



Consolidated Financial Statements (and Supplemental Schedules)

Northeast Georgia Health System, Inc. and Affiliates

Years Ended September 30, 2020 and 2019

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Consolidated Financial Statements (and Supplemental Schedules)

Years Ended September 30, 2020 and 2019

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Northeast Georgia Health System, Inc.:

We have audited the accompanying consolidated financial statements of Northeast Georgia Health System, Inc. and Affiliates (the System), which comprise the consolidated balance sheets as of September 30, 2020 and 2019, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the System's preparation and fair presentation of the consolidated 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 System'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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Northeast Georgia Health System, Inc. and Affiliates as of September 30, 2020 and 2019, and the results of their operations, changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note N to the consolidated financial statements, the healthcare industry has been impacted due to the outbreak of the coronavirus disease 2019 (COVID-19). Government support, including the Coronavirus Aid, Relief, and Economic Security (CARES) Act provided essential funding to eligible hospitals, physicians and other healthcare providers. Our opinion is not modified with respect to this matter.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental consolidating information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

PYA, P.C.

Atlanta, Georgia
January 14, 2021

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Consolidated Balance Sheets

	<i>September 30,</i>	
	<i>2020</i>	<i>2019</i>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 65,817,636	\$ 17,333,818
Investments	108,341,985	164,737,862
Assets limited as to use, required for current obligations	3,614,731	25,464,907
Patient accounts receivable	116,159,697	115,975,506
Inventory of supplies	17,853,756	11,373,449
Other current assets	7,873,692	9,954,633
TOTAL CURRENT ASSETS	319,661,497	344,840,175
INVESTMENTS	1,001,385,457	882,463,229
ASSETS LIMITED AS TO USE		
Under indenture agreements - held by trustees	158,514	13,725,780
Under self-insurance agreements	43,025,915	42,283,288
By Board for designated capital purposes	79,696,896	86,225,206
Other	69,444,191	67,123,815
	192,325,516	209,358,089
Less amounts required for current obligations	(3,614,731)	(25,464,907)
ASSETS LIMITED AS TO USE	188,710,785	183,893,182
PROPERTY AND EQUIPMENT, net	797,486,427	798,864,473
OTHER ASSETS		
Goodwill	3,263,093	3,263,093
Property held for future investment	6,758,959	6,755,321
Estimated fair value of interest rate swaps	-	5,101,197
Other	4,722,648	3,437,401
TOTAL OTHER ASSETS	14,744,700	18,557,012
TOTAL ASSETS	\$ 2,321,988,866	\$ 2,228,618,071

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Consolidated Balance Sheets - Continued

	<i>September 30,</i>	
	<i>2020</i>	<i>2019</i>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 20,567,649	\$ 24,573,882
Accrued interest	4,941,448	4,495,653
Accounts payable and other accrued expenses	74,878,949	83,665,892
Accrued salaries, benefits, compensated absences and amounts withheld	104,056,224	83,737,594
Advance payments from third party payers - Note N	98,904,677	-
Deferred revenue - Note N	50,019,516	-
Estimated third-party payer settlements	10,544,415	7,805,376
TOTAL CURRENT LIABILITIES	363,912,878	204,278,397
LONG-TERM DEBT, less current portion	951,140,643	966,983,744
ESTIMATED SELF-INSURANCE LIABILITIES	50,365,914	41,932,387
OTHER LONG-TERM LIABILITIES		
Deferred compensation	37,211,186	33,005,839
Estimated fair value of interest rate swaps	-	6,818,560
Pension liability	98,907,315	45,446,277
TOTAL OTHER LONG-TERM LIABILITIES	136,118,501	85,270,676
TOTAL LIABILITIES	1,501,537,936	1,298,465,204
COMMITMENTS AND CONTINGENCIES -		
Notes I and Q		
NET ASSETS		
Without donor restrictions	796,774,448	908,496,026
With donor restrictions	23,676,482	21,656,841
TOTAL NET ASSETS	820,450,930	930,152,867
TOTAL LIABILITIES AND NET ASSETS	\$ 2,321,988,866	\$ 2,228,618,071

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Consolidated Statements of Operations and Changes in Net Assets

	<i>Year Ended September 30,</i>	
	2020	2019
Changes in net assets without donor restrictions:		
Patient service revenue	\$ 1,367,581,330	\$ 1,384,745,460
Other operating revenue	36,635,450	31,549,851
TOTAL OPERATING REVENUES	1,404,216,780	1,416,295,311
Expenses:		
Salaries and wages	686,136,929	625,975,118
Employee benefits	130,413,410	129,863,936
Physicians' fees	27,567,301	22,552,311
Utilities	14,000,559	14,143,273
Supplies	252,125,130	237,293,141
Legal, consulting and professional fees	5,853,257	11,668,381
Contracted outside services	65,047,008	67,181,567
Insurance	19,180,596	12,943,004
Interest	34,035,597	37,479,235
Depreciation and amortization	98,097,769	95,593,057
Other operating expenses	106,848,380	100,466,924
TOTAL OPERATING EXPENSES	1,439,305,936	1,355,159,947
OPERATING (LOSS) INCOME BEFORE PROVIDER RELIEF FUND REVENUE	(35,089,156)	61,135,364
Provider relief fund revenue - Note N	42,491,299	-
INCOME FROM OPERATIONS	7,402,143	61,135,364
Nonoperating (losses) gains:		
(Loss) gain from investments, net	(40,020,058)	51,844,427
Loss on extinguishment of long-term debt	(5,287,356)	-
(Loss) gain on sale of property, plant and equipment, net	(30,182)	62,379
Change in estimated fair value and loss on extinguishment of interest rate swaps	(9,876,647)	(22,574,859)
Miscellaneous, net	(843,735)	(786,222)
NET NONOPERATING (LOSSES) GAINS	(56,057,978)	28,545,725
(DEFICIT) EXCESS OF REVENUE AND GAINS OVER EXPENSES AND LOSSES	(48,655,835)	89,681,089

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Consolidated Statements of Operations and Changes in Net Assets - Continued

	<i>Year Ended September 30,</i>	
	2020	2019
Other changes in net assets without donor restrictions:		
Pension asset/liability adjustments	(63,585,082)	(62,588,117)
Net assets released for capital expenditures	-	1,996,461
Other changes	519,339	(105,677)
TOTAL OTHER CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS	(63,065,743)	(60,697,333)
(DECREASE) INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	(111,721,578)	28,983,756
NET ASSETS WITHOUT DONOR RESTRICTIONS, BEGINNING OF YEAR	908,496,026	879,512,270
NET ASSETS WITHOUT DONOR RESTRICTIONS, END OF YEAR	\$ 796,774,448	\$ 908,496,026
Changes in net assets with donor restrictions:		
Contributions for equipment, education, indigent patients and community benefits	\$ 3,457,050	\$ 3,238,108
Partnership earnings and other changes	(100,742)	98,281
Change in expected losses and discounts on pledges	(71,342)	201,359
Net assets released from restrictions	(1,292,265)	(2,632,906)
Other changes, net	26,940	(32,580)
INCREASE IN NET ASSETS WITH DONOR RESTRICTIONS	2,019,641	872,262
NET ASSETS WITH DONOR RESTRICTIONS, BEGINNING OF YEAR	21,656,841	20,784,579
NET ASSETS WITH DONOR RESTRICTIONS, END OF YEAR	23,676,482	21,656,841
TOTAL (DECREASE) INCREASE IN NET ASSETS	(109,701,937)	29,856,018
TOTAL NET ASSETS, BEGINNING OF YEAR	930,152,867	900,296,849
TOTAL NET ASSETS, END OF YEAR	\$ 820,450,930	\$ 930,152,867

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Consolidated Statements of Cash Flows

	<i>Year Ended September 30,</i>	
	<i>2020</i>	<i>2019</i>
CASH FLOWS FROM OPERATING ACTIVITIES:		
(Decrease) Increase in net assets	\$ (109,701,937)	\$ 29,856,018
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	98,097,769	95,593,057
Loss (gain) on sale of property, plant and equipment	30,182	(62,379)
Loss on sales of investments and assets limited as to use	15,947,571	9,377,474
Loss on extinguishment of long-term debt	5,287,356	-
Pension plan adjustments	63,585,082	62,588,117
Change in expected losses and discounts on pledges	71,342	(201,359)
Change in net unrealized gains/losses on investments and assets limited as to use	51,754,813	(26,135,324)
Restricted contributions	(3,457,050)	(3,238,108)
Change in estimated fair value and loss on extinguishment of interest rate swaps	9,876,647	22,574,859
Changes in assets and liabilities:		
Patient accounts receivable	(184,191)	10,281,413
Inventory of supplies	(6,480,307)	(1,325,542)
Other current assets	2,009,599	(1,190,988)
Other long-term assets	(1,578,303)	11,524,914
Accrued interest	445,795	(62,204)
Accounts payable and other accrued expenses, and other long-term liabilities	(16,136,249)	(5,489,724)
Accrued salaries, benefits, compensated absences and amounts withheld	20,318,630	12,885,043
Estimated third-party payer settlements	2,739,039	(2,768,782)
Estimated self-insurance liabilities	8,433,527	6,202,545
Total adjustments	250,761,252	190,553,012
NET CASH PROVIDED BY OPERATING ACTIVITIES	141,059,315	220,409,030

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Consolidated Statements of Cash Flows - Continued

	<i>Year Ended September 30,</i>	
	<i>2020</i>	<i>2019</i>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(85,801,146)	(69,943,720)
Proceeds from sales of property, plant and equipment	29,925	39,472
Purchases of investments and assets limited as to use	(822,280,948)	(641,792,436)
Proceeds from maturities and sales of investments and assets limited as to use	709,084,786	480,713,986
NET CASH USED IN INVESTING ACTIVITIES	(198,967,383)	(230,982,698)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable and long-term debt, net of issuance costs	400,214,489	-
Payments to escrow to relieve long-term debt	(415,682,748)	-
Principal payments on long-term debt	(18,927,088)	(25,950,925)
Payments to terminate interest rate swaps, net	(11,594,010)	-
Stimulus funding - Note N	148,924,193	-
Restricted contributions received	3,457,050	3,238,108
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	106,391,886	(22,712,817)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	48,483,818	(33,286,485)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	17,333,818	50,620,303
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 65,817,636	\$ 17,333,818
SUPPLEMENTAL INFORMATION:		
Cash paid during the year for interest	\$ 33,589,802	\$ 37,541,439
SUPPLEMENTAL SCHEDULE OF NON-CASH ACTIVITIES:		
Equipment purchases financed with capital leases	\$ 9,051,937	\$ 9,021,206
Property, plant and equipment received and accrued in payables	\$ 7,304,248	\$ 5,873,639

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

Years Ended September 30, 2020 and 2019

NOTE A--ORGANIZATION AND OPERATIONS

Northeast Georgia Health System, Inc. and its affiliates (the System) were organized to provide healthcare services to the residents of counties in northeastern Georgia.

Northeast Georgia Health System, Inc. (NGHS) serves as the parent company for its controlled affiliates described below. NGHS provides for the method of electing the Trustees and Directors for these controlled affiliates and engages in corporate planning and management, corporate financial management, corporate marketing, and resource allocation to the controlled affiliates and health education programs for the general population in Northeast Georgia. All controlled affiliates are located in or near Hall County, Georgia.

Northeast Georgia Medical Center, Inc. (NGMC) was formed to serve and promote the public health of the general population and operates an acute care hospital with a 557-bed campus in Gainesville and a 100-bed campus in Braselton, and their related facilities, for the benefit of the general public.

NGMC Lumpkin, LLC (NGMC-Lumpkin), a Georgia limited liability company, is a 52-bed hospital located in Dahlonega, Georgia. NGHS is the only member of NGMC-Lumpkin. The facility opened on July 16, 2019.

NGMC Barrow, LLC (NGMC-Barrow), a Georgia limited liability company, is a 56-bed hospital located in Winder, Georgia. NGHS is the only member of NGMC-Barrow.

The Medical Center Foundation (the Foundation) manages fundraising and development activities on behalf of the System.

Northeast Georgia Physicians Group, Inc. (NGPG) was formed to improve access to healthcare services throughout the service region. NGPG employs primary care and specialty physicians.

Northeast Georgia Health Partners, LLC (NGHP) was formed as a subsidiary of NGHS to operate a preferred provider organization.

The Heart Center, LLC (THC), a Georgia limited liability company, is a cardiology physician practice. NGHS is the only member of THC.

NGHS, NGMC, the Foundation, and NGPG are organized as Georgia not-for-profit corporations and are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

The income for NGMC-Barrow, NGMC-Lumpkin and THC passes through to NGHS, which is tax exempt. NGHP is organized as a for-profit corporation.

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2020 and 2019

During 2020, Lanier Community Assurance, Ltd. (LCA) was formed for the primary purpose to provide professional liability and workers' compensation coverage for the System. LCA is incorporated in the Cayman Islands and currently recognized as tax-exempt by the Cayman Islands Government.

NOTE B--SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of NGHS and its controlled affiliates. All significant intercompany accounts and transactions have been eliminated in the accompanying consolidated financial statements.

Use of Estimates: The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Significant estimates include estimated explicit and implicit price concessions, amounts due to or from third-party payers, investment valuations, allocations of functional expenses, depreciable lives and impairment considerations of property, plant and equipment, goodwill, deferred liabilities, derivatives and professional and other insurance liabilities. Actual results could differ from those estimates.

Cash and Cash Equivalents: Cash and cash equivalents include cash and short-term term deposits and similar money market instruments, with maturities of less than three months when purchased, excluding amounts included as assets limited as to use or in the long-term investment portfolio.

Investments and Assets Limited as to Use: A portion of investments and assets limited as to use at September 30, 2020 and 2019 includes the System's percentage of ownership in a limited partnership investment fund (the Fund) whose primary objective is to generate a higher than average cash flow yield through investment in publicly traded equity securities. The System accounts for its investment in the Fund under the equity method of accounting with the System's share of the Fund's gains and losses, both realized and unrealized, recognized as nonoperating gains and losses.

All other investments and assets limited as to use which are not invested in the Fund are stated at fair value based on quoted market prices. The portion of investments related to financial instruments with remaining maturities of less than one year and the portion of assets limited as to use that is required to satisfy current obligations are classified as current assets.

Assets limited as to use include assets held by trustees under bond indenture agreements, assets held by trustees under professional liability and workers' compensation self-insurance trust arrangements, assets designated by the Board for specific purposes, and assets designated by donors for specific purposes and held by the Foundation.

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2020 and 2019

Interest and dividend investment income on proceeds of borrowings that are held by trustees, to the extent not capitalized, is reported as a part of other operating revenue. Investment income and losses on all other investments and assets limited as to use (including gains and losses on sales of proceeds of borrowings that are held by trustees) is reported, net of investment expenses, as nonoperating gains and losses. The cost of securities sold is determined on the specific identification method, with net realized gains and losses reported as nonoperating gains and losses.

Unrealized gains and losses on investments and assets limited as to use which are not invested in the Fund are recorded as gains or losses from investments.

Inventory of Supplies: Inventory consists of medical and other supplies and is stated at the lower of cost or net realizable value, with cost determined by the first-in, first-out method.

Property, Plant and Equipment and Depreciation: Property, plant and equipment is stated on the basis of cost or, if donated, fair value at the date of donation. Depreciation is computed by the straight-line method over the estimated useful lives of the assets using the half-year method. The depreciable lives range from 15 to 40 years for buildings and land improvements, and from 3 to 15 years for equipment and vehicles. Expenditures for maintenance, repairs and minor renewals are charged to operations as incurred. Expenditures for betterments and major renewals are capitalized. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the financial statements. Any resulting gain or loss is included in nonoperating gains and losses.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor restrictions 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.

The System periodically reviews property, plant and equipment for indicators of potential impairment of long-lived assets and, if such review indicates carrying amounts may not be recoverable, adjusts the carrying value and recognizes a loss. Management does not believe that any unrecognized impairment exists at September 30, 2020 and 2019, respectively.

Deferred Financing Costs: Deferred financing costs relate to the System's long-term debt and are amortized over the terms of the respective issues in a manner that approximates the effective interest method and are reported as a direct deduction of the related long-term debt.

Derivative Financial Instruments: The System was party to various interest rate swaps that terminated in 2020 as discussed in Note F. These financial instruments were not designated as

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2020 and 2019

hedges and had been presented at estimated fair market value in the accompanying Consolidated Balance Sheets. The estimated fair value was based on amounts the System would receive or pay to enter into similar agreements at the Consolidated Balance Sheet dates. Changes in estimated fair value are included as nonoperating gains and losses in the accompanying Consolidated Statements of Operations and Changes in Net Assets. Even though not designated as hedges, the purpose of the interest rate swaps was to reduce the volatility of market rates associated with outstanding debt.

Estimated Professional Liability Self-Insurance and Other Long-Term Liabilities: Self-insurance liabilities include estimated reserves for reported and unreported professional liability claims and are recorded at the estimated net present value of such claims. Other long-term liabilities include obligations under deferred compensation arrangements, a defined benefit pension plan, a post-retirement employee benefit plan, as well as other liabilities which management estimates are not payable within one year.

(Deficit) Excess of Revenue and Gains Over Expenses and Losses: The Consolidated Statements of Operations and Changes in Net Assets include the *(Deficit) Excess of Revenue and Gains Over Expenses and Losses*. Changes in net assets without donor restrictions which are excluded from *(Deficit) Excess of Revenue and Gains Over Expenses and Losses*, consistent with industry practice, include certain assets limited as to use, transfers of assets to and from affiliates for other than goods or services, pension liability adjustments, and contributions of long-lived assets, including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets.

Transactions deemed by management to be ongoing, major, or central to the provision of healthcare services of the System are reported as operating revenues and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses.

Charity Care: NGMC, NGMC-Barrow, NGMC-Lumpkin, NGPG and THC provide care to patients who meet certain criteria under their charity care policies without charge or at amounts less than its established rates. Generally, care provided for a patient whose household income is at or below 300 percent of the federal poverty guidelines is approved for charity care. Because NGMC, NGMC-Barrow, NGMC-Lumpkin, NGPG and THC do not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as revenue. Charges foregone, based on established rates, related to charity care were approximately \$349,753,000 and \$297,385,000 for the years ended September 30, 2020 and 2019, respectively, which are net of indigent care trust fund proceeds of approximately \$7,613,000 and \$7,356,000 in 2020 and 2019, respectively. Under an agreement with the Georgia Department of Community Health Division of Medical Assistance (Georgia Medicaid), the Hospital Authority of Hall County and the City of Gainesville through NGMC pays into an indigent care trust fund and is then eligible to receive indigent care trust fund payments.

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2020 and 2019

The estimated cost of providing charity care totaled approximately \$90,310,000 and \$73,870,000 for the years ended September 30, 2020 and 2019, respectively. The estimated costs of providing charity care are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing charity care. The ratio of costs to charges is calculated based on the System's total expenses divided by patient service revenue.

In addition to the patient charity care services, the System provides a number of other services to benefit the indigent for which little or no payment is received. Medicare, Medicaid and State indigent programs do not cover the full cost of providing care to beneficiaries of those programs. The System also provides services to the community at large for which it receives little or no payment. Estimated contractual adjustments for the years ended September 30, 2020 and 2019 include approximately \$79,003,000 and \$81,892,000, respectively, related to discounts provided to self-pay patients in order to facilitate prompt payment.

Patient Service Revenue/Receivables: Patient service revenue is reported on the accrual basis and reflects the amount that the System expects to receive in exchange for services provided during the period including estimated retroactive adjustments under reimbursement agreements with third-party payers. Revenue is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided and may have a term of several days or longer. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected charges.

Generally, System performance obligations satisfied over time relate to patients receiving inpatient acute cares services. The System measures the performance obligation from admission into one of the System's facilities, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services.

All of the System's performance obligations relate to contracts with a duration of less than one year; therefore, the System has elected to apply the optional exemptions provided in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 606-10-50-14(a) and as a result 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 System determines the transaction price for patient service revenue based on standard charges for goods and services provided, reduced by explicit price concessions for contractual adjustments provided to third-party payers, discounts provided to uninsured patients in accordance with the System's financial assistance policy, and implicit price concessions provided to uninsured or

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2020 and 2019

under-insured patients. The System determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The System determines its estimate of implicit price concessions based on its historical collection experience.

Retroactive adjustments for third-party payers are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined or additional information is obtained.

Patient accounts receivable are reported net of both an estimated allowance for contractual adjustments and an allowance for implicit price concessions. The System's policy does not require collateral or other security for patient accounts receivable. The System routinely accepts assignment of, or is otherwise entitled to receive, patient benefits payable under health insurance programs, plans or policies.

The System 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 payers for the effects of a significant financing component due to the System'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 payer pays for that service will be one year or less. The System does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. However, in these cases, the financing component is not deemed to be significant to the contracts.

Donor Gifts: Unconditional promises to give cash and other assets to the System are reported at estimated net realizable value at the date the promise is received. Conditional promises to give, and indications of intentions to give, are reported at net realizable value at the date the gift is received. Resources restricted by donors for specific operating purposes (or to specific time periods) are held as net assets with donor restrictions until expended for the intended purpose (or the time restriction expires), at which time they are reported as net assets released from restrictions used for operations. Resources restricted by donors for additions to property, plant and equipment (or payments on debt incurred for property additions) are held as net assets with donor restrictions until expended, at which time they are reported as net assets released from restrictions used for the purchase of property, plant and equipment.

Gifts, grants and bequests not restricted by donors are reported as net assets without donor restrictions. Unconditional promises to give that are expected to be received within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the estimated present value of their estimated future cash flows. The discounts on those amounts are computed using estimated rates applicable to the years in which the promises are received. An estimated allowance for uncollectible pledges is recorded based on management's evaluation of promises to give. The System's policies do not require collateral or other security for promises to give.

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2020 and 2019

Income Taxes: NGHS, NGMC, the Foundation, NGPG, and LCA are classified as organizations exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code or provisions of the Companies Law of the Cayman Islands. The income for NGMC-Barrow, NGMC-Lumpkin and THC passes through to NGHS, which is tax exempt. As such, no provision for income taxes has been made in the accompanying consolidated financial statements. NGHP is a taxable entity and accounts for income taxes in accordance with the FASB ASC 740, *Income Taxes* (ASC 740). At September 30, 2020 and 2019, respectively, management does not believe the System holds any uncertain tax positions that would require financial statement recognition or disclosure under ASC 740. It is the System's policy to recognize interest and/or penalties related to income tax matters as an operating expense.

Goodwill: Goodwill represents the excess purchase price over the assigned fair value of identifiable tangible assets and separately identified intangible assets acquired in the acquisition of various entities. Management annually evaluates goodwill for impairment and records any reduction in goodwill in the period such impairment is determined. Management believes no such impairment exists at September 30, 2020 and 2019, respectively.

Recently Adopted Accounting Principles: In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08), which provides clarity in distinguishing grants or similar contracts between exchange transactions or contributions and guidance on classifying whether or not a transaction is conditional. ASU 2018-08 is effective for contributions received during fiscal years beginning after December 15, 2018, and early adoption is permitted. Management adopted this ASU effective October 1, 2019. The adoption of this ASU did not have a material impact on the consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15 *Statement of Cash Flows (Topic 320)* (ASU 2016-15), which clarifies classification of certain cash receipts and payments within the statement of cash flows. ASU 2016-15 provides guidance on eight specific cash flow issues, including treatment of distributions received from equity method investees. ASU 2016-15 states that investors will make an accounting policy election to classify distributions received from equity method investees using either the "cumulative earnings approach" or the "nature of the distribution approach." These approaches determine the classification of distributions from equity method investees between operating and investing activities. In November 2016, the FASB issued ASU No. 2016-18 *Statement of Cash Flows (Topic 320) Restricted Cash* (ASU 2016-18), which clarifies classification and presentation of changes in cash whose use is restricted by donors. ASU 2016-15 and ASU 2016-18 are effective for fiscal years beginning after December 15, 2018, and early adoption is permitted. Management adopted these ASUs effective October 1, 2019. The adoption of these ASUs did not have a material impact on the consolidated financial statements.

Recently Issued Accounting Principles: The following upcoming changes to accounting standards may impact the System's consolidated financial statements when they become effective.

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2020 and 2019

In September 2020, the FASB issued Accounting Standards Update (ASU) No. 2020-07, *Not-for-Profit Entities: Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This ASU will be effective for fiscal years beginning after June 15, 2021. Management is currently evaluating the impact, if any, of adopting this ASU.

In March 2017, the FASB issued ASU No. 2017-08, *Receivables-Nonrefundable Fees and Other Costs: Premium Amortization on Purchased Callable Debt Securities* (ASU 2017-08), which shortens the amortization period for any premium to the earliest call date. Bonds purchased with a discount are not impacted by this ASU. ASU 2017-08 will be effective for fiscal years beginning after December 15, 2019. Management adopted this ASU effective October 1, 2020.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which requires balance sheet recognition of a liability and right-to-use asset for substantially all leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2019 and requires a modified retrospective transition approach for leases existing at the date of adoption. Management adopted this ASU effective October 1, 2020.

Reclassifications: Certain reclassifications have been made to the amounts to conform to the 2020 presentation. These reclassifications had no impact on the consolidated increase in net assets or total net assets.

NOTE C--NET PATIENT SERVICE REVENUE/RECEIVABLES

The System has agreements with various third-party payers that provide for payments at amounts different from established rates. A summary of the payment arrangements with significant third-party payers follows:

Medicare: Acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates based upon diagnostic related group assignments, which are determined by the patient's clinical diagnosis and medical procedures utilized. The System receives additional payments from Medicare based on the provision of services to a disproportionate share of Medicaid and other low-income patients. The Medicare program reimburses for outpatient services under a prospective method utilizing an ambulatory payment classification system which classifies outpatient services based upon medical procedures and diagnosis codes. Certain nonacute services and defined capital costs are paid based on a cost reimbursement methodology. NGMC is paid at a tentative rate with final settlement determined after submission of their annual cost reports and audits thereof by the Medicare fiscal intermediary.

Medicaid: Inpatient acute care services rendered to Medicaid program beneficiaries are paid based on prospectively determined rates per discharge using diagnosis related group assignments. Outpatient services are paid under a cost reimbursement methodology at a

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2020 and 2019

tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Georgia Department of Community Health.

Other: The System has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, preferred provider organizations and employer groups. The basis for payment under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Amounts recorded under certain of these contractual arrangements are subject to review and final determination by various program intermediaries. Settlements with third-party payers 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 payer, correspondence from the payer and historical settlement activity, including an assessment to ensure that a significant reversal of revenue recognized will not occur. Estimated settlements are adjusted in future periods as adjustments become known or as years are settled or are no longer subject to such audits, reviews, and investigations. No significant amount of patient service revenue was recognized for the years ended September 30, 2020 and 2019 as a result of changes in or adjustments to prior years' settlement estimates or final settlements of prior periods.

Generally, patients who are covered by third-party payers are responsible for related deductibles and coinsurance, which vary in amount. The System also provides services to uninsured and underinsured patients that do not qualify for financial assistance. Based on historical experience, a significant portion of uninsured and underinsured patients are unable or unwilling to pay for their responsible amounts for services provided and a significant discount for this implicit price concession is recorded in the period services are provided.

Using a portfolio approach, the System estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. In addition, for uninsured patients, the System reduces charges from current rates based on average discounts provided to certain third-party payers. 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 recorded as adjustments to patient service revenue in the period of the change. Adjustments for such changes in the estimated transaction price were not significant for the years ended September 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. No significant amount of bad debt expense was reported for the years ended September 30, 2020 and 2019.

NGMC and NGMC-Barrow also participate in the Georgia Department of Community Health Upper Payment Limit (UPL) program. The UPL program allows for non-state local government

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2020 and 2019

hospitals and nursing homes to be paid 100 percent of the amount Medicare would pay for similar Medicaid services. During fiscal years 2020 and 2019, NGMC received approximately \$7,573,000 and \$7,843,000, respectively, from the UPL program. NGMC-Barrow did not receive any funds from the UPL program in 2020. During fiscal year 2019, NGMC-Barrow received approximately \$113,000. UPL amounts received are included in patient service revenue.

Effective July 1, 2010, the state of Georgia enacted legislation known as the Provider Payment Agreement Act (the Act) whereby certain hospitals, as defined in the Act, are assessed a “provider payment” in the amount of 1.45% of their net patient service revenue, as defined in the Act. 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 and are considered a community benefit by providers. Approximately \$13,587,000 and \$12,416,000 relating to the Act are included in other operating expenses in the accompanying Consolidated Statement of Operations and Changes in Net Assets for the years ended September 30, 2020 and 2019, respectively.

Patient service revenue, net of contractual adjustments, discounts and implicit price concessions, based on the type of service, is composed of the following for the year ended September 30:

	<u>2020</u>	<u>2019</u>
Medicare	\$ 684,928,373	\$ 688,098,049
Medicaid	155,089,871	153,571,646
Commercial	361,376,750	389,332,149
Self-Pay	120,487,966	110,679,365
Other	45,698,370	43,064,251
Patient service revenue	<u>\$ 1,367,581,330</u>	<u>\$ 1,384,745,460</u>

NOTE D--INVESTMENTS AND ASSETS LIMITED AS TO USE

The composition of assets limited as to use at September 30, 2020 and 2019, is as follows:

	<u>2020</u>	<u>2019</u>
Indenture agreements - held by trustees:		
Cash and money market funds	\$ 158,513	\$ 6,328,947
Corporate bonds	-	7,366,786
Accrued income	1	30,047
	<u>158,514</u>	<u>13,725,780</u>

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Professional liability self-insurance agreement - held by trustee:		
Cash and money market funds	2,455,637	8,757,554
Government bonds	19,202,803	-
Corporate bonds	8,643,111	12,848,736
Equity securities	7,169,635	8,185,797
Accrued income	399,834	357,951
	<u>37,871,020</u>	<u>30,150,038</u>
Workers' compensation self-insurance agreement - held by trustee:		
Cash and money market funds	550,341	4,427,612
Government bonds	3,391,296	-
Corporate bonds	1,007,679	7,524,642
Accrued income	205,579	180,996
	<u>5,154,895</u>	<u>12,133,250</u>
Board designated for capital improvements:		
Cash and money market funds	13,883,242	10,775,503
Equity securities	65,813,654	75,449,703
	<u>79,696,896</u>	<u>86,225,206</u>
Other		
Cash and money market funds	994,613	1,164,481
Mutual funds	34,780,895	30,938,148
Corporate bonds	5,043,659	4,224,855
Equity securities	3,026,033	1,767,771
Limited partnership investments	19,794,693	23,129,335
Other	5,778,824	5,874,642
Accrued income	25,474	24,583
	<u>69,444,191</u>	<u>67,123,815</u>
	192,325,516	209,358,089
Less assets limited as to use that are required for current obligations	<u>(3,614,731)</u>	<u>(25,464,907)</u>
	<u>\$ 188,710,785</u>	<u>\$ 183,893,182</u>

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2020 and 2019

The composition of investments at September 30, 2020 and 2019, is as follows:

	<u>2020</u>	<u>2019</u>
Cash and money market funds	\$ 108,341,985	\$ 164,737,862
Government bonds	332,432,499	99,195,219
Corporate bonds	262,691,746	100,373,329
Equity securities	404,592,333	681,462,857
Accrued income	1,668,879	1,431,824
	<u>1,109,727,442</u>	<u>1,047,201,091</u>
Less current investments	<u>(108,341,985)</u>	<u>(164,737,862)</u>
	<u>\$ 1,001,385,457</u>	<u>\$ 882,463,229</u>

Investment income on proceeds of borrowings that are held by trustees was \$141,617 and \$393,674, for the years ended September 30, 2020 and 2019, respectively, and is included as a part of other operating revenue in the accompanying Consolidated Statements of Operations and Changes in Net Assets. The net (loss) gain from all other investments and assets limited as to use without donor restrictions for the years ended September 30, 2020 and 2019, was comprised of the following:

	<u>2020</u>	<u>2019</u>
Interest and dividend income	\$ 32,596,926	\$ 37,139,680
Limited partnership (losses) earnings	(2,130,180)	710,036
Net realized losses	(15,947,571)	(9,377,474)
Change in net unrealized gains/losses	(51,754,813)	26,135,324
Investment expense	(2,784,420)	(2,763,139)
Net investment (loss) gain	<u>\$ (40,020,058)</u>	<u>\$ 51,844,427</u>

Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes to risk factors in the near term could materially affect the amounts reported in the consolidated financial statements.

NOTE E--PROPERTY AND EQUIPMENT, NET

Property and equipment at September 30, 2020 and 2019 are as follows:

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Land	\$ 63,227,352	\$ 62,887,540
Land improvements	16,670,702	16,575,654
Building and building equipment	918,093,414	865,887,299
Equipment	676,981,613	646,749,101
Capital leases	9,591,957	15,010,735
Vehicles	5,351,830	4,791,318
	<u>1,689,916,868</u>	<u>1,611,901,647</u>
Less accumulated depreciation and amortization	<u>(913,281,606)</u>	<u>(834,722,957)</u>
	776,635,262	777,178,690
Construction in progress - Note Q	<u>20,851,165</u>	<u>21,685,783</u>
	<u>\$ 797,486,427</u>	<u>\$ 798,864,473</u>

NOTE F--LONG-TERM DEBT

A summary of long-term debt at September 30, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Revenue Anticipation Certificates, Series 2020A		
Interest rates ranging from 3.00% to 5.00%; interest payments due annually through February 2047	\$ 339,260,000	\$ -
Plus unamortized premium	62,592,045	-
Revenue Anticipation Certificates, Series 2017A		
Interest rates ranging from 4.00% to 5.00%; interest payments due semi-annually through February 2045	170,025,000	170,025,000
Plus unamortized premium	14,309,553	14,765,029
Revenue Anticipation Certificates, Series 2017B		
Interest rates ranging from 3.75% to 5.50%; interest payments due semi-annually through February 2045	140,540,000	140,540,000
Plus unamortized premium	17,649,940	18,211,741
Revenue Anticipation Certificates, Series 2017C		
Variable rate certificate; interest payments due monthly through February 2047	-	75,000,000
Revenue Anticipation Certificates, Series 2017D		
Variable rate certificate; interest payments due monthly through February 2044	-	68,205,000

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Revenue Anticipation Certificates, Series 2014A		
Interest rates ranging from 4.00% to 5.50%; interest payments due semi-annually through August 2054	206,925,000	206,925,000
Plus unamortized premium	16,265,803	16,744,209
Revenue Anticipation Certificates, Series 2014B		
Variable rate certificates; interest payments due monthly through August 2035	-	135,500,000
Less unamortized discount	-	(528,250)
Revenue Anticipation Certificates, Series 2011A		
Variable rate certificates; interest payments due monthly through May 2026	-	30,925,000
Revenue Anticipation Certificates, Series 2010A		
Interest rates ranging from 4.00% to 5.50%; interest payments due semi-annually through February 2045	-	59,850,000
Less unamortized discount	-	(2,250,156)
Revenue Anticipation Certificates, Series 2010B		
Interest rates ranging from 4.00% to 5.50%; interest payments due semi-annually through February 2045	-	51,935,000
Less unamortized discount	-	(584,562)
Other notes payable at rates ranging from 1.90% to 4.15%	360,000	360,000
Capitalized leases	9,545,854	11,020,340
	<u>977,473,195</u>	<u>996,643,351</u>
Less current portion	(20,567,649)	(24,573,882)
Less issuance cost	(5,764,903)	(5,085,725)
	<u>\$ 951,140,643</u>	<u>\$ 966,983,744</u>

All of the outstanding Revenue Anticipation Certificates utilize the same basic structure. The Hospital Authority of Hall County and the City of Gainesville (the Authority) issues Revenue Anticipation Certificates that are exempt from Federal income tax. The Authority loans the proceeds from the sale of the certificates to NGHS and NGMC. For each issue of certificates, there is a trust indenture that controls the business terms of that debt. NGHS and NGMC (the Obligated Group) are bound by a note payable to the Authority to provide amounts sufficient to pay the maturing installments of principal and interest. The trust indentures require that certain funds be deposited with the trustee. These funds are included in assets limited as to use in the accompanying Consolidated Balance Sheets and are available to pay principal and interest, subject to the provisions of the indentures.

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2020 and 2019

In connection with the formation of NGHS, the Authority entered into a lease agreement dated October 1, 1986 with NGMC whereby the Authority leased all of its assets (including the main hospital campus) to NGMC. In return, NGMC assumed all of the debt and other obligations of the Authority. The lease includes ongoing covenants including a duty to provide indigent care. The lease had an initial term of forty years and has since been extended to September 1, 2054. Management believes that NGMC was in compliance with all of its lease obligations as of September 30, 2020.

All of the outstanding Revenue Anticipation Certificates are secured by a Master Trust Agreement, with parity to all issues, whereby the Obligated Group has pledged all of its gross revenues to secure the prompt payment of the certificates. The Master Trust Agreement limits additional indebtedness and provides that any default on any obligation secured under the Master Trust Agreement is a default under the Master Trust Agreement as well. NGMC has also mortgaged its interest in the main hospital campus (including equipment and related assets) to the Master Trustee under a 2010 Leasehold Deed to Secure Debt and Security Agreement. The Master Trust Agreement dated February 1, 2010 was amended and restated as of March 1, 2020 pursuant to the Series 2020A Certificates issuance.

The terms of the various indentures require the maintenance of certain financial ratios and compliance with other covenants. Management believes the Obligated Group was in compliance with all financial and other covenants as of September 30, 2020 and 2019, respectively.

In March 2020, the Obligated Group issued Revenue Anticipation Certificates Series 2020A, in the aggregate principal amount of \$339,260,000. The proceeds of the sale of the Series 2020A Certificates, were used to (i) advance refund the outstanding amounts of the Series 2010A, Series 2010B, Series 2011A, Series 2014B, Series 2017C, and the Series 2017D Certificates which were issued to finance or refinance a portion of the cost of the acquisition, construction, installation, and equipping of hospital and related facilities for NGHS or its affiliates, and (ii) pay related costs of issuing the Series 2020A Certificates. The Series 2020A Certificates bear interest ranging from 3% to 5% per annum. Except during a term or fixed interest rate period, interest on the Series 2020A Certificates shall accrue interest based on the actual number of days elapsed during the interest rate period and a year of 365 days. The 2020A Certificates maturing on February 15, 2045 are subject to mandatory sinking fund redemption payments beginning February 15, 2041 and ending February 15, 2045, which range from \$14,440,000 to \$17,370,000. The 2020A Certificates maturing on February 15, 2047 are subject to mandatory sinking fund redemption payments beginning February 15, 2046 and ending February 15, 2047, which range from \$24,300,000 to \$25,040,000. The sale proceeds of the Series 2020A Certificates were subject to an original issue premium and issuance costs of approximately \$63,777,000 and \$2,822,000, respectively, and will be amortized monthly in accordance with the term of the Series 2020A Certificates.

In February 2017, the Obligated Group issued Revenue Anticipation Certificates Series 2017A, Series 2017B, Series 2017C, and Series 2017D in the aggregate principal amount of \$460,565,000.

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2020 and 2019

The proceeds of the sale of the Series 2017 Certificates, were used to (i) advance refund a portion of the outstanding amount of the Series 2010A and Series 2010B Certificates, (ii) finance a portion of the costs of certain additions and improvements to, and equipment for, the healthcare facilities operated by NGHS and its affiliates in Hall County, Georgia, and (iii) pay related costs of issuing the Series 2017 Certificates.

The Series 2017A Certificates consist of \$170,025,000 term certificates maturing at various dates through February 15, 2045 bearing interest at rates ranging from 4.00% to 5.00% and subject to mandatory sinking fund redemption payments beginning February 15, 2038 and ending February 15, 2042, which range from \$10,775,000 to \$12,995,000; and mandatory sinking fund redemption payments beginning February 15, 2043 and ending February 15, 2045, which range from \$11,825,000 to \$13,065,000. Certificates maturing on or after February 15, 2028 are subject to optional redemption at par plus accrued interest by the Authority, at the direction of NGHS, on or after February 15, 2027.

The Series 2017B Certificates consist of \$140,540,000 term certificates maturing at various dates through February 15, 2045 bearing interest at rates ranging from 3.75% to 5.50% and subject to mandatory sinking fund redemption payments beginning February 15, 2038 and ending February 15, 2042, which range from \$6,215,000 to \$10,460,000; and mandatory sinking fund redemption payments beginning February 15, 2043 and ending February 15, 2045, which range from \$6,890,000 to \$7,655,000. Certificates maturing on or after February 15, 2028 are subject to optional redemption at par plus accrued interest by the Authority, at the direction of NGHS, on or after February 15, 2027.

The advance refunded Series 2017C Certificate consisted of a \$75,000,000 term certificate subject to mandatory sinking fund redemption payments beginning February 15, 2044 and ending February 15, 2047, which ranged from \$8,225,000 to \$27,550,000 and bore interest at a variable "R-FLOATs Rate" as defined in the Series 2017C Trust Indenture as the lowest interest rate that would, in the opinion of the remarketing agent, result in the market value of the certificate being 100% of the principal amount thereof on the applicable weekly rate determination date. Certificates in the R-FLOATs weekly rate mode were subject to optional redemption in whole or in part at a redemption price equal to 100% of the principal amount of the certificate to be redeemed, plus accrued interest, on the first day of each month.

The advance refunded Series 2017D Certificate consisted of a \$75,000,000 term certificate subject to mandatory sinking fund redemption payments which began February 15, 2018 and were scheduled to end February 15, 2044, which ranged from \$435,000 to \$11,565,000. The 2017D Certificate was modified in 2019 to bear interest at a variable rate of 79% of the one-month LIBOR plus a spread of 40 basis points.

In December 2014, the Authority issued Revenue Anticipation Certificates Series 2014A and 2014B in an aggregate principal amount of \$342,425,000. The Series 2014A and 2014B

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2020 and 2019

Certificates are collectively referred to as the “2014 Certificates.” NGHS used the proceeds of the 2014 Certificates to refinance the Series 2012 Certificates, as well as portions of the 2010 Certificates, in addition to other uses.

The Series 2014A Certificates consist of \$27,500,000 term certificates maturing August 15, 2046 bearing interest at 4.00% and subject to mandatory sinking fund redemption payments beginning August 15, 2041, which range from \$2,500,000 to \$15,000,000; \$60,375,000 term certificates maturing August 15, 2049 bearing interest at 5.25% and subject to mandatory sinking fund redemption payments beginning August 15, 2046, which range from \$2,560,000 to \$20,265,000; and \$119,050,000 term certificates maturing August 15, 2054 bearing interest at 5.50% and subject to mandatory sinking fund redemption payments beginning August 15, 2050, which range from \$21,330,000 to \$26,425,000.

The Series 2014A Certificates are subject to optional redemption at par by the Authority, at the direction of NGHS, on or after February 15, 2025.

The Series 2014B Certificates consisted of \$135,500,000 term certificates maturing August 15, 2035, initially bearing interest at a variable rate, and subject to mandatory sinking fund redemption payments beginning August 15, 2020, which ranged from \$3,040,000 to \$22,800,000. The Authority issued the Series 2014B Certificates in Floating Rate (FRN) mode. During this initial FRN Period, the Certificates bore interest at the USD Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index plus a spread of 95 basis points. The initial FRN Period ended on February 17, 2020. All 2014B Certificates were subject to mandatory tender for purchase on February 18, 2020. NGHS was obligated to provide funds to purchase the Certificates on that date. NGHS refinanced the Series 2014B Certificates in February 2020 and then advance refunded the outstanding balance as part of the Series 2020A Certificates issuance.

In August 2011, the Authority issued Revenue Anticipation Certificates Series 2011A in the aggregate principal amount of \$46,625,000, subject to mandatory sinking fund redemption prior to maturity in amounts ranging from \$3,500,000 on May 15, 2018 to \$5,400,000 on May 15, 2025 with a final maturity of \$2,750,000 on May 15, 2026. The 2011A Certificates were modified in 2019 to bear interest at a variable rate of 79% of the one-month LIBOR plus a spread of 40 basis points. The Series 2011A were advance refunded as part of the Series 2020A Certificates issuance.

In February 2010, the Authority issued Revenue Anticipation Certificates Series 2010A in the aggregate principal amount of \$319,830,000. Also, in February 2010, the Authority issued Revenue Anticipation Certificates Series 2010B in the aggregate amount of \$250,000,000. The Series 2010A and 2010B Certificates are collectively referred to as the “2010 Certificates.” The 2010A Certificates maturing on February 15, 2025 and February 15, 2034 were redeemed during fiscal year 2015 using proceeds from the 2014B Certificates. Various certificates maturing on dates ranging from February 15, 2021 through February 15, 2045 were advance refunded during 2017

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2020 and 2019

using proceeds from the 2017A Certificates. The outstanding certificates were advance refunded during 2020 using proceeds from the 2020A Certificates.

The 2010B Certificates, issued with an aggregate principal amount of \$250,000,000, maturing on February 15, 2030 and February 15, 2035 were redeemed during fiscal year 2015 using proceeds from the 2014A Certificates. Various certificates maturing on dates ranging from February 15, 2021 through February 15, 2045 were advance refunded during 2017 using proceeds from the 2017B Certificates. The remaining Series 2010B Certificates were advance refunded from the 2020A Certificates.

The advance refunding of the 2017C, 2017D, 2011A, 2014B, 2010A and 2010B Certificates, previously described, was accomplished by placing funds in escrow accounts in order to satisfy remaining scheduled principal and interest payments of the outstanding debt. Prior to September 30, 2020, these advance refunded certificates were redeemed with their respective deposits in escrow. As such, there is no debt outstanding and not recognized, due to advanced refunding, in the Consolidated Balance Sheet at September 30, 2020.

The Series 2014A and 2017B Certificates are also secured by an Intergovernmental Contract between the Authority and Hall County, Georgia. If the Obligated Group fails to timely pay these Certificates, Hall County has promised to assess up to seven mills of property tax as an additional source of payment for the Certificate holders.

Long-term debt at September 30, 2020 and 2019 also includes notes payable to financial institutions, as well as capital leases extending through fiscal 2023.

Scheduled maturities of long-term debt, excluding unamortized original issue discounts and premiums, and capital lease obligations, excluding interest, for each of the next five years and in the aggregate at September 30, 2020 are as follows:

<u>Year Ending September 30,</u>	
2021	\$ 18,127,696
2022	16,187,531
2023	15,791,627
2024	14,917,000
2025	15,692,000
Thereafter	785,940,000
	<u>\$ 866,655,854</u>

In connection with the issuance of the Series 2011A Certificates, which refunded the previously issued Series 2008A Certificates, NGHS entered into an interest rate swap agreement with a bank as counterparty. Under terms of the agreement, NGHS paid the counterparty a fixed rate of 3.371%

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2020 and 2019

based upon a notional amount approximately equal to the principal amount of the Certificates and would receive an amount based on the same notional amount at a floating rate equal to 65% of the one-month LIBOR plus 19 basis points. The estimated fair market value of the swap was a liability of \$2,483,400 at September 30, 2019. During 2020 the swap was terminated.

During 2011, NGHS entered into a fixed spread basis swap agreement with a bank as counterparty in order to reduce its fixed rate debt service costs through a swap structure that takes on basis risk. The swap had a notional value of \$100,000,000. NGHS was to pay an amount equal to the SIFMA Municipal Swap Index and to receive 67% of the three-month LIBOR plus 62 basis points until December 1, 2030, when the agreement was to terminate. The estimated fair market value of the swap was an asset of \$5,101,197 at September 30, 2019. During 2020 the swap was terminated.

In anticipation of the Obligated Group issuing the 2017 Certificates, NGHS entered into two separate swap agreements in October 2016. One of the swap agreements had a notional amount of \$54,200,000 and required NGHS to pay a fixed rate of 1.278% and receive a variable rate from the counterparty established at 70% of USD-LIBOR-BBA. The second swap agreement had a notional amount of \$81,300,000 and required NGHS to pay a fixed rate of 1.283% and receive a variable rate from the counterparty established at 70% of USD-LIBOR-BBA. The estimated fair market value of these two swaps was a liability of \$1,523,986 and \$2,811,174 as of September 30, 2019. During 2020 these swaps were terminated.

Pursuant to the agreement(s) and depending on the movement of the applicable rates, both the System and the counterparty were subject to the requirement of posting collateral in order to secure its respective obligations under the agreements.

The swap agreements were not designated as hedges and were reflected at estimated fair market value. An asset of \$5,101,197 and a liability of \$6,818,560 have been recognized in the accompanying Consolidated Balance Sheet as of September 30, 2019. In connection with the issuance of the Series 2020A Certificates, all swap agreements were terminated and a non-operating loss of approximately \$9,877,000 was recognized for the year ended September 30, 2020.

NOTE G--PENSION PLAN

The System sponsors a defined benefit pension plan (the plan). An employee was eligible to participate in the plan following the attainment of age 21 and completion of at least 1,000 hours of service during a calendar year. Generally, the System makes annual contributions to the plan equal to the amount necessary to meet the minimum funding standards of ERISA. Employees are not permitted to contribute to the plan.

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2020 and 2019

Normal retirement benefits are provided at the latter of age 65 or on the participant's fifth anniversary of entering the plan. Early retirement benefits are available at age 55 and completion of ten years of vesting service. Prior to changes to the plan (discussed below), the plan also provided for disability, death and delayed retirement benefits.

The plan formula changed effective January 1, 2006 so that the benefit is equal to a past service benefit plus a future service benefit. The past service benefit is equal to the benefit earned as of December 31, 2005 under the existing formula. The future service benefit is equal to 1% of earnings for each calendar year in which the participant works at least 1,000 hours.

Effective January 1, 2006, the defined benefit pension plan was closed to new employees. Additionally, the plan no longer provided disability benefits.

The following table sets forth the plan's changes in projected benefit obligations, changes in the plan's assets and funded status of the plan as determined by management with assistance from the plan's independent consulting actuary at September 30, 2020 and 2019:

	<i>Year Ended</i>	
	<i>September 30,</i>	
	<u>2020</u>	<u>2019</u>
Change in benefit obligations		
Benefit obligations, beginning of year	\$ 337,313,333	\$ 275,988,367
Service cost	9,550,374	8,490,020
Interest cost	10,616,060	11,512,767
Benefits paid	(10,278,975)	(9,615,663)
Actuarial loss	45,424,150	50,937,842
Benefit obligations, end of year	<u>\$ 392,624,942</u>	<u>\$ 337,313,333</u>
Change in plan assets		
Fair value of plan assets, beginning of year	\$ 291,867,056	\$ 287,330,139
Actual return on plan assets	(7,870,454)	4,152,580
Contributions of plan sponsor	20,000,000	10,000,000
Benefits paid	(10,278,975)	(9,615,663)
Fair value of plan assets, end of year	<u>\$ 293,717,627</u>	<u>\$ 291,867,056</u>
Funded status of the plan at end of year	<u>\$ (98,907,315)</u>	<u>\$ (45,446,277)</u>

Employer contributions and benefits paid in the above table include only those amounts contributed directly to, or paid directly from, plan assets in fiscal years 2020 and 2019.

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2020 and 2019

The accumulated benefit obligation (ABO) of the plan was \$375,397,340 and \$325,411,496 at September 30, 2020 and 2019, respectively. In accordance with generally accepted accounting principles, the System recognizes the funded status of the plan as an asset or liability and the gains or losses and prior service costs or credits not yet recognized as pension expense as a change in net assets without donor restrictions.

Amounts recognized in the Consolidated Balance Sheets consist of the following:

	<i>September 30,</i>	
	<u>2020</u>	<u>2019</u>
Noncurrent liabilities	\$ (98,907,315)	\$ (45,446,277)
Net liability recognized	<u>\$ (98,907,315)</u>	<u>\$ (45,446,277)</u>

Amounts recognized in net assets without donor restrictions consist of the following:

	<i>Year Ended</i> <i>September 30,</i>	
	<u>2020</u>	<u>2019</u>
Unrecognized net actuarial loss	\$ 216,230,409	\$ 152,645,327
Unrecognized prior service cost	-	-
	<u>\$ 216,230,409</u>	<u>\$ 152,645,327</u>

Net periodic pension cost and other amounts recognized in net assets without donor restrictions consist of the following:

	<i>Year Ended</i> <i>September 30,</i>	
	<u>2020</u>	<u>2019</u>
Net periodic pension cost		
Service cost with interest to year-end	\$ 9,550,374	\$ 8,490,020
Interest cost on the projected benefit obligation	10,616,060	11,512,767
Expected return on plan assets	(22,971,238)	(22,918,151)
Amortization of prior service cost	-	-
Amortization of net actuarial loss	12,680,760	7,115,296
Net periodic pension cost	<u>\$ 9,875,956</u>	<u>\$ 4,199,932</u>

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2020 and 2019

	<i>Year Ended</i>	
	<i>September 30,</i>	
	<i>2020</i>	<i>2019</i>
Other changes in net assets without donor restrictions		
Net loss	\$ 76,265,842	\$ 69,703,413
Amortization of prior service cost	-	-
Amortization of net actuarial loss	(12,680,760)	(7,115,296)
Total recognized in net assets without donor restrictions	<u>\$ 63,585,082</u>	<u>\$ 62,588,117</u>
Total recognized in net periodic pension cost and net assets without donor restrictions	<u>\$ 73,461,038</u>	<u>\$ 66,788,049</u>

Management estimates that a net loss in the amount of approximately \$14,131,000 will be amortized from net assets without donor restrictions into net periodic pension cost over the next fiscal year.

The actuarial assumptions used for the plan as of September 30, 2020 and 2019 are as follows:

	<i>September 30,</i>	
	<i>2020</i>	<i>2019</i>
Discount rates	2.70%	3.20%
Rates of increase in future compensation levels	varies by age	varies by age
Expected long-term rate of return on plan assets	7.50%	7.99%
Rates of increase in maximum benefit and compensation limits	2.20%	3.00%

The discount rate has a significant effect on the calculation of the pension benefit obligations. Estimates used in the discount rate and other assumptions are subject to change in the future.

The determination of the expected long-term rate of return on plan assets is based on assumptions that are developed by the plan's investment consultant for each investment category as to the rate of return, risk, yield, and correlation with other categories that serve as components of the long-term strategy. Based on these assumptions, eligible components are tested over the desired time frame given the acceptable tolerance of risk determined by the System. The expected long-term rate of return reflects assumptions as to continued execution of the current strategic asset allocation, modern portfolio theory, and the plan's investment policy.

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2020 and 2019

The composition of plan assets at September 30, 2020 and 2019 is as follows:

	<i>Carrying Value</i>	<i>Quoted Prices in Active Markets (Level 1)</i>	<i>Significant Other Observable Inputs (Level 2)</i>	<i>Significant Unobservable Inputs (Level 3)</i>
September 30, 2020				
Money market funds	\$ 35,314,405	\$ 35,314,405	\$ -	\$ -
Corporate bonds	59,359,313	-	59,359,313	-
Mutual funds and equity securities	198,443,425	198,443,425	-	-
Accrued income	600,484	600,484	-	-
	<u>\$ 293,717,627</u>	<u>\$ 234,358,314</u>	<u>\$ 59,359,313</u>	<u>\$ -</u>
September 30, 2019				
Money market funds	\$ 14,776,687	\$ 14,776,687	\$ -	\$ -
Corporate bonds	62,434,396	-	62,434,396	-
Mutual funds and equity securities	213,912,070	213,912,070	-	-
Accrued income	743,903	743,903	-	-
	<u>\$ 291,867,056</u>	<u>\$ 229,432,660</u>	<u>\$ 62,434,396</u>	<u>\$ -</u>

The System's investment policy requires the pension fund to reflect the requirements of ERISA and to be managed within the following diversification parameters: large and mid-cap multi-national equities of 25-40%; dividend-oriented equities representing a defensive equity strategy with loss mitigation provided by covered call options of 25-40%; and investment grade fixed income securities with an emphasis on intermediate maturities of 20-25%. Effective December 31, 2020, the System will freeze the pension plan for all participants. Management expects to contribute approximately \$10,000,000 to this plan during fiscal year 2021.

Estimated future benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

<u>Year Ending September 30,</u>	
2021	\$ 11,519,952
2022	12,304,427
2023	13,144,791
2024	13,941,146
2025	14,664,253
2026-2030	81,822,474

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2020 and 2019

NOTE H--OTHER RETIREMENT PLANS

During 2006, the System created the Northeast Georgia Health System, Inc. 401(k) Retirement Savings Plan for substantially all employees. The Plan provides for matching contributions by the System which are 100% of each employee's elective deferrals up to 1% of compensation and 50% of each employee's elective deferrals that exceed 1% of compensation but that do not exceed 6%. During 2020, the employer match was suspended from the first pay period in June through the last pay period in September due to the event discussed in Note N. Expense under the 401(k) Retirement Savings Plan was \$12,600,625 and \$14,916,099 for the years ended September 30, 2020 and 2019, respectively.

The System also has other deferred compensation and benefit plans maintained for specific purposes. Assets and liabilities are included in the accompanying consolidated financial statements where appropriate.

NOTE I--ESTIMATED LIABILITIES FOR SELF-INSURANCE

The System has established trust funds for the purpose of funding professional liability and self-insured workers' compensation up to specified retention levels, generally \$5,000,000 per occurrence and \$10,000,000 in the aggregate (annually) for professional liability and \$400,000 per occurrence for workers' compensation with no annual aggregate. Losses exceeding aggregate annual limits up to maximum limits are covered by insurance purchased from commercial carriers and management intends to maintain such insurance coverage in the future. As of September 30, 2020, management is not aware of any claims that will ultimately settle above the specified retention levels and, accordingly, has not recognized any insurance recovery receivables.

Funding for professional liability is on a claims-made basis, while workers' compensation is determined on an occurrence basis. Funding of the trusts is based upon estimates of potential liability provided by annual independent actuarial valuations and includes provisions for claims reported and claims incurred but not reported in excess of insurance limits. The System is involved in litigation relating to medical malpractice and workers' compensation and other claims arising in the ordinary course of business. There are also known incidents occurring through September 30, 2020 that may result in the assertion of additional claims and other unreported claims may be asserted arising from services provided in the past. Estimated self-insurance liabilities in the accompanying Consolidated Balance Sheets at September 30, 2020 and 2019 consist of amounts accrued by the System related to these self-insurance programs and have not been discounted. Amounts accrued by NGHS were approximately \$50,366,000 and \$41,932,000 at September 30, 2020 and 2019. Operating expenses in the years ended September 30, 2020 and 2019 include \$15,270,595 and \$9,428,796, respectively, for professional liability and \$2,631,438 and \$1,251,946, respectively, for workers' compensation.

The System maintains a self-insurance program to provide medical and dental coverage for eligible employees and their dependents. Reinsurance above \$225,000 annually per individual with no

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2020 and 2019

aggregate limit is maintained through a commercial excess coverage policy. Operating expenses for the years ended September 30, 2020 and 2019 include \$57,469,286 and \$59,245,507, respectively, related to these benefits. Approximately \$12,100,000 and \$14,200,000, representing estimated incurred but unpaid medical and dental claims, are included in accounts payable and accrued expenses at September 30, 2020 and 2019, respectively.

NOTE J--CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the System to concentrations of credit risk consist primarily of cash and cash equivalents, investments and assets limited as to use (Note D) and net patient revenue and accounts receivable.

The System places cash and cash equivalents with banking institutions that are insured by the Federal Deposit Insurance Corporation. At times, the System has deposits in excess of these insurance limits. The System is exposed to loss of the uninsured amounts in the event of nonperformance by the banking institution; however, the System does not anticipate any such losses.

The System grants credit without collateral to their patients, most of whom are local residents and are insured under third-party payer agreements. The estimated mix of patient service revenue from patients and major third-party payers for the years ended September 30, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Governmental programs:		
Medicare	51%	50%
Medicaid	11%	10%
Commercial insurance	26%	28%
Self-pay and other	12%	12%
	<u>100%</u>	<u>100%</u>

NOTE K--OPERATING EXPENSE BY FUNCTIONAL CLASSIFICATION

The System provides healthcare services to residents within its geographical location. Expenses are allocated by function based on estimates of employees' time incurred, usage of resources, and other methods. Expenses based on functional classification related to providing these services during the years ended September 30, 2020 and 2019 are as follows:

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2020 and 2019

	<i>Healthcare Services</i>	<i>Support Services</i>	<i>Fundraising</i>	<i>Total</i>
September 30, 2020				
Salaries and benefits	\$ 748,871,960	\$ 66,628,486	\$ 1,049,893	\$ 816,550,339
Utilities	12,683,690	1,316,098	771	14,000,559
Physicians' fees	24,807,936	2,759,365	-	27,567,301
Supplies	230,192,118	21,812,478	120,534	252,125,130
Legal, consulting and professional fees	4,772,241	1,031,485	49,531	5,853,257
Contracted outside services	58,125,916	6,804,546	116,546	65,047,008
Interest	31,085,175	2,950,422	-	34,035,597
Insurance	15,919,764	3,260,832	-	19,180,596
Other	95,649,860	11,045,692	152,828	106,848,380
Depreciation and amortization	88,249,767	9,811,595	36,407	98,097,769
	<u>\$ 1,310,358,427</u>	<u>\$ 127,420,999</u>	<u>\$ 1,526,510</u>	<u>\$ 1,439,305,936</u>
September 30, 2019				
Salaries and benefits	\$ 687,475,300	\$ 67,320,308	\$ 1,043,446	\$ 755,839,054
Utilities	12,791,591	1,349,088	2,594	14,143,273
Physicians' fees	20,233,357	2,318,954	-	22,552,311
Supplies	217,442,241	19,740,346	110,554	237,293,141
Legal, consulting and professional fees	9,189,625	2,404,464	74,292	11,668,381
Contracted outside services	51,966,227	15,182,793	32,547	67,181,567
Interest	34,424,677	3,054,558	-	37,479,235
Insurance	10,565,170	2,377,834	-	12,943,004
Other	86,985,503	13,302,495	178,926	100,466,924
Depreciation and amortization	85,807,379	9,756,470	29,208	95,593,057
	<u>\$ 1,216,881,070</u>	<u>\$ 136,807,310</u>	<u>\$ 1,471,567</u>	<u>\$ 1,355,159,947</u>

NOTE L--AVAILABILITY AND LIQUIDITY

The System manages its cash and investments through a formalized investment process which includes evaluating cash needs for routine and nonroutine activities and adjusting the amount of cash held and the maturity of investments. The System's financial assets reduced by amounts not available for general use are as follow at September 30, 2020:

Financial assets	\$ 1,484,030,291
Less those unavailable for expenditures within one year, due to:	
Amounts restricted by donors	(23,676,482)
Amounts restricted under insurance agreements, bond agreements, board designation or other	<u>(192,325,516)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,268,028,293</u>

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2020 and 2019

NOTE M--NET ASSETS RESTRICTED BY DONORS

Net assets restricted by donors are available for the purposes as detailed below:

	<u>2020</u>	<u>2019</u>
Cardiology funds	\$ 453,458	\$ 421,598
Community benefits funds	9,162,300	7,942,867
Oncology funds	928,758	869,668
Hospice funds	1,359,437	1,060,305
Children's initiatives funds	1,209,419	1,015,623
Education funds	639,936	470,302
Equipment funds	2,958,549	2,964,146
Grants	609,273	571,433
Indigent patient funds	8,331	27,203
Scholarship funds	727,785	765,559
Nephrology fund	50,070	50,070
Held in perpetuity:		
Wilheit-Keys Peace Garden Maintenance	155,100	155,100
The Henry S Jennings Jr MD Visiting Lectureship	100,000	100,000
Nell's Prayer Garden Maintenance	55,000	55,000
David Pet Park Maintenance	80,000	80,000
Jack & Janice Frost Water Garden Maintenance	100,000	100,000
Braselton Flag Plaza Maintenance	30,000	30,000
Hospice fund	50,629	50,629
Nursing & Allied Health Continuing Education fund	577,675	521,242
Nursing & Allied Health Scholarships fund	224,017	218,111
Chaplain fund	206,415	206,415
MCF endowment fund	2,868,665	2,868,665
Honorary Gift - Woody Stewart & Nancy Colston fund	479,998	474,238
Pope Family Garden Maintenance	100,000	100,000
Evelyn Waugh scholarship fund	53,246	53,246
Ocie Pope scholarship fund	25,822	25,822
Destitute patient fund	186,344	186,344
Anne Thomas scholarship fund	57,346	57,346
John Ferguson scholarship fund	218,909	215,909
	<u>\$ 23,676,482</u>	<u>\$ 21,656,841</u>

Net assets restricted by donors released from donor restrictions when expenses were incurred to satisfy the restricted purposes, by the passage of time or by occurrence of events as specified by donors, for the years ended September 30, 2020 and 2019 are as follows:

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Restrictions accomplished:		
Cardiology initiatives	\$ 4,450	\$ 1,544,666
Community benefits	995,973	690,331
Children's initiatives	119,608	167,417
Education	8,752	8,497
Equipment	35,448	78,108
Grants	68,027	21,498
Indigent patients	17,274	25,238
Oncology initiatives	3,257	23,857
Hospice	31,976	52,854
Scholarships	7,500	20,440
Total net assets released from restrictions	<u>\$ 1,292,265</u>	<u>\$ 2,632,906</u>

Other operating revenue in the accompanying Consolidated Statements of Operations and Changes in Net Assets includes \$1,292,265 and \$636,445 for the years ended September 30, 2020 and 2019, respectively, representing net assets with donor restrictions. During 2019, total assets released for capital purposes was \$1,996,461. No assets were released from restrictions for capital purposes during 2020.

NOTE N--NATIONAL PANDEMIC

In March 2020, the outbreak of the coronavirus disease 2019 (COVID-19) was declared a public health emergency (PHE). The COVID-19, PHE has severely restricted economic activity and resulted in volatility in financial markets. The healthcare industry has been impacted due to a general decrease in non-emergent patient volumes, cancellations and delays of elective medical procedures, as well as COVID-19 related expenses.

Government support, including the Coronavirus Aid, Relief, and Economic Security (CARES) Act provided essential funding to eligible hospitals, physicians and other healthcare providers. During the year ended September 30, 2020, the System received approximately \$92,500,000 of CARES Act Provider Relief Funds (PRF). A portion of this amount totaling approximately \$42,500,000 has been recognized as revenue as of September 30, 2020 to offset estimated lost revenue and COVID-19 related expenses incurred based on the initial reporting guidelines published by the Department of Health and Human Services (HHS). The remaining amount has been recorded as deferred revenue in the accompanying financial statements until expended for the intended purposes or repaid.

Additionally, the System received approximately \$98,900,000 of payments issued under the Medicare Accelerated and Advance Payment (AAP) Program which have been reported as a current liability in the accompanying financial statements. Such amounts are intended to fund

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2020 and 2019

short-term cash flow needs and will be recouped by the Center for Medicare and Medicaid Services (CMS) through an offset to future Medicare claims. Initially, the terms of the AAP Program provided for the recoupment to begin 120 days after receipt. Subsequent to September 30, 2020, the Continuing Appropriations Act, 2021 and Other Extensions Act revised the repayment terms delaying the recoupment start date until one year after the payments were issued and reducing the initial recoupment amount to 25% of claims approved for payment.

The ultimate impact of the COVID-19 PHE on the financial position of the System is uncertain and the status of future government funding is unknown at this time. HHS has revised reporting requirements numerous times on how providers should determine lost revenue for reporting purposes. The ultimate reporting requirements may change and are uncertain at the date of the Independent Auditor's Report. The impact on operations and the financial statements cannot be reasonably predicted or estimated at this time.

NOTE O--FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Cash and Cash Equivalents: The carrying amounts reported in the Consolidated Balance Sheets for cash, cash equivalents and short-term investments approximate fair value.

Investments: Fair value of issues traded on public exchanges are based on the market price in such exchanges at year end. The fair value of other issues is also based on quoted market prices.

Assets Limited as to Use: Fair value of issues traded on public exchanges are based on the market price in such exchanges at year end. The fair value of other issues is also based on quoted market prices and other observable inputs.

Estimated Self-Insurance and Other Long-Term Liabilities: It is not practical to estimate the fair market value of estimated self-insurance liabilities due to the uncertainty of when these amounts may be paid. Deferred compensation liabilities are based on the related investments which are reported at fair value. Interest rate swaps are reported at estimated fair value based on terms and projected interest rates.

The carrying value of certain other financial instruments approximates fair value due to the nature and short-term maturities of these investments.

NOTE P--FAIR VALUE MEASUREMENTS

Generally accepted accounting principles establish a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2020 and 2019

the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- *Level 1:* Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- *Level 2:* Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- *Level 3:* Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

In instances where the determination of the fair value hierarchy measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The System's assessment of the significance of a particular input to the fair value presentation in its entirety requires judgment and considers factors specific to the asset or liability.

The following table presents assets and liabilities reported at fair value and their respective classification under the valuation hierarchy:

	<i>Carrying Value</i>	<i>Quoted Prices in Active Markets (Level 1)</i>	<i>Significant Other Observable Inputs (Level 2)</i>	<i>Significant Unobservable Inputs (Level 3)</i>
September 30, 2020				
Assets measured at fair value on a recurring basis:				
Cash and money market funds	\$ 126,384,331	\$ 126,384,331	\$ -	\$ -
Mutual funds	34,780,895	34,780,895	-	-
Government bonds	355,026,598	355,026,598	-	-
Corporate bonds	277,386,195	-	277,386,195	-
Equity securities	480,601,655	480,601,655	-	-
Other	5,778,824	5,778,824	-	-
Accrued income	2,299,767	2,299,767	-	-
Total assets	<u>\$ 1,282,258,265</u>	<u>\$ 1,004,872,070</u>	<u>\$ 277,386,195</u>	<u>\$ -</u>

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2020 and 2019

	<i>Carrying Value</i>	<i>Quoted Prices in Active Markets (Level 1)</i>	<i>Significant Other Observable Inputs (Level 2)</i>	<i>Significant Unobservable Inputs (Level 3)</i>
September 30, 2019				
Assets measured at fair value				
on a recurring basis:				
Cash and money market funds	\$ 196,191,959	\$ 196,191,959	\$ -	\$ -
Mutual funds	30,938,148	30,938,148	-	-
Government bonds	99,195,219	99,195,219	-	-
Corporate bonds	132,338,348	-	132,338,348	-
Equity securities	766,866,128	766,866,128	-	-
Interest rate swap agreements	5,101,197	-	5,101,197	-
Other	5,874,642	5,874,642	-	-
Accrued income	2,025,401	2,025,401	-	-
Total assets	<u>\$ 1,238,531,042</u>	<u>\$ 1,101,091,497</u>	<u>\$ 137,439,545</u>	<u>\$ -</u>
Liabilities measured at fair value on a				
recurring basis:				
Interest rate swap agreements	\$ 6,818,560	\$ -	\$ 6,818,560	\$ -

NOTE Q--COMMITMENTS AND CONTINGENCIES

Construction in progress at September 30, 2020 relates primarily to ongoing projects, routine capital improvements at existing facilities, and scheduled projects related to a System Development Plan to be completed over the next several years. The estimated costs to complete current construction in progress at September 30, 2020 is approximately \$45,280,000 over that time frame. Costs to complete construction in progress under signed contracts at September 30, 2020 is approximately \$28,537,000.

The System also leases medical and other equipment under various operating leases. Future minimum lease payments under these leases are not significant.

Healthcare Industry: The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, Medicare fraud and abuse and under provisions of the Health Insurance Portability and Accountability Act of 1996, patient records privacy and security. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2020 and 2019

NOTE R--OPTION TO PURCHASE AND ASSET PURCHASE AGREEMENTS

On November 21, 2019, NGHS disbursed the first installment payment of \$3,000,000 related to Option to Purchase and Asset Purchase Agreements (the Agreements). The Agreements grant NGHS the option to purchase the assets of the Habersham County Hospital Authority (HCHA) for a sum of \$15,000,000 in the form of annual installment payments of \$3,000,000 to be distributed over a five-year period. The Agreements specify a restriction to the use of funds distributed for capital purposes only.

The Agreements require HCHA to establish a debt service fund, which HCHA is required to deposit all funds in excess of twenty days cash on hand. The Option to Purchase Agreement includes three triggering events in which NGHS would be required to exercise its option to purchase. If NGHS fails to exercise one of its acquisition options by the final payment date, payments previously made are forfeited, and NGHS has no further obligation. The Option to Purchase Agreement also provides for early purchase if the parties mutually agree.

NOTE S--SUBSEQUENT EVENTS

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued. During this period, management did not note any material recognizable subsequent events that required recognition or disclosure in the September 30, 2020 consolidated financial statements except as discussed in Notes G and N.

Supplemental Schedules

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Consolidating Balance Sheets

September 30, 2020

	Corporate	Northeast Georgia Medical Center	NGMC Barrow	NGMG Lumpkin	Northeast Georgia Physicians Group	Northeast Georgia Health Partners	The Medical Center Foundation	The Heart Center	LCA	Eliminations	Consolidated
ASSETS											
CURRENT ASSETS											
Cash and cash equivalents	\$ (5,845,369)	\$ 67,593,275	\$ 350	\$ 218	\$ 781,625	\$ (50,102)	\$ 3,168,902	\$ 18,737	\$ 150,000	\$ -	\$ 65,817,636
Investments	-	108,341,985	-	-	-	-	-	-	-	-	108,341,985
Assets limited as to use, required for current obligations	3,005,978	232,623	-	-	-	-	376,130	-	-	-	3,614,731
Patient accounts receivable	-	98,741,342	1,387,864	450,660	13,589,335	-	-	1,990,496	-	-	116,159,697
Inventory of supplies	-	16,735,235	471,504	362,189	284,828	-	-	-	-	-	17,853,756
Other current assets	351,454	5,604,117	39,485	-	5,713	-	1,862,738	10,185	-	-	7,873,692
TOTAL CURRENT ASSETS	(2,487,937)	297,248,577	1,899,203	813,067	14,661,501	(50,102)	5,407,770	2,019,418	150,000	-	319,661,497
INVESTMENTS	-	1,001,385,457	-	-	-	-	-	-	-	-	1,001,385,457
ASSETS LIMITED AS TO USE											
Under indenture agreements - held by trustees	-	158,514	-	-	-	-	-	-	-	-	158,514
Under self-insurance agreements	43,025,915	-	-	-	-	-	-	-	-	-	43,025,915
By Board for designated capital purposes	79,696,896	-	-	-	-	-	-	-	-	-	79,696,896
Other	26,748,370	16,251,292	-	-	-	-	26,444,529	-	-	-	69,444,191
	149,471,181	16,409,806	-	-	-	-	26,444,529	-	-	-	192,325,516
Less amounts required for current obligations	(3,005,978)	(232,623)	-	-	-	-	(376,130)	-	-	-	(3,614,731)
ASSETS LIMITED AS TO USE	146,465,203	16,177,183	-	-	-	-	26,068,399	-	-	-	188,710,785
PROPERTY, PLANT AND EQUIPMENT, net	134,066,353	618,573,245	15,393,122	4,283,249	22,176,108	23,855	218,002	2,752,493	-	-	797,486,427
DUE (TO) FROM AFFILIATES	-	(379,301)	-	-	-	-	379,301	-	-	-	-
OTHER ASSETS											
Goodwill	-	-	-	-	-	-	-	3,263,093	-	-	3,263,093
Property held for future investment	1,888,208	1,566,001	-	-	-	-	3,304,750	-	-	-	6,758,959
Other	2,398,708	2,437,978	-	-	-	-	65,962	-	-	(180,000)	4,722,648
TOTAL OTHER ASSETS	4,286,916	4,003,979	-	-	-	-	3,370,712	3,263,093	-	(180,000)	14,744,700
TOTAL ASSETS	\$ 282,330,535	\$ 1,937,009,140	\$ 17,292,325	\$ 5,096,316	\$ 36,837,609	\$ (26,247)	\$ 35,444,184	\$ 8,035,004	\$ 150,000	\$ (180,000)	\$ 2,321,988,866

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Consolidating Balance Sheets - Continued

September 30, 2020

	Corporate	Northeast Georgia Medical Center	NGMC Barrow	NGMG Lumpkin	Northeast Georgia Physicians Group	Northeast Georgia Health Partners	The Medical Center Foundation	The Heart Center	LCA	Eliminations	Consolidated
LIABILITIES AND NET ASSETS											
CURRENT LIABILITIES											
Current portion of long-term debt	\$ -	\$ 20,400,252	\$ 95,397	\$ -	\$ 72,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20,567,649
Accrued interest	-	4,941,448	-	-	-	-	-	-	-	-	4,941,448
Accounts payable and other accrued expenses	12,947,519	59,740,111	33,380	24,138	2,126,929	-	4,955	1,917	-	-	74,878,949
Accrued salaries, benefits, compensated absences and amounts withheld	19,682,774	58,277,786	1,319,387	352,917	21,139,049	211,996	78,717	2,993,598	-	-	104,056,224
Advance payments from third party payers - Note N	-	96,421,452	2,483,225	-	-	-	-	-	-	-	98,904,677
Deferred revenue - Note N	-	37,440,552	7,991,612	3,481,907	1,105,445	-	-	-	-	-	50,019,516
Estimated third-party payer settlements	-	7,784,436	2,609,979	150,000	-	-	-	-	-	-	10,544,415
TOTAL CURRENT LIABILITIES	32,630,293	285,006,037	14,532,980	4,008,962	24,443,423	211,996	83,672	2,995,515	-	-	363,912,878
LONG-TERM DEBT, less current portion	-	950,810,370	42,273	-	288,000	-	-	-	-	-	951,140,643
ESTIMATED SELF-INSURANCE LIABILITIES	50,365,914	-	-	-	-	-	-	-	-	-	50,365,914
OTHER LONG-TERM LIABILITIES											
Deferred compensation	21,419,712	15,791,474	-	-	-	-	-	-	-	-	37,211,186
Pension liability	98,907,315	-	-	-	-	-	-	-	-	-	98,907,315
TOTAL OTHER LONG-TERM LIABILITIES	120,327,027	15,791,474	-	-	-	-	-	-	-	-	136,118,501
TOTAL LIABILITIES	203,323,234	1,251,607,881	14,575,253	4,008,962	24,731,423	211,996	83,672	2,995,515	-	-	1,501,537,936
NET ASSETS											
Without donor restrictions	79,007,301	685,401,259	2,717,072	1,087,354	12,106,186	(238,243)	11,684,030	5,039,489	150,000	(180,000)	796,774,448
With donor restrictions	-	-	-	-	-	-	23,676,482	-	-	-	23,676,482
TOTAL NET ASSETS	79,007,301	685,401,259	2,717,072	1,087,354	12,106,186	(238,243)	35,360,512	5,039,489	150,000	(180,000)	820,450,930
TOTAL LIABILITIES AND NET ASSETS	\$ 282,330,535	\$ 1,937,009,140	\$ 17,292,325	\$ 5,096,316	\$ 36,837,609	\$ (26,247)	\$ 35,444,184	\$ 8,035,004	\$ 150,000	\$ (180,000)	\$ 2,321,988,866

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Consolidating Balance Sheets - Continued

September 30, 2019

	Corporate	Northeast Georgia Medical Center	NGMC Barrow	NGMG Lumpkin	Northeast Georgia Physicians Group	Northeast Georgia Health Partners	The Medical Center Foundation	The Heart Center	Eliminations	Consolidated
ASSETS										
CURRENT ASSETS										
Cash and cash equivalents	\$ (406,960)	\$ 15,611,305	\$ (3,496)	\$ 218	\$ 720,443	\$ (157,293)	\$ 1,568,085	\$ 1,516	\$ -	\$ 17,333,818
Investments	-	164,737,862	-	-	-	-	-	-	-	164,737,862
Assets limited as to use, required for current obligations	13,185,165	12,046,652	-	-	-	-	233,090	-	-	25,464,907
Patient accounts receivable	-	99,859,867	2,470,436	(48,671)	11,769,435	-	-	1,924,439	-	115,975,506
Inventory of supplies	-	10,451,690	414,743	228,744	278,272	-	-	-	-	11,373,449
Other current assets	335,919	7,495,176	57,316	-	119,139	-	1,947,083	-	-	9,954,633
TOTAL CURRENT ASSETS	13,114,124	310,202,552	2,938,999	180,291	12,887,289	(157,293)	3,748,258	1,925,955	-	344,840,175
INVESTMENTS	-	882,463,229	-	-	-	-	-	-	-	882,463,229
ASSETS LIMITED AS TO USE										
Under indenture agreements - held by trustees	-	13,725,780	-	-	-	-	-	-	-	13,725,780
Under self-insurance agreements	42,283,288	-	-	-	-	-	-	-	-	42,283,288
By Board for designated capital purposes	86,225,206	-	-	-	-	-	-	-	-	86,225,206
Other	23,792,266	15,454,956	-	-	-	-	27,876,593	-	-	67,123,815
	152,300,760	29,180,736	-	-	-	-	27,876,593	-	-	209,358,089
Less amounts required for current obligations	(13,185,165)	(12,046,652)	-	-	-	-	(233,090)	-	-	(25,464,907)
ASSETS LIMITED AS TO USE	139,115,595	17,134,084	-	-	-	-	27,643,503	-	-	183,893,182
PROPERTY AND EQUIPMENT, net	126,418,183	627,825,340	16,228,415	4,434,080	20,633,263	46,099	148,679	3,130,414	-	798,864,473
DUE (TO) FROM AFFILIATES	-	46,899	-	-	-	-	(46,899)	-	-	-
OTHER ASSETS										
Goodwill	-	-	-	-	-	-	-	3,263,093	-	3,263,093
Property held for future investment	1,884,570	1,566,001	-	-	-	-	3,304,750	-	-	6,755,321
Estimated fair value of interest rate swaps	-	5,101,197	-	-	-	-	-	-	-	5,101,197
Other	1,465,891	1,649,868	-	-	-	-	108,586	293,056	(80,000)	3,437,401
TOTAL OTHER ASSETS	3,350,461	8,317,066	-	-	-	-	3,413,336	3,556,149	(80,000)	18,557,012
TOTAL ASSETS	\$ 281,998,363	\$ 1,845,989,170	\$ 19,167,414	\$ 4,614,371	\$ 33,520,552	\$ (111,194)	\$ 34,906,877	\$ 8,612,518	\$ (80,000)	\$ 2,228,618,071

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Consolidating Balance Sheets - Continued

September 30, 2019

	Corporate	Northeast Georgia Medical Center	NGMC Barrow	NGMG Lumpkin	Northeast Georgia Physicians Group	Northeast Georgia Health Partners	The Medical Center Foundation	The Heart Center	Eliminations	Consolidated
LIABILITIES AND NET ASSETS										
CURRENT LIABILITIES										
Current portion of long-term debt	\$ -	\$ 24,406,485	\$ 95,397	\$ -	\$ 72,000	\$ -	\$ -	\$ -	\$ -	\$ 24,573,882
Accrued interest	-	4,495,653	-	-	-	-	-	-	-	4,495,653
Accounts payable and other accrued expenses	1,631,362	81,986,806	38,755	-	7,949	-	-	1,020	-	83,665,892
Accrued salaries, benefits, compensated absences and amounts withheld	16,190,437	47,567,166	933,273	226,298	14,893,681	136,816	94,624	3,695,299	-	83,737,594
Estimated third-party payer settlements	-	7,918,491	(113,115)	-	-	-	-	-	-	7,805,376
TOTAL CURRENT LIABILITIES	17,821,799	166,374,601	954,310	226,298	14,973,630	136,816	94,624	3,696,319	-	204,278,397
LONG-TERM DEBT, less current portion	-	966,542,176	153,568	-	288,000	-	-	-	-	966,983,744
ESTIMATED SELF-INSURANCE LIABILITIES	41,932,387	-	-	-	-	-	-	-	-	41,932,387
OTHER LONG-TERM LIABILITIES										
Deferred compensation	17,917,624	15,088,215	-	-	-	-	-	-	-	33,005,839
Estimated fair value of interest rate swaps	-	6,818,560	-	-	-	-	-	-	-	6,818,560
Pension liability	45,446,277	-	-	-	-	-	-	-	-	45,446,277
TOTAL OTHER LONG-TERM LIABILITIES	63,363,901	21,906,775	-	-	-	-	-	-	-	85,270,676
TOTAL LIABILITIES	123,118,087	1,154,823,552	1,107,878	226,298	15,261,630	136,816	94,624	3,696,319	-	1,298,465,204
NET ASSETS										
Without donor restrictions	158,880,276	691,165,618	18,059,536	4,388,073	18,258,922	(248,010)	13,155,412	4,916,199	(80,000)	908,496,026
With donor restrictions	-	-	-	-	-	-	21,656,841	-	-	21,656,841
TOTAL NET ASSETS	158,880,276	691,165,618	18,059,536	4,388,073	18,258,922	(248,010)	34,812,253	4,916,199	(80,000)	930,152,867
TOTAL LIABILITIES AND NET ASSETS	\$ 281,998,363	\$ 1,845,989,170	\$ 19,167,414	\$ 4,614,371	\$ 33,520,552	\$ (111,194)	\$ 34,906,877	\$ 8,612,518	\$ (80,000)	\$ 2,228,618,071

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Consolidating Statements of Operations

Year Ended September 30, 2020

	Corporate	Northeast Georgia Medical Center	NGMC Barrow	NGMG Lumpkin	Northeast Georgia Physicians Group	Northeast Georgia Health Partners	The Medical Center Foundation	The Heart Center	LCA	Eliminations	Consolidated
Changes in net assets without donor restrictions:											
Patient service revenue	\$ -	\$ 1,134,066,528	\$ 32,909,613	\$ 10,730,286	\$ 165,975,361	\$ -	\$ -	\$ 23,899,542	\$ -	\$ -	\$ 1,367,581,330
Other operating revenue	118,019,576	30,514,990	126,129	-	33,212,121	637,182	1,387,283	1,437,851	-	(148,699,682)	36,635,450
TOTAL OPERATING REVENUES	118,019,576	1,164,581,518	33,035,742	10,730,286	199,187,482	637,182	1,387,283	25,337,393	-	(148,699,682)	1,404,216,780
Expenses:											
Salaries and wages	45,271,059	409,649,235	14,962,221	6,073,580	174,178,851	1,675,458	1,010,039	33,316,486	-	-	686,136,929
Employee benefits	10,337,343	84,781,097	3,048,939	1,250,434	25,951,015	254,960	182,560	4,607,062	-	-	130,413,410
Physicians' fees	406,793	46,087,186	3,723,190	1,866,241	3,459,008	-	-	2,741	-	(27,977,858)	27,567,301
Utilities	831,557	10,609,770	582,841	315,115	1,384,334	7,421	876	268,645	-	-	14,000,559
Supplies	834,533	233,089,895	5,269,445	1,552,371	10,864,344	5,684	136,919	371,939	-	-	252,125,130
Legal, consulting and professional fees	4,763,797	963,781	-	(75,000)	64,953	17,050	56,264	62,412	-	-	5,853,257
Contracted outside services	15,670,017	44,855,860	1,687,597	472,287	9,959,327	344,285	132,389	565,187	-	(8,639,941)	65,047,008
Insurance	14,423,409	4,795	-	-	232,803	-	-	99,145	-	4,420,444	19,180,596
Interest	5,000	34,030,597	-	-	-	-	-	-	-	-	34,035,597
Management Fees	-	110,904,793	3,228,337	-	-	-	-	2,364,535	-	(116,497,665)	-
Depreciation and amortization	8,858,153	79,818,346	2,141,865	2,776,576	3,641,685	22,243	41,356	797,545	-	-	98,097,769
Other operating expenses	14,833,264	75,607,380	6,411,832	416,377	14,009,295	88,609	173,597	5,221,236	-	(9,913,210)	106,848,380
TOTAL OPERATING EXPENSES	116,234,925	1,130,402,735	41,056,267	14,647,981	243,745,615	2,415,710	1,734,000	47,676,933	-	(158,608,230)	1,439,305,936
OPERATING (LOSS) INCOME BEFORE PROVIDER RELIEF FUND REVENUE	1,784,651	34,178,783	(8,020,525)	(3,917,695)	(44,558,133)	(1,778,528)	(346,717)	(22,339,540)	-	9,908,548	(35,089,156)
Provider relief fund revenue - Note N	-	38,858,545	319,886	-	-	-	-	3,312,868	-	-	42,491,299
INCOME (LOSS) FROM OPERATIONS	1,784,651	73,037,328	(7,700,639)	(3,917,695)	(44,558,133)	(1,778,528)	(346,717)	(19,026,672)	-	9,908,548	7,402,143
Nonoperating (losses) gains:											
Donations from affiliates	-	1,406,257	-	-	-	-	(1,406,257)	-	-	-	-
(Loss) gain from investments, net	(5,544,492)	(33,149,492)	5,248	-	-	-	(1,331,322)	-	-	-	(40,020,058)
Loss on extinguishment of long-term debt	-	(5,287,356)	-	-	-	-	-	-	-	-	(5,287,356)
(Loss) gain on sale of property, plant and equipment, net	6,114	(36,296)	-	-	-	-	-	-	-	-	(30,182)
Change in estimated fair value and loss on extinguishment of interest rate swaps	-	(9,876,647)	-	-	-	-	-	-	-	-	(9,876,647)
Miscellaneous, net	8,044,613	(488,455)	320,264	9,767	1,062,905	-	112,631	3,088	-	(9,908,548)	(843,735)
NET NONOPERATING (LOSSES) GAINS (DEFICIENCY) EXCESS OF REVENUE AND GAINS OVER EXPENSES AND LOSSES	2,506,235	(47,431,989)	325,512	9,767	1,062,905	-	(2,624,948)	3,088	-	(9,908,548)	(56,057,978)
\$ 4,290,886 \$ 25,605,339 \$ (7,375,127) \$ (3,907,928) \$ (43,495,228) \$ (1,778,528) \$ (2,971,665) \$ (19,023,584) \$ - \$ - \$ (48,655,835)											

See Independent Auditor's Report.

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Consolidating Statements of Operations - Continued

Year Ended September 30, 2019

	Corporate	Northeast Georgia Medical Center	NGMC Barrow	NGMG Lumpkin	Northeast Georgia Physicians Group	Northeast Georgia Health Partners	The Medical Center Foundation	The Heart Center	Eliminations	Consolidated
Changes in net assets without donor restrictions:										
Patient service revenue	\$ -	\$ 1,160,664,596	\$ 32,950,882	\$ -	\$ 162,673,788	\$ -	\$ -	\$ 28,456,194	\$ -	\$ 1,384,745,460
Other operating revenue	127,045,334	28,481,139	344,657	-	27,634,958	545,623	636,446	608,466	(153,746,772)	31,549,851
TOTAL OPERATING REVENUES	127,045,334	1,189,145,735	33,295,539	-	190,308,746	545,623	636,446	29,064,660	(153,746,772)	1,416,295,311
Expenses:										
Salaries and wages	47,646,555	367,950,610	14,172,469	1,928,291	156,084,290	1,463,601	933,623	35,795,679	-	625,975,118
Employee benefits	9,789,894	85,602,236	3,094,019	360,362	25,499,898	259,645	213,273	5,044,609	-	129,863,936
Physicians' fees	309,816	42,123,430	3,441,523	414,446	2,446,009	-	-	3,615	(26,186,528)	22,552,311
Utilities	806,967	10,632,256	565,879	284,760	1,553,922	7,313	2,851	289,325	-	14,143,273
Supplies	1,159,159	217,713,264	5,489,829	667,564	11,442,962	32,607	121,515	666,241	-	237,293,141
Legal, consulting and professional fees	7,598,048	2,711,632	21,727	296,528	88,781	66,603	81,657	803,405	-	11,668,381
Contracted outside services	16,250,825	34,731,968	1,539,436	275,649	8,708,363	11,157,099	35,774	562,647	(6,080,194)	67,181,567
Insurance	8,060,238	-	-	-	349,802	-	-	258,932	4,274,032	12,943,004
Interest	0	37,479,235	-	-	-	-	-	-	-	37,479,235
Management Fees	-	112,901,199	4,238,845	349,180	-	1,912,061	-	6,351,864	(125,753,149)	-
Depreciation and amortization	8,403,223	78,109,016	1,934,345	2,515,229	3,628,161	22,935	32,104	948,044	-	95,593,057
Other operating expenses	25,486,653	57,153,383	4,789,244	707,606	13,772,703	76,682	196,665	6,991,530	(8,707,542)	100,466,924
TOTAL OPERATING EXPENSES	125,511,378	1,047,108,229	39,287,316	7,799,615	223,574,891	14,998,546	1,617,462	57,715,891	(162,453,381)	1,355,159,947
INCOME (LOSS) FROM OPERATIONS	1,533,956	142,037,506	(5,991,777)	(7,799,615)	(33,266,145)	(14,452,923)	(981,016)	(28,651,231)	8,706,609	61,135,364
Nonoperating gains (losses):										
Donations from affiliates	-	747,436	-	-	-	-	(747,436)	-	-	-
Gain from investments, net	6,095,260	44,872,789	34,342	-	-	-	842,036	-	-	51,844,427
Gain on sale of property, plant and equipment, net	21,020	41,359	-	-	-	-	-	-	-	62,379
Change in estimated fair value of interest rate swaps	-	(22,574,859)	-	-	-	-	-	-	-	(22,574,859)
Miscellaneous, net	6,328,578	77,402	281,315	2,995	1,116,285	(5)	111,025	2,792	(8,706,609)	(786,222)
NET NONOPERATING GAINS (LOSSES)	12,444,858	23,164,127	315,657	2,995	1,116,285	(5)	205,625	2,792	(8,706,609)	28,545,725
EXCESS (DEFICIENCY) OF REVENUE AND GAINS OVER EXPENSES AND LOSSES	\$ 13,978,814	\$ 165,201,633	\$ (5,676,120)	\$ (7,796,620)	\$ (32,149,860)	\$ (14,452,928)	\$ (775,391)	\$ (28,648,439)	\$ -	\$ 89,681,089