



Financial Statements

Northeast Georgia Medical Center, Inc.
(A Controlled Affiliate of Northeast Georgia Health System, Inc.)

Years Ended September 30, 2022 and 2021

NORTHEAST GEORGIA MEDICAL CENTER, INC.
(A Controlled Affiliate of Northeast Georgia Health System, Inc.)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Northeast Georgia Medical Center, Inc.:

Opinion

We have audited the financial statements of Northeast Georgia Medical Center, Inc. (NGMC), which comprise the balance sheets as of September 30, 2022 and 2021, and the related statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of NGMC as of September 30, 2022 and 2021, and the results of its operations, changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of NGMC, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter - Sole Member of Northeast Georgia Health System, Inc. (NGHS)

NGMC is an entity whose sole member is NGHS and is part of a group of entities controlled or managed by NGHS. As discussed in Note A, NGHS allocates various expenses and liabilities to members of this group of entities, and, as such, the accompanying financial statements reflect the results of these allocations and not necessarily the results of NGMC on a stand-alone basis. Our opinion is not modified with respect to this matter.

Emphasis of Matter - Coronavirus Disease 2019 (COVID-19)

As discussed in Note O to the financial statements, the healthcare industry has been impacted due to the outbreak of 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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about NGMC's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 NGMC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about NGMC's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

PYA, P.C.

Atlanta, Georgia
January 11, 2023

NORTHEAST GEORGIA MEDICAL CENTER, INC.
(A Controlled Affiliate of Northeast Georgia Health System, Inc.)

Balance Sheets
(Dollars in Thousands)

	<i>September 30,</i>	
	<i>2022</i>	<i>2021</i>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 38,386	\$ 43,484
Investments	346,505	309,638
Assets limited as to use, required for current obligations	718	440
Patient accounts receivable	144,359	154,446
Estimated amounts due from third-party payers	-	21,700
Inventory of supplies	13,625	17,314
Other current assets	16,045	10,130
Unconditional promise to give from affiliate - Note N	6,000	-
TOTAL CURRENT ASSETS	565,638	557,152
INVESTMENTS	964,670	1,123,663
ASSETS LIMITED AS TO USE		
Under indenture agreements - held by trustees	91,476	161,890
Other	16,928	19,887
	108,404	181,777
Less amounts required for current obligations	(718)	(440)
ASSETS LIMITED AS TO USE	107,686	181,337
PROPERTY AND EQUIPMENT, net	711,745	605,286
OTHER ASSETS		
Property held for future investment	586	2,152
Other	1,861	2,203
Right-of-use asset, finance leases	1,739	3,702
Right-of-use asset, operating leases	13,689	12,670
TOTAL OTHER ASSETS	17,875	20,727
TOTAL ASSETS	\$ 2,367,614	\$ 2,488,165

NORTHEAST GEORGIA MEDICAL CENTER, INC.
(A Controlled Affiliate of Northeast Georgia Health System, Inc.)

Balance Sheets - Continued
(Dollars in Thousands)

	<i>September 30,</i>	
	<i>2022</i>	<i>2021</i>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 18,413	\$ 18,125
Accrued interest	5,543	4,960
Accounts payable and other accrued expenses	99,452	77,200
Accrued salaries, benefits, compensated absences and amounts withheld	58,699	71,097
Current portion of finance lease liability	1,586	1,970
Current portion of operating lease liability	4,721	5,208
Advance payments from third-party payers - Note O	-	68,952
Unearned revenue - Note O	16,770	16,770
Estimated amounts due to third-party payers	14,449	9,910
TOTAL CURRENT LIABILITIES	219,633	274,192
LONG-TERM DEBT, less current portion	1,177,634	1,196,539
DUE TO AFFILIATES, net - Note N	312	53
OTHER LONG-TERM LIABILITIES		
Deferred compensation	16,570	19,450
Finance lease liability, less current portion	13	1,599
Operating lease liability, less current portion	9,047	7,567
TOTAL OTHER LONG-TERM LIABILITIES	25,630	28,616
TOTAL LIABILITIES	1,423,209	1,499,400
COMMITMENTS AND CONTINGENCIES -		
Notes G, J and R		
NET ASSETS		
Without donor restrictions	944,405	988,765
TOTAL NET ASSETS	944,405	988,765
TOTAL LIABILITIES AND NET ASSETS	\$ 2,367,614	\$ 2,488,165

NORTHEAST GEORGIA MEDICAL CENTER, INC.
(A Controlled Affiliate of Northeast Georgia Health System, Inc.)

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

	<i>Year Ended September 30,</i>	
	<i>2022</i>	<i>2021</i>
Changes in net assets without donor restrictions:		
Patient service revenue	\$ 1,549,034	\$ 1,492,481
Other operating revenue	45,903	31,552
Contributions for equipment, education, indigent patients and community benefits:		
In-kind	11,787	55,577
TOTAL OPERATING REVENUES	1,606,724	1,579,610
Expenses:		
Salaries and wages	595,926	535,040
Employee benefits	100,399	100,330
Physicians' fees	65,894	50,878
Utilities	13,619	10,926
Supplies	303,126	283,263
Legal, consulting and professional fees	1,605	905
Contracted outside services	53,499	55,177
Insurance	1,988	1,420
Interest	36,912	36,656
Management fees	131,755	117,285
Depreciation and amortization	75,971	79,049
Other operating expenses	94,284	82,155
TOTAL OPERATING EXPENSES	1,474,978	1,353,084
OPERATING INCOME BEFORE PROVIDER RELIEF FUND REVENUE	131,746	226,526
Provider relief fund revenue - Note O	14,261	19,082
INCOME FROM OPERATIONS	146,007	245,608
Nonoperating (losses) gains:		
Donations from affiliates	8,117	2,387
(Loss) gain from investments, net	(89,799)	135,699
Loss on extinguishment of long-term debt	-	(18,514)
Gain (loss) on sale of property and equipment, net	195	(3)
Miscellaneous, net	(1,240)	(1,656)
NET NONOPERATING (LOSSES) GAINS	(82,727)	117,913
EXCESS OF REVENUE AND GAINS OVER EXPENSES AND LOSSES	63,280	363,521

See notes to financial statements.

NORTHEAST GEORGIA MEDICAL CENTER, INC.
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Statements of Operations and Changes in Net Assets - Continued
(Dollars in Thousands)

	<i>Year Ended September 30,</i>	
	<i>2022</i>	<i>2021</i>
Other changes in net assets without donor restrictions:		
Transfers of equity to affiliates, net	(107,640)	(59,773)
TOTAL OTHER CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS	(107,640)	(59,773)
(DECREASE) INCREASE IN NET ASSETS	(44,360)	303,748
NET ASSETS WITHOUT DONOR RESTRICTIONS, BEGINNING OF YEAR	988,765	685,017
NET ASSETS WITHOUT DONOR RESTRICTIONS, END OF YEAR	\$ 944,405	\$ 988,765

NORTHEAST GEORGIA MEDICAL CENTER, INC.
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Statements of Cash Flows
(Dollars in Thousands)

	<i>Year Ended September 30,</i>	
	<i>2022</i>	<i>2021</i>
CASH FLOWS FROM OPERATING ACTIVITIES:		
(Decrease) increase in net assets	\$ (44,360)	\$ 303,748
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	75,971	79,049
(Gain) loss on sale of property, plant and equipment	(195)	3
(Gain) loss on sale of investments and assets limited as to use	(15,686)	801
Loss on extinguishment of long-term debt	-	18,514
Change in net unrealized gains/losses on investments and assets limited as to use	137,906	(110,121)
Transfers of equity to affiliates, net	107,640	59,773
Changes in assets and liabilities:		
Patient accounts receivable	10,087	(55,705)
Inventory of supplies	3,689	(579)
Other current assets	(5,915)	(4,526)
Unconditional promise to give from affiliate	(6,000)	-
Other long-term assets	7,369	4,488
Accrued interest	583	19
Accounts payable and other accrued expenses and other long-term liabilities	11,156	20,636
Accrued salaries, benefits, compensated absences and amounts withheld	(12,398)	12,819
Unearned revenue	-	(20,671)
Estimated third-party payer settlements	26,239	(19,574)
Lease liabilities	(7,053)	(4,216)
Total adjustments	333,393	(19,290)
NET CASH PROVIDED BY OPERATING ACTIVITIES	289,033	284,458
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(172,082)	(69,218)
Proceeds from sales of property, plant and equipment	1,933	-
Purchases of investments and assets limited as to use	(793,802)	(976,745)
Proceeds from maturities and sales of investments and assets limited as to use	867,081	597,124
Advances to affiliates	(107,381)	(60,112)
NET CASH USED IN INVESTING ACTIVITIES	(204,251)	(508,951)

See notes to financial statements.

NORTHEAST GEORGIA MEDICAL CENTER, INC.
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Statements of Cash Flows - Continued
(Dollars in Thousands)

	<i>Year Ended September 30,</i>	
	<i>2022</i>	<i>2021</i>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable and long-term debt, net of issuance costs and discounts	-	490,536
Payments to escrow to relieve long-term debt	-	(239,605)
Principal payments on long-term debt and finance lease obligations	(20,928)	(23,078)
Recoupment of advance payments from third-party payers	(68,952)	(27,469)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(89,880)	200,384
NET DECREASE IN CASH AND CASH EQUIVALENTS	(5,098)	(24,109)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	43,484	67,593
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 38,386	\$ 43,484
SUPPLEMENTAL INFORMATION:		
Cash paid during the year for interest	\$ 39,064	\$ 36,637
SUPPLEMENTAL SCHEDULE OF NON-CASH ACTIVITIES:		
Property, plant and equipment received and accrued in payables	\$ 15,414	\$ 7,198
Lease liabilities arising from obtaining right-of-use assets	\$ 8,046	\$ 3,789
Operating cash flows from operating leases	\$ 5,698	\$ 4,501
Financing cash flows from finance leases	\$ 1,970	\$ 2,723

NORTHEAST GEORGIA MEDICAL CENTER, INC.
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Notes to Financial Statements
(Dollars in Thousands)

Years Ended September 30, 2022 and 2021

NOTE A--ORGANIZATION AND OPERATIONS

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.

Northeast Georgia Health System, Inc. (NGHS) is the parent company to NGMC. The financial statements of NGMC are included in the consolidated financial statements of NGHS and affiliates. The accompanying financial statements reflect the financial position and operating results of NGMC and include various allocations of expenses, gains, losses and associated liabilities from NGHS. Certain disclosures herein relate to NGHS as a whole (rather than just NGMC) and are identified as NGHS disclosures in the notes to the financial statements. Due to the nature of allocations of NGHS activities and liabilities to NGMC, these financial statements may not reflect the financial position and results of operations of NGMC on a stand-alone basis.

NOTE B--SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates: The preparation of 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 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 and equipment, goodwill, deferred liabilities, 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: Investments and assets limited as to use 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 designated by the Board for specific purposes, and assets held under deferred compensation arrangements.

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Notes to Financial Statements - Continued
(Dollars in Thousands)

Years Ended September 30, 2022 and 2021

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 are recorded as nonoperating gains or losses.

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

NGMC 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, 2022 and 2021, 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, NGMC's incremental borrowing rate which was 3.00% for the years ended September 30, 2022 and 2021. Payments include options to extend, or terminate, if NGMC 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 NGMC'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.

NORTHEAST GEORGIA MEDICAL CENTER, INC.
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Notes to Financial Statements - Continued
(Dollars in Thousands)

Years Ended September 30, 2022 and 2021

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

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

Charity Care: NGMC provides care to patients who meet certain criteria under its charity care policy 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 does 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 \$371,728 and \$366,518 in 2022 and 2021, respectively, which are net of indigent care trust fund proceeds of \$11,199 and \$9,646 in 2022 and 2021, 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 \$81,026 and \$79,195 for the years ended September 30, 2022 and 2021, 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 NGMC's total expenses divided by gross patient service revenue.

In addition to the patient charity care services, NGMC provides a number of other services to benefit the impoverished 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. NGMC 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, 2022 and 2021 include approximately \$25,715 and \$87,566, respectively, related to discounts provided to self-insured 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 NGMC expects to receive in exchange for services provided during the period including estimated retroactive adjustments under reimbursement agreements with

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Notes to Financial Statements - Continued
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Years Ended September 30, 2022 and 2021

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, NGMC performance obligations satisfied over time relate to patients receiving inpatient acute care services. NGMC measures the performance obligation from admission into one of NGMC'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 NGMC's performance obligations relate to contracts with a duration of less than one year; therefore, NGMC 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.

NGMC 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 NGMC's financial assistance policy, and implicit price concessions provided to uninsured or under-insured patients. NGMC determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. NGMC 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. NGMC's policy does not require collateral or other security for patient accounts receivable. NGMC routinely accepts assignment of, or is otherwise entitled to receive, patient benefits payable under health insurance programs, plans or policies.

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Notes to Financial Statements - Continued
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NGMC 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 NGMC'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. NGMC 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.

Estimated Self-Insurance Liabilities: Estimated self-insurance liabilities include estimated reserves for reported and unreported professional liability claims, as well as other liabilities which management estimates are not payable within one year. Such estimates are subject to significant change in future periods.

Income Taxes: NGMC is classified as an organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. As such, no provision for income taxes has been made in the accompanying financial statements. At September 30, 2022 and 2021, respectively, management does not believe NGMC holds any uncertain tax positions that would require financial statement recognition or disclosure under generally accepted accounting principles. It is NGMC's policy to recognize interest and/or penalties related to income tax matters as an operating expense where applicable.

Other Revenue: NGMC received new program development and capitation funds from the Georgia Board of Healthcare Workforce in the amount of \$1,823 during fiscal year 2021 to develop training programs for primary care physicians. These funds are recognized as other operating revenue in the accompanying Statement of Operations and Changes in Net Assets. No funds related to this initiative were received during fiscal year 2022. In addition, during fiscal years 2022 and 2021, NGMC 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, NGMC 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 determined to be \$11,787 and \$55,577 for the years ended September 30, 2022 and 2021, respectively, and is accounted for in the Statements of Operations and Changes in Net Assets as in-kind operating revenue and salaries and wages expense. There is no impact to the income from operations for this recognition. Revenues from contributions of non-financial assets were as follows:

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Notes to Financial Statements - Continued
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<i>Non-financial Contribution Category</i>	<i>Type of Contribution for Beneficiaries</i>	<i>Valuation</i>	<i>Donor Restriction</i>	<i>Year Ended September 30,</i>	
				<i>2022</i>	<i>2021</i>
In-kind services	Contract labor	Standard industry pricing for similar services	None	\$ 11,787	\$ 55,577

Recently Adopted Accounting Principles: 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*. ASU No. 2020-07 requires that contributed nonfinancial assets be presented separately in the Statements of Operations and Changes in Net Assets and also requires expanded disclosures related to nonfinancial assets contributed. Management adopted this ASU effective October 1, 2021, utilizing a retrospective method with certain reclassifications made as of the earliest period presented to conform to this new presentation. The adoption of this ASU did not have an impact on the net assets of NGMC.

Reclassifications: Certain reclassifications have been made to the 2021 amounts to conform to the 2022 presentation. These reclassifications had no material impact on the decrease in net assets.

NOTE C--NET PATIENT SERVICE REVENUE/RECEIVABLES

NGMC 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. NGMC 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

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Notes to Financial Statements - Continued
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tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Georgia Department of Community Health.

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

Amounts recorded under certain of these contractual arrangements are subject to review and final determination by various program intermediaries. Settlements with third-party payers for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payer, correspondence from the payer and historical settlement activity, including an assessment to ensure that a significant reversal of revenue recognized will not occur. Estimated settlements are adjusted in future periods as adjustments become known or as years are settled or are no longer subject to such audits, reviews, and investigations. No significant amount of patient service revenue was recognized for the years ended September 30, 2022 and 2021 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. NGMC 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, NGMC 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, NGMC 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, 2022 and 2021. 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, 2022 and 2021.

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NGMC participates in the Georgia DCH Hospital Direct Payment Program (HDPP). This program provides eligible, participating hospitals supplemental funding for the Medicaid Managed Care program. During fiscal year 2022, NGMC recognized \$6,108 from the HDPP. NGMC did not receive any amounts under the HDPP during fiscal year 2021.

NGMC also participates 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 2022 and 2021, NGMC recognized \$15,908 and \$24,748, respectively, from the UPL program. \$21,700 was included in third-party receivables as of September 30, 2021. There was no amount receivable under the UPL program as of September 30, 2022. UPL amounts recognized are included in patient service revenue.

Effective July 1, 2010, the state of Georgia enacted legislation known as the Provider Payment Agreement Act (the Act) whereby certain hospitals, as defined in the Act, are assessed a “provider payment” in the amount of 1.45% of their net patient service revenue, as defined in the Act. The payments are to be used for the sole purpose of obtaining federal financial participation for medical assistance payments to providers on behalf of Medicaid recipients and are considered a community benefit by providers. Approximately \$15,470 and \$14,671 relating to the Act are included in other operating expenses in the accompanying Statements of Operations and Changes in Net Assets for the years ended September 30, 2022 and 2021, 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:

	<i>2022</i>	<i>2021</i>
Medicare	\$ 781,951	\$ 745,308
Medicaid	169,742	168,230
Commercial	413,819	395,771
Self-Pay	115,124	126,731
Other	68,398	56,441
Patient service revenue	<u>\$ 1,549,034</u>	<u>\$ 1,492,481</u>

NOTE D--INVESTMENTS AND ASSETS LIMITED AS TO USE

A portion of NGMC’s assets limited as to use are maintained in shared accounts with the assets of NGHS and other subsidiaries of NGHS and are stated at fair value based on quoted market prices. A pro-rata share of investment gains and losses is allocated to NGMC based on its

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percentage of assets in the shared accounts. The composition of NGMC's share of assets limited as to use at September 30 is as follows:

	<u>2022</u>	<u>2021</u>
Indenture agreements - held by trustees:		
Cash and money market funds	\$ 8,957	\$ 121,745
Corporate bonds	82,037	39,941
Accrued income	482	204
	<u>91,476</u>	<u>161,890</u>
Other:		
Cash and money market funds	12,395	16,113
Certificate of deposit	227	227
Mutual funds	4,306	3,017
Other	-	530
	<u>16,928</u>	<u>19,887</u>
	108,404	181,777
Less assets limited as to use that are required for current obligations	<u>(718)</u>	<u>(440)</u>
	<u>\$ 107,686</u>	<u>\$ 181,337</u>

The composition of NGMC investments at September 30, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Cash and money market funds	\$ 110,749	\$ 309,637
U.S. Treasury and agency obligations	187,706	-
Mutual funds	48,735	49,926
Corporate bonds	188,438	246,229
Equity securities	773,602	825,339
Accrued income	1,945	2,170
	<u>1,311,175</u>	<u>1,433,301</u>
Less current investments	<u>(346,505)</u>	<u>(309,638)</u>
	<u>\$ 964,670</u>	<u>\$ 1,123,663</u>

Investment income on proceeds of borrowings that are held by trustees was \$2,919 and \$221 for the years ended September 30, 2022 and 2021, respectively, and is included as a part of other operating revenue in the accompanying Statements of Operations and Changes in Net Assets.

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The net (loss) gain from all other investments and assets limited as to use for the years ended September 30, 2022 and 2021, was comprised of the following:

	<i>2022</i>	<i>2021</i>
Interest and dividend income	\$ 36,270	\$ 29,404
Net realized gains (losses)	15,686	(801)
Change in net unrealized gains/losses	(137,906)	110,121
Investment expense	(3,849)	(3,025)
Net investment (loss) gain	<u>\$ (89,799)</u>	<u>\$ 135,699</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 financial statements.

NOTE E--PROPERTY AND EQUIPMENT, NET

Property and equipment at September 30, 2022 and 2021 are as follows:

	<i>2022</i>	<i>2021</i>
Land	\$ 7,018	\$ 7,018
Land improvements	13,228	13,228
Building and building equipment	777,240	765,889
Equipment	675,486	634,276
Vehicles	3,969	3,440
	<u>1,476,941</u>	<u>1,423,851</u>
Less accumulated depreciation	<u>(928,187)</u>	<u>(855,240)</u>
	548,754	568,611
Construction in progress - Note R	162,991	36,675
	<u>\$ 711,745</u>	<u>\$ 605,286</u>

Depreciation expense associated with property and equipment, net for the years ended September 30, 2022 and 2021 was \$73,667 and \$76,090, respectively.

NOTE F--LONG-TERM DEBT

A summary of long-term debt at September 30, 2022 and 2021 is as follows:

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	<i>2022</i>	<i>2021</i>
Revenue Anticipation Certificates, Series 2021A		
Interest rates ranging from 2.50% to 5.00%; interest payments due semi-annually through February 2051	\$ 221,535	\$ 221,535
Plus unamortized premium	28,625	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	242,120
Revenue Anticipation Certificates, Series 2020A		
Interest rates ranging from 3.00% to 5.00%; interest payments due semi-annually through February 2047	321,920	332,735
Plus unamortized premium	57,853	60,223
Revenue Anticipation Certificates, Series 2017A		
Interest rates ranging from 4.00% to 5.00%; interest payments due semi-annually through February 2045	166,510	166,510
Plus unamortized premium	13,399	13,854
Revenue Anticipation Certificates, Series 2017B		
Interest rates ranging from 3.75% to 5.50%; interest payments due semi-annually through February 2045	135,169	137,784
Plus unamortized premium	16,437	17,088
Other notes payable	-	805
	1,203,568	1,222,506
Less current portion	(18,413)	(18,125)
Less issuance cost	(7,521)	(7,842)
	<u>\$ 1,177,634</u>	<u>\$ 1,196,539</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

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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, 2022.

All of the outstanding Revenue Anticipation Certificates are secured by a Master Trust Agreement, with parity to all issues, whereby the Obligated Group has pledged all of its gross revenues to secure the prompt payment of the certificates. The Master Trust Agreement limits additional indebtedness and provides that any default on any obligation secured under the Master Trust Agreement is a default under the Master Trust Agreement as well. NGMC has also mortgaged its interest in the main hospital campus (including equipment and related assets) to the Master Trustee under a 2010 Leasehold Deed to Secure Debt and Security Agreement. The Master Trust Agreement dated February 1, 2010 was amended and restated as of March 1, 2020 pursuant to the Series 2020A Certificates issuance. The 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, 2022 and 2021, 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 NGHS 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

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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 NGHS, at a redemption price of the entire principal amount thereof plus accrued interest on or after February 15, 2031.

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

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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 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 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

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redemption date. As of September 30, 2022, the balance of the respective deposits in escrow are \$212,089, and as such, there is debt outstanding and not recognized, due to advance refunding, in the Balance Sheets at September 30, 2022. All other advance refundings previously noted, were redeemed with their respective deposits placed in escrow prior to 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 also includes notes payable to financial institutions, repaid during fiscal year 2022.

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, 2022 are as follows:

<u><i>Year Ending September 30,</i></u>	
2023	\$ 14,121
2024	17,610
2025	18,515
2026	19,465
2027	20,460
Thereafter	997,083
	<u>\$ 1,087,254</u>

NOTE G--LEASES

NGMC 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 Statements of Operations and Changes in Net Assets, at September 30, 2022 and 2021 are as follows:

	<u><i>2022</i></u>	<u><i>2021</i></u>
Finance lease costs:		
Amortization of right-to-use-asset	\$ 1,963	\$ 2,767
Interest on lease liability	-	-
Operating lease cost	5,698	4,501
Short term lease cost	2,891	2,277
	<u>\$ 10,552</u>	<u>\$ 9,545</u>

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	2022	2021
Other information:		
Right-of-use assets obtained for new finance leases	\$ -	\$ 115
Right-of-use assets obtained for new operating leases	\$ 8,046	\$ 3,674
Weighted average remaining lease term - finance leases	0.99	1.93
Weighted average remaining lease term - operating leases	3.27	3.19
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:

<i>Year Ending September 30,</i>	<i>Finance</i>	<i>Operating</i>
2023	\$ 1,586	\$ 5,058
2024	13	4,432
2025	-	2,635
2026	-	1,922
2027	-	328
Total lease payments	1,599	14,375
Less: Interest portion	-	(607)
Present value of lease obligations	1,599	13,768
Less: Current portion	(1,586)	(4,721)
Long-term lease obligations	\$ 13	\$ 9,047

NOTE H--PENSION PLAN

NGHS 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, NGHS and its affiliates make 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 later of age 65 or on the participant's fifth anniversary of entering the plan. Early retirement benefits are available at age 55 and completion

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of ten years of vesting service. Prior to changes in 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, 2022 and 2021:

	<i>Year Ended</i> <i>September 30,</i>	
	<i>2022</i>	<i>2021</i>
Change in benefit obligations		
Benefit obligations, beginning of year	\$ 320,862	\$ 392,624
Service cost	680	3,236
Interest cost	9,161	9,976
Curtailement	-	(17,502)
Settlement	-	(42,442)
Benefits paid	(10,560)	(11,470)
Actuarial gain	(90,371)	(13,560)
Benefit obligations, end of year	\$ 229,772	\$ 320,862
Change in plan assets		
Fair value of plan assets, beginning of year	\$ 315,277	\$ 293,717
Actual return on plan assets	(20,271)	55,472
Contributions of plan sponsor	-	20,000
Settlement	-	(42,442)
Benefits paid	(10,560)	(11,470)
Fair value of plan assets, end of year	\$ 284,446	\$ 315,277
Funded status of the plan at end of year	\$ 54,674	\$ (5,585)

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 2022 and 2021.

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The accumulated benefit obligation (ABO) of the plan was \$229,772 and \$320,862 at September 30, 2022 and 2021, respectively. In accordance with generally accepted accounting principles, NGHS 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, 2022.

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

	<i>September 30,</i>	
	<i>2022</i>	<i>2021</i>
Noncurrent assets (liabilities)	\$ 54,674	\$ (5,585)
Net asset (liability) recognized	\$ 54,674	\$ (5,585)

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

	<i>Year Ended September 30,</i>	
	<i>2022</i>	<i>2021</i>
Unrecognized net actuarial loss	\$ 59,297	\$ 120,314
	\$ 59,297	\$ 120,314

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

	<i>Year Ended September 30,</i>	
	<i>2022</i>	<i>2021</i>
Net periodic pension cost		
Service cost with interest to year-end	\$ 680	\$ 3,236
Interest cost on the projected benefit obligation	9,161	9,976
Expected return on plan assets	(19,673)	(21,157)
Amortization of prior service cost	-	-
Amortization of net actuarial loss	10,590	14,625
Settlement	-	15,914
Net periodic pension cost	\$ 758	\$ 22,594

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	<i>Year Ended September 30,</i>	
	<i>2022</i>	<i>2021</i>
Other changes in net assets without donor restrictions		
Net gain	\$ (50,427)	\$ (65,377)
Amortization of prior service cost	-	-
Amortization of net actuarial loss	(10,590)	(14,625)
Settlement	-	(15,914)
Total recognized in net assets without donor restrictions	<u>\$ (61,017)</u>	<u>\$ (95,916)</u>
Total recognized in net periodic pension cost and net assets without donor restrictions	<u>\$ (60,259)</u>	<u>\$ (73,322)</u>

The actuarial assumptions used for the plan as of September 30, 2022 and 2021 are as follows:

	<i>2022</i>	<i>2021</i>
Discount rates	5.40%	2.90%
Rates of increase in future compensation levels	varies by age	varies by age
Expected long-term rate of return on plan assets	6.50%	6.50%
Rates of increase in maximum benefit and compensation limits	3.00%	3.00%

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

The determination of the expected long-term rate of return on plan assets is based on assumptions that are developed by the plan's investment consultant for each investment category as to the rate of return, risk, yield, and correlation with other categories that serve as components of the long-term strategy. Based on these assumptions, eligible components are tested over the desired time frame given the acceptable tolerance of risk determined by NGHS. 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, 2022 and 2021 is as follows:

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	<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>
<i>September 30, 2022</i>				
Money market funds	\$ 13,309	\$ 13,309	\$ -	\$ -
Government bonds	2,046	2,046	-	-
Corporate bonds	48,132	-	48,132	-
Mutual funds and equity securities	220,345	220,345	-	-
Accrued income	614	614	-	-
	<u>\$ 284,446</u>	<u>\$ 236,314</u>	<u>\$ 48,132</u>	<u>\$ -</u>
<i>September 30, 2021</i>				
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>

NGHS' 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, NGHS has frozen the pension plan for all participants. In addition, guaranteed annuities were purchased for 747 retirees and beneficiaries as of September 2021. NGHS 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 in the Consolidated Statements of Operations and Changes in Net Assets for NGHS. NGHS contributed \$20,000 to the plan during fiscal year 2021. No contributions were made by NGHS to the plan during fiscal year 2022.

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

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<u><i>Year Ending September 30,</i></u>	
2023	\$ 10,779
2024	11,289
2025	11,949
2026	12,615
2027	13,239
2028-2032	73,906

NOTE I--OTHER RETIREMENT PLANS

During 2006, NGHS created the Northeast Georgia Health System, Inc. 401(k) Retirement Savings Plan for substantially all employees. The Plan provides for matching contributions by NGHS 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%. Expense for NGMC under the 401(k) Retirement Savings Plan was \$12,858 and \$11,623 for the years ended September 30, 2022 and 2021, respectively.

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

NOTE J--ESTIMATED LIABILITY FOR SELF-INSURANCE CLAIMS

NGHS has established trust funds for the purpose of funding professional liability and self-insured workers' compensation, which covers NGMC, up to specified retention levels, generally \$5,000 per occurrence and \$10,000 in the aggregate (annually) for professional liability and \$500 per occurrence for worker's 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, 2022, 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. NGMC 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,

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2022 that may result in the assertion of additional claims and other unreported claims may be asserted arising from services provided in the past. Estimated self-insurance liabilities in the Consolidated Balance Sheets of NGHS and affiliates consist of amounts accrued by NGHS related to these self-insurance programs and have not been discounted. Amounts accrued by NGHS were approximately \$62,361 and \$58,875 at September 30, 2022 and 2021, respectively.

NGHS 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 in the accompanying Statements of Operations and Changes in Net Assets for the years ended September 30, 2022 and 2021 include \$52,800 and \$51,469, respectively, related to these benefits. \$10,707 and \$12,100, representing estimated incurred but unpaid medical and dental claims, are included in accounts payable and accrued expenses at both September 30, 2022 and 2021, respectively.

NOTE K--CONCENTRATIONS OF CREDIT RISK

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

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

NGMC grants credit without collateral to its 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, 2022 and 2021 is as follows:

	<i>2022</i>	<i>2021</i>
Governmental programs		
Medicare	50%	51%
Medicaid	11%	11%
Commercial insurance	27%	26%
Self-pay and other	12%	12%
	100%	100%

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NOTE L--OPERATING EXPENSE BY FUNCTIONAL CLASSIFICATION

NGMC 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, 2022 and 2021 are as follows:

	<i>Healthcare Services</i>	<i>Support Services</i>	<i>Total</i>
<i>September 30, 2022</i>			
Salaries and benefits	\$ 651,161	\$ 45,164	\$ 696,325
Utilities	12,736	883	13,619
Physician's fees	61,620	4,274	65,894
Supplies	283,465	19,661	303,126
Legal, consulting and professional fees	1,501	104	1,605
Contracted outside services	50,029	3,470	53,499
Interest	34,518	2,394	36,912
Insurance	1,859	129	1,988
Management fees	123,209	8,546	131,755
Other	88,169	6,115	94,284
Depreciation and amortization	71,044	4,927	75,971
	<u>\$ 1,379,311</u>	<u>\$ 95,667</u>	<u>\$ 1,474,978</u>
<i>September 30, 2021</i>			
Salaries and benefits	\$ 594,159	\$ 41,211	\$ 635,370
Utilities	10,217	709	10,926
Physician's fees	47,578	3,300	50,878
Supplies	264,891	18,372	283,263
Legal, consulting and professional fees	846	59	905
Contracted outside services	51,598	3,579	55,177
Interest	34,279	2,377	36,656
Insurance	1,328	92	1,420
Management fees	109,678	7,607	117,285
Other	76,826	5,329	82,155
Depreciation and amortization	73,922	5,127	79,049
	<u>\$ 1,265,322</u>	<u>\$ 87,762</u>	<u>\$ 1,353,084</u>

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NOTE M--AVAILABILITY AND LIQUIDITY

NGMC 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. NGMC's financial assets reduced by amounts not available for general use are as follow at September 30, 2022:

Financial assets	\$ 1,602,324
Less those unavailable for expenditures within one year, due to:	
Amounts restricted under insurance agreements, bond agreements, board designation or other	<u>(108,404)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,493,920</u>

NOTE N--RELATED PARTY TRANSACTIONS

NGMC routinely engages in transactions with NGHS and other controlled affiliates of NGHS, including Northeast Georgia Physician Group, Inc. (NGPG), NGMC-Barrow, LLC (NGMC-Barrow), NGMC-Lumpkin, LLC (NGMC-Lumpkin), The Georgia Heart Institute, LLC (GHI), Northeast Georgia Health Partners, LLC (NGHP), Northeast Georgia Health Partners Network, LLC (NGHP Network), Northeast Georgia PEO, LLC (PEO), Lanier Community Assurance, Ltd. (LCA) and The Medical Center Foundation (the Foundation). Amounts due from affiliates bear no interest and represent capital and other expenditures paid on behalf of affiliates at September 30, 2022 and 2021, respectively.

In 2022 and 2021, NGMC purchased capital assets for NGHS in the amounts of \$8,645 and \$3,076, respectively, for NGPG in the amounts of \$34,045 and \$9,949, respectively, for NGMC-Barrow in the amount of \$966 and \$980, respectively, and for NGMC-Lumpkin in the amount of \$6,129 and \$374, respectively. NGMC also purchased capital assets of \$111 for GHI in 2022. No amounts were purchased for GHI in 2021.

During 2022 and 2021, donations in the amounts of \$1,998 and \$2,270, respectively, were received from the Foundation. In addition, during the year ended September 30, 2022, the Foundation granted NGMC a \$6,000 unconditional promise to give related to a capital commitment to be paid by the Foundation in \$2,000 annual installments over a three-year period.

In 2022 and 2021, NGHS charged NGMC with allocated management fees in the amounts of \$131,755 and \$117,285, respectively. Based on NGHS overhead cost allocations certain salary, insurance, information technology costs and other operating expenses are recognized in other operating expenses rather than natural classification. Administrative overhead allocated from NGMC was \$8,855 and \$8,030 for the years ended September 30, 2022 and 2021, respectively.

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During 2022 and 2021, amounts due to/from NGHS, NGMC-Barrow, NGMC-Lumpkin, NGHP Network, GHI, NGPG, and NGHP were transferred from/to those entities through a non-cash transfer of net assets as reflected in the accompanying Statements of Operations and Changes in Net Assets. Accrued salaries include \$12,359 and \$16,910 as of September 30, 2022 and 2021, respectively, related to affiliated entities that was included in the non-cash transfers of net assets. The transfer of net assets, including the amounts due to/from these related parties, consisted of the following for the years ended September 30, 2022 and 2021:

	<i>2022</i>	<i>2021</i>
NGHS	\$ 41,080	\$ 20,598
NGMC-Barrow	2,068	3,369
NGPG	33,859	18,157
NGHP	3,742	3,090
GHI	19,392	16,747
NGHP Network	955	(627)
NGMC-Lumpkin	4,533	(460)
	<u>\$ 105,629</u>	<u>\$ 60,874</u>

Other transfers of equity to/from affiliates includes approximately \$2,081 and \$1,801 in 2022 and 2021, respectively, related to routine operating support for the Foundation. During 2022 and 2021, total assets released from restrictions at the Foundation for capital purposes were \$70 and \$988, respectively.

NOTE O--NATIONAL PANDEMIC

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

Government support, including the Coronavirus Aid, Relief, and Economic Security (CARES) Act provided essential funding to eligible hospitals, physicians and other healthcare providers. During the year ended September 30, 2020, NGMC received approximately \$74,198 of CARES Act Provider Relief Funds (PRF). A portion of this amount totaling \$38,859 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 as of September 30, 2020, to be recognized when expended for the intended purposes or repaid.

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NGMC received approximately \$512 of PRF during the year ended September 30, 2021. The entire amount of this funding along with the amounts recorded as unearned revenue as of September 30, 2020 were recognized as revenue as of September 30, 2021, based on the revised reporting guidelines published by HHS on June 11, 2021. During the year ended September 30, 2022, NGMC received approximately \$14,300 from the American Rescue Plan (ARP) for services provided to rural Medicaid and Medicare beneficiaries from January 1, 2019 through September 30, 2020 that is recognized as revenue as of September 30, 2022. NGMC has placed a 25% reserve against all PRF funds received through September 30, 2021, 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 Balance Sheets as of September 30, 2022 and 2021.

Additionally, NGMC received \$96,421 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, 2022, the entire amount of payments have been recouped.

The ultimate impact of the COVID-19 PHE on the financial position of NGMC 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.

NOTE P--FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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Investments: Fair value of issues traded on public exchanges is 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 is 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.

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. NGMC'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:

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	Carrying Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2022				
Assets measured at fair value on a recurring basis:				
Cash and money market funds	\$ 132,328	\$ 132,328	\$ -	\$ -
Mutual funds	53,041	53,041	-	-
U.S. Treasury and agency obligations	187,706	187,706	-	-
Corporate bonds	270,475	-	270,475	-
Equity securities	773,602	773,602	-	-
Accrued income	2,427	2,427	-	-
Total assets	<u>\$ 1,419,579</u>	<u>\$ 1,149,104</u>	<u>\$ 270,475</u>	<u>\$ -</u>
September 30, 2021				
Assets measured at fair value on a recurring basis:				
Cash and money market funds	\$ 447,722	\$ 447,722	\$ -	\$ -
Mutual funds	52,943	52,943	-	-
Corporate bonds	286,170	-	286,170	-
Equity securities	825,339	825,339	-	-
Other	530	530	-	-
Accrued income	2,374	2,374	-	-
Total assets	<u>\$ 1,615,078</u>	<u>\$ 1,328,908</u>	<u>\$ 286,170</u>	<u>\$ -</u>

NOTE R--COMMITMENTS AND CONTINGENCIES

NGHS construction in progress at September 30, 2022 relates primarily to ongoing projects, routine capital improvements at existing facilities, and scheduled projects related to an NGHS Development Plan to be completed over the next several years. The estimated cost to complete current construction in progress at September 30, 2022 is approximately \$627,047, over that time frame, primarily related to the construction of a new tower expansion project at NGMC. Cost to complete construction in progress under signed contracts at September 30, 2022 is approximately \$464,382.

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.

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NOTE S--SUBSEQUENT EVENTS

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued. During this period, management did not note any material recognizable subsequent events that required recognition or disclosure in the September 30, 2022 financial statements.