TANNER MEDICAL CENTER, INC.

COMBINED FINANCIAL STATEMENTS

for the years ended June 30, 2023 and 2022

Draffin Tucker

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying combined financial statements of Tanner Medical Center, Inc. (Medical Center), which comprise the combined balance sheets as of June 30, 2023 and 2022, and the related combined statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the combined financial statements.

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the combined financial position of the Medical Center as of June 30, 2023 and 2022, and the results of its operations, changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 the Medical Center 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.

Prior Period Adjustment

As discussed in Note 1 to the combined financial statements, an error resulting in the overstatement of amounts previously reported for capital contributions and other current assets as of June 30, 2022, was discovered by management of the Medical Center during the current year. Accordingly, amounts reported for capital contributions and other current assets have been restated in the 2022 combined financial statements now presented, and an adjustment has been made to net assets without donor restrictions as of June 30, 2022, to correct the error. Our opinion is not modified with respect to that matter.

Continued

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Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the combined 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined 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 generally accepted auditing standards and *Government Auditing Standards* 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 of a reasonable user based on these combined financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the combined 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 combined 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 the Medical Center'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 combined financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Medical Center'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.

Continued

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 2024, on our consideration of the Medical Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Medical Center's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Medical Center's internal control over financial reporting and compliance.

Draffin & Tucker, LLP

Albany, Georgia
March 4, 2024

TANNER MEDICAL CENTER, INC.

COMBINED BALANCE SHEETS
as of June 30, 2023 and 2022

	2023	Restated 2022
ASSETS		
Current assets:		
Cash and cash equivalents	$ 121,383,171	$ 154,272,859
Short-term investments	55,373,398	57,392,582
Assets limited as to use, current portion	8,069,779	7,961,990
Patient accounts receivable, net	115,277,450	102,170,204
Supplies, at lower of cost and net realizable value	13,486,361	13,116,230
Estimated third-party payor settlements	1,043,318	1,369,969
Other current assets	33,072,256	31,288,869
Total current assets	347,705,733	367,572,703
Assets limited as to use:		
Internally designated	402,489,062	336,482,422
Held by trustee under indenture for debt obligations	52,119,050	50,991,013
Held by trustee for unemployment	917,406	917,406
Assets limited as to use, current portion	(8,069,779)	(7,961,990)
Noncurrent assets limited as to use	447,455,739	380,428,851
Property and equipment, net	442,174,977	388,935,391
Long-term investments	45,971,265	-
Interest in net assets of Tanner Medical Foundation, Inc.	28,693,693	22,192,003
Other assets:		
Operating lease right-of-use assets	4,771,888	5,788,943
Finance lease right-of-use assets	3,727,818	4,450,438
Physician notes receivable and other	7,048,696	8,661,822
Investments in unconsolidated companies	1,756,353	3,801,150
Goodwill and intangible assets	6,827,902	2,181,600
Total other assets	24,132,657	24,883,953
Total assets	$ 1,336,134,064	$ 1,184,012,901

Continued

TANNER MEDICAL CENTER, INC.

COMBINED BALANCE SHEETS, Continued
as of June 30, 2023 and 2022

	2023	Restated 2022
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt	$ 12,181,292	$ 9,052,737
Current portion of operating lease liabilities	1,009,385	981,216
Current portion of finance lease liabilities	591,086	682,746
Accounts payable	60,489,020	25,236,621
Accrued salaries	40,614,752	32,262,166
Other accrued expenses	19,005,599	10,231,316
Estimated third-party payor settlements	1,105,148	694,355
Current portion of Medicare advance payments	-	7,395,885
CARES Act and ARPA refundable advances	7,383,861	18,445,017
Total current liabilities	142,380,143	104,982,059
Long-term debt, net of current portion:		
Notes payable	121,827	243,653
Revenue certificates payable	223,831,523	203,404,338
Total long-term debt, net of current portion	223,953,350	203,647,991
Operating lease liabilities	3,986,187	4,995,132
Finance lease liabilities	3,285,177	3,875,956
Total liabilities	373,604,857	317,501,138
Net assets:		
Net assets without donor restrictions	930,324,255	847,917,557
Net assets with donor restrictions	24,395,015	18,594,206
Total Tanner Medical Center, Inc. net assets	954,719,270	866,511,763
Non-controlling interests in joint ventures	7,809,937	-
Total net assets including non-controlling interests	962,529,207	866,511,763
Total liabilities and net assets	$ 1,336,134,064	$ 1,184,012,901

See accompanying notes to financial statements.

TANNER MEDICAL CENTER, INC.

COMBINED STATEMENTS OF OPERATIONS
for the years ended June 30, 2023 and 2022

	2023	Restated 2022
Revenues, gains, and other support:		
Net patient service revenue	$ 778,211,379	$ 736,343,072
Other revenue	15,487,679	13,725,615
CARES Act and ARPA funding	11,146,788	5,178,625
Total revenues, gains, and other support	804,845,846	755,247,312
Expenses:		
Salaries	316,654,693	273,963,433
Employee benefits	65,746,737	57,150,984
Contracted services	56,806,443	88,448,690
Purchased services	41,129,632	34,130,439
Supplies and drugs	159,326,544	144,609,314
Insurance	15,795,019	4,632,162
Depreciation and amortization	47,371,607	46,114,354
Interest and amortization	7,306,170	7,201,358
Other	54,658,962	52,464,483
Total expenses	764,795,807	708,715,217
Operating income	40,050,039	46,532,095
Other income (loss):		
Contributions and other	4,537,826	4,413,139
Investment income	21,519,836	22,607,857
Gain (loss) on disposal of assets	50,385	(274,093)
Net unrealized gain (loss) on investments	15,743,590	(57,861,312)
Total other income (loss)	41,851,637	(31,114,409)
Excess revenues before non-controlling interests in joint ventures	81,901,676	15,417,686
Net loss attributable to non-controlling interests in joint ventures	467,891	-
Excess revenues	82,369,567	15,417,686
Change in interest in net assets of Tanner Medical Foundation, Inc.	700,881	(965,134)
Capital contributions and other	(663,750)	1,326,470
Increase in net assets without donor restrictions	$ 82,406,698	$ 15,779,022

See accompanying notes to financial statements.

TANNER MEDICAL CENTER, INC.

COMBINED STATEMENTS OF CHANGES IN NET ASSETS
for the years ended June 30, 2023 and 2022

	2023	Restated 2022
Net assets without donor restrictions:		
Excess revenues	$ 82,369,567	$ 15,417,686
Change in interest in net assets of Tanner Medical Foundation, Inc.	700,881	(965,134)
Capital contributions and other	(663,750)	1,326,470
Increase in net assets without donor restrictions	82,406,698	15,779,022
Net assets with donor restrictions:		
Change in interest in net assets of Tanner Medical Foundation, Inc.	5,800,809	808,654
Increase in Tanner Medical Center, Inc. net assets	88,207,507	16,587,676
Non-controlling interests in joint ventures:		
Net loss attributable to non-controlling interests in joint ventures	(467,891)	-
Contributions from non-controlling interests in joint ventures	8,277,828	-
Increase in non-controlling interests	7,809,937	-
Increase in net assets including non-controlling interests	96,017,444	16,587,676
Net assets, beginning of year, as originally reported	875,012,532	849,924,087
Prior period adjustment	(8,500,769)	-
Net assets, beginning of year, restated	866,511,763	849,924,087
Net assets, end of year	$ 962,529,207	$ 866,511,763

See accompanying notes to financial statements.

TANNER MEDICAL CENTER, INC.

COMBINED STATEMENTS OF CASH FLOWS
for the years ended June 30, 2023 and 2022

	2023	Restated 2022
Cash flows from operating activities:		
Increase in net assets including non-controlling interests	$ 96,017,444	$ 16,587,676
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Net realized and unrealized (gain) loss on investments	(22,641,892)	45,573,442
Change in interest in net assets of Tanner Medical Foundation, Inc.	(6,501,690)	156,480
(Gain) loss on disposal of assets	(50,385)	274,093
Capital contributions and other	663,750	(1,326,470)
Depreciation	47,371,607	46,114,354
Amortization	(73,640)	(169,275)
Forgiveness of physician notes receivable	1,044,889	879,376
Contributions from non-controlling interests	(8,277,828)	-
Changes in:		
Patient accounts receivable	(13,107,246)	(9,625,858)
Other current assets	(2,153,518)	(8,225,791)
Physician notes receivable	(1,343,039)	(851,497)
Other assets	3,482,036	(3,116,545)
Accounts payable	35,252,399	(758,364)
Other accrued expenses	17,126,869	(1,850,366)
Medicare advance payments	(7,395,885)	(24,440,748)
CARES Act and ARPA refundable advances	(11,061,156)	10,867,949
Estimated third-party payor settlements	737,444	(1,548,037)
Operating lease liabilities	(980,776)	(685,826)
Net cash provided by operating activities	128,109,383	67,854,593
Cash flows from investing activities:		
Purchase of property and equipment	(99,257,795)	(37,238,071)
Proceeds from sale of investments	209,110,332	176,491,162
Purchase of investments	(296,161,075)	(174,466,236)
Acquisition of ambulance and physician offices	(4,752,658)	-
Net cash used by investing activities	(191,061,196)	(35,213,145)

Continued

TANNER MEDICAL CENTER, INC.

COMBINED STATEMENTS OF CASH FLOWS, Continued
for the years ended June 30, 2023 and 2022

	2023	Restated 2022
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	$ 35,000,000	$ -
Payments on finance lease liabilities	(682,439)	(677,342)
Payments on long-term debt	(10,475,392)	(18,078,076)
Capital contributions and other	(663,750)	1,326,470
Contributions from non-controlling interests	8,277,828	-
Net cash provided (used) by financing activities	31,456,247	(17,428,948)
Net increase (decrease) in cash and cash equivalents	(31,495,566)	15,212,500
Cash and cash equivalents, beginning of year	209,423,196	194,210,696
Cash and cash equivalents, end of year	$ 177,927,630	$ 209,423,196
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash and cash equivalents in current assets	$ 121,383,171	$ 154,272,859
Cash and cash equivalents in assets limited as to use	56,544,459	55,150,337
Total cash and cash equivalents	$ 177,927,630	$ 209,423,196

Supplemental disclosure of cash flow information:

- Cash paid for interest net of capitalized interest in 2023 and 2022 was approximately $7,600,000 and $7,959,000, respectively.
- Assets acquired through leases in 2023 and 2022 was approximately $-0- and $240,000, respectively.
- See Note 9 for additional information related to the acquisition of West Georgia Ambulance and private physician offices.

See accompanying notes to financial statements.

1. Summary of Significant Accounting Policies

Organization

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

Tanner Medical Center, Inc. includes the following:

- Tanner Medical Center/Carrollton, established to provide comprehensive health care services through the operation of a 195-bed acute care hospital in Carrollton, Georgia.

- Tanner Medical Center/Villa Rica, established to provide comprehensive health care services through the operation of a 58-bed acute care hospital and Willowbrooke at Tanner/Villa Rica, a 92-bed psychiatric facility in Villa Rica, Georgia.

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

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

- Tanner Medical Center/East Alabama, established to provide comprehensive health care services through the operation of a 15-bed acute care hospital in Wedowee, Alabama. Critical access status was granted effective January 9, 2019.

- Healthliant Enterprises, Inc. was established to manage and facilitate other non-hospital business lines for the Medical Center, including but not limited to assisted living, senior housing, management services, concierge medicine, emergency medical services, and other taxable joint venture activities.

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

Continued

1. Summary of Significant Accounting Policies, Continued

Principles of Combination

The accompanying combined financial statements include the accounts of Tanner Medical Center, Inc., Tanner Medical Center/Carrollton, Tanner Medical Center/Villa Rica, Willowbrooke at Tanner/Villa Rica, Tanner Medical Center/Higgins General Hospital, Tanner Medical Group, Tanner Medical Center/East Alabama, Healthliant Enterprises, Inc., and certain Auxiliary activities. Also, included in the combined financial statements are joint ventures in which the Medical Center has a controlling interest. These interests include Birches on Maple, LLC with a 51% controlling interest, Maple View Investments, LLC with a 50% controlling interest, Maple View Out Parcels, LLC with a 51% controlling interest, Birches Clubhouse Holdings, LLC with a 51% controlling interest, and WGA Surgery Center with a 60% controlling interest. All significant intercompany transactions have been eliminated.

Leases Between Related Entities

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

The initial term of the lease is for forty (40) years. The lease was amended in February 2020 to extend the term of the lease until December 31, 2060. Lease payments by Tanner Medical Center, Inc. to the Authority, or to the holder thereof as the Authority may direct, will comprise the debt payment and the note payments affecting the properties.

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

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

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

Continued

1. Summary of Significant Accounting Policies, Continued

Lease and Transfer Agreement with the Randolph County Health Care Authority

During 2016, the Randolph County Health Care Authority (Authority) entered into a lease and transfer agreement with Tanner Medical Center Alabama, Inc. in which the Authority built a replacement facility for Wedowee Hospital. The replacement facility opened November 14, 2017 as Tanner Medical Center East Alabama. Accordingly, the results of operations for Tanner Medical Center East Alabama have been included in the accompanying combined financial statements from that date forward. The purpose and intent of the agreement was to transfer control over all the real property, operating assets, and operations to Tanner Medical Center Alabama, Inc. from the Authority. The primary reason for the agreement is to ensure the long-term availability and accessibility of quality health care to the residents of Randolph County. The lease is 35 years with an option to terminate after the first five. As a result of the lease and transfer agreement, an amount of approximately $19 million in net fixed assets was recognized in 2018. There was minimal consideration transferred in the form of nominal rent payments over the term of the lease.

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less.

Inventories

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

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities, which are all classified as trading securities, are measured at fair value in the balance sheets. Investment income or loss (including interest, dividends, and gains and losses, both realized and unrealized) is included in excess of revenue over expenses unless the income is restricted by donor or law.

Investments in organizations where the Medical Center's ownership percentage is equal to or less than 50% are included in other assets on the combined balance sheets. The Medical Center's portion of income from unconsolidated organizations is reported with other revenue and was approximately $649,000 for 2023.

Continued

1. Summary of Significant Accounting Policies, Continued

Non-Controlling Interest

The Medical Center complies with FASB ASC 810-10, *Non-controlling Interests in Consolidated Financial Statements*, which requires combined excess revenues and net assets to be reported at amounts attributable to both the parent and non-controlling interest.

Assets Limited As to Use

Assets limited as to use primarily include assets held by trustees under indenture agreements and unemployment, and designated assets set aside by the Board of Directors for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes. Amounts required to meet current liabilities of the Medical Center have been reclassified on the balance sheets at June 30, 2023 and 2022.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method. Finance lease assets are amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the asset. Such amortization is included in depreciation and amortization expense in the combined financial statements.

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. There was no interest capitalized during fiscal years ended June 30, 2023 and 2022.

Gifts of long-lived assets such as land, buildings, or equipment are reported as increases in net assets without donor restrictions and are excluded from the excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as increases in net assets with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Continued

1. Summary of Significant Accounting Policies, Continued

Goodwill and Intangible Assets

Goodwill represents the excess of the acquisition price over fair value of net assets acquired through business combinations. The Medical Center amortizes goodwill on a straight-line basis over a 10 year period. When events or circumstances indicate that goodwill may be impaired, goodwill is tested for impairment at the entity level. Impairment, if any, will be recognized for the difference between the fair value of the Medical Center and its carrying amount and will be limited to the carrying amount of goodwill. The Medical Center considered certain factors such as whether macroeconomic conditions, industry considerations, cost factors, and the sequence of events during the COVID-19 pandemic constituted a triggering event. The Medical Center's evaluation determined it is not more likely than not that the reporting unit's fair value is less than its carrying value. See Note 8 for additional information.

Beneficial Interest in Net Assets of Foundation

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

Refundable Advance

A refundable advance arises when assets are recognized before revenue recognition criteria have been satisfied. CARES Act and ARPA advance payments are reported as a refundable advance until donor conditions such as qualifying expenditures have been substantially met. See Note 25 for additional information.

Deferred Financing Costs

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

Net Assets

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

Continued

1. Summary of Significant Accounting Policies, Continued

Net Assets, Continued

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

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

Excess Revenues

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

Net Patient Service Revenue

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the amount that reflects the consideration to which the Medical Center expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors, and others and includes variable consideration for retroactive revenue adjustments under reimbursement arrangements with third-party payors. Retroactive adjustments are included in the determination of the estimated transaction price and adjusted in future periods as settlements are determined.

Charity Care

The Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Continued

1. Summary of Significant Accounting Policies, Continued

Endowments

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

Donor Restricted Gifts

Unconditional promises to give cash and other assets to the Medical Center are reported at fair value at the date the promise is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. Conditional gifts received prior to the satisfaction of conditions are recorded as refundable advances. The gifts are reported as increases in the appropriate categories of net assets in accordance with donor restrictions.

Estimated Malpractice and Other Self-Insurance Costs

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

Income Taxes

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

The Medical Center applies accounting policies that prescribe when to recognize and how to measure the financial statement effects of income tax positions taken or expected to be taken on its income tax returns. These rules require management to evaluate the likelihood that, upon examination by the relevant taxing jurisdictions, those income tax positions would be sustained. Based on that evaluation, the Medical Center only recognizes the maximum benefit of each income tax position that is more than 50% likely of being sustained. To the extent that all or a portion of the benefits of an income tax position are not recognized, a liability would be recognized for the unrecognized benefits, along with any interest and penalties that would result from disallowance of the position. Should any such penalties and interest be incurred, they would be recognized as operating expenses.

Based on the results of management's evaluation, no liability is recognized in the accompanying combined balance sheets for unrecognized income tax positions. Further, no interest or penalties have been accrued or charged to expense as of June 30, 2023 and 2022 or for the years then ended. The Medical Center's tax returns are subject to possible examination by the taxing authorities. For federal income tax purposes, the tax returns essentially remain open for possible examination for a period of three years after the respective filing deadlines of those returns.

Continued

1. Summary of Significant Accounting Policies, Continued

Income Taxes, Continued

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

Impairment of Long-Lived Assets

The Medical Center evaluates on an ongoing basis the recoverability of its assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is required to be recognized if the carrying value of the asset exceeds the undiscounted future net cash flows associated with that asset. The impairment loss to be recognized is the amount by which the carrying value of the long-lived asset exceeds the asset's fair value. In most instances, the fair value is determined by discounted estimated future cash flows using an appropriate interest rate. The Medical Center has not recorded any impairment charges in the accompanying combined statements of operations for the years ended June 30, 2023 and 2022.

Fair Value Measurements

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

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

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

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

Continued

1. Summary of Significant Accounting Policies, Continued

Subsequent Events

In preparing these combined financial statements, the Medical Center has evaluated events and transactions for potential recognition or disclosure through March 4, 2024, the date the combined financial statements were issued.

Prior Year Reclassifications

Certain reclassifications have been made to the fiscal year 2022 combined financial statements to conform to the fiscal year 2023 presentation. These reclassifications had no impact on the change in net assets in the accompanying financial statements.

Recently Adopted Accounting Pronouncement

In January 2020, the FASB issued ASU No. 2020-01, *Investments - Equity Securities (Topic 321), Investments - Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815),* to clarify the interaction between accounting standards related to equity securities, equity method investments, and certain forward contracts and purchased options. The Medical Center prospectively adopted the new guidance on July 1, 2022.

Accounting Pronouncement Not Yet Adopted

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses* (Topic 326), which introduces a new current expected credit loss (CECL) method for measuring credit losses on financial assets measured at amortized cost, replacing the previous incurred loss method that delays recognition until it is probable a loss has been incurred. The new guidance requires the immediate recognition of estimated credit losses that are expected to occur. The new guidance, including subsequent amendments, is effective for the Medical Center as of July 1, 2023. The Medical Center is continuing to evaluate the impact the guidance will have on the combined financial statements.

Continued

1. Summary of Significant Accounting Policies, Continued

Error Correction

In 2022, the Medical Center purchased assets for a wholly owned subsidiary in the amount of $8,500,769. This transaction was incorrectly recorded as a capital contribution for the year ending June 30, 2022. An adjustment of $8,500,769 was recorded to reduce net assets without donor restrictions and other current assets in 2022 to correct the treatment of the intercompany transaction. This adjustment decreased the beginning net position for the year ending June 30, 2023.

	June 30, 2022 as Previously Reported	Adjustment	Reclassification	June 30, 2022 as Restated
Combined Balance Sheet:				
Current assets:				
Other current assets	$ 39,789,638	$ (8,500,769)	$ -	$ 31,288,869
Net assets:				
Net assets without donor restrictions	$ 857,086,327	$ (8,500,769)	$ (668,001)	$ 847,917,557
Net assets with donor restrictions	$ 17,926,205	$ -	$ 668,001	$ 18,594,206
Combined Statement of Operations:				
Net assets without donor restrictions:				
Capital contributions and other	$ 9,827,239	$ (8,500,769)	$ -	$ 1,326,470

2. Net Patient Service Revenue

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

Continued

2. Net Patient Service Revenue, Continued

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

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

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

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

Continued

2. Net Patient Service Revenue, Continued

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

- Medicare

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

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

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

  The Medical Center is paid for certain cost reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicare Administrative Contractor (MAC). The Medical Center’s classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Medical Center. The Medical Center’s Medicare cost reports have been audited by the MAC through June 30, 2019.

- Medicaid (Georgia Facilities)

  Inpatient acute care services are paid at prospectively determined rates per discharge based on clinical, diagnostic and other factors. Outpatient services are paid based upon cost reimbursement methodologies. The Medical Center is paid for certain cost reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicaid fiscal intermediary. The Medical Centers’ Medicaid cost reports have been audited by the Medicaid fiscal intermediary through June 30, 2018.

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

Continued

2. Net Patient Service Revenue, Continued

- Medicaid (Georgia Facilities), Continued

  The Medical Center participates in the Georgia Indigent Care Trust Fund (ICTF) Program. The Medical Center receives ICTF payments for treating a disproportionate number of Medicaid and other indigent patients. ICTF payments are based on the Medical Center's estimated uncompensated cost of services to Medicaid and uninsured patients. The amount of ICTF payments recognized in net patient service revenue was approximately $8,014,000 and $7,724,000 for the years ended June 30, 2023 and 2022, respectively.

  The Medicare, Medicaid and SCHIP Benefits Improvement and Protection Act of 2000 (BIPA) provides for payment adjustments to certain facilities based on the Medicaid Upper Payment Limit (UPL). The UPL payment adjustments are based on a measure of the difference between Medicaid payments and the amount that could be paid based on Medicare payment principles. The net amount of UPL payment adjustments recognized in net patient service revenue was approximately $5,319,000 and $10,275,000 for the years ended June 30, 2023 and 2022, respectively.

  During 2022, Medicaid implemented the Medicaid CMOs Direct Payment Program (DPP). Under the DPP, eligible hospitals will receive increased Medicaid funding via an annual lump sum direct payment. The direct payment will be based on the difference between Medicare reimbursement and Medicaid payments using UPL calculations. The direct payment is made to the CMOs and the CMOs are required to transfer the payment to the hospital. The net amount of DPP payment adjustments recognized in net patient service revenue was approximately $7,583,000 and $3,944,000 for the years ended June 30, 2023 and 2022, respectively.

  During 2010, the state of Georgia enacted legislation known as the Provider Payment Agreement Act (the Act) whereby hospitals in the state of Georgia are assessed a "provider payment" in the amount of 1.45% of their net patient revenue. The Act became effective July 1, 2010, the beginning of state fiscal year 2011. The provider payments are due on a quarterly basis to the Department of Community Health. The payments are to be used for the sole purpose of obtaining federal financial participation for medical assistance payments to providers on behalf of Medicaid recipients. The provider payment will result in an increase in hospital payments on Medicaid services of 11.88%. Approximately $6,647,000 and $6,904,000 relating to the Act is included in other expenses in the accompanying statement of operations for the years ended June 30, 2023 and 2022, respectively.

- Medicaid (Alabama Facility)

  Inpatient services rendered to Medicaid program beneficiaries are reimbursed at an all-inclusive per diem rate based on date of adjudication in a given state fiscal year plus an Upper Payment Limit payment. The net amount of UPL payment adjustments recognized in net patient service revenue was approximately $2,388,000 and $1,698,000 for the years ended June 30, 2023 and 2022, respectively. Outpatient services are paid based upon a fee schedule.

Continued

2. Net Patient Service Revenue, Continued

- Blue Cross (Alabama Facility)

  Inpatient services rendered to Blue Cross subscribers are reimbursed at prospectively determined rates per day of hospitalization. Outpatient services rendered to Blue Cross subscribers are reimbursed using Enhanced Ambulatory Patient Grouping (EAPG). EAPG groups procedures and medical visits sharing similar characteristics and resource utilization, and generates payments based on a multiple of average resource utilization (determined by the EAPG model) and the provider base rate.

- Other Arrangements

  Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

- Uninsured Patients

  The Medical Center has a Financial Assistance Policy (FAP) in accordance with Internal Revenue Code Section 501(r). Based on the FAP, following a determination of financial assistance eligibility, an individual will not be charged more than the Amounts Generally Billed (AGB) for emergency or other medical care provided to individuals with insurance covering that care. AGB is calculated by reviewing claims that have been paid in full (including deductibles and coinsurance paid by the patient) to the Medical Center for medically necessary care by Medicare and private health insurers during a 12-month look-back period.

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

Continued

2. Net Patient Service Revenue, Continued

Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Medical Center's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in the transaction price, were not significant in 2023 or 2022.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Medical Center also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The Medical Center estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change.

Adjustments arising from a change in the transaction price were not significant for the years ending June 30, 2023 and 2022. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense for the years ended June 30, 2023 and 2022 was not significant.

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

Continued

2. Net Patient Service Revenue, Continued

Net patient service revenue by major payor source, facility, and timing of revenue recognition for the years ended June 30, 2023 and 2022 is as follows:

	Net Patient Service Revenue				
	Medicare	Medicaid	Third-Party Payors	Self-Pay	Total All Payors
2023	$ 175,650,162	$ 36,630,918	$ 492,626,865	$ 73,303,434	$ 778,211,379
2022	$ 190,370,018	$ 53,930,979	$ 422,721,376	$ 69,320,699	$ 736,343,072

	Net Patient Service Revenue	
	2023	2022
Carrollton	$ 335,310,378	$ 345,113,709
Villa Rica	306,308,026	271,919,537
Higgins	43,263,639	44,190,230
Tanner Medical Group	70,910,416	59,502,947
East Alabama	17,383,518	15,616,649
Healthliant	5,035,402	-
Total	$ 778,211,379	$ 736,343,072
Timing of revenue and recognition:		
Services transferred over time	$ 773,175,977	$ 736,343,072
At time services are rendered	5,035,402	-
Total	$ 778,211,379	$ 736,343,072

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

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

Continued

2. Net Patient Service Revenue, Continued

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

3. Uncompensated Services

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

Uncompensated care includes charity and indigent care services of approximately $58,912,000 and $51,559,000 in 2023 and 2022, respectively. The cost of charity and indigent care services provided during 2023 and 2022 was approximately $19,199,000 and $17,038,000, respectively computed by applying total cost factor to the charges forgone.

The following is a summary of uncompensated services and a reconciliation of gross patient charges to net patient service revenue for 2023 and 2022:

	2023	2022
Gross patient charges	$ 2,346,754,497	$ 2,144,655,308
Uncompensated services:		
Charity and indigent care	58,912,067	51,558,793
Medicare	794,500,160	731,017,235
Medicaid	218,742,248	197,754,471
Other third-party payors	422,802,909	383,771,114
Price concessions	73,585,734	44,210,623
Total uncompensated care	1,568,543,118	1,408,312,236
Net patient service revenue	$ 778,211,379	$ 736,343,072

Continued

4. Assets Limited as to Use and Investments

The composition of assets limited as to use at June 30, 2023 and 2022, is set forth in the following table. Assets limited as to use are stated at fair value.

	2023	2022
Internally designated for capital acquisition:		
Cash and cash equivalents	$ 4,425,409	$ 4,159,324
Mutual funds - equity	132,839,565	128,858,385
Stocks and options	113,633,835	115,747,942
Exchange traded funds	79,695,666	61,900,863
U.S. corporate bonds	6,973,887	7,151,714
Federal agency bonds	50,864,418	13,670,177
Municipal bonds	5,857,540	4,274,877
Alternative investments - limited partnerships	8,198,742	719,140
	402,489,062	336,482,422
Held by trustee for unemployment:		
Certificates of deposit	917,406	917,406
Held by trustee under indenture:		
Cash and cash equivalents	52,119,050	50,991,013
Total assets limited as to use	455,525,518	388,390,841
Less current portion	8,069,779	7,961,990
Noncurrent assets limited as to use	$ 447,455,739	$ 380,428,851

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

Continued

4. Assets Limited as to Use and Investments, Continued

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

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

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

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

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

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

Short-term and long-term investments consists of certificates of deposit. Certificates of deposit with are stated at amortized cost, which approximate fair value.

Continued

5. Property and Equipment

A summary of property and equipment at June 30, 2023 and 2022 follows:

	2023	2022
Land	$ 29,357,625	$ 26,984,934
Land improvements	20,781,934	20,667,029
Buildings	447,650,441	423,993,224
Equipment	297,139,354	268,296,364
	794,929,354	739,941,551
Less accumulated depreciation	406,660,211	374,793,263
	388,269,143	365,148,288
Construction in progress	53,905,834	23,787,103
Property and equipment, net	$ 442,174,977	$ 388,935,391

See Note 1 for details of land and buildings under lease agreements. Depreciation expense for the years ended June 30, 2023 and 2022 amounted to approximately $46,264,000 and $45,011,000, respectively. Construction contracts exist for various projects at year end with a total commitment of approximately $45,042,000. At June 30, 2023, the remaining commitment on these contracts approximated $24,817,000.

6. Physician Notes Receivable

Physician notes receivable consist primarily of loans secured by promissory notes to physicians under recruiting arrangements. In general, the loans are being forgiven over a period of time in which the physician practices medicine within the healthcare system of the Medical Center. If the physician discontinues medical practice, the outstanding principal and accrued interest becomes due immediately. The amounts forgiven and charged to expense during 2023 and 2022 were approximately $1,045,000 and $879,000, respectively.

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

7. Deferred Financing Costs

Bond issue costs and loan origination fees are amortized over the life of the debt instrument. Amortization expense for the years ended June 30, 2023 and 2022 amounted to approximately $110,000 and $353,000, respectively.

Continued

8. Goodwill and Intangible Assets

A summary of goodwill and intangible assets at June 30, 2023 and 2022 follows:

	2023	2022
Goodwill and intangible assets	$ 6,827,902	$ 2,181,600

The goodwill and intangible assets are related to the Medical Center's purchase of a multiple sclerosis infusion therapy business, ambulance company, and private physician offices. The Medical Center is amortizing existing goodwill over a 10 year period on a prospective basis. The goodwill and intangible assets are evaluated for impairment when events or circumstances indicate that goodwill is impaired.

The changes in the carrying amount of goodwill and intangible assets for the years ended June 30, 2023 and 2022 follows:

	2023	2022
Balance at beginning of year:		
Goodwill and intangible assets	$ 8,208,742	$ 8,208,742
Accumulated amortization and impairment losses	(6,027,142)	(5,663,542)
	2,181,600	2,545,200
Goodwill and intangible assets acquired during the year	4,752,658	-
Amortization and impairment losses	(106,356)	(363,600)
	4,646,302	(363,600)
Balance at end of year:		
Goodwill and intangible assets	12,961,400	8,208,742
Accumulated amortization and impairment losses	(6,133,498)	(6,027,142)
Total	$ 6,827,902	$ 2,181,600

Continued

9. Acquisition of West Georgia Ambulance (EMS) and Private Physician Offices

On September 16, 2022, the Medical Center purchased EMS. The Medical Center also purchased two Carrollton private physician offices. Carrollton Obstetrics & Gynecology, LLC and Carrollton Ear, Nose and Throat, P.C. were purchased on August 1, 2022 and March 1, 2022, respectively. Accordingly, the results of operations for EMS and the physician offices have been included in the accompanying financial statements from that date forward. The acquisitions were made for the purpose of strengthening the Medical Center's competitive position in the service area.

	EMS	Physician Offices
Consideration for the acquisition comprised the following (at fair value):		
Cash	$ 4,061,083	$ 4,360,510

Goodwill and intangible assets were recognized in the acquisition of EMS in the amount of $3,039,148 and the physician offices in the amount of $1,713,510. The goodwill and intangible assets related to EMS are attributable to the company's license.

The following assets and liabilities were recognized in the acquisition (at fair value):

	EMS	Physician Offices
Inventory	$ -	$ 71,687
Capital Assets	1,021,935	2,549,342
Prepaids	-	20,313
Tax Expense	-	5,658
Total identifiable net assets	1,021,935	2,647,000
Goodwill and intagible assets	3,039,148	1,713,510
Total	$ 4,061,083	$ 4,360,510

The amounts of EMS and the physician offices' revenue and earnings included in the combined statements of operations (from the date of acquisition) are approximately $5,035,000 and $(1,018,000) and $5,852,000 and $3,427,000 respectively, for 2023.

Continued

10. Long-Term Debt

A summary of long-term debt for the years ended June 30, 2023 and 2022 follows:

	2023	2022
Revenue Certificates, Series 2015, bearing interest of 3.00% to 5.00%, maturing in installments of $1,705,000 to $4,450,000 each July 1 until 2045. The certificates are collateralized by a pledge of the Medical Center's gross receipts.	$ 65,510,000	$ 67,130,000
Revenue Certificates, Series 2016, bearing interest of 3.00% to 5.00%, maturing in installments of $990,000 to $1,845,000 each July 1 until 2038. The certificates are collateralized by a pledge of the Medical Center's gross receipts.	22,555,000	23,510,000
Revenue Certificates, Series 2016B, bearing interest of 2.00% to 5.00%, maturing in installments of $1,290,000 to $2,545,000 each July 1 until 2040. The certificates are collateralized by a pledge of the Medical Center's gross receipts.	33,800,000	35,035,000
Revenue Certificates, Series 2019B, bearing interest of 2.36%, maturing in installments of $200,827 to $233,627 each month until December 2029. The certificates are collateralized by the related equipment.	16,911,869	19,291,262
Revenue Certificates, Series 2020, bearing interest of 3.00% to 5.00%, maturing in installments of $745,000 to $2,225,000 each July 1 until 2050. The certificates are collateralized by a pledge of the Medical Center's gross receipts.	38,705,000	39,425,000
Revenue Certificates, Series 2022A, bearing interest of 4.25%, maturing in installments of $67,021 to $102,076 each month until December 2032. The certificates are collateralized by the related equipment.	9,594,297	-
Revenue Certificates, Series 2022B, bearing interest of 4.25%, maturing in installments of $67,021 to $102,076 each month until December 2032. The certificates are collateralized by the related equipment.	9,594,297	-

Continued

10. Long-Term Debt, Continued

	2023	2022
Revenue Certificates, Series 2022C, bearing interest of 4.163%, maturing in installments of $100,996 to $152,502 each month until December 2032. The certificates are collateralized by the related equipment.	$ 14,388,750	$ -
Note payable, bearing no interest, maturing in monthly installments of $129,058 until April 2022. The note is collateralized by equipment.	-	118,058
Note payable, bearing interest of 2.76%, maturing in monthly installments of $161,003 to $192,158 until December 2029. The note is collateralized by equipment.	13,737,956	15,641,416
Note payable, bearing no interest, maturing in annual installments of $121,627 until September 2024. This note is collateralized by technology.	243,654	365,480
	225,040,823	200,516,216
Less current portion	12,181,292	9,052,737
	212,859,531	191,463,479
Plus net unamortized premium and bond issuance costs	11,093,819	12,184,512
Total long-term debt, net of current portion	$ 223,953,350	$ 203,647,991

The long-term debt relates to the Revenue Anticipation Certificates, Series 2015, 2016, 2016B, 2019B, 2020, 2022A, 2022B, and 2022C, issued by the Carroll City-County Hospital Authority (Authority). The lease agreement states that the payments required under the Trust Indenture and the Certificates shall be made by Tanner Medical Center, Inc., as rent.

Continued

10. Long-Term Debt, Continued

Series 2008 Revenue Certificates were issued by the Authority for the purpose of funding the construction of a new 58,858 square foot, one-story, patient care addition to the Tanner Medical Center - Villa Rica facility and the construction, renovation and equipping of a portion of the existing Tanner Medical Center - Carrollton facility relating to certain cardiovascular services. On March 1, 2016, the 2008 Series were partially defeased with proceeds from the 2016 Series. Under the terms of an escrow agreement, amounts received have been deposited into an irrevocable trust and invested in general obligations of the United States in order to redeem the remaining 2008 Series Certificates on July 1, 2018. The difference between the reacquisition price and the net carrying amount, $3,163,098, was recognized as a loss on defeasance on Tanner Medical Center's statement of operations as other income (loss) in 2016. The outstanding balance on the defeased 2008 Series as of June 30, 2023 is $22,710,000.

Series 2010 Revenue Certificates were issued by the Authority in August 2010 for the purpose of (a) financing the cost of the acquisition, construction, renovation, equipping, and installation of certain additions, extensions and improvements to the Tanner Medical Center, (b) refunding all of the Authority's then outstanding Revenue Anticipation Certificates Series 1998A, and (c) refunding all of the Authority's then outstanding Revenue Anticipation Certificates Series 2001. On September 26, 2016, the 2010 Series were partially defeased with proceeds from the 2016B Series. Under the terms of an escrow agreement, amounts received have been deposited into an irrevocable trust and invested in general obligations of the United States in order to redeem the remaining 2010 Series Certificates on July 1, 2030. The difference between the reacquisition price and the net carrying amount, $3,494,186, was recognized as a loss on defeasance on Tanner Medical Center's statement of operations as other income (loss) in 2017. The outstanding balance on the defeased 2010 Series as of June 30, 2023 is $24,980,000. The amounts not defeased in 2016 were refunded in full with the issuance of the Series 2020 Revenue Certificates in 2021. The difference between the reacquisition price and the net carrying amount, $302,451, was recognized as a gain on extinguishment of debt on Tanner Medical Center's statement of operations as other income (loss) in 2021.

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

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

Continued

10. Long-Term Debt, Continued

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

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

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

On August 1, 2020, the Authority issued $40,335,000 of Series 2020 Revenue Anticipation Certificates for the benefit of Tanner Medical Center, Inc. The proceeds of the Series 2020 Certificates will be used to refund the remaining Series 2010 Certificates as well as to finance the cost of the acquisition, construction, renovation, equipping and installation of hospital related equipment, with monthly payments beginning July 2021.

On July 30, 2020, Tanner Medical Center, Inc. entered into a financing agreement with Huntington Technology Finance, Inc. for $609,133 for the purpose of financing equipment and soft cost items. Payments are due annually, with a maturity date of September 1, 2024.

On November 30, 2022, the Medical Center opened a line of credit with Bank OZK in the amount of $15,000,000 for working capital. No funding was drawn during 2023. The line of credit matured on December 23, 2023 and was not renewed.

On December 30, 2022, the Authority issued $10,000,000 of Series 2022A Revenue Anticipation Certificates, $10,000,000 of Series 2022B Revenue Anticipation Certificates, and $15,000,000 of Series 2022C Revenue Anticipation Certificates for the benefit of Tanner Medical Center, Inc. The proceeds of the 2022 Certificates will be used to finance the acquisition, construction, renovation, equipping and installation of hospital related equipment, with payments beginning January 2023.

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

Continued

10. Long-Term Debt, Continued

Should Tanner Medical Center, Inc. not be able to make payments on any Series of certificates, excluding the Series 2019B, 2022A, 2022B, and 2022C Certificates, Carroll County has agreed to levy annually an ad valorem tax sufficient to enable the Authority to meet the obligations under the respective terms. Each Series of Certificates contains a provision that in the event of default, outstanding amounts may become due and payable.

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

	Long-term Debt
2024	$ 12,181,292
2025	12,655,236
2026	13,030,679
2027	13,516,590
2028	14,016,463
Thereafter	159,640,563
Total	$ 225,040,823

11. Leases

The Medical Center has operating and finance leases for buildings and equipment. The Medical Center determines if an arrangement is a lease at the inception of the contract. Leases with an initial term of twelve months or less are not recorded on the combined balance sheets. The Medical Center has lease agreements which require payments for lease and nonlease components and has elected to account for these as a single lease component.

Right-of-use assets represent the Medical Center's right to use an underlying asset during the lease term, and lease liabilities represent the Medical Center's obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the commencement date, based on the net present value of fixed lease payments over the lease term. The Medical Center has entered into lease arrangements that contain options to extend or terminate the lease in future periods. These options are included in the lease term used to compute the lease liabilities as presented on the combined balance sheets when it is reasonably certain the option will be exercised.

As most of the Medical Center's operating leases do not provide an implicit rate, the Medical Center uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The Medical Center considers recent debt issuances, as well as publicly available data for instruments with similar characteristics when calculating its incremental borrowing rates. Finance lease agreements generally include an interest rate that is used to determine the present value of future lease payments. Operating fixed lease expense and finance lease amortization expense are recognized on a straight-line basis over the lease term. Variable lease costs consist primarily of common area maintenance and are not significant to total lease expense.

Continued

11. Leases, Continued

Operating and finance lease right-of-use assets and lease liabilities as of June 30, 2023 and 2022 were as follows:

	2023	2022
Operating leases:		
Right-of-use assets:		
Operating lease right-of-use assets	$ 4,771,888	$ 5,788,943
Lease liabilities:		
Current portion	$ 1,009,385	$ 981,216
Long-term	3,986,187	4,995,132
Total operating lease liabilities	$ 4,995,572	$ 5,976,348
Finance leases:		
Right-of-use assets:		
Finance lease right-of-use assets	$ 3,727,818	$ 4,450,438
Lease liabilities:		
Current portion	$ 591,086	$ 682,746
Long-term	3,285,177	3,875,956
Total finance lease liabilities	$ 3,876,263	$ 4,558,702

Operating expenses for the leasing activity of the Medical Center as lessee for the years ended June 30, 2023 and 2022 are as follows:

Lease Type	2023	2022
Operating lease cost	$ 1,194,154	$ 1,193,381
Finance lease interest	135,830	157,790
Finance lease amortization	722,620	739,910
Short-term lease expense	1,115,591	3,069,171
Total lease cost	$ 3,168,195	$ 5,160,252

Continued

11. Leases, Continued

Cash paid for amounts included in the measurement of lease liabilities for the years ended June 30, 2023 and 2022 is as follows:

	2023	2022
Operating cash flows from operating leases	$ 1,157,875	$ 1,133,047
Operating cash flows from finance leases	135,830	157,790
Financing cash flows from finance leases	682,439	677,342
Total	$ 1,976,144	$ 1,968,179

The aggregate future lease payments for operating and finance leases as of June 30, 2023 were as follows:

Year Ending June 30	Finance	Operating
2024	$ 705,514	$ 1,153,450
2025	559,790	1,054,360
2026	559,790	1,004,544
2027	559,790	930,161
2028	559,790	894,712
Thereafter	1,399,780	377,816
Total undiscounted cash flows	4,344,454	5,415,043
Less present value discount	(468,191)	(419,471)
Total lease liabilities	$ 3,876,263	$ 4,995,572

Continued

11. Leases, Continued

Average lease terms and discount rates at June 30, 2023 and 2022 were as follows:

	2023	2022
Weighted-average remaining lease term (years):		
Operating leases	4.99	5.86
Finance leases	7.24	7.90
Weighted-average discount rate:		
Operating leases	3.25%	3.25%
Finance leases	3.25%	3.25%

12. Net Assets with Donor Restrictions

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

	2023	2022
Subject to Expenditure for Specified Purpose		
Auxiliary General Fund	$ 352,824	$ 403,571
Roy Richards, Sr. Cancer Center Fund	1,353,337	1,047,002
Employee Humanitarian Assistance Fund	391,322	403,619
General Fund	327,061	317,619
Heart Center Fund	5,428,245	336,743
Indigent Care Fund	334,409	323,158
James and Jeraldine Tanner Fund	579,154	579,154
Tanner Ortho and Spine Center Fund	334,236	334,236
Tanner Hospice Care	1,556,116	1,522,582
Greenspace Fund	355,212	402,344
Other	5,746,870	5,918,734
Total	16,758,786	11,588,762

Continued

12. Net Assets with Donor Restrictions, Continued

	2023	2022
Endowment Funds to be Held in Perpetuity		
Adams Park Endowment Fund	$ 90,737	$ 84,650
Auxiliary General Endowment Fund	90,579	84,351
Bowdon Clinic Endowment Fund	404,259	373,361
Capital Improvement Endowment	4,422	4,040
Carol L. and Katherine E. Martin Endowment for Hospice Special Needs	49,999	46,174
E.V. and Lucy Patrick Endowment for Indigent Care	22,100	20,182
Gilreath Endowment for Cancer Care	308,242	281,616
Little Angels Endowment Fund	257,982	237,609
Raymond L. Abernathy family and Dale Howard Endowment for Nursing Education	8,991	8,323
Rev. Arthur and Bill Rucker Endowment for Cardiac Rehab	22,111	20,201
Roy Richards, Sr. Endowment for Cancer Care	655,194	592,495
Roy Richards, Sr. Endowment for Capital Improvement	12,624	11,612
Sally and Francis Tanner NICU Endowment Fund	1,459,001	1,367,087
Stacy C. Morin Endowment Fund	29,593	27,341
James R. Fulford Chair of Neurology Endowment Fund	1,550,775	1,342,896
Clarence and Helen Finleyson Endowment Fund	2,669,620	2,503,506
Total	7,636,229	7,005,444
Total net assets with donor restrictions	$ 24,395,015	$ 18,594,206

Endowment Fund

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

Continued

12. Net Assets with Donor Restrictions, Continued

Endowment Fund, Continued

The Board of Directors of Tanner Medical Foundation has interpreted the Georgia Uniform Prudent Management of Institutional Funds Act (GUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as net assets with donor restrictions (a) the original value of its gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by GUPMIFA. In accordance with GUPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Foundation, and (7) the Foundation's investment policies.

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

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or GUPMIFA requires the Foundation to retain as a fund of perpetual duration. At June 30, 2023 and 2022, funds with original gift values of $8,493,697 and $8,434,102, fair values of $7,737,715 and $7,100,021, and deficiencies of $755,982 and $1,334,081, respectively, were reported in net assets with donor restrictions. During the year, the Foundation did not appropriate any expenditure from underwater endowments. Management expects these amounts to be fully recovered during 2024.

Continued

13. Defined Contribution Plan

The Medical Center has a 401(k) defined contribution plan. The 401(k) plan covers substantially all employees 18 years of age or older. Employees are 100% vested in employee contributions and become 100% vested in employer contributions after two years of credited service.

The Medical Center matches 100% of the first 1% of employee contributions and 50% of the next 5%. The Medical Center's contributions to the plan were approximately $8,742,000 and $7,973,000 for the years ended June 30, 2023 and 2022, respectively.

14. Concentrations of Credit Risk

The Medical Center is located in West Georgia and East Alabama. The Medical Center grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors is:

	2023	2022
Medicare	25%	39%
Medicaid	8%	15%
Third-party payors	65%	43%
Patients	2%	3%
Total	100%	100%

At June 30, 2023, the Medical Center had deposits at major financial institutions which exceeded Federal Depository Insurance limits. Management believes the credit risks related to these deposits is minimal.

15. Contingencies

Compliance Plan

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

Continued

15. Contingencies, Continued

Litigation

The Medical Center is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Medical Center's future financial position or results from operations. See malpractice insurance disclosures in Note 17.

Health Care Reform

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

16. Employee Health and Workers' Compensation Insurance

Tanner Medical Center, Inc. is self-insured for its employee group health and workers' compensation insurance. The Medical Center has estimated and recorded accruals for claims incurred but not reported or paid prior to the fiscal year end. The Medical Center has reinsurance with insurance companies in which the premiums are included as expense and reinsurance recoveries offset expense. Under these self-insurance programs, the Medical Center paid or accrued approximately $33,906,000 and $28,635,000 during fiscal years ended June 30, 2023 and 2022, respectively.

17. Malpractice Insurance

The Medical Center is covered by a claims-made general and professional liability insurance policy with a specified deductible per incident and excess coverage on a claims-made basis. The self-insured retention related to this policy in 2023 and 2022 is $25,000 per claim and $125,000 in aggregate. Liability limits related to this policy in 2023 and 2022 are $1 million per occurrence and $3 million in aggregate. The Medical Center uses a third-party administrator to review and analyze incidents that may result in a claim against the Medical Center. In conjunction with the third-party administrator, incidents are assigned reserve amounts for the ultimate liability that may result from an asserted claim. The Medical Center also uses independent actuaries to estimate the ultimate costs, if any, of the settlement of such claims.

Various claims and assertions have been made against the Medical Center in its normal course of providing services. In addition, other claims may be asserted arising from services provided to patients in the past. In the opinion of management, adequate provision has been made for losses which may occur from such asserted and unasserted claims that are not covered by liability insurance.

Continued

17. Malpractice Insurance, Continued

Obligations covered by reinsurance contracts are included in the reserves for professional liability risks, as the Medical Center remains liable to the extent the reinsurers do not meet their obligations under the reinsurance contracts. The amounts recoverable under the reinsurance contracts include approximately $1,044,000 at June 30, 2023 and 2022, recorded in other current assets on the balance sheet.

18. Functional Expenses

The Medical Center provides general health care services to residents within its geographic location. Expenses related to providing these services in 2023 and 2022 are as follows:

	June 30, 2023		
	Patient Care Services	General and Administrative	Total
Salaries	$ 256,541,840	$ 60,112,853	$ 316,654,693
Employee benefits	21,943,725	43,803,012	65,746,737
Contracted services	49,051,367	7,755,076	56,806,443
Purchased services	19,320,738	21,808,894	41,129,632
Supplies and drugs	157,433,742	1,892,802	159,326,544
Insurance	15,754,539	40,480	15,795,019
Depreciation and amortization	14,802,348	32,569,259	47,371,607
Interest and amortization	7,263,259	42,911	7,306,170
Other	12,787,658	41,871,304	54,658,962
Total	$ 554,899,216	$ 209,896,591	$ 764,795,807

	June 30, 2022		
	Patient Care Services	General and Administrative	Total
Salaries	$ 222,414,134	$ 51,549,299	$ 273,963,433
Employee benefits	21,575,846	35,575,138	57,150,984
Contracted services	80,969,525	7,479,165	88,448,690
Purchased services	18,455,661	15,674,778	34,130,439
Supplies and drugs	142,657,535	1,951,779	144,609,314
Insurance	4,460,868	171,294	4,632,162
Depreciation and amortization	14,688,912	31,425,442	46,114,354
Interest and amortization	7,187,691	13,667	7,201,358
Other	18,469,930	33,994,553	52,464,483
Total	$ 530,880,102	$ 177,835,115	$ 708,715,217

Continued

19. Functional Expenses, Continued

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

20. Fair Values of Financial Instruments

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

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

- *Short-term and long-term investments:* Amounts are stated at amortized cost, which approximates fair value.

- *Assets limited as to use:* Amounts reported in the combined balance sheets are at fair value. See Note 21 for fair value measurement disclosures.

- *Long-term debt:* The fair value of the Medical Center's debt is estimated based on the quoted market value for same or similar debt instruments. Based on inputs used in determining the estimated fair value, the Medical Center's debt would be classified as Level 2 in the fair value hierarchy.

The carrying amounts and fair values of the Medical Center's long-term debt at June 30, 2023 and 2022 are as follows:

	June 30, 2023		June 30, 2022	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	$ 237,434,488	$ 221,468,994	$ 214,083,847	$ 195,561,815

Continued

21. Fair Value Measurement

Fair values of assets measured on a recurring basis at June 30, 2023 and 2022 are as follows:

		Fair Value Measurements at Reporting Date Using		
June 30, 2023	Fair Value	Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash and cash equivalents	$ 56,544,459	$ 56,544,459	$ -	$ -
Mutual funds - equity	132,839,565	132,839,565	-	-
Stocks and options	113,633,835	113,633,835	-	-
Exchange traded funds	79,695,666	79,695,666	-	-
U.S. corporate bonds	6,973,887	-	6,973,887	-
Federal agency bonds	50,864,418	50,864,418	-	-
Municipal bonds	5,857,540	-	5,857,540	-
Total assets in fair value hierarchy	446,409,370	$ 433,577,943	$ 12,831,427	$ -
Investments measured at net asset value	8,198,742			
Total assets at fair value	$ 454,608,112			

Continued

21. Fair Value Measurement, Continued

		Fair Value Measurements at Reporting Date Using		
June 30, 2022	Fair Value	Quoted prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash and cash equivalents	$ 55,150,337	$ 55,150,337	$ -	$ -
Mutual funds - equity	128,858,385	128,858,385	-	-
Stocks and options	115,747,942	115,747,942	-	-
Exchange traded funds	61,900,863	61,900,863	-	-
U.S. corporate bonds	7,151,714	-	7,151,714	-
Federal agency bonds	13,670,177	13,670,177	-	-
Municipal bonds	4,274,877	-	4,274,877	-
Total assets in fair value hierarchy	386,754,295	$ 375,327,704	$ 11,426,591	$ -
Investments measured at net asset value	719,140			
Total assets at fair value	$ 387,473,435			

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

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

Continued

22. Related Organization

Tanner Medical Foundation, Inc. (Foundation) was established to raise funds to support the operation of the Medical Center. The Foundation's bylaws provide that all funds raised, except for funds acquired for the operation of the Foundation, be distributed to or be held for the benefit of the Medical Center. The Foundation's general funds, which represent the Foundation's undesignated resources, are distributed to the Medical Center in amounts and in periods determined by the Foundation's Board of Directors, who may also restrict the use of general funds for hospital plant replacement or expansion or other specific purposes. Plant replacement and expansion funds, specific-purpose funds, and assets obtained from endowment income of the Foundation are distributed to the Medical Center as required to comply with the purpose specified by donors. A summary of the Foundation's financial position and changes in net assets follows. The Medical Center's interest in the net assets of the Foundation is reported as a noncurrent asset in the balance sheets.

	June 30	
	2023	2022
Assets:		
Cash and cash equivalents	$ 2,659,864	$ 3,167,243
Unconditional promise to give	2,924,711	340,500
Investments	23,115,555	18,730,224
Property, plant and equipment, net	5,014	6,447
Other assets	7,633	3,290
Total assets	$ 28,712,777	$ 22,247,704
Liabilities and net assets:		
Accounts payable and accrued expenses	$ 14,609	$ 8,334
Due to related parties	4,475	47,367
Total liabilities	19,084	55,701
Net assets	28,693,693	22,192,003
Total liabilities and net assets	$ 28,712,777	$ 22,247,704
Revenue	$ 8,263,531	$ 977,714
Expenses	1,761,841	1,134,194
Change in net assets	6,501,690	(156,480)
Net assets, beginning of year	22,192,003	22,348,483
Net assets, end of year	$ 28,693,693	$ 22,192,003

Continued

23. Rural Hospital Tax Credit Contributions

The State of Georgia (State) passed legislation which will allow individuals or corporations to receive a State tax credit for making a contribution to certain qualified rural hospital organizations during calendar years 2017 through 2024. Higgins General Hospital (Higgins) submitted the necessary documentation and was approved by the State to participate in the rural hospital tax credit program for calendar years 2023 and 2022. Contributions received under the program approximated \$2,597,000 and \$2,205,000 during fiscal years 2023 and 2022, respectively. Higgins has been approved by the State to participate in the program in 2024.

24. Liquidity and Availability

As of June 30, 2023 and 2022, the Medical Center has a working capital of approximately \$205,326,000 and \$262,591,000 and average days (based on normal expenditures) cash on hand of 291 and 292 days, respectively.

Financial assets available for general expenditure within one year of the balance sheet date, consists of the following at June 30, 2023 and 2022:

	2023	2022
Cash and cash equivalents	$ 121,383,171	$ 154,272,859
Short-term investments	55,373,398	57,392,582
Patient accounts receivable, net	115,277,450	102,170,204
Estimated third-party payor settlements	1,043,318	1,369,969
UPL receivable	977,865	1,156,329
Assets limited as to use:		
Internally designated	402,489,062	336,482,422
Long-term investments	45,971,265	-
Less conditional CARES Act and ARPA refundable advances	(7,383,861)	(18,445,017)
Total financial assets available	$ 735,131,668	$ 634,399,348

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

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

Continued

25. Coronavirus (COVID-19)

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

On March 27, 2020, the President signed the Coronavirus Aid, Relief and Economic Security Act (CARES Act). Certain provisions of the CARES Act provide relief funds to hospitals and other healthcare providers. The funding will be used to support healthcare-related expenses or lost revenue attributable to COVID-19. The U.S. Department of Health and Human Services began distributing funds on April 10, 2020 to eligible providers in an effort to provide relief to both providers in areas heavily impacted by COVID-19 and those providers who are struggling to keep their doors open due to healthy patients delaying care and canceling elective services. On April 24, 2020, the *Paycheck Protection Program and Health Care Enhancement Act* was passed. This Act provides additional funding to replenish and supplement key programs under the CARES Act, including funds to health care providers for COVID-19 testing. On March 11, 2021, the American Rescue Plan Act (ARPA) was passed. This Act provides additional financial assistance for state and local governments, education, housing, food assistance, and additional grants programs. The CARES Act and ARPA funding is a conditional contribution and accounted for as a refundable advance until conditions have been substantially met or explicitly waived by the grantor. Because the use of the funds is limited to the purposes stated in the terms and conditions, the contributions are grantor restricted. The Medical Center reports restricted contributions, whose restrictions are met in the same period in which they are recognized (simultaneous release), as net assets without donor restrictions. Recognized revenue is reported as operating revenue in the statements of operations. The Medical Center received approximately $ -0- and $15,679,000 in program funding in fiscal year 2023 and 2022, respectively. The federal Public Health Emergency for COVID-19 expired on May 11, 2023.

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

Continued

25. Coronavirus (COVID-19), Continued

The CARES Act also expanded the existing Medicare Accelerated and Advance Payment Program by allowing qualifying providers to receive an advanced Medicare payment. The advance payment will have to be repaid. Recoupment begins one year after the date of receipt of the advance payment with a rate of 25% for the first eleven months of repayment, and 50% for the six months afterward. After this period, a total of 29 months, CMS will issue letters requiring repayment of any outstanding balance, subject to an interest rate of four percent. In April 2020, the Medical Center received approximately $36,077,000 in advanced payments. During 2023 and 2022, the Medical Center repaid approximately $7,400,000 and $24,400,000, respectively, in advanced payments. There is no outstanding liability as of June 30, 2023.

In addition, the CARES Act did the following:

- Sequestration - Suspended the Medicare sequestration payment adjustment, which reduces payments to providers by 2%, for the period May 1, 2020 through December 31, 2020 and extended to March 31, 2022 with subsequent legislation. Beginning April 1, 2022, the suspension is phased out through June 30, 2022.

- Medicare Add-on for Inpatient Hospital COVID-19 Patients - Increased the Medicare payment for hospital patients admitted with COVID-19 by 20%.

ADDITIONAL INFORMATION

Draffin Tucker

INDEPENDENT AUDITOR'S REPORT ON COMBINING AND SUPPLEMENTARY INFORMATION

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

We have audited the combined financial statements of Tanner Medical Center, Inc. as of and for the years ended June 30, 2023 and 2022, and our report thereon dated March 4, 2024, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The combining information on pages 55 through 62 is presented for purposes of additional analysis of the combined financial statements rather than to present the financial position, and results of operations of the individual companies, and it is not a required part of the combined financial statements. Accordingly, we do not express an opinion on the financial position, and results of operations of the individual companies.

The combining information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. Such information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining information on pages 55 through 60 is fairly stated in all material respects in relation to the combined financial statements as a whole.

The statistical data on pages 53 and 54 and Schedule of Net Patient Service Revenue on pages 55 through 56, which are the responsibility of management, also are presented for purposes of additional analysis and are not a required part of the combined financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the combined financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Draffin & Tucker, LLP

Albany, Georgia
March 4, 2024

TANNER MEDICAL CENTER, INC.

STATISTICAL DATA
for the years ended June 30, 2023 and 2022

	(Unaudited) 2023	(Unaudited) 2022
Inpatient days:		
Medical/surgical days	69,186	81,872
Behavioral health	26,779	26,147
Skilled nursing	4,021	3,601
Total inpatient days	99,986	111,620
Average daily inpatient census	274	306
Adjusted average daily census	977	878
Admissions:		
Medical/surgical days	13,250	13,956
Behavioral health	3,628	3,892
Skilled nursing	282	252
Total admissions	17,160	18,100
Admissions by payor:		
Medicare - routine	7,314	7,339
Medicare - behavioral health	415	395
Medicaid	4,489	4,782
Other	4,942	5,584
Total admissions by payor	17,160	18,100
Average length of stay	5.8	6.2
Patient days by payor		
Medicare - routine	47,243	52,397
Medicare - behavioral health	3,555	2,997
Medicaid	21,818	23,919
Other	27,370	32,307
Total patients days by payor	99,986	111,620

Continued

TANNER MEDICAL CENTER, INC.

STATISTICAL DATA, Continued
for the years ended June 30, 2023 and 2022

	(Unaudited) 2023	(Unaudited) 2022
Deliveries	2,090	1,983
Surgery cases	15,905	14,673
Emergency room visits	133,399	127,827
Outpatient visits	378,347	350,902
Tanner Medical Group visits	511,746	478,729
Adjusted patient days	347,151	312,545

See accompanying auditor’s report on supplementary information.

TANNER MEDICAL CENTER, INC.

SCHEDULE OF NET PATIENT SERVICE REVENUE
for the year ended June 30, 2023

	Tanner Medical Center/ Carrollton	Tanner Medical Center/ Villa Rica	Tanner Medical Center/Higgins General Hospital	Tanner Medical Group	Georgia Facilities	Tanner East Alabama	Healthliant	Medical Center Balance June 30, 2023
Gross patient charges								
Inpatient	$ 493,139,875	$ 210,587,977	$ 15,112,104	$ -	$ 718,839,956	$ 3,717,670	$ -	$ 722,557,626
Outpatient	628,866,994	630,303,663	105,925,697	-	1,365,096,354	31,618,861	12,088,175	1,408,803,390
Practice	27,408,890	8,233,156	12,102,481	158,150,891	205,895,418	9,498,063	-	215,393,481
Total gross patient charges	1,149,415,759	849,124,796	133,140,282	158,150,891	2,289,831,728	44,834,594	12,088,175	2,346,754,497
Uncompensated services:								
Charity and indigent care	30,172,022	21,143,679	5,975,987	460,961	57,752,649	1,159,418	-	58,912,067
Medicare	474,692,265	272,479,671	38,726,137	80,998	785,979,071	8,521,089	-	794,500,160
Medicaid	106,387,348	95,459,132	13,270,870	-	215,117,350	3,624,898	-	218,742,248
Other third-party payors	173,915,709	122,951,069	26,553,736	80,008,299	403,428,813	12,321,323	7,052,773	422,802,909
Price concessions	28,938,037	30,783,219	5,349,913	6,690,217	71,761,386	1,824,348	-	73,585,734
Total uncompensated care	814,105,381	542,816,770	89,876,643	87,240,475	1,534,039,269	27,451,076	7,052,773	1,568,543,118
Net patient service revenue	$ 335,310,378	$ 306,308,026	$ 43,263,639	$ 70,910,416	$ 755,792,459	$ 17,383,518	$ 5,035,402	$ 778,211,379

See accompanying auditor’s report on supplementary information.

TANNER MEDICAL CENTER, INC.

SCHEDULE OF NET PATIENT SERVICE REVENUE
for the year ended June 30, 2022

	Tanner Medical Center/ Carrollton	Tanner Medical Center/ Villa Rica	Tanner Medical Center/Higgins General Hospital	Tanner Medical Group	Georgia Facilities	Tanner East Alabama	Medical Center Balance June 30, 2022
Gross patient charges							
Inpatient	$ 523,095,354	$ 240,252,450	$ 21,400,710	$ -	$ 784,748,514	$ 4,706,121	$ 789,454,635
Outpatient	542,652,931	506,389,071	88,078,671	-	1,137,120,673	29,350,944	1,166,471,617
Practice	25,289,157	7,289,182	12,387,782	135,388,613	180,354,734	8,374,322	188,729,056
Total gross patient charges	1,091,037,442	753,930,703	121,867,163	135,388,613	2,102,223,921	42,431,387	2,144,655,308
Uncompensated services:							
Charity and indigent care	31,416,450	15,570,057	3,172,212	442,023	50,600,742	958,051	51,558,793
Medicare	437,475,137	250,753,329	33,739,539	51,759	722,019,764	9,627,563	731,647,327
Medicaid	98,162,123	86,891,064	9,723,381	-	194,776,568	2,977,902	197,754,470
Other third-party payors	163,752,028	112,786,519	25,804,017	69,894,445	372,237,009	11,535,165	383,772,174
Price concessions	15,117,995	16,010,197	5,237,784	5,497,439	41,863,415	1,716,057	43,579,472
Total uncompensated care	745,923,733	482,011,166	77,676,933	75,885,666	1,381,497,498	26,814,738	1,408,312,236
Net patient service revenue	$ 345,113,709	$ 271,919,537	$ 44,190,230	$ 59,502,947	$ 720,726,423	$ 15,616,649	$ 736,343,072

See accompanying auditor's report on supplementary information.

TANNER MEDICAL CENTER, INC.

COMBINING BALANCE SHEETS
June 30, 2023

	Tanner Medical Center/ Carrollton	Tanner Medical Center/ Villa Rica	Tanner Medical Center/Higgins General Hospital	Tanner Medical Group	Georgia Facilities	Tanner East Alabama	Healthliant	Medical Center Subtotal	Foundation, Auxiliary and Net EJE's	Balance At June 30, 2023
ASSETS										
Current assets:										
Cash and cash equivalents	$ 110,709,300	$ 290,037	$ 3,070	$ 1,184,843	$ 112,187,250	$ 2,035,967	$ 6,808,570	$ 121,031,787	$ 351,384	$ 121,383,171
Short-term investments	55,373,398	-	-	-	55,373,398	-	-	55,373,398	-	55,373,398
Due from related parties	-	339,875,032	61,359,683	-	401,234,715	-	-	401,234,715	(401,234,715)	-
Assets limited as to use, current portion	8,069,779	-	-	-	8,069,779	-	-	8,069,779	-	8,069,779
Patient accounts receivable, net	57,770,626	44,753,132	5,924,764	5,139,805	113,588,327	673,573	1,015,550	115,277,450	-	115,277,450
Supplies, at lower of cost and net realizable value	7,386,550	4,301,924	974,075	561,732	13,224,281	203,153	-	13,427,434	58,927	13,486,361
Estimated third-party payor settlements	812,123	218,219	-	12,976	1,043,318	-	-	1,043,318	-	1,043,318
Other current assets	25,966,161	1,950,671	(8,925)	167,628	28,075,535	1,986,058	7,099,637	37,161,230	(4,088,974)	33,072,256
Total current assets	266,087,937	391,389,015	68,252,667	7,066,984	732,796,603	4,898,751	14,923,757	752,619,111	(404,913,378)	347,705,733
Assets limited as to use:										
Internally designated	402,489,062	-	-	-	402,489,062	-	-	402,489,062	-	402,489,062
Held by trustee under indenture for debt obligations	52,119,050	-	-	-	52,119,050	-	-	52,119,050	-	52,119,050
Held by trustee for unemployment	917,406	-	-	-	917,406	-	-	917,406	-	917,406
Assets limited as to use, current portion	(8,069,779)	-	-	-	(8,069,779)	-	-	(8,069,779)	-	(8,069,779)
Noncurrent assets limited as to use	447,455,739	-	-	-	447,455,739	-	-	447,455,739	-	447,455,739
Property and equipment, net	227,079,005	65,995,594	20,262,765	47,924,251	361,261,615	20,932,215	59,981,147	442,174,977	-	442,174,977
Long-term investments	45,971,265	-	-	-	45,971,265	-	-	45,971,265	-	45,971,265
Interest in net assets of Tanner Medical Foundation, Inc.	-	-	-	-	-	-	-	-	28,693,693	28,693,693
Other assets:										
Operating lease right-of-use assets	4,223,852	439,335	17,172	-	4,680,359	91,529	-	4,771,888	-	4,771,888
Finance lease right-of-use assets	2,512,311	605,777	432,033	-	3,550,121	177,697	-	3,727,818	-	3,727,818
Physician notes receivable and other	7,048,696	-	-	-	7,048,696	-	-	7,048,696	-	7,048,696
Investments in unconsolidated companies	-	-	-	-	-	-	1,756,353	1,756,353	-	1,756,353
Goodwill and intangible assets	-	1,818,000	-	1,692,576	3,510,576	-	3,317,326	6,827,902	-	6,827,902
Total other assets	13,784,859	2,863,112	449,205	1,692,576	18,789,752	269,226	5,073,679	24,132,657	-	24,132,657
Total assets	$ 1,000,378,805	$ 460,247,721	$ 88,964,637	$ 56,683,811	$ 1,606,274,974	$ 26,100,192	$ 79,978,583	$ 1,712,353,749	$ (376,219,685)	$ 1,336,134,064

Continued

TANNER MEDICAL CENTER, INC.

COMBINING BALANCE SHEETS, Continued
June 30, 2023

	Tanner Medical Center/ Carrollton	Tanner Medical Center/ Villa Rica	Tanner Medical Center/Higgins General Hospital	Tanner Medical Group	Georgia Facilities	Tanner East Alabama	Healthliant	Medical Center Subtotal	Foundation, Auxiliary and Net EJE's	Balance At June 30, 2023
LIABILITIES AND NET ASSETS										
Current liabilities:										
Current portion of long-term debt	$ 12,181,292	$ -	$ -	$ -	$ 12,181,292	$ -	$ -	$ 12,181,292	$ -	$ 12,181,292
Current portion of operating lease liabilities	829,090	138,039	17,160	-	984,289	25,096	-	1,009,385	-	1,009,385
Current portion of finance lease liabilities	439,865	75,365	53,749	-	568,979	22,107	-	591,086	-	591,086
Due to related parties	23,068,344	-	-	305,511,319	328,579,663	23,513,373	48,850,077	400,943,113	(400,943,113)	-
Accounts payable	24,190,862	7,120,470	1,281,223	1,517,138	34,109,693	467,194	25,800,708	60,377,595	111,425	60,489,020
Accrued salaries	31,406,738	4,026,404	1,351,680	3,207,361	39,992,183	522,856	99,713	40,614,752	-	40,614,752
Other accrued expenses	18,309,155	610,874	1,143	-	18,921,172	-	84,427	19,005,599	-	19,005,599
Estimated third-party payor settlements	34,022	199,675	544,105	-	777,802	327,346	-	1,105,148	-	1,105,148
Medicare advance payments	(132)	-	-	-	(132)	-	-	(132)	132	-
CARES Act and ARPA refundable advances	-	2,596,613	3,503,847	1,283,533	7,383,993	-	-	7,383,993	(132)	7,383,861
Total current liabilities	110,459,236	14,767,440	6,752,907	311,519,351	443,498,934	24,877,972	74,834,925	543,211,831	(400,831,688)	142,380,143
Long-term debt, net of current portion:										
Notes payable	121,827	-	-	-	121,827	-	4,432,775	4,554,602	(4,432,775)	121,827
Revenue certificates payable	223,831,523	-	-	-	223,831,523	-	-	223,831,523	-	223,831,523
Total long-term debt, net of current portion	223,953,350	-	-	-	223,953,350	-	4,432,775	228,386,125	(4,432,775)	223,953,350
Operating lease liabilities	3,618,444	301,297	12	-	3,919,753	66,434	-	3,986,187	-	3,986,187
Finance lease liabilities	2,172,924	554,318	395,333	-	3,122,575	162,602	-	3,285,177	-	3,285,177
Total liabilities	340,203,954	15,623,055	7,148,252	311,519,351	674,494,612	25,107,008	79,267,700	778,869,320	(405,264,463)	373,604,857
Net assets:										
Net assets without donor restrictions	660,078,891	444,624,666	81,816,385	(254,835,540)	931,684,402	993,184	(7,003,094)	925,674,492	4,649,763	930,324,255
Net assets with donor restrictions	-	-	-	-	-	-	-	-	24,395,015	24,395,015
Total Tanner Medical Center, Inc. net assets	660,078,891	444,624,666	81,816,385	(254,835,540)	931,684,402	993,184	(7,003,094)	925,674,492	29,044,778	954,719,270
Non-controlling interests in joint ventures	95,960	-	-	-	95,960	-	7,713,977	7,809,937	-	7,809,937
Total net assets including non-controlling interests	660,174,851	444,624,666	81,816,385	(254,835,540)	931,780,362	993,184	710,883	933,484,429	29,044,778	962,529,207
Total liabilities and net assets	$ 1,000,378,805	$ 460,247,721	$ 88,964,637	$ 56,683,811	$ 1,606,274,974	$ 26,100,192	$ 79,978,583	$ 1,712,353,749	$ (376,219,685)	$ 1,336,134,064

See accompanying auditor’s report on supplementary information.

TANNER MEDICAL CENTER, INC.

COMBINING BALANCE SHEETS
June 30, 2022

	Tanner Medical Center/ Carrollton	Tanner Medical Center/ Villa Rica	Tanner Medical Center/Higgins General Hospital	Tanner Medical Group	Georgia Facilities	Tanner East Alabama	Medical Center Subtotal	Foundation, Auxiliary and Net EJE's	Balance At June 30, 2022
ASSETS									
Current assets:									
Cash and cash equivalents	$ 140,055,909	$ 425,017	$ 7,538	$ 4,194,045	$ 144,682,509	$ 6,538,940	$ 151,221,449	$ 3,051,410	$ 154,272,859
Short-term investments	57,392,582	-	-	-	57,392,582	-	57,392,582	-	57,392,582
Due from related parties	-	275,876,054	50,385,418	-	326,261,472	-	326,261,472	(326,261,472)	-
Assets limited as to use, current portion	7,961,990	-	-	-	7,961,990	-	7,961,990	-	7,961,990
Patient accounts receivable, net	52,941,752	38,282,128	5,810,142	3,636,955	100,670,977	1,485,170	102,156,147	14,057	102,170,204
Supplies, at lower of cost and net realizable value	7,456,032	4,067,244	902,121	412,501	12,837,898	223,298	13,061,196	55,034	13,116,230
Estimated third-party payor settlements	1,005,793	358,999	-	5,177	1,369,969	-	1,369,969	-	1,369,969
Other current assets	19,771,421	2,164,989	2,383,274	132,096	24,451,780	929,245	25,381,025	5,907,844	31,288,869
Total current assets	286,585,479	321,174,431	59,488,493	8,380,774	675,629,177	9,176,653	684,805,830	(317,233,127)	367,572,703
Assets limited as to use:									
Internally designated	336,482,422	-	-	-	336,482,422	-	336,482,422	-	336,482,422
Held by trustee under indenture for debt obligatior	50,991,013	-	-	-	50,991,013	-	50,991,013	-	50,991,013
Held by trustee for unemployment	917,406	-	-	-	917,406	-	917,406	-	917,406
Assets limited as to use, current portion	(7,961,990)	-	-	-	(7,961,990)	-	(7,961,990)	-	(7,961,990)
Noncurrent assets limited as to use	380,428,851	-	-	-	380,428,851	-	380,428,851	-	380,428,851
Property and equipment, net	210,680,407	68,134,568	21,404,224	41,523,387	341,742,586	21,333,091	363,075,677	25,859,714	388,935,391
Interest in net assets of Tanner Medical Foundation, Inc.	-	-	-	-	-	-	-	22,192,003	22,192,003
Other assets:									
Operating lease right-of-use assets	5,049,569	581,346	42,215	-	5,673,130	115,813	5,788,943	-	5,788,943
Finance lease right-of-use assets	3,072,864	686,547	489,637	-	4,249,048	201,390	4,450,438	-	4,450,438
Physician notes receivable and other	8,661,822	-	-	-	8,661,822	-	8,661,822	-	8,661,822
Investments in unconsolidated companies	619,000	-	-	-	619,000	-	619,000	3,182,150	3,801,150
Goodwill and intangible assets	-	2,181,600	-	-	2,181,600	-	2,181,600	-	2,181,600
Total other assets	17,403,255	3,449,493	531,852	-	21,384,600	317,203	21,701,803	3,182,150	24,883,953
Total assets	$ 895,097,992	$ 392,758,492	$ 81,424,569	$ 49,904,161	$ 1,419,185,214	$ 30,826,947	$ 1,450,012,161	$ (265,999,260)	$ 1,184,012,901

Continued

TANNER MEDICAL CENTER, INC.

COMBINING BALANCE SHEETS, Continued
June 30, 2022

	Tanner Medical Center/ Carrollton	Tanner Medical Center/ Villa Rica	Tanner Medical Center/Higgins General Hospital	Tanner Medical Group	Georgia Facilities	Tanner East Alabama	Medical Center Subtotal	Foundation, Auxiliary and Net EJE's	Balance At June 30, 2022
LIABILITIES AND NET ASSETS									
Current liabilities:									
Current portion of long-term debt	$ 9,052,737	$ -	$ -	$ -	$ 9,052,737	$ -	$ 9,052,737	$ -	$ 9,052,737
Current portion of operating lease liabilities	789,793	142,074	25,054	-	956,921	24,295	981,216	-	981,216
Current portion of finance lease liabilities	536,351	72,959	52,034	-	661,344	21,402	682,746	-	682,746
Due to related parties	(20,070,380)	-	-	283,435,129	263,364,749	23,785,042	287,149,791	(287,149,791)	-
Accounts payable	17,348,589	5,209,561	826,803	731,142	24,116,095	538,503	24,654,598	582,023	25,236,621
Accrued salaries	25,651,638	2,734,457	1,094,045	2,361,756	31,841,896	347,881	32,189,777	72,389	32,262,166
Other accrued expenses	9,449,056	280,115	5,599	-	9,734,770	-	9,734,770	496,546	10,231,316
Estimated third-party payor settlements	-	21,010	70,522	-	91,532	602,823	694,355	-	694,355
Medicare advance payments	7,200,651	217,941	(22,999)	226	7,395,819	66	7,395,885	-	7,395,885
CARES Act and ARPA refundable advances	5,893,227	2,946,145	3,754,068	2,574,826	15,168,266	3,276,752	18,445,018	(1)	18,445,017
Total current liabilities	55,851,662	11,624,262	5,805,126	289,103,079	362,384,129	28,596,764	390,980,893	(285,998,834)	104,982,059
Long-term debt, net of current portion:									
Notes payable	243,653	-	-	-	243,653	-	243,653	-	243,653
Revenue certificates payable	203,404,338	-	-	-	203,404,338	-	203,404,338	-	203,404,338
Total long-term debt, net of current portion	203,647,991	-	-	-	203,647,991	-	203,647,991	-	203,647,991
Operating lease liabilities	4,447,183	439,271	17,160	-	4,903,614	91,518	4,995,132	-	4,995,132
Finance lease liabilities	2,612,547	629,650	449,059	-	3,691,256	184,700	3,875,956	-	3,875,956
Total liabilities	266,559,383	12,693,183	6,271,345	289,103,079	574,626,990	28,872,982	603,499,972	(285,998,834)	317,501,138
Net assets:									
Net assets without donor restrictions	628,538,609	380,065,309	75,153,224	(239,198,918)	844,558,224	1,953,965	846,512,189	1,405,368	847,917,557
Net assets with donor restrictions	-	-	-	-	-	-	-	18,594,206	18,594,206
Total net assets	628,538,609	380,065,309	75,153,224	(239,198,918)	844,558,224	1,953,965	846,512,189	19,999,574	866,511,763
Total liabilities and net assets	$ 895,097,992	$ 392,758,492	$ 81,424,569	$ 49,904,161	$ 1,419,185,214	$ 30,826,947	$ 1,450,012,161	$ (265,999,260)	$ 1,184,012,901

See accompanying auditor's report on supplementary information.

TANNER MEDICAL CENTER, INC.

COMBINING STATEMENTS OF EXCESS OF REVENUES OVER EXPENSES
for the year ended June 30, 2023

	Tanner Medical Center/ Carrollton	Tanner Medical Center/ Villa Rica	Tanner Medical Center/Higgins General Hospital	Tanner Medical Group	Georgia Facilities	Tanner East Alabama	Healthliant	Medical Center Subtotal	Foundation, Auxiliary and Net EJE's	Balance June 30, 2023
Revenues, gains and other support:										
Net patient service revenue	$ 335,310,378	$ 306,308,026	$ 43,263,639	$ 70,910,416	$ 755,792,459	$ 17,383,518	$ 5,035,402	$ 778,211,379	$ -	$ 778,211,379
Other revenue	5,894,530	1,554,080	2,918,869	793,311	11,160,790	860,429	3,090,384	15,111,603	376,076	15,487,679
CARES Act and ARPA funding	7,752,930	349,532	434,842	1,012,187	9,549,491	1,597,297	-	11,146,788	-	11,146,788
Total revenues, gains and other support	348,957,838	308,211,638	46,617,350	72,715,914	776,502,740	19,841,244	8,125,786	804,469,770	376,076	804,845,846
Expenses:										
Salaries	168,409,386	67,988,569	17,279,169	47,894,594	301,571,718	9,075,593	6,007,382	316,654,693	-	316,654,693
Employee benefits	52,254,768	6,689,752	1,680,988	3,799,524	64,425,032	892,730	428,975	65,746,737	-	65,746,737
Contracted services	36,415,130	13,983,476	2,419,583	2,198,187	55,016,376	1,780,930	9,137	56,806,443	-	56,806,443
Purchased services	30,125,748	7,576,548	1,051,795	888,065	39,642,156	363,507	1,123,969	41,129,632	-	41,129,632
Supplies and drugs	64,865,933	81,519,721	6,569,251	3,783,578	156,738,483	1,739,564	581,677	159,059,724	266,820	159,326,544
Insurance	13,638,440	204,651	45,847	1,248,346	15,137,284	30,179	627,556	15,795,019	-	15,795,019
Depreciation and amortization	29,509,492	8,819,527	2,549,221	3,246,425	44,124,665	2,079,217	1,167,725	47,371,607	-	47,371,607
Interest and amortization	7,001,084	23,518	13,626	-	7,038,228	8,944	258,998	7,306,170	-	7,306,170
Other	44,609,525	6,582,611	896,395	(850,244)	51,238,287	861,790	2,558,885	54,658,962	-	54,658,962
Total expenses	446,829,506	193,388,373	32,505,875	62,208,475	734,932,229	16,832,454	12,764,304	764,528,987	266,820	764,795,807
Operating income (loss)	(97,871,668)	114,823,265	14,111,475	10,507,439	41,570,511	3,008,790	(4,638,518)	39,940,783	109,256	40,050,039
Other income (loss):										
Contributions and other	223,067	-	2,596,782	-	2,819,849	1,421,768	326,780	4,568,397	(30,571)	4,537,826
Investment income	20,284,708	-	-	-	20,284,708	-	1,235,128	21,519,836	-	21,519,836
Gain (loss) on disposal of assets	191,341	(21,583)	(13,250)	(83,743)	72,765	(22,380)	-	50,385	-	50,385
Net unrealized gain on investments	15,743,590	-	-	-	15,743,590	-	-	15,743,590	-	15,743,590
Total other income	36,442,706	(21,583)	2,583,532	(83,743)	38,920,912	1,399,388	1,561,908	41,882,208	(30,571)	41,851,637
Excess revenues (expenses) before non-controlling interests in joint ventures	(61,428,962)	114,801,682	16,695,007	10,423,696	80,491,423	4,408,178	(3,076,610)	81,822,991	78,685	81,901,676
Net loss in non-controlling interests in joint ventures	-	-	-	-	-	-	467,891	467,891	-	467,891
Excess revenues (expenses)	(61,428,962)	114,801,682	16,695,007	10,423,696	80,491,423	4,408,178	(2,608,719)	82,290,882	78,685	82,369,567
Shared service expenses	92,714,826	(50,242,322)	(10,040,549)	(26,060,318)	6,371,637	(5,368,960)	(1,002,677)	-	-	-
Excess of revenues over expenses and shared service expenses	$ 31,285,864	$ 64,559,360	$ 6,654,458	$ (15,636,622)	$ 86,863,060	$ (960,782)	$ (3,611,396)	$ 82,290,882	$ 78,685	$ 82,369,567

See accompanying auditor's report on supplementary information.

TANNER MEDICAL CENTER, INC.

COMBINING STATEMENTS OF EXCESS OF REVENUES OVER EXPENSES
for the year ended June 30, 2022

	Tanner Medical Center/ Carrollton	Tanner Medical Center/ Villa Rica	Tanner Medical Center/Higgins General Hospital	Tanner Medical Group	Georgia Facilities	Tanner East Alabama	Medical Center Subtotal	Foundation, Auxiliary and Net EJE's	Balance June 30, 2022
Revenues, gains and other support:									
Net patient service revenue	$ 345,113,709	$ 271,919,537	$ 44,190,230	$ 59,502,947	$ 720,726,423	$ 15,616,649	$ 736,343,072	$ -	$ 736,343,072
Other revenue	8,682,609	1,589,689	815,371	482,835	11,570,504	68,867	11,639,371	2,086,244	13,725,615
CARES Act and ARPA funding	2,849,758	2,081,560	148,384	-	5,079,702	98,923	5,178,625	-	5,178,625
Total revenues, gains and other support	356,646,076	275,590,786	45,153,985	59,985,782	737,376,629	15,784,439	753,161,068	2,086,244	755,247,312
Expenses:									
Salaries	147,120,444	59,998,853	16,748,940	41,003,463	264,871,700	8,083,204	272,954,904	1,008,529	273,963,433
Employee benefits	45,304,718	6,053,005	1,652,011	3,049,369	56,059,103	823,136	56,882,239	268,745	57,150,984
Contracted services	60,172,032	22,024,987	3,164,815	869,543	86,231,377	2,215,963	88,447,340	1,350	88,448,690
Purchased services	24,169,168	7,253,620	1,051,281	712,447	33,186,516	376,312	33,562,828	567,611	34,130,439
Supplies and drugs	66,713,230	68,142,443	4,142,938	3,811,766	142,810,377	1,432,018	144,242,395	366,919	144,609,314
Insurance	3,383,381	228,448	57,201	936,294	4,605,324	26,838	4,632,162	-	4,632,162
Depreciation and amortization	29,040,350	8,215,036	2,730,028	3,044,073	43,029,487	2,223,089	45,252,576	861,778	46,114,354
Interest and amortization	6,943,523	26,467	15,215	-	6,985,205	9,965	6,995,170	206,188	7,201,358
Other	43,822,434	6,666,376	885,351	(200,138)	51,174,023	751,704	51,925,727	538,756	52,464,483
Total expenses	426,669,280	178,609,235	30,447,780	53,226,817	688,953,112	15,942,229	704,895,341	3,819,876	708,715,217
Operating income (loss)	(70,023,204)	96,981,551	14,706,205	6,758,965	48,423,517	(157,790)	48,265,727	(1,733,632)	46,532,095
Other income (loss):									
Contributions and other	145,406	-	2,204,877	-	2,350,283	1,821,532	4,171,815	241,324	4,413,139
Investment income	22,607,857	-	-	-	22,607,857	-	22,607,857	-	22,607,857
Gain (loss) on disposal of assets	3,245	(268,684)	(8,068)	(185)	(273,692)	(401)	(274,093)	-	(274,093)
Net unrealized loss on investments	(57,861,312)	-	-	-	(57,861,312)	-	(57,861,312)	-	(57,861,312)
Total other income (loss)	(35,104,804)	(268,684)	2,196,809	(185)	(33,176,864)	1,821,131	(31,355,733)	241,324	(31,114,409)
Excess revenues (expenses)	(105,128,008)	96,712,867	16,903,014	6,758,780	15,246,653	1,663,341	16,909,994	(1,492,308)	15,417,686
Shared service expenses	77,685,326	(42,547,819)	(8,715,767)	(21,756,010)	4,665,730	(4,665,730)	-	-	-
Excess of revenues over expenses and shared service expenses	$ (27,442,682)	$ 54,165,048	$ 8,187,247	$ (14,997,230)	$ 19,912,383	$ (3,002,389)	$ 16,909,994	$ (1,492,308)	$ 15,417,686

See accompanying auditor's report on supplementary information.

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

Draffin Tucker

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements of Tanner Medical Center, Inc. (Medical Center) which comprise the combined balance sheet as of June 30, 2023, and the related combined statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the combined financial statements, and have issued our report thereon dated March 4, 2024.

Report on Internal Control Over Financial Reporting

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

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

Continued

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a deficiency in internal control, described in the accompanying schedule of findings and responses as item 2023-001, that we consider to be a material weakness.

Report on Compliance and Other Matters

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

Medical Center's Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on the Medical Center's response to the finding identified in our audit and described in the accompanying schedule of findings and responses. Medical Center's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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

Draffin & Tucker, LLP

Albany, Georgia
March 4, 2024

TANNER MEDICAL CENTER, INC.

SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2023

2023-001 - Material Weakness

Condition:	Various investments in joint ventures and other acquisitions are not accounted for using the appropriate accounting method.
Criteria:	A process should be in place to ensure all investments in joint ventures and other acquisitions are evaluated and accounted for consistent with generally accepted accounting principles. This process should also include the evaluation of any new agreements. The accounting department should maintain documentation of the criteria met and accounting method used for each investment.
Cause:	Processes are not in place to ensure all investments in joint ventures and other acquisitions are being recorded consistent with generally accepted accounting principles.
Effect:	Medical Center's financial statements could be misstated due to the incorrect accounting for investments in joint ventures and other acquired companies.
Recommendation:	Consideration should be given to all new joint venture agreements and acquisitions to ensure all investments are recorded properly.
Views of Responsible Officials and Planned Corrective Actions:	Medical Center agrees with the finding and recommended procedures have been implemented.