,383	-	4,018,383
Total current liabilities	32,645,299	7,784,191	2,053,189	203,335,122	245,817,801	6,911,606	252,729,407	(188,534,479)	64,194,928
Long-term debt, net of current portion:									
Notes and leases payable	4,466,667	-	-	-	4,466,667		4,466,667		4,466,667
Revenue certificates payable	162,443,928	-	-	-	162,443,928	-	162,443,928	-	162,443,928
Total long-term debt, net of current portion	166,910,595	-	-	-	166,910,595	-	166,910,595	-	166,910,595
Total liabilities	199,555,894	7,784,191	2,053,189	203,335,122	412,728,396	6,911,606	419,640,002	(188,534,479)	231,105,523
Net assets:									
Unrestricted	472,084,776	239,113,682	58,883,687	(164,607,429)	605,474,716	20,869,147	626,343,863	2,187,791	628,531,654
Temporarily restricted	-	-	-	-	-	-	-	7,645,081	7,645,081
Permanently restricted	-	-	-	-	-	-	-	3,121,730	3,121,730
Total net assets	472,084,776	239,113,682	58,883,687	(164,607,429)	605,474,716	20,869,147	626,343,863	12,954,602	639,298,465
Total liabilities and net assets	$ 671,640,670	$ 246,897,873	$ 60,936,876	$ 38,727,693	$ 1,018,203,112	$ 27,780,753	$ 1,045,983,865	$(175,579,877)	$ 870,403,988

See accompanying auditor's report on supplementary information.

TANNER MEDICAL CENTER, INC.

COMBINING BALANCE SHEETS
June 30, 2017

	Tanner Medical Center/Carrollton	Tanner Medical Center/ Villa Rica	Tanner Medical Center/Higgins General Hospital	Tanner Medical Group	Subtotal	Foundation, Auxiliary and Net EJE's	Balance At June 30, 2017
ASSETS							
Current assets:							
Cash and cash equivalents	$ 99,984,338	$ 20,013	$ 6,367	$ 6,947,989	$ 106,958,707	$ 105,783	$ 107,064,490
Due from related parties	-	146,326,569	37,832,234	-	184,158,803	(184,158,803)	-
Assets limited as to use – current portion	7,870,543	-	-	-	7,870,543	-	7,870,543
Patient accounts receivable, net	31,147,737	16,238,168	3,524,720	2,597,948	53,508,573	-	53,508,573
Supplies, at lower of cost and net realizable value	4,053,545	1,726,060	392,586	332,097	6,504,288	35,167	6,539,455
Estimated third-party payor settlements	234,953	192,896	-	57,149	484,998	-	484,998
Other current assets	14,898,713	1,043,492	245,937	177,069	16,365,211	(55,779)	16,309,432
Total current assets	158,189,829	165,547,198	42,001,844	10,112,252	375,851,123	(184,073,632)	191,777,491
Assets limited as to use:							
Internally designated	249,144,874	-	-	-	249,144,874	-	249,144,874
Held by trustee under indenture	72,078,870	-	-	-	72,078,870	-	72,078,870
Assets limited as to use – current portion	(7,870,543)	-	-	-	(7,870,543)	-	(7,870,543)
Noncurrent assets limited as to use	313,353,201	-	-	-	313,353,201	-	313,353,201
Property and equipment, net	167,128,122	47,069,536	17,074,769	26,157,001	257,429,428	-	257,429,428
Interest in net assets of Tanner Medical Foundation, Inc.	-	-	-	-	-	9,576,559	9,576,559
Other assets:							
Physician notes receivable and other	4,444,866	-	-	-	4,444,866	-	4,444,866
Goodwill and intangible assets	-	3,636,000	-	-	3,636,000	-	3,636,000
Total other assets	4,444,866	3,636,000	-	-	8,080,866	-	8,080,866
Total assets	$ 643,116,018	$ 216,252,734	$ 59,076,613	$ 36,269,253	$ 954,714,618	$(174,497,073)	$ 780,217,545

See accompanying auditor's report on supplementary information.

TANNER MEDICAL CENTER, INC.

COMBINING BALANCE SHEETS
June 30, 2017

	Tanner Medical Center/Carrollton	Tanner Medical Center/ Villa Rica	Tanner Medical Center/Higgins General Hospital	Tanner Medical Group	Subtotal	Foundation, Auxiliary and Net EJE's	Balance At June 30, 2017
LIABILITIES AND NET ASSETS							
Current liabilities:							
Current portion of long-term debt	$ 4,420,000	$ -	$ -	$ -	$ 4,420,000	$ -	$ 4,420,000
Due to related parties	3,111,691	-	-	181,110,925	184,222,616	(184,222,616)	-
Accounts payable	14,319,650	2,083,622	862,547	1,032,318	18,298,137	12,004	18,310,141
Accrued salaries	16,960,420	2,221,799	1,105,780	1,488,769	21,776,768	-	21,776,768
Other accrued expenses	7,887,585	201,234	-	-	8,088,819	-	8,088,819
Estimated third-party payor settlements	1,252,771	1,055,386	944,174	-	3,252,331	-	3,252,331
Total current liabilities	47,952,117	5,562,041	2,912,501	183,632,012	240,058,671	(184,210,612)	55,848,059
Long-term debt, net of current portion:							
Revenue certificates payable	167,281,712	-	-	-	167,281,712	-	167,281,712
Total liabilities	215,233,829	5,562,041	2,912,501	183,632,012	407,340,383	(184,210,612)	223,129,771
Net assets:							
Unrestricted	427,882,189	210,690,693	56,164,112	(147,362,759)	547,374,235	1,475,878	548,850,113
Temporarily restricted	-	-	-	-	-	6,420,389	6,420,389
Permanently restricted	-	-	-	-	-	1,817,272	1,817,272
Total net assets	427,882,189	210,690,693	56,164,112	(147,362,759)	547,374,235	9,713,539	557,087,774
Total liabilities and net assets	$ 643,116,018	$ 216,252,734	$ 59,076,613	$ 36,269,253	$ 954,714,618	$(174,497,073)	$ 780,217,545

See accompanying auditor's report on supplementary information.

TANNER MEDICAL CENTER, INC.

COMBINING STATEMENTS OF EXCESS OF REVENUES OVER EXPENSES
for the year ended June 30, 2018

	Tanner Medical Center/Carrollton	Tanner Medical Center/ Villa Rica	Tanner Medical Center/Higgins General Hospital	Tanner Medical Group	Georgia Facilities	Tanner East Alabama	Medical Center Subtotal	Foundation, Auxiliary and Net EJE's	Balance At June 30, 2018
Unrestricted revenues, gains, and other support:									
Patient service revenue (net of contractual allowances and discounts)	$ 315,045,867	$ 171,902,069	$ 44,826,180	$ 40,733,277	$ 572,507,393	$ 7,637,135	$ 580,144,528	$ -	$ 580,144,528
Provision for bad debts	(40,162,481)	(20,407,502)	(7,909,161)	(292,014)	(68,771,158)	(3,987,985)	(72,759,143)	-	(72,759,143)
Net patient service revenue	274,883,386	151,494,567	36,917,019	40,441,263	503,736,235	3,649,150	507,385,385	-	507,385,385
Other revenue	4,324,998	1,886,038	1,004,761	335,094	7,550,891	46,773	7,597,664	238,470	7,836,134
Total revenues, gains and other support	279,208,384	153,380,605	37,921,780	40,776,357	511,287,126	3,695,923	514,983,049	238,470	515,221,519
Expenses:									
Salaries	118,495,250	40,227,143	14,928,980	29,615,146	203,266,519	2,301,606	205,568,125	-	205,568,125
Employee benefits	37,146,345	4,537,805	1,676,420	2,643,275	46,003,845	245,840	46,249,685	-	46,249,685
Contracted services	19,168,919	7,019,938	2,204,606	500,222	28,893,685	1,213,927	30,107,612	-	30,107,612
Purchased services	17,064,673	3,206,399	1,533,759	609,321	22,414,152	139,683	22,553,835	-	22,553,835
Supplies and drugs	50,297,797	32,385,744	2,609,786	3,138,023	88,431,350	615,350	89,046,700	171,698	89,218,398
Insurance	2,474,464	90,015	58,018	505,179	3,127,676	-	3,127,676	-	3,127,676
Depreciation	25,822,011	4,668,195	1,924,340	1,880,002	34,294,548	968,731	35,263,279	-	35,263,279
Interest and amortization	3,850,669	-	-	-	3,850,669	-	3,850,669	-	3,850,669
Other	31,352,091	4,396,885	731,156	755,427	37,235,559	229,319	37,464,878	-	37,464,878
Total expenses	305,672,219	96,532,124	25,667,065	39,646,595	467,518,003	5,714,456	473,232,459	171,698	473,404,157
Operating income (loss)	(26,463,835)	56,848,481	12,254,715	1,129,762	43,769,123	(2,018,533)	41,750,590	66,772	41,817,362
Other income (loss):									
Contributions and other	91,035	-	-	-	91,035	615,440	706,475	(13,000)	693,475
Investment income	19,705,780	-	-	-	19,705,780	63	19,705,843	-	19,705,843
Gain (loss) on sale of assets	(64,038)	(69,739)	(26,505)	(637)	(160,919)	-	(160,919)	-	(160,919)
Net unrealized losses on investments	(2,517,262)	-	-	-	(2,517,262)	-	(2,517,262)	-	(2,517,262)
Lease and transfer agreement with Randolph County Health Care Authority	-	-	-	-	-	19,401,279	19,401,279	-	19,401,279
Total other income	17,215,515	(69,739)	(26,505)	(637)	17,118,634	20,016,782	37,135,416	(13,000)	37,122,416
Excess revenues (expenses)	(9,248,320)	56,778,742	12,228,210	1,129,125	60,887,757	17,998,249	78,886,006	53,772	78,939,778
Shared service expenses	58,126,026	(28,355,757)	(9,508,636)	(18,373,782)	1,887,851	(1,887,851)	-	-	-
Excess of revenues over expenses and shared service expenses	$ 48,877,706	$ 28,422,985	$ 2,719,574	$(17,244,657)	$ 62,775,608	$ 16,110,398	$ 78,886,006	$ 53,772	$ 78,939,778

See accompanying auditor's report on supplementary information.

TANNER MEDICAL CENTER, INC.

COMBINING STATEMENTS OF EXCESS OF REVENUES OVER EXPENSES
for the year ended June 30, 2017

	Tanner Medical Center/Carrollton	Tanner Medical Center/ Villa Rica	Tanner Medical Center/Higgins General Hospital	Tanner Medical Group	Subtotal	Foundation, Auxiliary and Net EJE's	Balance At June 30, 2017
Unrestricted revenues, gains, and other support:							
Patient service revenue (net of contractual allowances and discounts)	$ 299,356,319	$ 146,558,931	$ 46,182,190	$ 38,800,033	$ 530,897,473	$ -	$ 530,897,473
Provision for bad debts	(30,136,220)	(18,669,673)	(8,181,808)	(390,680)	(57,378,381)	-	(57,378,381)
Net patient service revenue	269,220,099	127,889,258	38,000,382	38,409,353	473,519,092	-	473,519,092
Other revenue	4,663,729	1,847,486	136,997	424,129	7,072,341	237,751	7,310,092
Total revenues, gains and other support	273,883,828	129,736,744	38,137,379	38,833,482	480,591,433	237,751	480,829,184
Expenses:							
Salaries	113,099,651	38,350,655	14,972,087	28,847,259	195,269,652	-	195,269,652
Employee benefits	34,258,538	4,187,101	1,610,745	2,446,380	42,502,764	-	42,502,764
Contracted services	14,845,775	4,441,170	2,065,673	517,323	21,869,941	-	21,869,941
Purchased services	16,371,860	3,362,241	2,162,687	573,148	22,469,936	-	22,469,936
Supplies and drugs	48,207,291	17,038,392	2,704,448	3,133,615	71,083,746	175,679	71,259,425
Insurance	2,447,165	49,645	35,730	511,340	3,043,880	-	3,043,880
Depreciation	23,230,322	4,982,112	1,466,827	1,988,076	31,667,337	-	31,667,337
Interest and amortization	4,191,098	-	-	-	4,191,098	-	4,191,098
Other	33,535,947	4,124,403	704,828	922,679	39,287,857	-	39,287,857
Total expenses	290,187,647	76,535,719	25,723,025	38,939,820	431,386,211	175,679	431,561,890
Operating income (loss)	(16,303,819)	53,201,025	12,414,354	(106,338)	49,205,222	62,072	49,267,294
Other income (loss):							
Contributions and other	152,938	-	-	-	152,938	(64,000)	88,938
Investment income	10,859,372	-	-	-	10,859,372	-	10,859,372
Gain (loss) on sale of assets	(2,110,953)	(6,204)	331	(4,581)	(2,121,407)	-	(2,121,407)
Net unrealized gains on investments	12,777,807	-	-	-	12,777,807	-	12,777,807
Loss on extinguishment of debt	(3,494,186)	-	-	-	(3,494,186)	-	(3,494,186)
Total other income (loss)	18,184,978	(6,204)	331	(4,581)	18,174,524	(64,000)	18,110,524
Excess revenues (expenses)	1,881,159	53,194,821	12,414,685	(110,919)	67,379,746	(1,928)	67,377,818
Shared service expenses	52,653,248	(25,332,241)	(9,148,649)	(18,172,358)	-	-	-
Excess of revenues over expenses and shared service expenses	$ 54,534,407	$ 27,862,580	$ 3,266,036	$(18,283,277)	$ 67,379,746	$(1,928)	$ 67,377,818

See accompanying auditor's report on supplementary information.