



Consolidated Financial Statements (and Supplemental Schedules)

Northeast Georgia Health System, Inc. and Affiliates

Years Ended September 30, 2021 and 2020

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

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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, 2021 and 2020, 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 did not audit the financial statements of Lanier Community Assurance, Ltd. (LCA), a wholly owned subsidiary, which statements reflect total net assets constituting 2% and 0% of consolidated total net assets at September 30, 2021 and 2020, and total revenues constituting 3% and 0% of consolidated total revenues for the years then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for LCA, is based solely on the report of other auditors. 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, 2021 and 2020, 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.

Emphases of Matters

As discussed in Note B to the consolidated financial statements, in 2021, the System adopted new accounting guidance required by Accounting Standards Updates No. 2016-02. As a result of the adoption, the System has elected to forgo the effective method, and as such the presentation of the consolidated financial statements and related notes will be presented in a comparative format. Our opinion is not modified with respect to this matter.

As discussed in Note O 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 12, 2022

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Consolidated Balance Sheets *(Dollars in Thousands)*

	<i>September 30,</i>	
	<i>2021</i>	<i>2020</i>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 50,649	\$ 65,818
Investments	309,638	108,342
Assets limited as to use, required for current obligations	13,289	3,615
Patient accounts receivable	179,868	116,160
Estimated amounts due from third-party payers	22,285	-
Inventory of supplies	18,451	17,854
Other current assets	12,212	7,874
TOTAL CURRENT ASSETS	606,392	319,663
INVESTMENTS	1,123,663	1,001,385
ASSETS LIMITED AS TO USE		
Under indenture agreements - held by trustees	161,890	159
Under self-insurance agreements	63,516	43,026
By Board for designated capital purposes	95,182	79,697
Other	86,429	69,444
	407,017	192,326
Less amounts required for current obligations	(13,289)	(3,615)
ASSETS LIMITED AS TO USE	393,728	188,711
PROPERTY AND EQUIPMENT, net	792,360	790,670
OTHER ASSETS		
Goodwill	3,263	3,263
Property held for future investment	5,583	6,759
Other	4,666	4,723
Right-of-use asset, finance leases	4,050	6,483
Right-of-use asset, operating leases	25,482	27,809
TOTAL OTHER ASSETS	43,044	49,037
TOTAL ASSETS	\$ 2,959,187	\$ 2,349,466

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Consolidated Balance Sheets – Continued *(Dollars in Thousands)*

	<i>September 30,</i>	
	<i>2021</i>	<i>2020</i>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 18,125	\$ 17,526
Accrued interest	4,960	4,941
Accounts payable and other accrued expenses	90,559	74,878
Accrued salaries, benefits, compensated absences and amounts withheld	141,899	104,056
Current portion of finance lease liability	2,161	2,789
Current portion of operating lease liability	7,970	6,958
Advance payments from third-party payers - Note O	70,808	98,905
Unearned revenue - Note O	24,339	50,020
Estimated amounts due to third-party payers	12,001	10,544
TOTAL CURRENT LIABILITIES	372,822	370,617
LONG-TERM DEBT, less current portion	1,196,547	947,851
ESTIMATED SELF-INSURANCE LIABILITIES	58,875	50,366
OTHER LONG-TERM LIABILITIES		
Deferred compensation	49,187	37,212
Pension liability	5,585	98,907
Finance lease liability, less current portion	1,760	3,526
Operating lease liability, less current portion	17,934	21,119
TOTAL OTHER LONG-TERM LIABILITIES	74,466	160,764
TOTAL LIABILITIES	1,702,710	1,529,598
COMMITMENTS AND CONTINGENCIES -		
Notes G, J and R		
NET ASSETS		
Without donor restrictions	1,231,254	796,191
With donor restrictions	25,223	23,677
TOTAL NET ASSETS	1,256,477	819,868
TOTAL LIABILITIES AND NET ASSETS	\$ 2,959,187	\$ 2,349,466

See notes to consolidated financial statements.

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Consolidated Statements of Operations and Changes in Net Assets *(Dollars in Thousands)*

	<i>Year Ended September 30,</i>	
	<i>2021</i>	<i>2020</i>
Changes in net assets without donor restrictions:		
Patient service revenue	\$ 1,806,953	\$ 1,367,581
Other operating revenue	96,128	36,635
TOTAL OPERATING REVENUES	1,903,081	1,404,216
Expenses:		
Salaries and wages	849,614	686,137
Employee benefits	149,938	127,777
Physicians' fees	41,765	27,567
Utilities	14,528	14,001
Supplies	311,791	252,092
Legal, consulting and professional fees	6,749	5,853
Contracted outside services	74,449	65,047
Insurance	17,917	21,817
Interest	36,656	34,058
Depreciation and amortization	95,013	98,419
Other operating expenses	118,119	107,120
TOTAL OPERATING EXPENSES	1,716,539	1,439,888
OPERATING INCOME (LOSS) BEFORE PROVIDER RELIEF FUND REVENUE	186,542	(35,672)
Provider relief fund revenue - Note O	30,527	42,491
INCOME FROM OPERATIONS	217,069	6,819
Nonoperating gains (losses):		
Gain (loss) from investments, net	156,971	(40,020)
Loss on extinguishment of long-term debt	(18,514)	(5,287)
Gain (loss) on sale of property and equipment, net	905	(30)
Change in estimated fair value and loss on extinguishment of interest rate swaps	-	(9,877)
Change in estimated benefit obligation due to settlement	(15,914)	-
Miscellaneous, net	(2,220)	(844)
NET NONOPERATING GAINS (LOSSES)	121,228	(56,058)
EXCESS (DEFICIT) OF REVENUE AND GAINS OVER EXPENSES AND LOSSES	338,297	(49,239)

See notes to consolidated financial statements.

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Consolidated Statements of Operations and Changes in Net Assets – Continued *(Dollars in Thousands)*

	<i>Year Ended September 30,</i>	
	<i>2021</i>	<i>2020</i>
Other changes in net assets without donor restrictions:		
Pension asset/liability adjustments	95,916	(63,585)
Net assets released for capital expenditures	988	-
Other changes	(138)	519
TOTAL OTHER CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS	96,766	(63,066)
INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	435,063	(112,305)
NET ASSETS WITHOUT DONOR RESTRICTIONS, BEGINNING OF YEAR	796,191	908,496
NET ASSETS WITHOUT DONOR RESTRICTIONS, END OF YEAR	\$ 1,231,254	\$ 796,191
Changes in net assets with donor restrictions:		
Contributions for equipment, education, indigent patients and community benefits	\$ 4,433	\$ 3,457
Partnership earnings and other changes	507	(101)
Change in expected losses and discounts on pledges	(118)	(71)
Net assets released from restrictions	(3,258)	(1,292)
Other changes, net	(18)	27
INCREASE IN NET ASSETS WITH DONOR RESTRICTIONS	1,546	2,020
NET ASSETS WITH DONOR RESTRICTIONS, BEGINNING OF YEAR	23,677	21,657
NET ASSETS WITH DONOR RESTRICTIONS, END OF YEAR	25,223	23,677
TOTAL INCREASE (DECREASE) IN NET ASSETS	436,609	(110,285)
TOTAL NET ASSETS, BEGINNING OF YEAR	819,868	930,153
TOTAL NET ASSETS, END OF YEAR	\$ 1,256,477	\$ 819,868

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Consolidated Statements of Cash Flows *(Dollars in Thousands)*

	<i>Year Ended September 30,</i>	
	<i>2021</i>	<i>2020</i>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ 436,609	\$ (110,285)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	95,013	98,419
(Gain) loss on sale of property, plant and equipment	(905)	30
Loss on sales of investments and assets limited as to use	1,178	15,948
Loss on extinguishment of long-term debt	18,514	5,287
Pension plan adjustments	(95,916)	63,585
Change in expected losses and discounts on pledges	118	71
Change in net unrealized gains/losses on investments and assets limited as to use	(124,858)	51,755
Restricted contributions	(4,433)	(3,457)
Change in estimated fair value and loss on extinguishment of interest rate swaps	-	9,877
Changes in assets and liabilities:		
Patient accounts receivable	(63,708)	(184)
Inventory of supplies	(597)	(6,480)
Other current assets	(16,091)	2,009
Other long-term assets	7,854	6,738
Accrued interest	19	446
Accounts payable and other accrued expenses, and other long-term liabilities	30,033	(16,136)
Accrued salaries, benefits, compensated absences and amounts withheld	37,843	20,319
Unearned revenue	(25,681)	50,020
Estimated third-party payer settlements	(20,828)	2,739
Estimated self-insurance liabilities	14,326	8,433
Lease liabilities	(7,643)	(8,055)
Total adjustments	(155,762)	301,364
NET CASH PROVIDED BY OPERATING ACTIVITIES	280,847	191,079
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(88,201)	(85,801)
Proceeds from sales of property, plant and equipment	2,800	30
Purchases of investments and assets limited as to use	(1,091,622)	(822,281)
Proceeds from maturities and sales of investments and assets limited as to use	677,038	709,085
NET CASH USED IN INVESTING ACTIVITIES	(499,985)	(198,967)

See notes to consolidated financial statements.

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Consolidated Statements of Cash Flows – Continued *(Dollars in Thousands)*

	<i>Year Ended September 30,</i>	
	<i>2021</i>	<i>2020</i>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable and long-term debt, net of issuance costs	490,536	400,214
Payments to escrow to relieve long-term debt	(239,605)	(415,683)
Principal payments on long-term debt and finance lease obligations	(23,298)	(18,927)
Payments to terminate interest rate swaps, net	-	(11,594)
Advance payments from third-party payers	-	98,905
Recoupment of advance payments from third-party payers	(28,097)	-
Restricted contributions received	4,433	3,457
NET CASH PROVIDED BY FINANCING ACTIVITIES	203,969	56,372
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(15,169)	48,484
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	65,818	17,334
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 50,649	\$ 65,818
SUPPLEMENTAL INFORMATION:		
Cash paid during the year for interest	\$ 36,637	\$ 33,590
SUPPLEMENTAL SCHEDULE OF NON-CASH ACTIVITIES:		
Property, plant and equipment received and accrued in payables	\$ 13,339	\$ 7,304
Lease liabilities arising from obtaining right-of-use assets	\$ 6,019	\$ 6,513
Operating cash flows from finance leases	\$ -	\$ 23
Operating cash flows from operating leases	\$ 7,770	\$ 8,317
Financing cash flows from finance leases	\$ 2,943	\$ 2,177

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements (Dollars in Thousands)

Years Ended September 30, 2021 and 2020

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 134-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.

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

The Georgia Heart Institute, LLC (GHI), a Georgia limited liability company formally known as The Heart Center, is a cardiology physician practice. NGHS is the only member of GHI.

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.

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued *(Dollars in Thousands)*

Years Ended September 30, 2021 and 2020

Northeast Georgia PEO, LLC (PEO) was formed in 2020 as a subsidiary of NGIIS for employing out-of-state workers. PEO is not capitalized or staffed and is solely used for tax reporting purposes.

Northeast Georgia Health Partners Network, LLC (NGHP Network) is a physician-hospital organization and was formed as a wholly-owned subsidiary in 2020 to provide clinically integrated care to individuals covered by contracts entered into or administered by NGHP Network.

NGHS, NGMC, the Foundation, PEO, 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 GHI passes through to NGHS, which is tax exempt. NGHP and NGHP Network are organized as for-profit corporations.

NOTE B--SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of NGIIS 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, 2021 and 2020 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.

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued *(Dollars in Thousands)*

Years Ended September 30, 2021 and 2020

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.

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 nonoperating 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, Equipment and Depreciation: Property 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 consolidated 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 the amount of time 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.

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued *(Dollars in Thousands)*

Years Ended September 30, 2021 and 2020

The System periodically reviews property 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, 2021 and 2020, respectively.

Leases and Right-of-Use Assets: The present value of lease payments is recorded as a lease liability at the commencement of a contract that has a term in excess of one year. The present value is determined by discounting the required payments using the stated or implicit interest rate in the lease or, if not stated or implied, the System's incremental borrowing rate which was 3.00% for the years ended September 30, 2021 and 2020, respectively. Payments include options to extend, or terminate, if the System determines that it is reasonably certain that such options will be exercised. A right-of-use asset is also recorded equal to the lease liability plus any initial direct costs, prepayments, or incentives.

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 during the year ended September 30, 2020 as discussed in Note F. These financial instruments were not designated as hedges and had been presented at estimated fair market value. The estimated fair value was based on amounts the System would receive or pay to enter into similar agreements at the Consolidated Balance Sheet date. 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.

Excess (Deficit) of Revenue and Gains Over Expenses and Losses: The Consolidated Statements of Operations and Changes in Net Assets include the *Excess (Deficit) of Revenue and Gains Over Expenses and Losses*. Changes in net assets without donor restrictions which are excluded from *Excess (Deficit) 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.

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued *(Dollars in Thousands)*

Years Ended September 30, 2021 and 2020

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 GHI 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 GHI 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 \$415,087 and \$349,753 for the years ended September 30, 2021 and 2020, respectively, which are net of indigent care trust fund proceeds of \$9,646 and \$7,613 in 2021 and 2020, 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.

The estimated cost of providing charity care totaled \$101,406 and \$90,313 for the years ended September 30, 2021 and 2020, 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. Explicit price concessions for the years ended September 30, 2021 and 2020 include \$102,428 and \$79,003, 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 care services. The System measures the performance obligation from admission into one of

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued *(Dollars in Thousands)*

Years Ended September 30, 2021 and 2020

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 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 explicit price concessions 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.

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued *(Dollars in Thousands)*

Years Ended September 30, 2021 and 2020

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 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 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.

Income Taxes: NGHS, NGMC, the Foundation, PEO, 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 GHI 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 and NGIIP Network are taxable entities and account for income taxes in accordance with the FASB ASC 740, *Income Taxes* (ASC 740). At September 30, 2021 and 2020, 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.

Other Revenue: The System received new program development and capitation funds from the Georgia Board of Healthcare Workforce in the amount of \$1,823 and \$1,665 during fiscal year 2021 and 2020, respectively, to develop training programs for primary care physicians. These funds are recognized as other operating revenue in the accompanying Consolidated Statements of Operations and Changes in Net Assets. In addition, during fiscal year 2021, the System received contributed services from the State of Georgia which provided contract nurses due to the coronavirus disease 2019 (COVID-19) workforce shortage. Consistent with Accounting Standards Update (ASU) 2018-08, the System has determined the contributed services meet the specialized skill criteria and that the contributions should be recognized in the consolidated financial statements at their fair market value. The value of these contributed services received was

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued *(Dollars in Thousands)*

Years Ended September 30, 2021 and 2020

determined to be \$55,577 and is accounted for in the Consolidated Statements of Operations and Changes in Net Assets as other operating revenue and salaries and wages expense. There is no impact to the income from operations for this recognition.

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, 2021 and 2020, respectively.

Recently Adopted Accounting Principles: In March 2017, the FASB issued ASU No. 2017-08, *Receivables-Nonrefundable Fees and Other Costs: Premium Amortization on Purchased Callable Debt Securities*, which shortens the amortization period for any premium to the earliest call date. Bonds purchased with a discount are not impacted by this ASU. Management adopted this ASU effective October 1, 2020. The adoption of this ASU did not have a material impact to the consolidated financial statements.

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. The System adopted this ASU effective October 1, 2020, utilizing a modified retrospective method with the cumulative effect made as of the earliest comparative period presented. Utilizing the comparative method required the System to recast certain prior period amounts previously presented as of and for the year ended September 30, 2020. The System elected the practical expedients offered under this standard and did not reassess whether any current or expired contracts are, or contain, leases and did not reassess the classification for any current leases. The System does not apply the recognition requirements of this standard to short-term leases. The lease payments for leases with terms of twelve months or less are recognized in the period in which they are incurred. The adoption of this standard resulted in the recognition of operating right-of-use assets and lease liabilities within the Consolidated Balance Sheets. Additionally, the right-of-use asset and related liability for finance (capital) leases has now been presented separately in the Consolidated Balance Sheets. There was no material impact on the net assets of the System upon the adoption of this standard.

Impact on Previously Reported Results: The provisions of ASU 2016-02 do not materially impact the amount of expense the System recognizes. The primary impact of adopting the new standard is the reclassification of capital assets from property and equipment to right-of-use finance lease assets and the reclassification of the corresponding finance lease liability from debt to other current and long-term liabilities. Additionally, operating leases are presented on the Consolidated Balance Sheets as right-of-use operating lease assets and liabilities.

The following table presents a recast of selected Consolidated Balance Sheet line items as of September 30, 2020 after giving effect to the adoption of ASU 2016-02:

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended September 30, 2021 and 2020

	<i>As Previously Reported</i>	<i>Adjustments</i>	<i>As Adjusted</i>
ASSETS			
Property and equipment, net	\$ 797,486	\$ (6,816)	\$ 790,670
Right-of-use asset, finance leases	-	6,483	6,483
Right-of-use asset, operating leases	-	27,809	27,809
LIABILITIES AND NET ASSETS			
Current portion of long-term debt	20,568	(3,042)	17,526
Current portion of finance lease liability	-	2,789	2,789
Current portion of operating lease liability	-	6,958	6,958
Long-term debt, less current portion	951,141	(3,290)	947,851
Finance lease liability, less current portion	-	3,526	3,526
Operating lease liability, less current portion	-	21,119	21,119
Net assets	820,451	(583)	819,868

The following table presents a recast of selected Consolidated Statement of Operations and Changes in Net Assets line items for the year ended September 30, 2020 after giving effect to the adoption of ASU 2016-02:

	<i>As Previously Reported</i>	<i>Adjustments</i>	<i>As Adjusted</i>
OPERATING EXPENSES:			
Supplies	\$ 252,125	\$ (33)	\$ 252,092
Interest	34,035	23	34,058
Depreciation and amortization	98,098	321	98,419
Other operating expenses	106,848	272	107,120

The following table presents a recast of selected Consolidated Statement of Cash Flows line items for the year ended September 30, 2020 after giving effect to the adoption of ASU 2016-02:

	<i>As Previously Reported</i>	<i>Adjustments</i>	<i>As Adjusted</i>
CASH FLOW FROM OPERATING ACTIVITIES			
Decrease in net assets	\$ (109,702)	\$ (583)	\$ (110,285)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:			
Depreciation and amortization	98,098	321	98,419
Other long-term assets	(1,579)	8,317	6,738
Lease liabilities	-	(8,055)	(8,055)

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 *(Dollars in Thousands)*

Years Ended September 30, 2021 and 2020

In September 2020, the FASB issued 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.

Reclassifications: Certain reclassifications have been made to the 2020 amounts to conform to the 2021 presentation. These reclassifications had no material impact on the consolidated decrease in net assets.

NOTE C--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 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

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued *(Dollars in Thousands)*

Years Ended September 30, 2021 and 2020

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, 2021 and 2020 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, 2021 and 2020. 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, 2021 and 2020.

NGMC, NGPG, GHI, 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 hospitals and nursing homes to be paid 100 percent of the amount Medicare would pay for similar Medicaid services. During fiscal years 2021 and 2020, NGMC recognized \$24,748 and \$7,573, respectively, from the UPL program. \$22,285 is included in third-party receivables as of September 30, 2021. There was no amount receivable under the UPL program as of September 30, 2020. NGMC-Barrow, NGPG, and GHI recognized \$845, \$3,464 and \$64, respectively, in funds from the UPL program in 2021. NGMC-Barrow, NGPG, and GHI did not recognize any funds from the UPL program in 2020. UPL amounts recognized are included in patient service revenue.

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended September 30, 2021 and 2020

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 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. \$15,036 and \$13,587 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, 2021 and 2020, 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:

	2021	2020
Medicare	\$ 894,481	\$ 684,928
Medicaid	201,768	155,090
Commercial	494,988	361,377
Self-Pay	150,070	120,488
Other	65,646	45,698
Patient service revenue	<u>\$ 1,806,953</u>	<u>\$ 1,367,581</u>

NOTE D--INVESTMENTS AND ASSETS LIMITED AS TO USE

The composition of assets limited as to use at September 30, 2021 and 2020, is as follows:

	2021	2020
Indenture agreements - held by trustees:		
Cash and money market funds	\$ 121,745	\$ 159
Corporate bonds	39,941	-
Accrued income	204	-
	<u>161,890</u>	<u>159</u>
Professional liability self-insurance agreement - held by trustee:		
Cash and money market funds	10,644	2,456
Government bonds	-	19,202
Corporate bonds	30,584	8,643
Equity securities	15,090	7,170
Accrued income	195	400
	<u>56,513</u>	<u>37,871</u>

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued *(Dollars in Thousands)*

Years Ended September 30, 2021 and 2020

	<i>2021</i>	<i>2020</i>
Workers' compensation self-insurance agreement - held by trustee:		
Cash and money market funds	1,602	550
Government bonds	-	3,391
Corporate bonds	3,566	1,008
Equity investments	1,813	-
Accrued income	22	206
	<u>7,003</u>	<u>5,155</u>
Board designated for capital improvements:		
Cash and money market funds	19,333	13,883
Equity securities	75,849	65,814
	<u>95,182</u>	<u>79,697</u>
Other		
Cash and money market funds	16,944	995
Mutual funds	32,752	34,780
Corporate bonds	3,112	5,044
Equity securities	6,438	3,026
Limited partnership investments	20,892	19,795
Other	6,268	5,779
Accrued income	23	25
	<u>86,429</u>	<u>69,444</u>
	407,017	192,326
Less assets limited as to use that are required for current obligations	<u>(13,289)</u>	<u>(3,615)</u>
	<u>\$ 393,728</u>	<u>\$ 188,711</u>

The composition of investments at September 30, 2021 and 2020, is as follows:

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended September 30, 2021 and 2020

	2021	2020
Cash and money market funds	\$ 309,638	\$ 108,342
Government bonds	-	332,432
Corporate bonds	246,229	262,692
Equity securities	825,338	404,592
Mutual funds	49,926	-
Accrued income	2,170	1,669
	1,433,301	1,109,727
Less current investments	(309,638)	(108,342)
	<u>\$ 1,123,663</u>	<u>\$ 1,001,385</u>

Investment income on proceeds of borrowings that are held by trustees was \$221 and \$142, for the years ended September 30, 2021 and 2020, 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 gain (loss) from all other investments and assets limited as to use without donor restrictions for the years ended September 30, 2021 and 2020, was comprised of the following:

	2021	2020
Interest and dividend income	\$ 33,176	\$ 32,597
Limited partnership (losses) earnings	3,518	(2,130)
Net realized losses	(1,178)	(15,948)
Change in net unrealized gains/losses	124,858	(51,755)
Investment expense	(3,403)	(2,784)
Net investment gain (loss)	<u>\$ 156,971</u>	<u>\$ (40,020)</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, 2021 and 2020 are as follows:

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended September 30, 2021 and 2020

	2021	2020
Land	\$ 64,924	\$ 63,227
Land improvements	16,671	16,671
Building and building equipment	936,545	918,093
Equipment	712,325	673,193
Vehicles	5,661	5,352
	1,736,126	1,676,536
Less accumulated depreciation and amortization	(998,147)	(906,717)
	737,979	769,819
Construction in progress - Note R	54,381	20,851
	\$ 792,360	\$ 790,670

Depreciation expense associated with property and equipment, net for the years ended September 30, 2021 and 2020 was \$91,808 and \$94,610, respectively.

NOTE F--LONG-TERM DEBT

A summary of long-term debt at September 30, 2021 and 2020 is as follows:

	2021	2020
Revenue Anticipation Certificates, Series 2021A		
Interest rates ranging from 2.50% to 5.00%; interest payments due semi-annually through February 2051	\$ 221,535	\$ -
Plus unamortized premium	29,852	-
Revenue Anticipation Certificates, Series 2021B		
Interest rates ranging from 2.85% to 3.00%; interest payments due semi-annually through February 2054	242,120	-
Revenue Anticipation Certificates, Series 2020A		
Interest rates ranging from 3.00% to 5.00%; interest payments due semi-annually through February 2047	332,735	339,260
Plus unamortized premium	60,223	62,592
Revenue Anticipation Certificates, Series 2017A		
Interest rates ranging from 4.00% to 5.00%; interest payments due semi-annually through February 2045	166,510	170,025
Plus unamortized premium	13,854	14,310

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued *(Dollars in Thousands)*

Years Ended September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Revenue Anticipation Certificates, Series 2017B		
Interest rates ranging from 3.75% to 5.50%; interest payments due semi-annually through February 2045	137,784	140,540
Plus unamortized premium	17,088	17,650
Revenue Anticipation Certificates, Series 2014A		
Interest rates ranging from 4.00% to 5.50%; interest payments due semi-annually through August 2054	-	206,925
Plus unamortized premium	-	16,266
Other notes payable	813	3,574
	<u>1,222,514</u>	<u>971,142</u>
Less current portion	(18,125)	(17,526)
Less issuance cost	(7,842)	(5,765)
	<u>\$ 1,196,547</u>	<u>\$ 947,851</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.

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, 2021.

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

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued *(Dollars in Thousands)*

Years Ended September 30, 2021 and 2020

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 Master Trust Agreement is supplemented by Supplemental Master Indentures issued with the Series 2021 Certificates, dated as of September 1, 2021.

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, 2021 and 2020, respectively.

In September 2021, the Obligated Group issued Revenue Anticipation Certificates Series 2021A, in the aggregate principal amount of \$221,535, and Taxable Revenue Anticipation Certificates Series 2021B, in the aggregate principal amount of \$242,120, collectively referred to herein as the Series 2021 Certificates. The proceeds of the sale of the Series 2021 Certificates were used to (i) advance refund the outstanding amounts and issuance costs of the Series 2014A Certificates, (ii) pay related costs of issuing the Series 2021 Certificates, and (iii) finance a portion of the cost of the acquisition, construction, renovation, installation, and equipping of additions or improvements to the healthcare facilities operated by NGHHS and its affiliated in Hall County, Georgia. The Series 2021A Certificates bear interest ranging from 2.5% to 5%. Except during a term or fixed interest rate period, interest on the Series 2021A Certificates shall accrue interest based on the actual number of days elapsed during the interest rate period and a year of 360 days. The Series 2021A Certificates bearing interest at 4% and maturing on February 15, 2046 are subject to mandatory sinking fund redemption payments beginning February 15, 2042 and ending February 15, 2046, which range from \$3,190 to \$3,830. The Series 2021A Certificates maturing on February 15, 2051 are subject to mandatory sinking fund redemption payments beginning February 15, 2047 and ending February 15, 2051, which range from \$1,565 to \$16,215. The Series 2021A Certificates bearing interest at 3% and maturing on February 15, 2051 are subject to mandatory sinking fund redemption payments beginning February 15, 2047 and ending February 15, 2051, which range from \$1,070 to \$7,505. The Series 2021A Certificates bearing interest at 2.5% and maturing on February 15, 2051 are subject to mandatory sinking fund redemption payments beginning February 15, 2047 and ending February 15, 2051, which range from \$1,335 to \$9,385. The sale proceeds of the Series 2021A Certificates were subject to an original issue premium and issuance costs of \$29,953 and \$1,449, respectively, and will be amortized monthly in accordance with the term of the Series 2021A Certificates.

Series 2021A Certificates are subject to optional redemption by the Authority, at the direction of NGHHS, at a redemption price of the entire principal amount thereof plus accrued interest on or after February 15, 2031.

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued *(Dollars in Thousands)*

Years Ended September 30, 2021 and 2020

The Series 2021B Certificates bear interest ranging from per 2.85% to 3.00%. Except during a term or fixed interest rate period, interest on the Series 2021B Certificates shall accrue interest based on the actual number of days elapsed during the interest rate period and a year of 360 days. The Series 2021B Certificates maturing on February 15, 2046 are subject to mandatory sinking fund redemption payments beginning February 15, 2041 and ending February 15, 2046 which range from \$5,475 to \$21,055. The Series 2021B Certificates maturing on February 15, 2054 are subject to mandatory sinking fund redemption payments beginning February 15, 2047 and ending February 15, 2054 which range from \$21,680 to \$26,745. The sale proceeds of the Series 2021A Certificates were subject to issuance costs of \$1,624 and will be amortized monthly in accordance with the term of the Series 2021B Certificates.

The Series 2021B Certificates maturing on February 15, 2046 and February 15, 2054 are subject to optional redemption prior to maturity at the option of NGHS on or after November 15, 2045 and November 15, 2053, respectively, at a redemption price of the entire principal amount of such Series 2021B Certificates to be redeemed. If redeemed prior to these dates, a redemption price equal to the Make-Whole Redemption Price, as determined by an independent accounting firm or financial advisor, plus accrued interest shall be paid.

In March 2020, the Obligated Group issued Revenue Anticipation Certificates Series 2020A, in the aggregate principal amount of \$339,260. 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%. 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 to \$17,370. 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 to \$25,040. The sale proceeds of the Series 2020A Certificates were subject to an original issue premium and issuance costs of \$63,777 and \$2,822, 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. 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

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued *(Dollars in Thousands)*

Years Ended September 30, 2021 and 2020

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 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 to \$12,995; and mandatory sinking fund redemption payments beginning February 15, 2043 and ending February 15, 2045, which range from \$11,825 to \$13,065. 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 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 to \$10,460; and mandatory sinking fund redemption payments beginning February 15, 2043 and ending February 15, 2045, which range from \$6,890 to \$7,655. 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 term certificate subject to mandatory sinking fund redemption payments beginning February 15, 2044.

The advance refunded Series 2017D Certificate consisted of a \$75,000 term certificate subject to mandatory sinking fund redemption payments which began February 15, 2018.

In December 2014, the Authority issued Revenue Anticipation Certificates Series 2014A and 2014B in an aggregate principal amount of \$342,425. The Series 2014A and 2014B Certificates were 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 consisted of \$27,500 term certificates maturing August 15, 2046 bearing interest at 4.00% and subject to mandatory sinking fund redemption payments beginning August 15, 2041, which ranged from \$2,500 to \$15,000; \$60,375 term certificates maturing August 15, 2049 bearing interest at 5.25% and subject to mandatory sinking fund redemption payments beginning August 15, 2046, which ranged from \$2,560 to \$20,265; and \$119,050 term certificates maturing August 15, 2054 bearing interest at 5.50% and subject to mandatory sinking fund redemption payments beginning August 15, 2050, which ranged from \$21,330 to \$26,425. All 2014A Certificates were subject to mandatory tender for purchase on August 26, 2021. NGHS was obligated to provide funds to purchase the Certificates on that date. NGHS advance refunded the

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued ***(Dollars in Thousands)***

Years Ended September 30, 2021 and 2020

outstanding balance of the 2014A Certificates in August 2021 as part of the Series 2021 Certificates issuance.

The Series 2014B Certificates consisted of \$135,500 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. NGHHS 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, subject to mandatory sinking fund redemption prior to maturity. 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. Also, in February 2010, the Authority issued Revenue Anticipation Certificates Series 2010B in the aggregate amount of \$250,000. The Series 2010A and 2010B Certificates were 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 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, 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 advance refunding, in the Consolidated Balance Sheets at September 30, 2020. The advance refunding of the 2014A Certificates, previously described, was accomplished by placing funds in an escrow account in order to satisfy the remaining scheduled principal and interest payments of the outstanding debt through and including February 15, 2025, the redemption date. As of September 30, 2021 the balance of the respective deposits in escrow are \$239,606, and as such, there is debt outstanding

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued *(Dollars in Thousands)*

Years Ended September 30, 2021 and 2020

and not recognized, due to advance refunding, in the Consolidated Balance Sheets at September 30, 2021.

The Series 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, 2021 and 2020 also includes notes payable to financial institutions extending through fiscal 2023.

Scheduled maturities of long-term debt, excluding unamortized original issue discounts and premiums, for each of the next five years and in the aggregate at September 30, 2021 are as follows:

<u>Year Ending September 30,</u>	
2022	\$ 13,841
2023	14,523
2024	17,610
2025	18,515
2026	19,465
Thereafter	1,017,543
	<u>\$ 1,101,497</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. 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. In anticipation of the Obligated Group issuing the 2017 Certificates, NGHS entered into two separate swap agreements in October 2016. In connection with the issuance of the Series 2020A Certificates, all swap agreements were terminated and a non-operating loss of \$9,877 was recognized for the year ended September 30, 2020.

NOTE G--LEASES

The System has entered into various non-cancelable leases with third parties for medical office space and medical equipment. The components of lease expense, included in other operating expenses on the Consolidated Statements of Changes in Operations and Net Assets, at September 30, 2021 and 2020 are as follows:

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended September 30, 2021 and 2020

	2021	2020
Finance lease costs:		
Amortization of right-to-use-asset	\$ 2,997	\$ 3,212
Interest on lease liability	-	23
Operating lease cost	7,770	8,317
Short term lease cost	947	740
	<u>\$ 11,714</u>	<u>\$ 12,292</u>
Other information:		
Right-of-use assets obtained for new finance leases	\$ 549	\$ 6,481
Right-of-use assets obtained for new operating leases	\$ 5,470	\$ 32
Weighted average remaining lease term - finance leases	1.93	2.65
Weighted average remaining lease term - operating leases	5.91	6.65
Weighted average discount rate - finance leases	0.00%	0.00%
Weighted average discount rate - operating leases	3.00%	3.00%

The following is a schedule of future minimum lease payments under operating and finance lease agreements:

<u>Year Ending September 30,</u>	<u>Finance</u>	<u>Operating</u>
2022	\$ 2,161	\$ 8,663
2023	1,735	5,884
2024	25	3,875
2025	-	2,694
2026	-	1,793
Thereafter	-	5,458
Total lease payments	3,921	28,367
Less: Interest portion	-	(2,463)
Present value of lease obligations	3,921	25,904
Less: Current portion	(2,161)	(7,970)
Long-term lease obligations	<u>\$ 1,760</u>	<u>\$ 17,934</u>

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued *(Dollars in Thousands)*

Years Ended September 30, 2021 and 2020

NOTE H--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.

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, 2021 and 2020:

	<i>Year Ended</i> <i>September 30,</i>	
	<i>2021</i>	<i>2020</i>
Change in benefit obligations		
Benefit obligations, beginning of year	\$ 392,624	\$ 337,313
Service cost	3,236	9,550
Interest cost	9,976	10,616
Curtailment	(17,502)	-
Settlement	(42,442)	-
Benefits paid	(11,470)	(10,279)
Actuarial gain	(13,560)	45,424
Benefit obligations, end of year	\$ 320,862	\$ 392,624

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended September 30, 2021 and 2020

	<i>Year Ended September 30,</i>	
	<i>2021</i>	<i>2020</i>
Change in plan assets		
Fair value of plan assets, beginning of year	\$ 293,717	\$ 291,866
Actual return on plan assets	55,472	(7,870)
Contributions of plan sponsor	20,000	20,000
Settlement	(42,442)	-
Benefits paid	(11,470)	(10,279)
Fair value of plan assets, end of year	\$ 315,277	\$ 293,717
Funded status of the plan at end of year	\$ (5,585)	\$ (98,907)

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 2021 and 2020.

The accumulated benefit obligation (ABO) of the plan was \$320,862 and \$375,397 at September 30, 2021 and 2020, 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. Due to the plan being frozen during fiscal year 2021, future pay is no longer considered in determining the accrued benefit for the remaining active participants and as such the ABO is equal to the projected benefit obligation (PBO) at September 30, 2021.

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

	<i>September 30,</i>	
	<i>2021</i>	<i>2020</i>
Noncurrent liabilities	\$ (5,585)	\$ (98,907)
Net liability recognized	\$ (5,585)	\$ (98,907)

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

	<i>Year Ended September 30,</i>	
	<i>2021</i>	<i>2020</i>
Unrecognized net actuarial loss	\$ 120,314	\$ 216,230
	\$ 120,314	\$ 216,230

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended September 30, 2021 and 2020

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

	<i>Year Ended September 30,</i>	
	<i>2021</i>	<i>2020</i>
Net periodic pension cost		
Service cost with interest to year-end	\$ 3,236	\$ 9,550
Interest cost on the projected benefit obligation	9,976	10,616
Expected return on plan assets	(21,157)	(22,971)
Amortization of prior service cost	-	-
Amortization of net actuarial loss	14,625	12,681
Settlement	15,914	-
Net periodic pension cost	<u>\$ 22,594</u>	<u>\$ 9,876</u>
Other changes in net assets without donor restrictions		
Net (gain) loss	\$ (65,377)	\$ 76,266
Amortization of prior service cost	-	-
Amortization of net actuarial loss	(14,625)	(12,681)
Settlement	(15,914)	-
Total recognized in net assets without donor restrictions	<u>\$ (95,916)</u>	<u>\$ 63,585</u>
Total recognized in net periodic pension cost and net assets without donor restrictions	<u>\$ (73,322)</u>	<u>\$ 73,461</u>

The actuarial assumptions used for the plan as of September 30, 2021 and 2020 are as follows:

	<i>September 30,</i>	
	<i>2021</i>	<i>2020</i>
Discount rates	2.90%	2.70%
Rates of increase in future compensation levels	varies by age	varies by age
Expected long-term rate of return on plan assets	6.50%	7.50%
Rates of increase in maximum benefit and compensation limits	3.00%	2.20%

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.

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended September 30, 2021 and 2020

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.

The composition of plan assets at September 30, 2021 and 2020 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, 2021				
Money market funds	\$ 4,747	\$ 4,747	\$ -	\$ -
Corporate bonds	56,101	-	56,101	-
Mutual funds and equity securities	253,838	253,838	-	-
Accrued income	591	591	-	-
	<u>\$ 315,277</u>	<u>\$ 259,176</u>	<u>\$ 56,101</u>	<u>\$ -</u>
September 30, 2020				
Money market funds	\$ 35,314	\$ 35,314	\$ -	\$ -
Corporate bonds	59,359	-	59,359	-
Mutual funds and equity securities	198,444	198,444	-	-
Accrued income	600	600	-	-
	<u>\$ 293,717</u>	<u>\$ 234,358</u>	<u>\$ 59,359</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 has frozen the pension plan for all participants. In addition, guaranteed annuities were purchased for 747 retirees and beneficiaries as of September 2021. The System recognized a settlement loss of \$15,914. This is reflected as a settlement in the change in benefit obligation for the year ended September 30, 2021. Management contributed \$20,000 to the plan during fiscal year 2021.

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

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued *(Dollars in Thousands)*

Years Ended September 30, 2021 and 2020

<u>Year Ending September 30,</u>	
2022	\$ 9,340
2023	10,216
2024	11,092
2025	11,889
2026	12,654
2027-2031	71,863

NOTE I--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 O. During 2021, the employer match was reinstated. Expense under the 401(k) Retirement Savings Plan was \$19,475 and \$12,601 for the years ended September 30, 2021 and 2020, 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 J--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 per occurrence and \$10,000 in the aggregate (annually) for professional liability and \$400 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, 2021, 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, 2021 that may result in the assertion of additional claims and other unreported claims may be

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued *(Dollars in Thousands)*

Years Ended September 30, 2021 and 2020

asserted arising from services provided in the past. Estimated self-insurance liabilities in the accompanying Consolidated Balance Sheets at September 30, 2021 and 2020 consist of amounts accrued by the System related to these self-insurance programs and have not been discounted. Amounts accrued by NGHS were \$58,875 and \$50,366 at September 30, 2021 and 2020. Operating expenses in the years ended September 30, 2021 and 2020 include \$11,088 and \$17,902, respectively, for professional liability and workers' compensation.

The System maintains a self-insurance program to provide medical and dental coverage for eligible employees and their dependents. Reinsurance above \$225 annually per individual with no aggregate limit is maintained through a commercial excess coverage policy. Operating expenses for the years ended September 30, 2021 and 2020 include \$69,085 and \$57,469, respectively, related to these benefits. \$12,100, representing estimated incurred but unpaid medical and dental claims, are included in accounts payable and accrued expenses at both September 30, 2021 and 2020.

NOTE K--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 patient service 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, 2021 and 2020 is as follows:

	<i>2021</i>	<i>2020</i>
Governmental programs:		
Medicare	50%	51%
Medicaid	11%	11%
Commercial insurance	27%	26%
Self-pay and other	12%	12%
	<u>100%</u>	<u>100%</u>

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended September 30, 2021 and 2020

NOTE L--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, 2021 and 2020 are as follows:

	Healthcare Services	Support Services	Fundraising	Total
September 30, 2021				
Salaries and benefits	\$ 923,850	\$ 74,555	\$ 1,147	\$ 999,552
Utilities	13,430	1,098	-	14,528
Physicians' fees	38,633	3,132	-	41,765
Supplies	290,733	21,040	18	311,791
Legal, consulting and professional fees	5,989	760	-	6,749
Contracted outside services	68,089	6,234	126	74,449
Interest	34,279	2,377	-	36,656
Insurance	15,163	2,754	-	17,917
Other	108,366	9,673	80	118,119
Depreciation and amortization	88,002	6,967	44	95,013
	<u>\$ 1,586,534</u>	<u>\$ 128,590</u>	<u>\$ 1,415</u>	<u>\$ 1,716,539</u>
September 30, 2020				
Salaries and benefits	\$ 746,236	\$ 66,628	\$ 1,050	\$ 813,914
Utilities	12,684	1,316	1	14,001
Physicians' fees	24,808	2,759	-	27,567
Supplies	230,159	21,812	121	252,092
Legal, consulting and professional fees	4,772	1,031	50	5,853
Contracted outside services	58,125	6,805	117	65,047
Interest	31,108	2,950	-	34,058
Insurance	18,556	3,261	-	21,817
Other	95,921	11,046	153	107,120
Depreciation and amortization	88,571	9,812	36	98,419
	<u>\$ 1,310,940</u>	<u>\$ 127,420</u>	<u>\$ 1,528</u>	<u>\$ 1,439,888</u>

NOTE M--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, 2021:

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended September 30, 2021 and 2020

Financial assets	\$	2,070,835
Less those unavailable for expenditures within one year, due to:		
Amounts restricted by donors		(25,223)
Amounts restricted under insurance agreements, bond agreements, board designation or other		(407,017)
Financial assets available to meet cash needs for general expenditures within one year	\$	<u>1,638,595</u>

NOTE N--NET ASSETS RESTRICTED BY DONORS

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

	2021	2020
Cardiology funds	\$ 533	\$ 453
Community benefits funds	10,174	9,164
Oncology funds	1,010	929
Hospice funds	1,629	1,359
Children's initiatives funds	1,123	1,209
Education funds	552	640
Equipment funds	2,150	2,959
Grants	713	609
Indigent patient funds	68	8
Scholarship funds	981	728
Nephrology fund	50	50
Held in perpetuity:		
Wilheit-Keys Peace Garden Maintenance	155	155
The Henry S Jennings Jr MD Visiting Lectureship	424	100
Nell's Prayer Garden Maintenance	55	55
David Pet Park Maintenance	80	80
Jack & Janice Frost Water Garden Maintenance	100	100
Brasclton Flag Plaza Maintenance	30	30
Hospice fund	51	51
Nursing & Allied Health Continuing Education fund	589	578
Nursing & Allied Health Scholarships fund	246	224
Chaplain fund	456	206
MCF endowment fund	2,869	2,869
Honorary Gift - Woody Stewart & Nancy Colston fund	480	480
Pope Family Garden Maintenance	100	100

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Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended September 30, 2021 and 2020

	2021	2020
Evelyn Waugh scholarship fund	53	53
Ocie Pope scholarship fund	26	26
Destitute patient fund	186	186
Anne Thomas scholarship fund	57	57
John Ferguson scholarship fund	221	219
Ron Kutay scholarship fund	39	-
Don Freeman scholarship fund	23	-
	<u>\$ 25,223</u>	<u>\$ 23,677</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, 2021 and 2020 are as follows:

	2021	2020
Restrictions accomplished:		
Cardiology initiatives	\$ -	\$ 4
Community benefits	2,545	996
Children's initiatives	211	120
Education	5	9
Equipment	367	35
Grants	21	68
Indigent patients	22	17
Oncology initiatives	15	3
Hospice	23	32
Scholarships	49	8
Total net assets released from restrictions	<u>\$ 3,258</u>	<u>\$ 1,292</u>

Other operating revenue in the accompanying Consolidated Statements of Operations and Changes in Net Assets includes \$2,270 and \$1,292 for the years ended September 30, 2021 and 2020, respectively, representing net assets with donor restrictions. During 2021, total assets released for capital purposes was \$988. No assets were released from restrictions for capital purposes during 2020.

NOTE O--NATIONAL PANDEMIC

In March 2020, the outbreak of 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

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued *(Dollars in Thousands)*

Years Ended September 30, 2021 and 2020

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 of CARES Act Provider Relief Funds (PRF). A portion of this amount totaling \$42,491 was 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 was recorded as unearned revenue in the accompanying consolidated financial statements until expended for the intended purposes or repaid. The System received approximately \$4,800 of PRF during the year ended September 30, 2021. The entire amount of this funding along with the amounts recorded as unaccrued revenue in the prior year accompanying financial statements have been recognized as revenue as of September 30, 2021, based on the revised reporting guidelines published by HHS on June 11, 2021. The System has placed a 25% reserve against all PRF funds received, as management believes HHS, based on the other significant changes occurring over the past two years in rules for recognizing revenue from PRF funds issued by HHS, could again change the current terms and conditions with which management believes they can recognize all PRF funds. The reserve is netted against the PRF revenue recognized and is recorded as unearned revenue in the accompanying consolidated financial statements until further clarification is received from HHS.

Subsequent to September 30, 2021 the System received approximately \$14,100 from the American Rescue Plan (ARP) for services provided to rural Medicaid and Medicare beneficiaries from January 1, 2019 through September 30, 2020.

Additionally, the System received approximately \$98,900 of payments issued under the Medicare Accelerated and Advance Payment (AAP) Program which were reported as a current liability as of September 30, 2020. Such amounts were intended to fund short-term cash flow needs and are to 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 for a period of eleven months, which increases to 50% for the following six months. As of September 30, 2021, recoupments of approximately \$28,000 have occurred to reduce this current liability to approximately \$70,800 as of September 30, 2021.

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. The impact on operations and the consolidated financial statements cannot reasonably be predicted or estimated at this time.

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued *(Dollars in Thousands)*

Years Ended September 30, 2021 and 2020

NOTE P--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.

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

NOTE Q--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 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.

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued (Dollars in Thousands)

Years Ended September 30, 2021 and 2020

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:

	Carrying Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2021				
Assets measured at fair value on a recurring basis:				
Cash and money market funds	\$ 479,906	\$ 479,906	\$ -	\$ -
Mutual funds	82,678	82,678	-	-
Corporate bonds	323,432	-	323,432	-
Equity securities	924,528	924,528	-	-
Other	6,268	6,268	-	-
Accrued income	2,614	2,614	-	-
Total assets	\$ 1,819,426	\$ 1,495,994	\$ 323,432	\$ -
September 30, 2020				
Assets measured at fair value on a recurring basis:				
Cash and money market funds	\$ 126,384	\$ 126,384	\$ -	\$ -
Mutual funds	34,781	34,781	-	-
Government bonds	355,027	355,027	-	-
Corporate bonds	277,385	-	277,385	-
Equity securities	480,602	480,602	-	-
Other	5,779	5,779	-	-
Accrued income	2,300	2,300	-	-
Total assets	\$ 1,282,258	\$ 1,004,873	\$ 277,385	\$ -

NOTE R--COMMITMENTS AND CONTINGENCIES

Construction in progress at September 30, 2021 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, 2021 is approximately \$632,419 over that time frame, primarily related to the construction of a new tower expansion project at NGMC. Costs to

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued *(Dollars in Thousands)*

Years Ended September 30, 2021 and 2020

complete construction in progress under signed contracts at September 30, 2021 is approximately \$89,863.

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.

NOTE S--OPTION TO PURCHASE AND ASSET PURCHASE AGREEMENTS

On November 21, 2019, NGHS disbursed the first installment payment of \$3,000 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 in the form of annual installment payments of \$3,000 to be distributed over a five-year period. The Agreements specify a restriction to the use of funds distributed for capital purposes only. As of September 30, 2021, two payments totaling \$6,000 have been made related to the Agreement.

The Agreements require HCHA to establish a debt service fund, which HICILA 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 T--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, 2021 consolidated financial statements, except as discussed in Note O.

Supplemental Schedules

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Consolidating Balance Sheets (Dollars in Thousands)

September 30, 2021

	Corporate	Northeast Georgia Medical Center	NGMHC Barrow	NGMHC Lumpkin	Northeast Georgia Physicians Group	Northeast Georgia Health Partners	The Medical Center Foundation	Georgia Health Institute	LCA	PEU	NGHP Network	Lithiumtreats	Consolidated
ASSETS													
CURRENT ASSETS													
Cash and cash equivalents	\$ 10	\$ 42,424	\$ -	\$ -	\$ 820	\$ -	\$ 2,717	\$ 18	\$ 3,680	\$ -	\$ -	\$ -	\$ 50,649
Investments	-	309,638	-	-	-	-	-	-	-	-	-	-	309,638
Assets limited as to use, required for contract obligations	-	440	-	-	-	-	684	-	12,245	-	-	-	13,369
Patient accounts receivable	-	154,446	4,879	1,652	16,586	-	-	2,155	-	-	-	-	179,868
Estimated amounts due from third party payers	-	21,700	565	-	20	-	-	-	-	-	-	-	22,285
Inventory of supplies	-	17,214	596	541	-	-	-	-	-	-	-	-	18,451
Other current assets	8,781	10,130	-	-	3	-	1,902	-	400	-	-	(9,004)	12,212
TOTAL CURRENT ASSETS	8,791	551,152	6,040	2,193	17,529	-	5,223	2,173	16,245	-	-	(9,004)	666,392
INVESTMENTS	-	1,123,663	-	-	-	-	-	-	-	-	-	-	1,123,663
ASSETS LIMITED AS TO USE													
Under insurance agreements - held by trustees	-	161,890	-	-	-	-	-	-	-	-	-	-	161,890
Under self-insurance agreements	-	-	-	-	-	-	-	-	63,516	-	-	-	63,516
By Note for designated capital purposes	95,382	-	-	-	-	-	-	-	-	-	-	-	95,382
Other	35,474	19,887	-	-	-	-	31,068	-	-	-	-	-	86,429
TOTAL ASSETS LIMITED AS TO USE	130,856	181,777	-	-	-	-	31,068	-	63,516	-	-	-	307,117
Less amounts required for contract obligations	-	(440)	-	-	-	-	(684)	-	(12,245)	-	-	-	(13,289)
ASSETS LIMITED AS TO USE	130,856	181,337	-	-	-	-	30,384	-	51,271	-	-	-	293,828
PROPERTY AND EQUIPMENT, net	152,025	606,286	14,902	4,216	14,385	12	167	2,272	-	-	-	-	793,360
INTANGIBLE ASSETS	-	(33)	-	-	-	-	270	-	-	-	-	(717)	-
OTHER ASSETS													
Goodwill	-	-	-	-	-	-	-	3,260	-	-	-	-	3,260
Property held for future investment	126	2,152	-	-	-	-	3,305	-	-	-	-	-	5,583
Other	2,642	2,303	-	-	-	-	-	-	-	-	-	(189)	4,666
Right-of-use asset, finance leases	-	3,702	348	-	-	-	-	-	-	-	-	-	4,050
Right-of-use asset, operating leases	753	12,670	140	202	48,484	-	-	5,809	-	-	-	(42,866)	25,452
TOTAL OTHER ASSETS	3,522	20,727	788	202	48,484	-	3,305	9,069	-	-	-	(43,145)	43,044
TOTAL ASSETS	\$ 294,994	\$ 2,488,112	\$ 20,880	\$ 6,611	\$ 80,393	\$ 12	\$ 39,429	\$ 13,687	\$ 67,516	\$ -	\$ -	\$ (52,367)	\$ 2,929,187

See Independent Auditor's Report.

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Consolidating Balance Sheets - Continued (Dollars in Thousands)

September 30, 2021

	Corporate	Northeast Georgia Medical Center	NGMC Barrow	NGMC Campbell	Northeast Georgia Physicians Group	Northeast Georgia Health Partners	The Medical Center Foundation	Georgia Heart Institute	LCA	PEO	NGHP Network	Eliminations	Consolidated
LIABILITIES AND NET ASSETS													
CURRENT LIABILITIES													
Current portion of long-term debt	\$ -	\$ 18,125	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 18,125
Accrued interest	-	4,960	-	-	-	-	-	-	-	-	-	-	4,960
Accounts payable and other accrued expenses	11,653	77,200	78	-	85	-	765	4	8,543	-	-	(9,170)	90,559
Accrued salaries, benefits, compensated absence and amounts withheld	38,411	71,097	1,226	709	36,754	242	100	3,390	-	-	-	-	141,399
Current portion of finance lease liability	-	1,970	191	-	-	-	-	-	-	-	-	-	2,161
Current portion of operating lease liability	389	5,208	437	95	8,750	-	-	1,609	-	-	-	(5,469)	7,970
Advance payments from third-party payers - Note G	-	68,952	1,856	-	-	-	-	-	-	-	-	-	70,808
Contract revenue - Note G	-	16,770	4,561	870	1,303	-	-	815	-	-	-	-	24,339
Estimated third-party payer settlements	-	9,910	7,992	99	-	-	-	-	-	-	-	-	12,001
TOTAL CURRENT LIABILITIES	52,052	274,102	10,347	1,773	36,834	242	265	5,814	8,543	-	-	(15,639)	372,822
LONG-TERM DEBT, less current portion	-	1,196,539	8	-	-	-	-	-	-	-	-	-	1,196,547
ESTIMATED SELF-INSURANCE LIABILITIES	-	-	-	-	-	-	-	-	58,875	-	-	-	58,875
OTHER LONG-TERM LIABILITIES													
Deferred compensation	29,727	19,450	-	-	-	-	-	-	-	-	-	-	49,177
Pension liability	5,585	-	-	-	-	-	-	-	-	-	-	-	5,585
Finance lease liability, less current portion	-	1,599	151	-	-	-	-	-	-	-	-	-	1,750
Operating lease liability, less current portion	366	7,587	2	102	40,311	-	-	4,594	-	-	-	(34,813)	7,914
TOTAL OTHER LONG-TERM LIABILITIES	35,682	28,636	153	102	40,311	-	-	4,594	-	-	-	(34,813)	71,066
TOTAL LIABILITIES	88,141	1,499,347	10,512	1,880	77,145	242	265	10,408	67,118	-	-	(32,452)	1,562,720
NET ASSETS													
Without donor restrictions	706,553	968,765	10,368	4,731	3,248	(230)	13,941	3,976	98	-	-	85	1,201,234
With donor restrictions	-	-	-	-	-	-	25,223	-	-	-	-	-	25,223
LOCAL NET ASSETS	706,553	968,765	10,368	4,731	3,248	(230)	29,164	3,976	98	-	-	85	1,226,457
TOTAL LIABILITIES AND NET ASSETS	\$ 294,894	\$ 2,468,112	\$ 20,880	\$ 6,611	\$ 80,393	\$ 12	\$ 39,429	\$ 14,404	\$ 67,216	\$ -	\$ -	\$ (32,367)	\$ 2,593,187

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Consolidating Balance Sheets - Continued (Dollars in Thousands)

September 30, 2020

	Corporate	Northeast Georgia Medical Center	NGMC Hawkins	NGMC Lumpkin	Northeast Georgia Physicians Group	Northeast Georgia Health Partners	The Medical Center Foundation	Georgia Heart Institute	LCA	Eliminations	Consolidated
ASSETS											
CURRENT ASSETS											
Cash and cash equivalents	\$ (3,845)	\$ 67,593	\$ -	\$ -	\$ 782	\$ (50)	\$ 1,169	\$ 19	\$ 150	\$ -	\$ 65,818
Investments	-	108,342	-	-	-	-	-	-	-	-	108,342
Assets limited as to use, required for current obligations	3,006	233	-	-	-	-	376	-	-	-	3,615
Patient accounts receivable	-	98,741	1,388	451	12,589	-	-	1,991	-	-	116,160
Inventory of supplies	-	16,735	472	362	285	-	-	-	-	-	17,854
Other current assets	351	5,604	39	-	6	-	1,863	31	-	-	7,874
TOTAL CURRENT ASSETS	(2,488)	297,248	1,899	813	14,662	(50)	5,408	2,021	150	-	319,663
INVESTMENTS	-	1,001,385	-	-	-	-	-	-	-	-	1,001,385
ASSETS LIMITED AS TO USE											
Under indenture agreements - held by trustees	-	159	-	-	-	-	-	-	-	-	159
Under self-insurance agreements	43,026	-	-	-	-	-	-	-	-	-	43,026
By Board for designated capital purposes	79,697	-	-	-	-	-	-	-	-	-	79,697
Other	26,748	16,251	-	-	-	-	26,445	-	-	-	69,444
	149,471	16,410	-	-	-	-	26,445	-	-	-	192,326
Less amounts required for current obligations	(2,006)	(233)	-	-	-	-	(376)	-	-	-	(2,615)
ASSETS LIMITED AS TO USE	146,465	16,177	-	-	-	-	26,069	-	-	-	188,711
PROPERTY AND EQUIPMENT, net	134,066	611,899	15,252	4,283	22,176	24	218	2,752	-	-	790,670
Due (To) from Affiliates	13	(382)	-	-	1	-	379	(3)	-	-	-
OTHER ASSETS											
Goodwill	-	-	-	-	-	-	-	3,263	-	-	3,263
Property held for future investment	1,388	1,566	-	-	-	-	3,105	-	-	-	6,059
Other	7,399	2,438	-	-	-	-	66	-	-	(180)	4,723
Right-of-use asset, finance leases	-	6,354	129	-	-	-	-	-	-	-	6,483
Right-of-use asset, operating leases	175	13,249	1,025	82	45,994	-	-	6,788	-	(39,504)	27,809
TOTAL OTHER ASSETS	4,462	23,607	1,154	82	45,994	-	3,371	10,051	-	(39,684)	49,037
TOTAL ASSETS	\$ 282,518	\$ 1,949,924	\$ 18,505	\$ 5,178	\$ 82,835	\$ (26)	\$ 35,445	\$ 14,821	\$ 150	\$ (39,684)	\$ 2,349,466

See Independent Auditor's Report.

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Consolidating Balance Sheets - Continued (Dollars in Thousands)

September 30, 2020

	Corporate	Northeast Georgia Medical Center	NGMC Barrow	NGMC Lumpkin	Northeast Georgia Physicians Group	Northeast Georgia Health Partners	The Medical Center Foundation	Georgia Heart Institute	LCA	Eliminations	Consolidated
LIABILITIES AND NET ASSETS											
CURRENT LIABILITIES											
Current portion of long-term debt	\$ -	\$ 17,454	\$ -	\$ -	\$ 72	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,526
Accrued interest	-	4,941	-	-	-	-	-	-	-	-	4,941
Accounts payable and other accrued expenses	12,947	59,740	33	24	2,127	-	5	2	-	-	74,878
Accrued salaries, benefits, compensated absences and amounts withheld	19,682	58,278	1,219	373	21,139	212	79	2,894	-	-	104,056
Current portion of finance lease liability	-	2,604	95	-	-	-	-	-	-	-	2,789
Current portion of operating lease liability	167	4,056	590	82	6,598	-	-	1,437	-	(5,972)	6,958
Advance payments from third-party payers - Note G	-	96,421	2,484	-	-	-	-	-	-	-	98,905
Unearned revenue - Note D	-	37,441	7,992	3,482	1,105	-	-	-	-	-	50,020
Estimated third-party payer settlements	-	7,784	2,610	150	-	-	-	-	-	-	10,544
TOTAL CURRENT LIABILITIES	32,796	288,809	15,123	4,091	31,021	212	84	4,412	-	(5,972)	270,617
LONG-TERM DEBT, less current portion	-	947,563	-	-	288	-	-	-	-	-	947,851
ESTIMATED SELF-INSURANCE LIABILITIES	50,366	-	-	-	-	-	-	-	-	-	50,366
OTHER LONG-TERM LIABILITIES											
Deferred compensation	21,421	15,791	-	-	-	-	-	-	-	-	37,212
Pension liability	98,907	-	-	-	-	-	-	-	-	-	98,907
Finance lease liability, less current portion	-	3,483	43	-	-	-	-	-	-	-	3,526
Operating lease liability, less current portion	10	9,261	435	-	39,724	-	-	5,411	-	(33,722)	31,119
TOTAL OTHER LONG-TERM LIABILITIES	120,338	28,535	478	-	39,724	-	-	5,411	-	(33,722)	160,764
TOTAL LIABILITIES	203,500	1,264,907	15,601	4,091	71,053	212	84	9,824	-	(39,694)	1,529,598
NET ASSETS											
Without donor restrictions	79,018	685,017	2,704	1,087	11,782	(238)	11,684	4,977	150	10	796,191
With donor restrictions	-	-	-	-	-	-	23,677	-	-	-	23,677
TOTAL NET ASSETS	79,018	685,017	2,704	1,087	11,782	(238)	25,361	4,977	150	10	819,868
TOTAL LIABILITIES AND NET ASSETS	\$ 282,518	\$ 1,949,924	\$ 18,305	\$ 5,178	\$ 82,835	\$ (26)	\$ 35,445	\$ 14,821	\$ 150	\$ (39,684)	\$ 2,349,466

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Consolidating Statements of Operations (Dollars in Thousands)

Year Ended September 30, 2021

	Corporate	Northeast Georgia Medical Center	NGMC Doraville	NGMC Lawrenceville	Northeast Georgia Physicians Group	Northeast Georgia Health Partners	The Medical Center Foundation	Georgia Heart Institute	LCA	PEO	NGHP Network	Elmhurst	Consolidated
Changes in net assets without donor restrictions:													
Patient service revenue	\$ -	\$ 1,492,481	\$ 45,225	\$ 21,926	\$ 231,626	\$ -	\$ -	\$ 29,017	\$ -	\$ -	\$ -	\$ -	\$ 1,800,255
Other operating revenue	126,651	85,129	167	54	36,346	100	2,334	1,626	63,838	1,091	1,317	(234,965)	66,178
TOTAL OPERATING REVENUES	126,651	1,577,610	45,392	21,980	267,972	100	2,334	30,643	63,838	1,091	1,317	(234,965)	1,966,333
Expenses:													
Salaries and wages	52,724	525,040	15,583	5,792	199,464	1,630	1,086	33,036	-	988	-	-	819,614
Employee benefits	13,963	109,370	5,290	1,500	28,502	834	237	5,213	-	63	-	(3,849)	149,838
Physicians' fees	459	50,878	5,382	1,571	14,918	-	-	-	-	-	-	(29,643)	41,265
Utilities	1,256	10,926	529	348	1,192	1	-	235	-	-	1	-	14,328
Supplies	999	281,260	6,950	3,245	16,745	2	21	664	-	-	1	-	311,791
Capital, consulting and professional fees	4,804	905	1	(1)	8	822	-	10	-	-	-	-	6,749
Contracted outside services	17,455	55,177	2,241	1,000	12,215	167	145	479	-	18	678	(15,110)	74,464
Insurance	8,080	1,420	13	245	1	-	-	6	61,644	-	-	(55,503)	17,917
Interest	-	26,606	-	-	-	-	-	-	-	-	-	-	26,606
Management fees	-	117,285	3,481	1,834	-	-	-	-	-	-	-	(124,540)	-
Depreciation and amortization	9,196	79,049	3,303	272	3,343	12	51	488	-	-	-	-	95,013
Other operating expenses	17,583	82,155	6,527	1,299	16,144	42	93	5,123	-	-	39	(11,196)	115,118
TOTAL OPERATING EXPENSES	126,649	1,355,086	64,803	20,555	291,071	3,282	1,644	48,617	63,644	1,091	719	(251,482)	1,716,515
OPERATING (LOSS) INCOME BEFORE PROVIDER REEF FUND REVENUE	2	226,524	589	1,405	(33,662)	(3,082)	740	(17,976)	191	-	608	11,175	185,542
Provider relief fund revenue - None	-	19,081	3,630	2,612	5,762	-	-	(359)	-	-	-	-	36,827
INCOME (LOSS) FROM OPERATIONS	2	245,605	4,019	4,017	(27,900)	(3,082)	740	(18,335)	191	-	608	11,175	217,069
Nonoperating (losses) gains:													
Donations from affiliates	-	2,587	-	-	-	-	(7,387)	-	-	-	-	-	-
(Loss) gain from investments, net	17,542	135,099	10	-	-	-	3,116	-	(196)	-	-	-	156,971
Loss on extinguishment of long-term debt	-	(19,514)	-	-	-	-	-	-	-	-	-	-	(19,514)
(Loss) gain on sale of property and equipment, net	910	(3)	-	-	(2)	-	-	-	-	-	-	-	905
Change in estimated benefit obligation due to settlement	(15,914)	-	-	-	-	-	-	-	-	-	-	-	(15,914)
Miscellaneous, net	8,923	(1,656)	266	-	1,211	-	124	3	-	-	-	(21,701)	(2,220)
NET NONOPERATING (LOSSES) GAINS (DEFICIENCY) EXCEPT OF REVENUE AND GAINS OVER EXPENSES AND LOSSES	11,271	117,913	276	-	1,209	-	1,853	3	(196)	-	-	(21,701)	101,228
\$ 11,273 \$ 344,521 \$ 4,295 \$ 4,017 \$ 26,691 \$ (3,082) \$ 2,591 \$ (28,332) \$ (3) \$ - \$ 628 \$ 77 \$ 318,297													

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Consolidating Statements of Operations - Continued (Dollars in Thousands)

Year Ended September 30, 2020

	Corporate	Northeast Georgia Medical Center	NGMC Barrow	NGMC Lumpkin	Northeast Georgia Physicians Group	Northeast Georgia Health Partners	The Medical Center Foundation	Georgia Heart Institute	LCA	Eliminations	Consolidated
Changes in net assets without donor restrictions:											
Patient service revenue	\$ -	\$ 1,134,067	\$ 32,910	\$ 10,730	\$ 165,974	\$ -	\$ -	\$ 23,900	\$ -	\$ -	\$ 1,367,581
Other operating revenue	118,020	30,515	126	-	31,212	637	1,387	1,438	-	(148,700)	36,635
TOTAL OPERATING REVENUES	118,020	1,164,582	33,036	10,730	199,186	637	1,387	25,338	-	(148,700)	1,404,216
Expenses:											
Salaries and wages	45,271	409,649	14,962	6,074	174,180	1,675	1,020	33,316	-	-	686,137
Employee benefits	9,697	82,877	3,012	1,346	23,903	255	183	4,604	-	-	127,777
Physicians' fees	407	46,087	3,723	1,866	3,459	-	-	3	-	(27,978)	27,567
Utilities	832	10,610	583	315	1,384	7	2	269	-	-	14,001
Supplies	835	233,057	5,269	1,552	10,864	6	137	572	-	-	252,092
Legal, consulting and professional fees	4,764	964	-	(75)	65	17	56	62	-	-	5,853
Contracted outside services	15,670	44,856	1,688	472	9,960	344	122	565	-	(8,640)	65,047
Insurance	15,064	1,988	37	5	281	-	-	102	-	4,430	21,817
Interest	5	34,053	-	-	-	-	-	-	-	-	34,058
Management fees	-	110,905	3,228	-	-	-	-	2,365	-	(116,498)	-
Depreciation and amortization	8,858	80,143	2,139	2,777	5,641	22	41	798	-	-	98,219
Other operating expenses	14,822	75,676	6,428	626	14,333	89	174	5,285	-	(10,109)	107,126
TOTAL OPERATING EXPENSES	116,225	1,130,785	41,069	14,648	244,070	2,415	1,731	47,741	-	(158,789)	1,439,888
OPERATING (LOSS) INCOME BEFORE PROVIDER RELIEF FUND REVENUE	1,795	33,797	(8,033)	(3,918)	(44,884)	(1,778)	(347)	(22,403)	-	10,099	(35,672)
Provider relief fund revenue - Note Q	-	38,859	319	-	-	-	-	3,313	-	-	42,491
INCOME (LOSS) FROM OPERATIONS	1,795	72,656	(7,714)	(3,918)	(44,884)	(1,778)	(347)	(19,090)	-	10,099	6,819
Nonoperating (losses) gains:											
Donations from affiliates	-	1,406	-	-	-	-	(1,406)	-	-	-	-
(Loss) gain from investments, net	(5,344)	(25,149)	4	-	-	-	(1,351)	-	-	-	(40,020)
Loss on extinguishment of long-term debt	-	(5,287)	-	-	-	-	-	-	-	-	(5,287)
(Loss) gain on sale of property and equipment, net	6	(36)	-	-	-	-	-	-	-	-	(30)
Change in estimated fair value and loss on extinguishment of interest rate swaps	-	(9,877)	-	-	-	-	-	-	-	-	(9,877)
Miscellaneous, net	8,045	(488)	319	10	1,063	-	113	3	-	(9,509)	(844)
NET NONOPERATING (LOSSES) GAINS (DEFICIENCY) EXCESS OF REVENUE AND GAINS OVER EXPENSES AND LOSSES	2,507	(47,431)	323	10	1,063	-	(2,624)	3	-	(9,509)	(56,058)
	\$ 4,302	\$ 25,225	\$ (7,391)	\$ (3,908)	\$ (43,821)	\$ (1,778)	\$ (2,971)	\$ (19,087)	\$ -	\$ 190	\$ (49,239)