

TANNER MEDICAL CENTER, INC.



COMBINED FINANCIAL STATEMENTS

for the years ended June 30, 2020 and 2019

## C O N T E N T S

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## 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, 2020 and 2019, 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. For the year ended June 30, 2020, we also conducted our audit in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

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.

Continued

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## **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, 2020 and 2019, and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Change in Accounting Principle**

As discussed in Note 1 to the combined financial statements, the Medical Center adopted new accounting guidance, Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Accounting Standards Update (ASU) No. 2016-18, *Statement of Cash Flows – Restricted Cash* in 2020 and fiscal year 2019 was recast to conform to the new presentation. Our opinion is not modified with respect to that matter.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2021, on our consideration of the Medical Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Medical Center's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Medical Center's internal control over financial reporting and compliance.

*Draffin + Tucker, LLP*

Albany, Georgia  
February 26, 2021

## TANNER MEDICAL CENTER, INC.

## COMBINED BALANCE SHEETS

as of June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 117,050,552	\$ 106,925,257
Short-term investments	102,175,716	60,649,558
Assets limited as to use, current portion	8,035,626	7,926,052
Patient accounts receivable, net	90,196,115	68,189,925
Supplies, at lower of cost and net realizable value	10,384,678	8,342,388
Estimated third-party payor settlements	1,479,359	204,489
Other current assets	<u>18,377,271</u>	<u>21,114,460</u>
Total current assets	<u>347,699,317</u>	<u>273,352,129</u>
Assets limited as to use:		
Internally designated	245,655,753	248,360,089
Held by trustee under indenture for debt obligations	26,035,626	9,422,294
Assets limited as to use, current portion	<u>( 8,035,626)</u>	<u>( 7,926,052)</u>
Noncurrent assets limited as to use	<u>263,655,753</u>	<u>249,856,331</u>
Property and equipment, net	<u>399,267,449</u>	<u>377,553,787</u>
Interest in net assets of Tanner Medical Foundation, Inc.	<u>14,513,330</u>	<u>13,975,299</u>
Other assets:		
Physician notes receivable and other	7,393,560	6,886,402
Goodwill and intangible assets	<u>2,908,800</u>	<u>3,272,400</u>
Total other assets	<u>10,302,360</u>	<u>10,158,802</u>
Total assets	<u>\$ 1,035,438,209</u>	<u>\$ 924,896,348</u>

Continued

	<u>2020</u>	<u>2019</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt	\$ 10,520,376	\$ 7,762,595
Accounts payable	26,737,229	21,637,473
Accrued salaries	26,512,448	25,716,219
Other accrued expenses	9,729,161	10,689,653
Estimated third-party payor settlements	2,125,172	3,066,727
Current portion of Medicare advance payments	4,509,659	-
CARES Act refundable advances	<u>3,799,429</u>	<u>-</u>
Total current liabilities	<u>83,933,474</u>	<u>68,872,667</u>
Medicare advance payments, excluding current portion	<u>31,567,617</u>	<u>-</u>
Long-term debt, net of current portion:		
Notes payable	1,279,580	-
Revenue certificates payable	<u>198,353,531</u>	<u>166,218,338</u>
Total long-term debt, net of current portion	<u>199,633,111</u>	<u>166,218,338</u>
Total liabilities	<u>315,134,202</u>	<u>235,091,005</u>
Net assets:		
Net assets without donor restrictions	708,041,010	678,180,606
Net assets with donor restrictions	<u>12,262,997</u>	<u>11,624,737</u>
Total net assets	<u>720,304,007</u>	<u>689,805,343</u>
Total liabilities and net assets	\$ <u>1,035,438,209</u>	\$ <u>924,896,348</u>

See accompanying notes to financial statements.

TANNER MEDICAL CENTER, INC.

COMBINED STATEMENTS OF OPERATIONS

for the years ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Revenues, gains, and other support:		
Net patient service revenue	\$ 531,912,290	\$ 542,523,834
Other revenue	8,498,683	7,843,788
CARES Act funding	<u>28,996,581</u>	<u>-</u>
Total revenues, gains, and other support	<u>569,407,554</u>	<u>550,367,622</u>
Expenses:		
Salaries	227,699,023	220,319,300
Employee benefits	50,577,094	49,008,172
Contracted services	35,317,354	35,362,707
Purchased services	28,789,963	26,525,506
Supplies and drugs	103,959,846	101,004,532
Insurance	3,675,209	5,318,195
Depreciation	43,948,195	37,685,320
Interest and amortization	5,999,244	4,685,670
Other	<u>46,489,593</u>	<u>42,380,029</u>
Total expenses	<u>546,455,521</u>	<u>522,289,431</u>
Operating income	<u>22,952,033</u>	<u>28,078,191</u>
Other income (loss):		
Contributions and other	2,111,898	3,182,454
Investment income	24,110,474	17,891,494
Gain (loss) on disposal of assets	( 4,682,562)	62,127
Net unrealized losses on investments	<u>( 14,933,576)</u>	<u>( 239,655)</u>
Total other income	<u>6,606,234</u>	<u>20,896,420</u>
Excess revenues	29,558,267	48,974,611
Change in interest in net assets of Tanner Medical Foundation, Inc.	( 100,229)	363,782
Contributions and transfers from affiliated entities	<u>402,366</u>	<u>310,559</u>
Increase in net assets without donor restrictions	\$ <u>29,860,404</u>	\$ <u>49,648,952</u>

See accompanying notes to financial statements.

TANNER MEDICAL CENTER, INC.

COMBINED STATEMENTS OF CHANGES IN NET ASSETS  
for the years ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Net assets without donor restrictions:		
Excess revenues	\$ 29,558,267	\$ 48,974,611
Change in interest in net assets of Tanner Medical Foundation, Inc.	( 100,229)	363,782
Contributions and transfers from affiliated entities	<u>402,366</u>	<u>310,559</u>
Increase in net assets without donor restrictions	29,860,404	49,648,952
Net assets with donor restrictions:		
Change in interest in net assets of Tanner Medical Foundation, Inc.	<u>638,260</u>	<u>857,926</u>
Increase in net assets	30,498,664	50,506,878
Net assets, beginning of year	<u>689,805,343</u>	<u>639,298,465</u>
Net assets, end of year	\$ <u>720,304,007</u>	\$ <u>689,805,343</u>

See accompanying notes to financial statements.



TANNER MEDICAL CENTER, INC.

COMBINED STATEMENTS OF CASH FLOWS  
for the years ended June 30, 2020 and 2019

	<u>2020</u>	Restated <u>2019</u>
Cash flows from operating activities:		
Increase in net assets	\$ 30,498,664	\$ 50,506,878
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Net realized and unrealized gains on investments	695,830	( 5,597,534)
Change in interest in net assets of Tanner Medical Foundation, Inc.	( 538,031)	( 1,221,708)
(Gain) loss on disposal of assets	4,682,562	( 62,127)
Contributions and transfers from affiliated entities	( 402,366)	( 310,559)
Depreciation	43,948,195	37,281,310
Amortization	( 1,178,139)	22,349
Forgiveness of physician notes receivable	668,441	670,251
Price concessions	60,687,344	61,782,357
Changes in:		
Patient accounts receivable	( 82,693,534)	( 72,596,782)
Other current assets	694,899	( 6,565,743)
Physician notes receivable	( 749,680)	( 721,399)
Other assets	( 425,919)	( 1,238,888)
Accounts payable	5,099,756	2,292,154
Other accrued expenses	( 164,263)	3,864,646
Medicare advance payments	36,077,276	-
CARES Act refundable advances	3,799,429	-
Estimated third-party payor settlements	<u>( 2,216,425)</u>	<u>( 1,132,047)</u>
Net cash provided by operating activities	<u>98,484,039</u>	<u>66,973,158</u>
Cash flows from investing activities:		
Purchases of property and equipment	( 66,363,002)	( 93,391,141)
Proceeds from sale of investments	327,068,187	236,159,465
Purchase of investments	<u>(363,646,439)</u>	<u>(260,402,523)</u>
Net cash used by investing activities	<u>(102,941,254)</u>	<u>(117,634,199)</u>

Continued

TANNER MEDICAL CENTER, INC.

COMBINED STATEMENTS OF CASH FLOWS, Continued  
for the years ended June 30, 2020 and 2019

	<u>2020</u>	Restated <u>2019</u>
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	\$ 43,400,000	\$ 10,000,000
Payments on long-term debt	( 9,264,758)	( 10,838,000)
Net cash provided (used) by financing activities	<u>34,135,242</u>	<u>( 838,000)</u>
Net increase (decrease) in cash and cash equivalents	29,678,027	( 51,499,041)
Cash and cash equivalents, beginning of year	<u>119,199,657</u>	<u>170,698,698</u>
Cash and cash equivalents, end of year	\$ <u>148,877,684</u>	\$ <u>119,199,657</u>
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash and cash equivalents in current assets	\$ 117,050,552	\$ 106,925,257
Cash and cash equivalents in assets limited as to use	<u>31,827,132</u>	<u>12,274,400</u>
Total cash and cash equivalents	\$ <u>148,877,684</u>	\$ <u>119,199,657</u>

Supplemental disclosure of cash flow information:

- Cash paid for interest net of capitalized interest in 2020 and 2019 was approximately \$6,798,000 and \$5,122,000, respectively.

See accompanying notes to financial statements.

TANNER MEDICAL CENTER, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS  
June 30, 2020 and 2019

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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 53-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. Critical access status was granted effective January 9, 2019.

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

TANNER MEDICAL CENTER, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
June 30, 2020 and 2019

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 February 2020 to extend the term of the lease until December 31, 2060. 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 County. The lease is 35 years with an option to terminate after the first five. As a result of the lease and transfer agreement, an amount of approximately \$19 million in net fixed assets was recognized in 2018. There was minimal consideration transferred in the form of nominal rent payments over the term of the lease.

Continued

TANNER MEDICAL CENTER, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
June 30, 2020 and 2019

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1. Summary of Significant Accounting Policies, Continued

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 and 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.

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, which are all classified as trading securities, are measured at fair value in the balance sheet. Investments without a readily determinable fair value are measured at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer. Investment income or loss (including interest, dividends, and gains and losses, both realized and unrealized) is included in excess of revenue over expenses unless the income is restricted by donor or law.

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 sheets at June 30, 2020 and 2019.

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.

Continued

TANNER MEDICAL CENTER, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
June 30, 2020 and 2019

1. Summary of Significant Accounting Policies, Continued

Property and Equipment, Continued

Such amortization is included in depreciation 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 \$338,000 and \$1,680,000 in interest was capitalized during fiscal years ended June 30, 2020 and 2019, respectively.

Gifts of long-lived assets such as land, buildings, or equipment are reported as increases in net assets without donor restrictions, 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 increases in net assets with donor restrictions. 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 represents the excess of the acquisition price over fair value of net assets acquired through business combinations. Effective July 1, 2018, the Medical Center adopted a new policy related to accounting for goodwill and began amortizing goodwill on a straight-line basis over a 10 year period. When events or circumstances indicate that goodwill may be impaired, goodwill is tested for impairment at the entity level. Impairment, if any, will be recognized for the difference between the fair value of the Medical Center and its carrying amount and will be limited to the carrying amount of goodwill. The Medical Center considered certain factors such as whether macroeconomic conditions, industry considerations, cost factors, and the sequence of events during the COVID-19 pandemic constituted a triggering event. The Medical Center's evaluation determined it is not more likely than not that the reporting unit's fair value is less than its carrying value.

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.

Refundable Advance

A refundable advance arises when assets are recognized before revenue recognition criteria have been satisfied. CARES Act advance payments are reported as a refundable advance until donor conditions such as qualifying expenditures have been substantially met. See Note 22 for additional information.

Continued

TANNER MEDICAL CENTER, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
June 30, 2020 and 2019

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1. Summary of Significant Accounting Policies, Continued

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.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Net assets without donor restrictions* – net assets available for use in general operations and not subject to donor imposed restrictions. The Board of Directors has discretionary control over these resources. Designated amounts represent those net assets that the Board has set aside for a particular purpose. All revenue not restricted by donors and donor restricted contributions whose restrictions are met in the same period in which they are received are accounted for in net assets without donor restrictions.

*Net assets with donor restrictions* – net assets subject to donor imposed restrictions. Some donor imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. All revenues restricted by donors as to either timing or purpose of the related expenditures or required to be maintained in perpetuity as a source of investment income are accounted for in net assets with donor restrictions. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Excess of Revenues over Expenses

The statement of operations includes excess of revenues over expenses. Changes in net assets without donor restrictions which are excluded from excess of revenues over expenses, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods and services and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets.)

Continued

TANNER MEDICAL CENTER, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued

June 30, 2020 and 2019

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 amount that reflects the consideration to which the Medical Center expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors, and others and includes variable consideration for retroactive revenue adjustments under reimbursement arrangements with third-party payors. Retroactive adjustments are included in the determination of the estimated transaction price and adjusted in future periods as 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. Certain 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 increases in the appropriate categories of net assets in accordance with donor restrictions.

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.

Continued



TANNER MEDICAL CENTER, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
June 30, 2020 and 2019

1. Summary of Significant Accounting Policies, Continued

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, 2020 and 2019 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.

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 for the years ended June 30, 2020 and 2019.

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

Continued

TANNER MEDICAL CENTER, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
June 30, 2020 and 2019

1. Summary of Significant Accounting Policies, Continued

Fair Value Measurements, Continued

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.

Recently Adopted Accounting Pronouncements

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The new guidance requires equity investments (except those accounted for under the equity method or those that result in consolidation) to be measured at fair value, with changes in fair value recognized in net income; simplifies the impairment assessment of equity investments without readily determinable fair values; and amends certain disclosure requirements associated with the fair value of financial instruments. The Medical Center adopted ASU No. 2016-01 on July 1, 2019, using the modified retrospective method of transition. Prior to adoption, the Medical Center classified equity securities with readily determinable fair values as trading, therefore, adoption did not have an impact on the recognition of income related to the Medical Center's equity investments.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows – Restricted Cash*, which requires that the statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Medical Center adopted the new guidance in 2020 and fiscal year 2019 was recast to conform to the new presentation.

Continued

TANNER MEDICAL CENTER, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
June 30, 2020 and 2019

1. Summary of Significant Accounting Policies, Continued

Recently Adopted Accounting Pronouncements, Continued

In June 2020, the FASB issued ASU No. 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842), Effective Dates for Certain Entities*. The ASU was issued to provide relief for certain entities in light of the COVID-19 pandemic by deferring the effective dates of certain Updates, including subsequent amendments. The ASU is effective immediately. Earlier application of amendments are permitted to the extent specified in each Update as originally issued.

Accounting Pronouncement Not Yet Adopted

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which is a new comprehensive lease accounting model. The new standard clarifies the definition of a lease and requires lessees to recognize right-of-use assets and related lease liabilities for all leases with terms greater than twelve months. The new guidance, including subsequent amendments, is effective for the Medical Center as of July 1, 2020, with ASU No. 2020-05 deferral. The Medical Center 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 February 26, 2021, the date the combined financial statements were issued.

Prior Year Reclassifications

Certain reclassifications have been made to the fiscal year 2019 combined financial statements to conform to the fiscal year 2020 presentation. These reclassifications had no impact on the change in net assets in the accompanying combined financial statements.

2. Net Patient Service Revenue

Net patient service revenue is reported at the amount that reflects the consideration to which the Medical Center expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Medical Center bills the patients and third-party payors several days after the services are performed and/or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Continued

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
June 30, 2020 and 20192. Net Patient Service Revenue, Continued

Performance obligations are determined based on the nature of the services provided by the Medical Center. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Medical Center believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving inpatient, outpatient, and emergency care services. The Medical Center measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. These services are considered to be a single performance obligation and have a duration of less than one year. Revenue for performance obligations satisfied at a point in time is recognized when services are provided and the Medical Center does not believe it is required to provide additional services to the patient.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Medical Center has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

The Medical Center is utilizing the portfolio approach practical expedient in ASC 606 for contracts related to net patient service revenue. The Medical Center accounts for the contracts within each portfolio as a collective group, rather than individual contracts, based on the payment pattern expected in each portfolio category and the similar nature and characteristics of the patients within each portfolio. As a result, the Medical Center has concluded that revenue for a given portfolio would not be materially different than if accounting for revenue on a contract by contract basis.

The Medical Center has arrangements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. For uninsured patients that do not qualify for charity care, the Medical Center recognizes revenue on the basis of its standard rates, subject to certain discounts and implicit price concessions as determined by the Medical Center. The Medical Center determines the transaction price based on standard charges for services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Medical Center's policy, and implicit price concessions provided to uninsured patients. Implicit price concessions represent difference between amounts billed and the estimated consideration the Medical Center expects to receive from patients, which are determined based on historical collection experience, current market conditions, and other factors. The Medical Center determines its estimates of contractual adjustments and discounts based on contractual agreements, discount policies, and historical experience.

Continued

TANNER MEDICAL CENTER, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
June 30, 2020 and 2019

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2. Net Patient Service Revenue, Continued

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

- Medicare

Certain inpatient acute care services are paid at prospectively determined rates per discharge based on clinical, diagnostic and other factors. Certain services are paid based on cost reimbursement methodologies subject to certain limits. Physician services are paid based upon established fee schedules. Outpatient services are paid using prospectively determined rates.

Tanner Medical Center/Higgins General Hospital and Tanner Medical Center/East Alabama have been granted Critical Access Hospital (CAH) designation by the Medicare Program. The CAH designation places certain restrictions on daily acute care inpatient census and an annual, average length of stay of acute care inpatients. Inpatient acute care and outpatient services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology.

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

The Medical Center is paid for certain cost 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 are paid at prospectively determined rates per discharge based on clinical, diagnostic and other factors. Outpatient services are paid based upon cost reimbursement methodologies. The Medical Center is paid for certain cost 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 Medicaid fiscal intermediary. The Medical Centers' Medicaid cost reports have been audited by the Medicaid fiscal intermediary through June 30, 2017.

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.

Continued

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
June 30, 2020 and 2019

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2. Net Patient Service Revenue, Continued

• Medicaid (Georgia Facilities), Continued

The Medical Center participates in the Georgia Indigent Care Trust Fund (ICTF) Program. The Medical Center receives ICTF payments for treating a disproportionate number of Medicaid and other indigent patients. ICTF payments are based on the Medical Center's estimated uncompensated cost of services to Medicaid and uninsured patients. The amount of ICTF payments recognized in net patient service revenue was approximately \$4,077,000 and \$4,591,000 for the years ended June 30, 2020 and 2019, respectively.

The Medicare, Medicaid and SCHIP Benefits Improvement and Protection Act of 2000 (BIPA) provides for payment adjustments to certain facilities based on the Medicaid Upper Payment Limit (UPL). The UPL payment adjustments are based on a measure of the difference between Medicaid payments and the amount that could be paid based on Medicare payment principles. The net amount of UPL payment adjustments recognized in net patient service revenue was approximately \$2,651,000 and \$2,848,000 for the years ended June 30, 2020 and 2019, respectively.

During 2010, the state of Georgia enacted legislation known as the Provider Payment Agreement Act (the 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 11.88%. Approximately \$5,901,000 and \$5,519,000 relating to the Act is included in other expenses in the accompanying statement of operations for the years ended June 30, 2020 and 2019, 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

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
June 30, 2020 and 2019

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2. Net Patient Service Revenue, Continued

- Other Arrangements

Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using 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.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Medical Center's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Medical Center. In addition, the contracts the Medical Center has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Medical Center's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in the transaction price, were not significant in 2020 or 2019.

Continued

TANNER MEDICAL CENTER, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
June 30, 2020 and 2019

2. Net Patient Service Revenue, Continued

Generally patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Medical Center also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The Medical Center estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Adjustments arising from a change in the transaction price were not significant for the years ending June 30, 2020 and 2019. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense for the years ended June 30, 2020 and 2019 was not significant.

Consistent with the Medical Center's mission, care is provided to patients regardless of their ability to pay. Therefore, the Medical Center has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles).

Net patient service revenue by major payor source, facility, and timing of revenue recognition for the years ended June 30, 2020 and 2019 is as follows:

Net Patient Service Revenue					
	<u>Medicare</u>	<u>Medicaid</u>	<u>Third-Party Payors</u>	<u>Self-Pay</u>	<u>Total All Payors</u>
2020	\$ <u>201,221,302</u>	\$ <u>57,858,589</u>	\$ <u>198,682,895</u>	\$ <u>74,149,504</u>	\$ <u>531,912,290</u>
2019	\$ <u>159,013,420</u>	\$ <u>31,646,036</u>	\$ <u>276,356,560</u>	\$ <u>75,507,818</u>	\$ <u>542,523,834</u>

  

	Net Patient Service Revenue	
	<u>2020</u>	<u>2019</u>
Carrollton	\$ 280,256,148	\$ 291,855,567
Villa Rica	169,720,872	164,367,745
Higgins	34,425,344	36,963,469
Tanner Medical Group	36,620,156	41,928,283
East Alabama	<u>10,889,770</u>	<u>7,408,770</u>
Timing of revenue and recognition:		
Services transferred over time	\$ <u>531,912,290</u>	\$ <u>542,523,834</u>

Continued



TANNER MEDICAL CENTER, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
June 30, 2020 and 2019

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2. Net Patient Service Revenue, Continued

Hospital net patient service revenue includes a variety of services mainly covering inpatient acute care services requiring overnight stays, outpatient procedures that require anesthesia or use of the Medical Center's diagnostic and surgical equipment, and emergency care services. Performance obligations are satisfied over time as the patient simultaneously receives and consumes the benefits the Medical Center performs. Requirements to recognize revenue for inpatient services are generally satisfied over periods that average approximately five days and for outpatient services are generally satisfied over a period of less than one day. Point-of-sale revenue, recorded in other revenue on the combined statement of operations, performance obligations are satisfied at a point in time when the goods are provided.

The Medical Center has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the Medical Center's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, the Medical Center does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

The Medical Center has applied the practical expedient provided by FASB ASC 340-40-25-4 and all incremental customer contract acquisition costs are expensed as they are incurred as the amortization period of the asset that the Medical Center otherwise would have recognized is one year or less in duration.

3. Uncompensated Services

The Medical Center was compensated for services at amounts less than its established rates. Net patient service revenue includes amounts, representing the transaction price, based on standard charges reduced by variable considerations such as contractual adjustments, discounts, and implicit price concessions.

Uncompensated care includes charity and indigent care services of approximately \$76,462,000 and \$72,214,000 in 2020 and 2019, respectively. The cost of charity and indigent care services provided during 2020 and 2019 was approximately \$26,448,000 and \$23,576,000, respectively computed by applying total cost factor to the charges forgone.

Continued

TANNER MEDICAL CENTER, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
June 30, 2020 and 2019

3. Uncompensated Services, Continued

The following is a summary of uncompensated services and a reconciliation of gross patient charges to net patient service revenue for 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Gross patient charges	\$ <u>1,579,841,879</u>	\$ <u>1,599,774,977</u>
Uncompensated services:		
Charity and indigent care	76,461,861	72,214,320
Medicare	499,505,014	510,416,491
Medicaid	154,796,963	164,490,875
Other third-party payors	256,478,407	248,347,100
Price concessions	<u>60,687,344</u>	<u>61,782,357</u>
Total uncompensated care	<u>1,047,929,589</u>	<u>1,057,251,143</u>
Net patient service revenue	\$ <u>531,912,290</u>	\$ <u>542,523,834</u>

4. Assets Limited as to Use and Short-Term Investments

The composition of assets limited as to use at June 30, 2020 and 2019, is set forth in the following table. Assets limited as to use are stated at fair value.

	<u>2020</u>	<u>2019</u>
Internally designated for capital acquisition:		
Cash and cash equivalents	\$ 4,852,994	\$ 1,761,492
Mutual funds – equity	82,915,428	91,886,544
Mutual funds – international	-	8,308,377
Stocks and options	93,183,960	47,304,764
U.S. corporate bonds	4,631,598	31,785,921
Federal agency bonds	5,691,740	17,961,452
Municipal bonds	1,436,445	4,250,965
Alternative mutual funds	51,079,100	42,720,313
Alternative investments-limited partnership	<u>685,816</u>	<u>965,507</u>
	<u>244,477,081</u>	<u>246,945,335</u>
Internally designated for employee benefits:		
Cash and cash equivalents	938,512	1,090,613
Stocks and options	-	93,537
Alternative mutual funds	<u>240,160</u>	<u>230,604</u>
	<u>1,178,672</u>	<u>1,414,754</u>

Continued

TANNER MEDICAL CENTER, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
June 30, 2020 and 2019

4. Assets Limited as to Use and Short-Term Investments, Continued

	<u>2020</u>	<u>2019</u>
Held by trustee under indenture:		
Cash and cash equivalents	\$ <u>26,035,626</u>	\$ <u>9,422,294</u>
Total assets limited as to use	271,691,379	257,782,383
Less current portion	<u>8,035,626</u>	<u>7,926,052</u>
	\$ <u>263,655,753</u>	\$ <u>249,856,331</u>

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.

Continued

TANNER MEDICAL CENTER, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
June 30, 2020 and 2019

4. Assets Limited as to Use and Short-Term Investments, Continued

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.

Short-term investments consists of certificates of deposit. Certificates of deposit with maturities greater than 3 months, but less than 12 months are stated at amortized cost, which approximate fair value.

5. Property and Equipment

A summary of property and equipment at June 30, 2020 and 2019 follows:

	<u>2020</u>	<u>2019</u>
Land	\$ 26,659,472	\$ 25,078,890
Land improvements	18,804,955	14,058,878
Buildings	387,580,032	376,476,198
Equipment	<u>268,359,611</u>	<u>208,001,380</u>
	701,404,070	623,615,346
Less accumulated depreciation	<u>317,750,090</u>	<u>317,533,515</u>
	383,653,980	306,081,831
Construction in process	<u>15,613,469</u>	<u>71,471,956</u>
Property and equipment, net	<u>\$ 399,267,449</u>	<u>\$ 377,553,787</u>

See Note 1 for details of land and buildings under capital lease obligations. Depreciation expense for the years ended June 30, 2020 and 2019 amounted to approximately \$43,585,000 and \$37,281,000, respectively. Construction contracts exist for various projects at year end with a total commitment of approximately \$130,536,000. At June 30, 2020, the remaining commitment on these contracts approximated \$113,521,000.

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 2020 and 2019 were approximately \$668,000 and \$670,000, 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.

Continued

TANNER MEDICAL CENTER, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
June 30, 2020 and 2019

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, 2020 and 2019 amounted to approximately \$58,000 and \$157,000, respectively.

8. Goodwill and Intangible Assets

A summary of goodwill and intangible assets at June 30, 2020 and 2019 follows:

	<u>2020</u>	<u>2019</u>
Goodwill and intangible assets	\$ <u>2,908,800</u>	\$ <u>3,272,400</u>

The goodwill and intangible assets are related to the Medical Center's purchase of a multiple sclerosis infusion therapy business. As discussed in Note 1, in 2019, the Medical Center began amortizing existing goodwill over a 10 year period on a prospective basis. The goodwill and intangible assets are evaluated for impairment when events or circumstances indicate that goodwill is impaired.

The changes in the carrying amount of goodwill and intangible assets for the years ended June 30, 2020 and 2019 follows:

	<u>2020</u>	<u>2019</u>
Balance at beginning of year:		
Goodwill and intangible assets	\$ 8,208,742	\$ 8,168,332
Accumulated amortization and impairment losses	<u>(4,936,342)</u>	<u>(4,532,332)</u>
	<u>3,272,400</u>	<u>3,636,000</u>
Goodwill and intangible assets acquired during the year	-	40,410
Amortization and impairment losses	<u>( 363,600)</u>	<u>( 404,010)</u>
	<u>( 363,600)</u>	<u>( 363,600)</u>
Balance at end of year:		
Goodwill and intangible assets	8,208,742	8,208,742
Accumulated amortization and impairment losses	<u>(5,299,942)</u>	<u>(4,936,342)</u>
	<u>\$ 2,908,800</u>	<u>\$ 3,272,400</u>

Continued

TANNER MEDICAL CENTER, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
June 30, 2020 and 2019

9. Long-Term Debt

A summary of long-term debt for the years ended June 30, 2020 and 2019 follows:

	<u>2020</u>	<u>2019</u>
Revenue Certificates, Series 2010, bearing interest of 3.25% to 5.00%, maturing in installments of \$1,480,000 to \$2,455,000 each July 1 until 2028. The certificates are collateralized by a pledge of the Medical Center's gross receipts.	\$ 16,410,000	\$ 18,750,000
Revenue Certificates, Series 2015, bearing interest of 3.00% to 5.00%, maturing in installments of \$1,475,000 to \$4,450,000 each July 1 until 2045. The certificates are collateralized by a pledge of the Medical Center's gross receipts.	70,145,000	71,560,000
Revenue Certificates, Series 2016, bearing interest of 3.00% to 5.00%, maturing in installments of \$880,000 to \$1,845,000 each July 1 until 2038. The certificates are collateralized by a pledge of the Medical Center's gross receipts.	25,305,000	26,150,000
Revenue Certificates, Series 2016B, bearing interest of 2.00% to 5.00%, maturing in installments of \$85,000 to \$2,545,000 each July 1 until 2040. The certificates are collateralized by a pledge of the Medical Center's gross receipts.	36,290,000	36,370,000
Revenue Certificates, Series 2019A, bearing interest of 3.05%, maturing in installments of \$73,957 to \$96,546 each month until April 2029. The certificates are collateralized by the related equipment.	8,984,071	10,000,000
Revenue Certificates, Series 2019B, bearing interest of 2.36%, maturing in installments of \$187,113 to \$233,627 each month until December 2029. The certificates are collateralized by the related equipment.	23,885,011	-
Note payable, bearing a variable rate of interest, maturing in monthly installments of \$333,333 until October 2020. The note is collateralized. The note was paid in advance of the original maturity date during fiscal year 2020.	-	2,066,667

Continued

TANNER MEDICAL CENTER, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
June 30, 2020 and 2019

9. Long-Term Debt, Continued

	<u>2020</u>	<u>2019</u>
Note payable, bearing no interest, maturing in monthly installments of \$129,058 until April 2022. The note is collateralized by equipment.	\$ 2,828,276	\$ -
Note payable, bearing interest of 2.76%, maturing in installments of \$150,280 to \$192,158 until December 2029. The note is collateralized by equipment.	<u>18,400,000</u>	<u>-</u>
	202,247,358	164,896,667
Less current portion	<u>10,520,376</u>	<u>7,762,595</u>
	191,726,982	157,134,072
Plus net unamortized premium and bond issuance costs	<u>7,906,129</u>	<u>9,084,266</u>
Total	\$ <u>199,633,111</u>	\$ <u>166,218,338</u>

The long-term debt relates to the Revenue Anticipation Certificates, Series 2010, 2015, 2016, 2016B, 2019A and 2019B, 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.

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, 2020 is \$25,400,000.

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, 2020 is \$24,980,000.

Continued

TANNER MEDICAL CENTER, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
June 30, 2020 and 2019

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9. Long-Term Debt, Continued

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.

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 were due monthly. The note was paid in full during fiscal year 2020.

On March 1, 2019, the Authority issued \$10,000,000 of Series 2019A Revenue Anticipation Certificates for the benefit of Tanner Medical Center, Inc. The proceeds of the Series 2019A Certificates will be used to finance the cost of acquisition, construction, renovation, equipping, and installation of hospital related equipment, with monthly payments beginning May 2019.

On December 9, 2019, Tanner Medical Center, Inc. entered into a promissory note with Bank of America for \$18,400,000 for the purpose of financing certain equipment, fixtures, and construction costs. Payments are due monthly, with a maturity date of December 20, 2029.

On December 13, 2019, the Authority issued \$25,000,000 of Series 2019B Revenue Anticipation Certificates for the benefit of Tanner Medical Center, Inc. The proceeds of the Series 2019B Certificates will be used to finance the cost of acquisition, construction, renovation, equipping, and installation of hospital related equipment, with monthly payments beginning January 2020.

Subsequent to year end, the Authority issued \$40,335,000 of Series 2020 Revenue Anticipation Certificates for the benefit of Tanner Medical Center, Inc. The proceeds of the Series 2020 Certificates will be used to refund the remaining Series 2010 Certificates as well as to finance the cost of the acquisition, construction, renovation, equipping and installation of hospital related equipment.

Continued



TANNER MEDICAL CENTER, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
June 30, 2020 and 2019

9. Long-Term Debt, Continued

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, excluding the Series 2019A and 2019B 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:

	<u>Long-Term Debt</u>
2021	\$ 10,520,376
2022	11,488,067
2023	10,594,386
2024	10,983,942
2025	11,417,254
Thereafter	<u>147,243,333</u>
Total	<u>\$ 202,247,358</u>

10. Net Assets with Donor Restrictions

A summary of the ending balances of net assets with donor restrictions is as follows:

	<u>2020</u>	<u>2019</u>
<u>Subject to Expenditure for Specified Purpose, Continued</u>		
Adams Park Fund	\$ 14,067	\$ 409,000
Auxiliary General Fund	408,470	309,927
Cancer Patient Assistance Fund	224,658	241,007
Roy Richards, Sr. Cancer Center Fund	908,145	829,594
Employee Humanitarian Assistance Fund	549,923	657,611
Frank and Libby Thomasson Fund	224,810	224,810
General Fund	300,932	292,069
Heart Center Fund	336,296	340,896
Indigent Care Fund	294,405	275,587
Magnolia Ball Fund	338,089	191,622
James and Jeraldine Tanner Fund	579,154	579,154

Continued

TANNER MEDICAL CENTER, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
June 30, 2020 and 2019

10. Net Assets with Donor Restrictions, Continued

	<u>2020</u>	<u>2019</u>
<u>Subject to Expenditure for Specified Purpose, Continued</u>		
Tanner Ortho and Spine Center Fund	\$ 334,236	\$ 334,236
Tanner Hospice Care	1,298,896	1,259,602
TMC/Villa Rica General Fund	174,289	164,234
Other	<u>2,368,233</u>	<u>2,106,994</u>
Total	<u>8,354,603</u>	<u>8,216,343</u>
<u>Endowment Funds to be Held in Perpetuity</u>		
Adams Park Endowment Fund	100,000	100,000
Auxiliary General Endowment Fund	100,000	100,000
Bowdon Clinic Endowment Fund	450,990	450,990
Capital Improvement Endowment	5,000	5,000
Carol L. and Katherine E. Martin Endowment for Hospice Special Needs	55,784	55,784
E.V. and Lucy Patrick Endowment for Indigent Care	25,000	25,000
Gilreath Endowment for Cancer Care	348,511	348,511
Little Angels Endowment Fund	281,664	281,664
Raymond L. Abernathy family and Dale Howard Endowment for Nursing Education	10,000	10,000
Rev. Arthur and Bill Rucker Endowment for Cardiac Rehab	25,000	25,000
Roy Richards, Sr. Endowment for Cancer Care	750,000	750,000
Roy Richards, Sr. Endowment for Capital Improvement	14,154	14,154
Sally and Francis Tanner NICU Endowment Fund	1,209,291	1,209,291
Stacy C. Morin Endowment Fund	33,000	33,000
James R. Fulford Chair of Neurology Endowment Fund	<u>500,000</u>	<u>-</u>
Total	<u>3,908,394</u>	<u>3,408,394</u>
Total net assets with donor restrictions	<u>\$ 12,262,997</u>	<u>\$ 11,624,737</u>

Continued

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
June 30, 2020 and 2019

10. Net Assets with Donor Restrictions, Continued

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 net assets with donor restrictions (a) the original value of its gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the 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 is classified as net assets with donor restrictions 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.

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or GUPFIMA requires the Foundation to retain as a fund of perpetual duration. As of June 30, 2020 and 2019, there were no such deficiencies of this nature.

Continued

TANNER MEDICAL CENTER, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
June 30, 2020 and 2019

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. Employees are 100% vested in employee contributions and become 100% vested in employer contributions after three years of credited service. Effective January 1, 2017, the 403(b) plan was frozen.

The Medical Center matches 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 \$9,854,000 and \$9,182,000 for the years ended June 30, 2020 and 2019, 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:

	<u>2020</u>	<u>2019</u>
Medicare	32%	23%
Medicaid	9%	7%
Third-party payors	58%	69%
Patients	<u>1%</u>	<u>1%</u>
Total	<u>100%</u>	<u>100%</u>

At June 30, 2020, 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.

13. Contingencies

Compliance Plan

The healthcare industry has recently been subjected to increased scrutiny from governmental agencies at both the federal and state level with respect to compliance with regulations. Areas of noncompliance identified at the federal 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.

Continued

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
June 30, 2020 and 2019

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13. Contingencies, Continued

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 \$24,145,000 and \$24,182,000 during fiscal years ended June 30, 2020 and 2019, respectively.

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 2020 and 2019 is \$100,000 per claim and \$600,000 in aggregate. Liability limits related to this policy in 2020 and 2019 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.

Continued

TANNER MEDICAL CENTER, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
June 30, 2020 and 2019

15. Malpractice Insurance, Continued

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 \$1,044,000 at June 30, 2020 and 2019, 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 in 2020 and 2019 are as follows:

	June 30, 2020		
	<u>Patient Care Services</u>	<u>General and Administrative</u>	<u>Total</u>
Salaries	\$ 182,053,551	\$ 45,645,472	\$ 227,699,023
Employee benefits	20,296,015	30,281,079	50,577,094
Contracted services	28,214,985	7,102,369	35,317,354
Purchased services	14,543,754	14,246,209	28,789,963
Supplies and drugs	102,182,687	1,777,159	103,959,846
Insurance	3,557,064	118,145	3,675,209
Depreciation	14,549,726	29,398,469	43,948,195
Interest and amortization	5,999,244	-	5,999,244
Other	<u>16,829,338</u>	<u>29,660,255</u>	<u>46,489,593</u>
Total	<u>\$ 388,226,364</u>	<u>\$ 158,229,157</u>	<u>\$ 546,455,521</u>
	June 30, 2019		
	<u>Patient Care Services</u>	<u>General and Administrative</u>	<u>Total</u>
Salaries	\$ 179,411,809	\$ 40,907,491	\$ 220,319,300
Employee benefits	19,321,276	29,686,896	49,008,172
Contracted services	27,667,630	7,695,077	35,362,707
Purchased services	13,475,876	13,049,630	26,525,506
Supplies and drugs	99,038,161	1,966,371	101,004,532
Insurance	5,220,456	97,739	5,318,195
Depreciation	14,206,436	23,478,884	37,685,320
Interest and amortization	4,685,670	-	4,685,670
Other	<u>16,524,578</u>	<u>25,855,451</u>	<u>42,380,029</u>
Total	<u>\$ 379,551,892</u>	<u>\$ 142,737,539</u>	<u>\$ 522,289,431</u>

Continued

TANNER MEDICAL CENTER, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
June 30, 2020 and 2019

16. Functional Expenses, Continued

The combined financial statements report certain expense categories that are attributable to more than one health care service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation and amortization, interest expense, and other occupancy costs, are allocated to a function consistent with salaries. Benefit expense is allocated consistent with salaries.

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, refundable advances, Medicare advance payments, 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.
- *Short-term investments:* Amounts are stated at amortized cost, which approximates fair value.
- *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 based on the quoted market value for same or similar debt instruments. 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, 2020 and 2019 are as follows:

	<u>June 30, 2020</u>		<u>June 30, 2019</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Long-term debt	\$ <u>211,577,508</u>	\$ <u>215,559,657</u>	\$ <u>175,463,400</u>	\$ <u>178,485,926</u>

Continued

TANNER MEDICAL CENTER, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
June 30, 2020 and 2019

18. Fair Value Measurement

Fair values of assets measured on a recurring basis at June 30, 2020 and 2019 are as follows:

	<u>Fair Value</u>	<u>Fair Value Measurements at Reporting Date Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<u>June 30, 2020</u>				
Assets:				
Cash and cash equivalents	\$ 31,827,132	\$ 31,827,132	\$ -	\$ -
Mutual funds – equity	82,915,428	82,915,428	-	-
Stocks and options	93,183,960	93,183,960	-	-
U.S. corporate bonds	4,631,598	-	4,631,598	-
Federal agency bonds	5,691,740	5,691,740	-	-
Municipal bonds	1,436,445	-	1,436,445	-
Alternative mutual funds	<u>51,319,260</u>	<u>51,319,260</u>	<u>-</u>	<u>-</u>
Total assets in fair value hierarchy	271,005,563	\$ <u>264,937,520</u>	\$ <u>6,068,043</u>	\$ <u>-</u>
Investments measured at net asset value	<u>685,816</u>			
Total assets at fair value	\$ <u>271,691,379</u>			

Continued



TANNER MEDICAL CENTER, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
June 30, 2020 and 2019

18. Fair Value Measurement, Continued

	<u>Fair Value</u>	<u>Fair Value Measurements at Reporting Date Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<u>June 30, 2019</u>				
<b>Assets:</b>				
Cash and cash equivalents	\$ 12,274,399	\$ 12,274,399	\$ -	\$ -
Mutual funds – equity	91,886,544	91,886,544	-	-
Mutual funds – international	8,308,377	8,308,377	-	-
Stocks and options	47,398,301	47,398,301	-	-
U.S. corporate bonds	31,785,921	29,180,501	2,605,420	-
Federal agency bonds	17,961,452	17,961,452	-	-
Municipal bonds	4,250,965	1,329,957	2,921,008	-
Alternative mutual funds	<u>42,950,917</u>	<u>42,950,917</u>	<u>-</u>	<u>-</u>
Total assets in fair value hierarchy	256,816,876	\$ <u>251,290,448</u>	\$ <u>5,526,428</u>	\$ <u>-</u>
Investments measured at net asset value	<u>965,507</u>			
Total assets at fair value	\$ <u>257,782,383</u>			

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

TANNER MEDICAL CENTER, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
June 30, 2020 and 2019

19. 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 undesignated 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. Plant replacement and expansion funds, specific-purpose funds, and assets obtained from endowment income of the Foundation are distributed to the Medical Center as required to comply with the purpose specified by donors. A summary of the Foundation's financial position 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,	
	<u>2020</u>	<u>2019</u>
<b>Assets:</b>		
Cash and cash equivalents	\$ 1,886,113	\$ 2,336,677
Unconditional promises to give	20,000	166,500
Investments	12,879,992	11,728,963
Other assets	<u>139,440</u>	<u>4,554</u>
Total assets	<u>\$ 14,925,545</u>	<u>\$ 14,236,694</u>
<b>Liabilities and net assets:</b>		
Accounts payable	\$ 907	\$ 7,139
Deferred revenue – annual ball	283,447	-
Due to related parties	<u>127,861</u>	<u>254,256</u>
Total liabilities	412,215	261,395
Net assets	<u>14,513,330</u>	<u>13,975,299</u>
Total liabilities and net assets	<u>\$ 14,925,545</u>	<u>\$ 14,236,694</u>
Revenue	\$ 1,960,757	\$ 2,690,843
Expenses	<u>1,422,726</u>	<u>1,469,135</u>
Change in net assets	538,031	1,221,708
Net assets, beginning of year	<u>13,975,299</u>	<u>12,753,591</u>
Net assets, end of year	<u>\$ 14,513,330</u>	<u>\$ 13,975,299</u>

Continued

TANNER MEDICAL CENTER, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
June 30, 2020 and 2019

20. Rural Hospital Tax Credit Contributions

The State of Georgia (State) passed legislation which will allow individuals or corporations to receive a State tax credit for making a contribution to certain qualified rural hospital organizations during calendar years 2017 through 2024. Higgins General Hospital (Higgins) submitted the necessary documentation and was approved by the State to participate in the rural hospital tax credit program for calendar years 2019 and 2020. Contributions received under the program approximated \$913,000 and \$2,024,000 during fiscal years 2020 and 2019, respectively. Higgins will have to be approved by the State to participate in the program in each subsequent year.

21. Liquidity and Availability

As of June 30, 2020 and 2019, the Medical Center has a working capital of approximately \$263,766,000 and \$204,479,000 and average days (based on normal expenditures) cash on hand of 85 and 80 days, respectively.

Financial assets available for general expenditure within one year of the balance sheet date, consists of the following at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 117,050,552	\$ 106,925,257
Short-term investments	102,175,716	60,649,558
Patient accounts receivable, net	90,196,115	68,189,925
Estimated third-party payor settlements	1,479,359	204,489
UPL receivable	1,784,570	2,176,461
Assets limited as to use:		
Internally designated	245,655,753	248,360,089
Less: conditional CARES Act refundable advances	( <u>3,799,429</u> )	<u>-</u>
 Total financial assets available	 \$ <u>554,542,636</u>	 \$ <u>486,505,779</u>

CARES Act refundable advances restricted for healthcare-related expense or lost revenue attributable to COVID-19 are excluded from the table above.

No other financial assets available are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. The Medical Center estimates that approximately 100% of the Board designated funds is available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the quantitative information above. The Medical Center has other assets whose use is limited for debt service. These assets whose use is limited are not available for general expenditure within the next year and are not reflected in the amounts above. The Medical Center has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

Continued

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
June 30, 2020 and 2019

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22. Coronavirus (COVID-19)

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen. The outbreak has put an unprecedented strain on the U.S. healthcare system, disrupted or delayed production and delivery of materials and products in the supply chain, and caused staffing shortages. The extent of the impact of COVID-19 on the Medical Center's operational and financial performance depends on certain developments, including the duration and spread of the outbreak, remedial actions and stimulus measures adopted by local and federal governments, and impact on the Medical Center's customers, employees and vendors all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the Medical Center's financial position or results of operations is uncertain.

On March 27, 2020, the President signed the Coronavirus Aid, Relief and Economic Security Act (CARES Act). Certain provisions of the CARES Act provide relief funds to hospitals and other healthcare providers. The funding will be used to support healthcare-related expenses or lost revenue attributable to COVID-19. The U.S. Department of Health and Human Services began distributing funds on April 10, 2020 to eligible providers in an effort to provide relief to both providers in areas heavily impacted by COVID-19 and those providers who are struggling to keep their doors open due to healthy patients delaying care and canceling elective services. On April 24, 2020, the *Paycheck Protection Program and Health Care Enhancement Act* was passed. This Act provides additional funding to replenish and supplement key programs under the CARES Act, including funds to health care providers for COVID-19 testing. The CARES Act funding is a conditional contribution and accounted for as a refundable advance until conditions have been substantially met or explicitly waived by the grantor. Because the use of the funds is limited to the purposes stated in the terms and conditions, the contributions are grantor restricted. The Medical Center reports restricted contributions, whose restrictions are met in the same period in which they are recognized (simultaneous release), as net assets without donor restrictions. Recognized revenue is reported as operating revenue in the statements of operations.

CARES Act funding may be subject to audits. While the Medical Center currently believes its use of the funds is in compliance with applicable terms and conditions, there is a possibility payments could be recouped based on changes in reporting requirements or audit results.

The CARES Act also expanded the existing Medicare Accelerated and Advance Payment Program by allowing qualifying providers to receive an advanced Medicare payment. The advance payment will have to be repaid. Recoupment begins one year after the date of receipt of the advance payment with a rate of 25% for the first eleven months of repayment, and 50% for the six months afterward. After this period, a total of 29 months, CMS will issue letters requiring repayment of any outstanding balance, subject to an interest rate of four percent. In April 2020, the Medical Center received approximately \$36,077,000 in advanced payments.

Continued

TANNER MEDICAL CENTER, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS, Continued  
June 30, 2020 and 2019

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22. Coronavirus (COVID-19), Continued

The Medical Center has received the following program funding:

- \$30 Billion General Distribution (1<sup>st</sup> round) – On April 10, 2020, HHS distributed \$30 billion to nearly 320,000 Medicare fee-for-service providers based on their portion of 2019 Medicare fee-for-service payments. The Medical Center received approximately \$6,494,000 in funding from this distribution.
- \$20 Billion General Distribution (2<sup>nd</sup> round) – On April 24, 2020, HHS distributed \$20 billion to Medicare fee-for-service providers based on revenues from cost report data or revenue submissions. The Medical Center received approximately \$3,625,000 in funding from this distribution.
- \$10 Billion Rural Distribution – On May 6, 2020, HHS distributed \$10 billion to almost 4,000 rural health care providers including hospitals, health clinics, and health centers. The Medical Center received \$22,025,000 in funding from this distribution.
- \$225 Million for COVID-19 Testing – On May 20, 2020, HHS distributed \$225 million to over 4,500 rural health clinics (RHCs) based on a fixed payment of \$49,461 per RHC. The Medical Center received approximately \$297,000 in funding from this distribution.

In addition, the CARES Act did the following:

- Sequestration – Suspended the Medicare sequestration payment adjustment, which reduces payments to providers by 2%, for the period May 1, 2020 through March 31, 2021.
- Medicare Add-on for Inpatient Hospital COVID-19 Patients – Increased the Medicare payment for hospital patients admitted with COVID-19 by 20%.

## ADDITIONAL INFORMATION

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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, 2020 and 2019, and our report thereon dated February 26, 2021, 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 49 through 54 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 combining information on pages 49 through 54 is fairly stated in all material respects in relation to the combined financial statements as a whole.

The statistical data on pages 45 and 46 and Schedule of Net Patient Service Revenue on pages 47 through 48, which are the responsibility of management, also are presented for purposes of additional analysis and are 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  
February 26, 2021

TANNER MEDICAL CENTER, INC.

STATISTICAL DATA  
for the years ended June 30, 2020 and 2019

	(Unaudited) <u>2020</u>	(Unaudited) <u>2019</u>
Inpatient days:		
Medical/surgical days	55,212	52,764
Behavioral health	24,629	25,451
Skilled nursing	<u>3,411</u>	<u>3,785</u>
Total inpatient days	<u>83,252</u>	<u>82,000</u>
Average daily inpatient census	<u>228</u>	<u>225</u>
Adjusted average daily census	<u>701</u>	<u>656</u>
Admissions:		
Medical/surgical	12,678	12,503
Behavioral health	4,316	4,365
Skilled nursing	<u>246</u>	<u>309</u>
Total admissions	<u>17,240</u>	<u>17,177</u>
Admissions by payor:		
Medicare – routine	6,912	7,195
Medicare – behavioral health	427	508
Medicaid	4,935	5,026
Other	<u>4,966</u>	<u>4,448</u>
Total admissions by payor	<u>17,240</u>	<u>17,177</u>
Average length of stay	<u>4.8</u>	<u>4.8</u>
Patient days by payor:		
Medicare – routine	37,066	37,270
Medicare – behavioral	3,202	3,727
Medicaid	21,873	22,261
Other	<u>21,111</u>	<u>18,742</u>
Total patient days by payor	<u>83,252</u>	<u>82,000</u>

Continued



TANNER MEDICAL CENTER, INC.

STATISTICAL DATA, Continued  
for the years ended June 30, 2020 and 2019

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	(Unaudited) <u>2020</u>	(Unaudited) <u>2019</u>
Deliveries	<u>1,807</u>	<u>1,796</u>
Surgery cases	<u>12,234</u>	<u>11,433</u>
Emergency room visits	<u>116,928</u>	<u>128,512</u>
Outpatient visits	<u>316,434</u>	<u>344,066</u>
Tanner Medical Group visits	<u>375,259</u>	<u>335,118</u>
Adjusted patient days	<u>248,963</u>	<u>239,479</u>

See accompanying auditor's report on supplementary information.

TANNER MEDICAL CENTER, INC.

SCHEDULE OF NET PATIENT SERVICE REVENUE  
June 30, 2020

	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 Balance At June 30, 2020
Gross patient charges							
Inpatient	\$ 372,019,558	\$ 152,306,251	\$ 13,068,271	\$ -	\$ 537,394,080	\$ 3,119,964	\$ 540,514,044
Outpatient	518,236,124	294,137,036	77,241,289	-	889,614,449	23,625,091	913,239,540
Practice	<u>21,015,170</u>	<u>11,434,968</u>	<u>8,405,435</u>	<u>80,405,994</u>	<u>121,261,567</u>	<u>4,826,728</u>	<u>126,088,295</u>
Total gross patient charges	<u>911,270,852</u>	<u>457,878,255</u>	<u>98,714,995</u>	<u>80,405,994</u>	<u>1,548,270,096</u>	<u>31,571,783</u>	<u>1,579,841,879</u>
Uncompensated services:							
Charity and indigent care	45,089,651	20,500,482	7,776,322	553,736	73,920,191	2,541,670	76,461,861
Medicare	354,224,039	115,021,478	25,335,448	-	494,580,965	5,103,127	499,684,092
Medicaid	79,756,751	62,553,867	9,272,106	-	151,582,724	3,214,239	154,796,963
Other third-party payors	120,236,637	69,129,115	17,574,479	41,097,317	248,037,548	8,261,781	256,299,329
Price concessions	<u>31,707,626</u>	<u>20,952,441</u>	<u>4,331,296</u>	<u>2,134,785</u>	<u>59,126,148</u>	<u>1,561,196</u>	<u>60,687,344</u>
Total uncompensated care	<u>631,014,704</u>	<u>288,157,383</u>	<u>64,289,651</u>	<u>43,785,838</u>	<u>1,027,247,576</u>	<u>20,682,013</u>	<u>1,047,929,589</u>
Net patient service revenue	\$ <u>280,256,148</u>	\$ <u>169,720,872</u>	\$ <u>34,425,344</u>	\$ <u>36,620,156</u>	\$ <u>521,022,520</u>	\$ <u>10,889,770</u>	\$ <u>531,912,290</u>

See accompanying auditor's report on supplementary information.

TANNER MEDICAL CENTER, INC.

SCHEDULE OF NET PATIENT SERVICE REVENUE  
June 30, 2019

	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 Balance At June 30, 2019
Gross patient charges							
Inpatient	\$ 345,029,151	\$ 130,961,154	\$ 14,504,293	\$ -	\$ 490,494,598	\$ 2,706,589	\$ 493,201,187
Outpatient	569,327,800	299,541,248	85,493,781	-	954,362,829	27,299,443	981,662,272
Practice	<u>18,461,017</u>	<u>8,216,979</u>	<u>9,191,904</u>	<u>89,041,618</u>	<u>124,911,518</u>	<u>-</u>	<u>124,911,518</u>
Total gross patient charges	<u>932,817,968</u>	<u>438,719,381</u>	<u>109,189,978</u>	<u>89,041,618</u>	<u>1,569,768,945</u>	<u>30,006,032</u>	<u>1,599,774,977</u>
Uncompensated services:							
Charity and indigent care	43,698,077	18,041,920	7,677,040	441,026	69,858,063	2,356,257	72,214,320
Medicare	368,713,727	105,433,290	28,401,142	39,338	502,587,497	7,828,994	510,416,491
Medicaid	80,316,737	70,225,741	10,399,254	-	160,941,732	3,549,143	164,490,875
Other third-party payors	115,526,178	61,206,151	20,781,478	45,680,947	243,194,754	5,152,346	248,347,100
Price concessions	<u>32,707,682</u>	<u>19,444,534</u>	<u>4,967,595</u>	<u>952,024</u>	<u>58,071,835</u>	<u>3,710,522</u>	<u>61,782,357</u>
Total uncompensated care	<u>640,962,401</u>	<u>274,351,636</u>	<u>72,226,509</u>	<u>47,113,335</u>	<u>1,034,653,881</u>	<u>22,597,262</u>	<u>1,057,251,143</u>
Net patient service revenue	\$ <u>291,855,567</u>	\$ <u>164,367,745</u>	\$ <u>36,963,469</u>	\$ <u>41,928,283</u>	\$ <u>535,115,064</u>	\$ <u>7,408,770</u>	\$ <u>542,523,834</u>

See accompanying auditor's report on supplementary information.

TANNER MEDICAL CENTER, INC.

COMBINING BALANCE SHEETS

June 30, 2020

	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, 2020
<b>ASSETS</b>									
Current assets:									
Cash and cash equivalents	\$ 115,134,313	\$ 99,858	\$ ( 739)	\$ 1,027,493	\$ 116,260,925	\$ 597,408	\$ 116,858,333	\$ 192,219	\$ 117,050,552
Short-term investments	102,175,716	-	-	-	102,175,716	-	102,175,716	-	102,175,716
Due from related parties	-	193,441,034	41,197,494	-	234,638,528	-	234,638,528	(234,638,528)	-
Assets limited as to use, current portion	8,035,626	-	-	-	8,035,626	-	8,035,626	-	8,035,626
Patient accounts receivable, net	46,396,670	31,240,914	4,574,888	2,772,845	84,985,317	5,210,798	90,196,115	-	90,196,115
Supplies, at lower of cost and net realizable value	5,923,756	3,391,980	500,809	344,786	10,161,331	167,823	10,329,154	55,524	10,384,678
Estimated third-party payor settlements	482,821	-	994,539	1,999	1,479,359	-	1,479,359	-	1,479,359
Other current assets	16,553,933	993,195	143,309	236,815	17,927,252	435,208	18,362,460	14,811	18,377,271
Total current assets	294,702,835	229,166,981	47,410,300	4,383,938	575,664,054	6,411,237	582,075,291	(234,375,974)	347,699,317
Assets limited as to use:									
Internally designated	245,655,753	-	-	-	245,655,753	-	245,655,753	-	245,655,753
Held by trustee under indenture	26,035,626	-	-	-	26,035,626	-	26,035,626	-	26,035,626
Assets limited as to use, current portion	( 8,035,626)	-	-	-	( 8,035,626)	-	( 8,035,626)	-	( 8,035,626)
Noncurrent assets limited as to use	263,655,753	-	-	-	263,655,753	-	263,655,753	-	263,655,753
Property and equipment, net	230,519,260	74,093,535	24,928,679	41,435,352	370,976,826	25,026,752	396,003,578	3,263,871	399,267,449
Interest in net assets of Tanner Medical Foundation, Inc.	-	-	-	-	-	-	-	14,513,330	14,513,330
Other assets:									
Physician notes receivable and other	7,393,560	-	-	-	7,393,560	-	7,393,560	-	7,393,560
Goodwill and intangible assets	-	2,908,800	-	-	2,908,800	-	2,908,800	-	2,908,800
Total other assets	7,393,560	2,908,800	-	-	10,302,360	-	10,302,360	-	10,302,360
Total assets	\$ 796,271,408	\$ 306,169,316	\$ 72,338,979	\$ 45,819,290	\$ 1,220,598,993	\$ 31,437,989	\$ 1,252,036,982	\$(216,598,773)	\$ 1,035,438,209

Continued

TANNER MEDICAL CENTER, INC.

COMBINING BALANCE SHEETS, Continued  
June 30, 2020

	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, 2020
<b><u>LIABILITIES AND NET ASSETS</u></b>									
Current liabilities:									
Current portion of long-term debt	\$ 10,520,376	\$ -	\$ -	\$ -	\$ 10,520,376	\$ -	\$ 10,520,376	\$ -	\$ 10,520,376
Due to related parties	( 37,122,060)	-	-	252,803,884	215,681,824	15,179,002	230,860,826	(230,860,826)	-
Accounts payable	17,723,570	5,595,617	1,269,359	1,040,099	25,628,645	1,169,725	26,798,370	( 61,141)	26,737,229
Accrued salaries	22,004,691	2,426,752	914,055	871,673	26,217,171	295,277	26,512,448	-	26,512,448
Other accrued expenses	9,595,293	127,333	-	-	9,722,626	6,535	9,729,161	-	9,729,161
Estimated third-party payor settlements	705,413	1,130,622	-	-	1,836,035	289,137	2,125,172	-	2,125,172
Medicare advance payments	3,010,069	1,324,679	85,295	27,158	4,447,201	62,458	4,509,659	-	4,509,659
CARES Act refundable advances	( 3,753,349)	1,225,408	5,776,930	( 2,915,966)	333,023	3,466,406	3,799,429	-	3,799,429
Total current liabilities	<u>22,684,003</u>	<u>11,830,411</u>	<u>8,045,639</u>	<u>251,826,848</u>	<u>294,386,901</u>	<u>20,468,540</u>	<u>314,855,441</u>	<u>(230,921,967)</u>	<u>83,933,474</u>
Medicare advance payments, excluding current portion	<u>21,070,482</u>	<u>9,272,756</u>	<u>597,061</u>	<u>190,102</u>	<u>31,130,401</u>	<u>437,216</u>	<u>31,567,617</u>	<u>-</u>	<u>31,567,617</u>
Long-term debt, net of current portion:									
Notes payable	1,279,580	-	-	-	1,279,580	-	1,279,580	-	1,279,580
Revenue certificates payable	198,353,531	-	-	-	198,353,531	-	198,353,531	-	198,353,531
Total long-term debt, net of current portion	<u>199,633,111</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>199,633,111</u>	<u>-</u>	<u>199,633,111</u>	<u>-</u>	<u>199,633,111</u>
Total liabilities	<u>243,387,596</u>	<u>21,103,167</u>	<u>8,642,700</u>	<u>252,016,950</u>	<u>525,150,413</u>	<u>20,905,756</u>	<u>546,056,169</u>	<u>(230,921,967)</u>	<u>315,134,202</u>
Net assets:									
Net assets without donor restrictions	552,883,812	285,066,149	63,696,279	(206,197,660)	695,448,580	10,532,233	705,980,813	2,060,197	708,041,010
Net assets with donor restrictions	-	-	-	-	-	-	-	12,262,997	12,262,997
Total net assets	<u>552,883,812</u>	<u>285,066,149</u>	<u>63,696,279</u>	<u>(206,197,660)</u>	<u>695,448,580</u>	<u>10,532,233</u>	<u>705,980,813</u>	<u>14,323,194</u>	<u>720,304,007</u>
Total liabilities and net assets	<u>\$ 796,271,408</u>	<u>\$ 306,169,316</u>	<u>\$ 72,338,979</u>	<u>\$ 45,819,290</u>	<u>\$ 1,220,598,993</u>	<u>\$ 31,437,989</u>	<u>\$ 1,252,036,982</u>	<u>\$(216,598,773)</u>	<u>\$ 1,035,438,209</u>

See accompanying auditor's report on supplementary information.

TANNER MEDICAL CENTER, INC.

COMBINING BALANCE SHEETS  
June 30, 2019

	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, 2019
<b>ASSETS</b>									
Current assets:									
Cash and cash equivalents	\$ 85,953,812	\$ 4,515	\$ 2,583	\$ 12,841,378	\$ 98,802,288	\$ 7,969,914	\$ 106,772,202	\$ 153,055	\$ 106,925,257
Short-term investments	60,649,558	-	-	-	60,649,558	-	60,649,558	-	60,649,558
Due from related parties	-	168,088,933	33,647,913	-	201,736,846	-	201,736,846	(201,736,846)	-
Assets limited as to use, current portion	7,926,052	-	-	-	7,926,052	-	7,926,052	-	7,926,052
Patient accounts receivable, net	37,396,731	20,676,147	3,901,494	3,109,767	65,084,139	3,105,786	68,189,925	-	68,189,925
Supplies, at lower of cost and net realizable value	4,957,433	2,388,898	506,055	294,845	8,147,231	144,940	8,292,171	50,217	8,342,388
Estimated third-party payor settlements	-	-	204,489	-	204,489	-	204,489	-	204,489
Other current assets	<u>18,521,673</u>	<u>1,175,432</u>	<u>1,185,657</u>	<u>( 355,596)</u>	<u>20,527,166</u>	<u>588,616</u>	<u>21,115,782</u>	<u>( 1,322)</u>	<u>21,114,460</u>
Total current assets	<u>215,405,259</u>	<u>192,333,925</u>	<u>39,448,191</u>	<u>15,890,394</u>	<u>463,077,769</u>	<u>11,809,256</u>	<u>474,887,025</u>	<u>(201,534,896)</u>	<u>273,352,129</u>
Assets limited as to use:									
Internally designated	248,360,089	-	-	-	248,360,089	-	248,360,089	-	248,360,089
Held by trustee under indenture	9,422,294	-	-	-	9,422,294	-	9,422,294	-	9,422,294
Assets limited as to use, current portion	<u>( 7,926,052)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>( 7,926,052)</u>	<u>-</u>	<u>( 7,926,052)</u>	<u>-</u>	<u>( 7,926,052)</u>
Noncurrent assets limited as to use	<u>249,856,331</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>249,856,331</u>	<u>-</u>	<u>249,856,331</u>	<u>-</u>	<u>249,856,331</u>
Property and equipment, net	<u>230,537,929</u>	<u>75,687,796</u>	<u>23,912,646</u>	<u>20,500,373</u>	<u>350,638,744</u>	<u>26,915,043</u>	<u>377,553,787</u>	<u>-</u>	<u>377,553,787</u>
Interest in net assets of Tanner Medical Foundation, Inc.	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,975,299</u>	<u>13,975,299</u>
Other assets:									
Physician notes receivable and other	6,886,402	-	-	-	6,886,402	-	6,886,402	-	6,886,402
Goodwill and intangible assets	<u>-</u>	<u>3,272,400</u>	<u>-</u>	<u>-</u>	<u>3,272,400</u>	<u>-</u>	<u>3,272,400</u>	<u>-</u>	<u>3,272,400</u>
Total other assets	<u>6,886,402</u>	<u>3,272,400</u>	<u>-</u>	<u>-</u>	<u>10,158,802</u>	<u>-</u>	<u>10,158,802</u>	<u>-</u>	<u>10,158,802</u>
Total assets	<u>\$ 702,685,921</u>	<u>\$ 271,294,121</u>	<u>\$ 63,360,837</u>	<u>\$ 36,390,767</u>	<u>\$ 1,073,731,646</u>	<u>\$ 38,724,299</u>	<u>\$ 1,112,455,945</u>	<u>\$(187,559,597)</u>	<u>\$ 924,896,348</u>

Continued

TANNER MEDICAL CENTER, INC.

COMBINING BALANCE SHEETS, Continued  
June 30, 2019

	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, 2019
<b><u>LIABILITIES AND NET ASSETS</u></b>									
Current liabilities:									
Current portion of long-term debt	\$ 7,762,595	\$ -	\$ -	\$ -	\$ 7,762,595	\$ -	\$ 7,762,595	\$ -	\$ 7,762,595
Due to related parties	( 37,154,354)	-	-	218,167,083	181,012,729	20,659,113	201,671,842	(201,671,842)	-
Accounts payable	16,460,798	2,694,294	813,851	776,524	20,745,467	883,660	21,629,127	8,346	21,637,473
Accrued salaries	20,838,503	2,253,294	945,744	1,390,696	25,428,237	287,982	25,716,219	-	25,716,219
Other accrued expenses	10,556,884	126,234	-	-	10,683,118	6,535	10,689,653	-	10,689,653
Estimated third-party payor settlements	1,487,174	1,152,661	90,415	55,378	2,785,628	281,099	3,066,727	-	3,066,727
Total current liabilities	19,951,600	6,226,483	1,850,010	220,389,681	248,417,774	22,118,389	270,536,163	(201,663,496)	68,872,667
Long-term debt, net of current portion:									
Revenue certificates payable	166,218,338	-	-	-	166,218,338	-	166,218,338	-	166,218,338
Total long-term debt, net of current portion	166,218,338	-	-	-	166,218,338	-	166,218,338	-	166,218,338
Total liabilities	186,169,938	6,226,483	1,850,010	220,389,681	414,636,112	22,118,389	436,754,501	(201,663,496)	235,091,005
Net assets:									
Net assets without donor restrictions	516,515,983	265,067,638	61,510,827	(183,998,914)	659,095,534	16,605,910	675,701,444	2,479,162	678,180,606
Net assets with donor restrictions	-	-	-	-	-	-	-	11,624,737	11,624,737
Total net assets	516,515,983	265,067,638	61,510,827	(183,998,914)	659,095,534	16,605,910	675,701,444	14,103,899	689,805,343
Total liabilities and net assets	\$ 702,685,921	\$ 271,294,121	\$ 63,360,837	\$ 36,390,767	\$ 1,073,731,646	\$ 38,724,299	\$ 1,112,455,945	\$(187,559,597)	\$ 924,896,348

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, 2020

	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, 2020
Revenues, gains and other support:									
Net patient service revenue	\$ 280,256,148	\$ 169,720,872	\$ 34,425,344	\$ 36,620,156	\$ 521,022,520	\$ 10,889,770	\$ 531,912,290	\$ -	\$ 531,912,290
Other revenue	5,182,046	2,400,063	191,921	456,510	8,230,540	71,386	8,301,926	196,757	8,498,683
CARES Act funding	<u>19,321,127</u>	<u>1,938,264</u>	<u>3,576,299</u>	<u>3,751,567</u>	<u>28,587,257</u>	<u>409,324</u>	<u>28,996,581</u>	<u>-</u>	<u>28,996,581</u>
Total revenues, gains and other support	<u>304,759,321</u>	<u>174,059,199</u>	<u>38,193,564</u>	<u>40,828,233</u>	<u>557,840,317</u>	<u>11,370,480</u>	<u>569,210,797</u>	<u>196,757</u>	<u>569,407,554</u>
Expenses:									
Salaries	124,211,709	50,648,525	15,432,783	30,628,094	220,921,111	6,777,912	227,699,023	-	227,699,023
Employee benefits	39,634,969	5,682,905	1,735,143	2,737,786	49,790,803	786,291	50,577,094	-	50,577,094
Contracted services	22,956,570	7,453,522	2,391,177	458,700	33,259,969	2,057,385	35,317,354	-	35,317,354
Purchased services	22,060,866	4,404,981	1,384,403	460,040	28,310,290	275,897	28,586,187	203,776	28,789,963
Supplies and drugs	58,528,232	39,126,597	2,649,148	2,541,124	102,845,101	964,851	103,809,952	149,894	103,959,846
Insurance	2,956,432	98,837	44,566	557,295	3,657,130	18,079	3,675,209	-	3,675,209
Depreciation	29,136,942	7,609,465	2,612,825	2,469,526	41,828,758	2,119,437	43,948,195	-	43,948,195
Interest and amortization	5,999,244	-	-	-	5,999,244	-	5,999,244	-	5,999,244
Other	<u>38,942,572</u>	<u>5,075,125</u>	<u>1,045,540</u>	<u>732,186</u>	<u>45,795,423</u>	<u>693,800</u>	<u>46,489,223</u>	<u>370</u>	<u>46,489,593</u>
Total expenses	<u>344,427,536</u>	<u>120,099,957</u>	<u>27,295,585</u>	<u>40,584,751</u>	<u>532,407,829</u>	<u>13,693,652</u>	<u>546,101,481</u>	<u>354,040</u>	<u>546,455,521</u>
Operating income (loss)	<u>( 39,668,215)</u>	<u>53,959,242</u>	<u>10,897,979</u>	<u>243,482</u>	<u>25,432,488</u>	<u>( 2,323,172)</u>	<u>23,109,316</u>	<u>(157,283)</u>	<u>22,952,033</u>
Other income (loss):									
Contributions and other	161,105	-	912,706	-	1,073,811	1,085,219	2,159,030	( 47,132)	2,111,898
Investment income	24,110,154	-	-	-	24,110,154	320	24,110,474	-	24,110,474
Loss on disposal of assets	( 1,890,000)	( 65,288)	( 31,126)	( 2,696,148)	( 4,682,562)	-	( 4,682,562)	-	( 4,682,562)
Net unrealized loss on investments	<u>( 14,933,576)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>( 14,933,576)</u>	<u>-</u>	<u>( 14,933,576)</u>	<u>-</u>	<u>( 14,933,576)</u>
Total other income	<u>7,447,683</u>	<u>( 65,288)</u>	<u>881,580</u>	<u>( 2,696,148)</u>	<u>5,567,827</u>	<u>1,085,539</u>	<u>6,653,366</u>	<u>( 47,132)</u>	<u>6,606,234</u>
Excess revenues (expenses)	<u>( 32,220,532)</u>	<u>53,893,954</u>	<u>11,779,559</u>	<u>( 2,452,666)</u>	<u>31,000,315</u>	<u>( 1,237,633)</u>	<u>29,762,682</u>	<u>(204,415)</u>	<u>29,558,267</u>
Shared service expenses	<u>68,075,166</u>	<u>( 33,895,443)</u>	<u>( 9,594,109)</u>	<u>(19,749,568)</u>	<u>4,836,046</u>	<u>( 4,836,046)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues over expenses and shared service expenses	<u>\$ 35,854,634</u>	<u>\$ 19,998,511</u>	<u>\$ 2,185,450</u>	<u>\$(22,202,234)</u>	<u>\$ 35,836,361</u>	<u>\$( 6,073,679)</u>	<u>\$ 29,762,682</u>	<u>\$(204,415)</u>	<u>\$ 29,558,267</u>

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, 2019

	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, 2020
Revenues, gains and other support:									
Net patient service revenue	\$ 291,855,568	\$ 164,367,746	\$ 36,963,470	\$ 41,928,281	\$ 535,115,065	\$ 7,408,769	\$ 542,523,834	\$ -	\$ 542,523,834
Other revenue	4,786,911	2,125,119	178,390	380,210	7,470,630	135,785	7,606,415	237,373	7,843,788
CARES Act funding	-	-	-	-	-	-	-	-	-
Total revenues, gains and other support	<u>296,642,479</u>	<u>166,492,865</u>	<u>37,141,860</u>	<u>42,308,491</u>	<u>542,585,695</u>	<u>7,544,554</u>	<u>550,130,249</u>	<u>237,373</u>	<u>550,367,622</u>
Expenses:									
Salaries	122,085,112	47,145,912	15,218,707	31,153,036	215,602,767	4,716,533	220,319,300	-	220,319,300
Employee benefits	38,772,249	5,263,232	1,710,054	2,744,320	48,489,855	518,317	49,008,172	-	49,008,172
Contracted services	23,485,497	6,973,077	2,257,103	474,075	33,189,752	2,172,955	35,362,707	-	35,362,707
Purchased services	20,096,278	3,824,989	1,695,894	537,588	26,154,749	295,135	26,449,884	75,622	26,525,506
Supplies and drugs	57,904,888	35,920,477	2,814,090	3,243,732	99,883,187	946,185	100,829,372	175,160	101,004,532
Insurance	4,712,298	59,835	35,460	508,709	5,316,302	1,893	5,318,195	-	5,318,195
Depreciation	24,887,255	6,616,260	2,520,436	1,810,855	35,834,806	1,850,514	37,685,320	-	37,685,320
Interest and amortization	4,685,670	-	-	-	4,685,670	-	4,685,670	-	4,685,670
Other	34,977,875	5,043,157	825,352	816,529	41,662,913	717,116	42,380,029	-	42,380,029
Total expenses	<u>331,607,122</u>	<u>110,846,939</u>	<u>27,077,096</u>	<u>41,288,844</u>	<u>510,820,001</u>	<u>11,218,648</u>	<u>522,038,649</u>	<u>250,782</u>	<u>522,289,431</u>
Operating income (loss)	<u>( 34,964,643)</u>	<u>55,645,926</u>	<u>10,064,764</u>	<u>1,019,647</u>	<u>31,765,694</u>	<u>( 3,674,094)</u>	<u>28,091,600</u>	<u>( 13,409)</u>	<u>28,078,191</u>
Other income (loss):									
Contributions and other	199,329	-	2,024,442	-	2,223,771	1,017,683	3,241,454	( 59,000)	3,182,454
Investment income	17,891,327	-	-	-	17,891,327	167	17,891,494	-	17,891,494
Gain (loss) on disposal of assets	( 144,450)	261,514	( 55,224)	287	62,127	-	62,127	-	62,127
Net unrealized loss on investments	( 239,655)	-	-	-	( 239,655)	-	( 239,655)	-	( 239,655)
Total other income	<u>17,706,551</u>	<u>261,514</u>	<u>1,969,218</u>	<u>287</u>	<u>19,937,570</u>	<u>1,017,850</u>	<u>20,955,420</u>	<u>( 59,000)</u>	<u>20,896,420</u>
Excess revenues (expenses)	<u>( 17,258,092)</u>	<u>55,907,440</u>	<u>12,033,982</u>	<u>1,019,934</u>	<u>51,703,264</u>	<u>( 2,656,244)</u>	<u>49,047,020</u>	<u>( 72,409)</u>	<u>48,974,611</u>
Shared service expenses	<u>61,686,986</u>	<u>( 29,912,356)</u>	<u>( 9,566,839)</u>	<u>(20,411,425)</u>	<u>1,796,366</u>	<u>( 1,796,366)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues over expenses and shared service expenses	<u>\$ 44,428,894</u>	<u>\$ 25,995,084</u>	<u>\$ 2,467,143</u>	<u>\$(19,391,491)</u>	<u>\$ 53,499,630</u>	<u>\$( 4,452,610)</u>	<u>\$ 49,047,020</u>	<u>\$( 72,409)</u>	<u>\$ 48,974,611</u>

See accompanying auditor's report on supplementary information.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements of Tanner Medical Center, Inc. (Medical Center) as of and for the year ended June 30, 2020, and the related notes to the combined financial statements, and have issued our report thereon dated February 26, 2021.

**Internal Control Over Financial Reporting**

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

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

Continued

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Draffin & Tucker, LLP*

Albany, Georgia  
February 26, 2021