CRISP REGIONAL HEALTH SERVICES, INC.
CORDELE, GEORGIA

COMBINED FINANCIAL STATEMENTS

for the years ended June 30, 2020 and 2019

C O N T E N T S

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Crisp Regional Health Services, Inc.
Cordele, Georgia

Report on the Financial Statements

We have audited the accompanying combined financial statements of Crisp Regional Health Services, Inc. (Corporation), which comprise the combined balance sheets as of June 30, 2020 and 2019, the related combined statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. For the year ended June 30, 2020, we also conducted our audit in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

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

Continued

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Crisp Regional Health Services, Inc. as of June 30, 2020 and 2019, and the results of its operations and changes in net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2020, on our consideration of the Corporation'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 Corporation'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 Corporation's internal control over financial reporting and compliance.

DRAFFIN + TUCKER, LLP

Albany, Georgia
December 4, 2020

CRISP REGIONAL HEALTH SERVICES, INC.

COMBINED BALANCE SHEETS
June 30, 2020 and 2019

	2020	2019
ASSETS		
Current assets:		
Cash	$ 15,161,000	$ 2,114,000
Assets limited as to use	1,320,000	1,294,000
Patient accounts receivable, net	18,522,000	19,967,000
Estimated third-party payor settlements	192,000	1,204,000
Supplies, at lower of cost (first-in, first-out) and net realizable value	2,191,000	2,335,000
Current portion of notes receivable	758,000	492,000
Other current assets	2,360,000	4,354,000
Total current assets	40,504,000	31,760,000
Assets limited as to use:		
Internally designated for capital improvements	47,428,000	47,911,000
Held by trustee	1,320,000	1,294,000
	48,748,000	49,205,000
Less amount required to meet current obligations	1,320,000	1,294,000
Noncurrent assets limited as to use	47,428,000	47,911,000
Property and equipment, net	37,328,000	38,259,000
Other assets:		
Notes receivable, net of current portion	345,000	359,000
Goodwill and intangibles, net	10,822,000	7,601,000
Investment in affiliated companies	431,000	431,000
Total other assets	11,598,000	8,391,000
Total assets	$ 136,858,000	$ 126,321,000

	2020	2019
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt	$ 870,000	$ 840,000
Accounts payable	8,148,000	5,771,000
Accrued expenses	6,637,000	5,183,000
Estimated third-party payor settlements	86,000	182,000
Medicare advance payments, current portion	530,000	-
Total current liabilities	16,271,000	11,976,000
Medicare advance payments, long-term portion	2,148,000	-
Other liabilities	1,251,000	-
Long-term debt, net of current portion	22,859,000	23,681,000
Total liabilities	42,529,000	35,657,000
Net assets without donor restrictions	94,329,000	90,664,000
Total liabilities and net assets	$ 136,858,000	$ 126,321,000

See accompanying notes to financial statements.

CRISP REGIONAL HEALTH SERVICES, INC.

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

	2020	2019
Revenues, gains and other support:		
Net patient service revenue	$ 98,439,000	$ 95,739,000
Other revenue	2,512,000	2,472,000
CARES Act funding	7,857,000	-
Total revenues, gains and other support	108,808,000	98,211,000
Expenses:		
Professional care of patients	68,218,000	65,149,000
Dietary services	2,442,000	2,342,000
General services	4,537,000	4,627,000
Administrative services	14,994,000	12,200,000
Employee health and welfare	10,422,000	9,747,000
Depreciation and amortization	4,303,000	3,621,000
Interest	900,000	919,000
Total expenses	105,816,000	98,605,000
Operating income (loss)	2,992,000	(394,000)
Other income:		
Undesignated gifts and bequests	781,000	1,077,000
Investment income (loss)	(398,000)	2,766,000
Loss on sale or disposal of fixed assets	(26,000)	(5,000)
Total other income	357,000	3,838,000
Excess revenues	3,349,000	3,444,000
Capital contributions	316,000	144,000
Increase in net assets without donor restrictions	3,665,000	3,588,000
Net assets without donor restrictions, beginning of year	90,664,000	87,076,000
Net assets without donor restrictions, end of year	$ 94,329,000	$ 90,664,000

See accompanying notes to financial statements.

CRISP REGIONAL HEALTH SERVICES, INC.

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

	2020	Restated 2019
Cash flows from operating activities:		
Increase in net assets	$ 3,665,000	$ 3,588,000
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	4,303,000	3,621,000
Amortization of debt issuance costs	48,000	49,000
Change in net unrealized (gains) losses on investments	1,180,000	(1,138,000)
Realized (gains) losses on sales of securities	356,000	(501,000)
(Increase) decrease in:		
Patient accounts receivable	1,445,000	(2,532,000)
Supplies	144,000	84,000
Other current assets	1,994,000	(1,457,000)
Estimated third-party payor settlements	916,000	328,000
Notes receivable	(252,000)	(76,000)
Increase (decrease) in:		
Accounts payable	(179,000)	2,071,000
Accrued expenses	1,454,000	380,000
Medicare advance payments	2,678,000	-
Net cash provided by operating activities	17,752,000	4,417,000
Cash flows from investing activities:		
Purchase of property and equipment and intangible assets	(2,786,000)	(6,091,000)
Purchase of investments	(23,909,000)	(19,943,000)
Proceeds from sale of investments	22,506,000	18,754,000
Net cash used by investing activities	(4,189,000)	(7,280,000)
Cash flows from financing activities:		
Payments on debt	(840,000)	(810,000)
Increase (decrease) in cash and cash equivalents	12,723,000	(3,673,000)
Cash and cash equivalents, beginning of year	8,077,000	11,750,000
Cash and cash equivalents, end of year	$ 20,800,000	$ 8,077,000

Continued

	2020	Restated 2019
Reconciliation of cash and cash equivalents to the combined balance sheets:		
Cash in current assets	$ 15,161,000	$ 2,114,000
Cash and cash equivalents in assets limited as to use	5,639,000	5,963,000
Total	$ 20,800,000	$ 8,077,000
Interest paid during the year	$ 862,000	$ 865,000

Supplemental disclosures of cash flow information:

- Property and equipment and intangible assets in accounts payable as of June 30, 2020 and 2019 was approximately $5,002,000 and $1,195,000, respectively.

See accompanying notes to financial statements.

1. Description of Organization and Summary of Significant Accounting Policies

Organization

The Hospital Authority of Crisp County (Authority) reorganized and established Crisp Regional Health Services, Inc. (Corporation) as the controlling company of Crisp Regional Hospital, Inc., Crisp Regional Development Foundation, Inc., and Crisp Medical Services, Inc.

Crisp Regional Hospital, Inc. and Crisp Regional Development Foundation, Inc. are not-for-profit corporations. Crisp Regional Hospital, Inc. operates Crisp Regional Hospital (acute care hospital), Crisp Regional Nursing and Rehabilitation Center (CRNRC) (skilled nursing facility), CareSouth of Crisp Regional Hospital (home health agency), Blackshear Retirement Villa (a retirement facility), and Cordele Health and Rehabilitation Center, Inc. (COR) (skilled nursing facility). In addition, Crisp Regional Hospital, Inc. operates various health clinics and physician practices.

Crisp Medical Services, Inc. is a dormant for-profit corporation organized to conduct taxable activities.

All material interfacility transactions have been eliminated.

Reorganization

The Authority implemented a reorganization plan whereby all the assets, management and governance of the Hospital were transferred to Crisp Regional Hospital, Inc., a not-for-profit corporation, qualified as an organization described in Section 501(c)(3) of the Internal Revenue Code. The transfer was made pursuant to a Lease and Transfer Agreement between the Hospital Authority and the Corporation. The lease was subsequently amended and became effective July 1, 1996. The lease term is for forty years.

Use of Estimates

The preparation of the combined financial statements in conformity 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. These amounts are reported at cost plus accrued interest.

Continued

1. Description of Organization and Summary of Significant Accounting Policies, Continued

Investments

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

Assets Limited as to Use

Assets limited as to use primarily include assets held by trustees under indenture agreements and designated assets set aside by the Board of Directors for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes. Amounts required to meet current liabilities of the Corporation have been reclassified on the combined balance sheet at June 30, 2020 and 2019.

Property and Equipment

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

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 excess revenues, 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.

Impairment of Long-Lived Assets

The Corporation 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 Corporation has not recorded any impairment charges in the accompanying combined statements of operations and changes in net assets for the years ended June 30, 2020 and 2019.

Continued

1. Description of Organization and Summary of Significant Accounting Policies, Continued

Goodwill and Intangible Assets

Goodwill and intangible assets with indefinite lives are tested for impairment annually and more frequently in the event of an impairment indicator. Intangible assets with definite lives are amortized over their respective estimated useful lives, and reviewed whenever events or circumstances indicate impairment may exist.

The Corporation assesses qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, the Corporation determines it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is required. If the two-step impairment test is determined to be necessary, and in step two the carrying value of a reporting unit's goodwill exceeds its implied fair value, an impairment loss equal to the difference will be recorded.

During 2020, the Corporation 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 Corporation's evaluation determined it is not more likely than not that the reporting unit's fair value is less than its' carrying value.

As of June 30, 2020 and 2019, the Corporation had goodwill and intangible assets of approximately $10,822,000 and $7,601,000, respectively. The Corporation has elected June 30th as its annual impairment assessment date. The Corporation completed its annual impairment assessment and concluded that no goodwill or indefinite lived intangible asset impairment charge was required.

Costs of Borrowing

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.

Debt Issuance Costs

Debt issuance costs are amortized over the period the obligation is outstanding using the straight-line method which approximates the effective interest method over the life of the related debt. Debt issuance costs related to a recognized debt liability are presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability.

Continued

1. Description of Organization and Summary of Significant Accounting Policies, Continued

Net Assets

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

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

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

Excess 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 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 Corporation has agreements with third-party payors that provide for payments to the Corporation 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 Corporation 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.

Continued

1. Description of Organization and Summary of Significant Accounting Policies, Continued

Indigent and Charity Care

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

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 (see Notes 11 and 12).

Income Taxes

Crisp Regional Health Services, Inc., Crisp Regional Hospital, Inc. and Crisp Regional Development Foundation, Inc. are not-for-profit corporations that have been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code.

The Corporations apply 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, they only recognize 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 sheet for unrecognized income tax positions. Further, no interest or penalties have been accrued or charged to expense as of June 30, 2020 and 2019 or for the years then ended. The Corporations' 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. Description of Organization and Summary of Significant Accounting Policies, Continued

Fair Value Measurements

FASB ASC 820, *Fair Value Measurements 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.

Recently Adopted Accounting Pronouncements

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

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash.* This ASU requires entities to show the changes in the total cash, cash equivalents, restricted cash, and restricted cash equivalents in the statement of cash flows and reconcile those amounts to the balance sheet. The Corporation adopted ASU 2016-18 in 2020 and applied the provisions retrospectively to all periods presented in the combined financial statements. For the years ended June 30, 2020 and 2019, the Corporation included approximately $5.7 million and $6.0 million, respectively, of restricted cash and cash equivalents in the total cash and cash equivalents presented in the combined statements of cash flows. The adoption of ASU 2016-18 had no impact to total revenues, gains and other support, excess revenues or total net assets.

Continued

1. Description of Organization and Summary of Significant Accounting Policies, Continued

Recently Adopted Accounting Pronouncements, Continued

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

Accounting Pronouncement Not Yet Adopted

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

Prior Year Reclassifications

Certain reclassifications have been made to the fiscal year 2019 combined financial statements to conform to the fiscal year 2020 presentation. These reclassifications had no impact on the change in net assets in the accompanying combined financial statements. Amounts related to prior year information system conversion have been reclassified to intangibles. See Note 9 for additional information.

Subsequent Event

In preparing these financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through December 4, 2020, the date the financial statements were issued.

2. Net Patient Service Revenue

Net patient service revenue is reported at the amount that reflects the consideration to which the Corporation 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 Corporation 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.

Performance obligations are determined based on the nature of the services provided by the Corporation. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Corporation believes that this method provides a faithful depiction of the transfer of services over the term

Continued

2. Net Patient Service Revenue, Continued

of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patient services. The Corporation 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 Corporation 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 Corporation 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 Corporation is utilizing the portfolio approach practical expedient in ASC 606 for contracts related to net patient service revenue. The Corporation 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 Corporation 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 Corporation has arrangements with third-party payors that provide for payments to the Corporation at amounts different from its established rates. For uninsured patients that do not qualify for indigent and charity care, the Corporation recognizes revenue on the basis of its standard rates, subject to certain discounts and implicit price concessions as determined by the Corporation. The Corporation 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 Corporation's policy, and implicit price concessions provided to uninsured patients. Implicit price concessions represent the difference between amounts billed and the estimated consideration the Corporation expects to receive from patients, which are determined based on historical collection experience, current market conditions, and other factors. The Corporation 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

  Inpatient acute care and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

  Nursing Home services rendered to Medicare program beneficiaries are reimbursed at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors.

  The Corporation is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Corporation and audits thereof by the Medicare Administrative Contractor (MAC). The Corporation'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 Corporation. The Corporation's Medicare cost reports have been audited by the MAC through June 30, 2015.

- Medicaid

  Inpatient acute care services rendered to Medicaid program beneficiaries are paid at a prospectively determined rate per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Outpatient services rendered to Medicaid program beneficiaries are reimbursed under a reduced cost reimbursement methodology.

  The Corporation is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Corporation and audits thereof by the Medicaid fiscal intermediary. The Corporation's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through June 30, 2017.

  The Corporation 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, Continued

  Nursing Home services are reimbursed by the Medicaid program based on a prospectively determined per diem. The per diem is determined by the facility's historical allowable operating costs adjusted for certain incentives and inflation factors.

  The Hospital participates in the Georgia Indigent Care Trust Fund (ICTF) Program. The Hospital receives ICTF payments for treating a disproportionate number of Medicaid and uninsured patients. ICTF payments are based on the Hospital's estimated uncompensated cost of services to Medicaid and uninsured patients. The amount of ICTF payments recognized in net patient service revenue was approximately $1,364,000 and $1,091,000 for the years ended June 30, 2020 and 2019, respectively.

  The Medicare, Medicaid and SCHIP Benefits Improvement and Protection Act of 2000 (BIPA) provides for payment adjustments to certain facilities based on the Medicaid Upper Payment Limit (UPL). The UPL payment adjustments are based on a measure of the difference between Medicaid payments and the amount that could be paid based on Medicare payment principles. The Hospital and Nursing Homes participate in this program. The net amount of UPL payment adjustments recognized in net patient service revenue was approximately $2,768,000 and $1,926,000 for the years ended June 30, 2020 and 2019, respectively.

  During 2010, the state of Georgia enacted legislation known as the Provider Payment Agreement Act (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 approximately 11.88%. Approximately $800,000 and $721,000 relating to the Act is included in administrative services in the accompanying combined statements of operations and changes in net assets for the years ended June 30, 2020 and 2019, respectively.

- Other Arrangements

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

Continued

2. Net Patient Service Revenue, Continued

- Uninsured Patients

  The Corporation 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 Corporation 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 Corporation'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 Corporation. In addition, the contracts the Corporation has with commercial payors also provide for retroactive audit and review of claims.

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

Generally patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Corporation also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The Corporation 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.

Continued

2. Net Patient Service Revenue, Continued

Adjustments arising from a change in the transaction price were not significant for the year ending June 30, 2020 and 2019. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense for the years ended June 30, 2020 and 2019 was not significant.

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

Patients who meet the Corporation's criteria for indigent and charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as indigent and charity care are not reported as revenue.

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

	2020	2019
Medicare	$ 38,128,000	$ 37,439,000
Medicaid	16,590,000	15,842,000
Other third-party payors	42,470,000	40,675,000
Self-pay	1,251,000	1,783,000
Total	$ 98,439,000	$ 95,739,000

Net patient service revenue by facility, line of business, and timing of revenue recognition for the years ended June 30, 2020 and 2019 are as follows:

	2020	2019
Hospital	$ 82,461,000	$ 81,478,000
Skilled nursing facility – COR	7,103,000	6,032,000
Skilled nursing facility – CRNRC	6,305,000	5,780,000
Home health agency	2,194,000	2,047,000
Retirement facility	376,000	402,000
Timing of revenue recognition:		
Services transferred over time	$ 98,439,000	$ 95,739,000

Continued

2. Net Patient Service Revenue, Continued

Hospital net patient service revenue includes a variety of services mainly covering inpatient acute care services requiring overnight stays, outpatient procedures that require anesthesia or use of the Corporation's diagnostic and surgical equipment, and emergency care services. Performance obligations for the hospital, skilled nursing facilities, home health agency, and the retirement facility patient services are satisfied over time as the patient simultaneously receives and consumes the benefits the Corporation performs. Requirements to recognize revenue for hospital inpatient services are generally satisfied over periods that average approximately four days and for outpatient services are generally satisfied over a period of less than one day. Retail pharmacy, cafeteria, and gift shop revenue, recorded in other revenue on the combined statements of operations and changes in net assets, performance obligations are satisfied at a point in time when the goods are provided.

The Corporation 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 Corporation'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 Corporation does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

The Corporation 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 Corporation otherwise would have recognized is one year or less in duration.

3. Uncompensated Services

The Corporation was compensated for services at amounts less than its established rates. Charges for uncompensated services for 2020 and 2019 were approximately $209,540,000 and $178,531,000, respectively.

Uncompensated care includes indigent and charity care services of approximately $2,372,000 and $2,316,000 in 2020 and 2019, respectively. The cost of indigent and charity care services provided during 2020 and 2019 was approximately $790,000 and $806,000, respectively computed by applying a total cost factor to the charges foregone.

Continued

3. Uncompensated Services, Continued

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

	2020	2019
Gross patient charges	$ 307,979,000	$ 274,270,000
Uncompensated services:		
Indigent and charity care	2,372,000	2,316,000
Medicare	107,761,000	88,228,000
Medicaid	33,956,000	29,822,000
Other third-party payors	41,504,000	33,925,000
Price concessions	23,947,000	24,240,000
Total uncompensated care	209,540,000	178,531,000
Net patient service revenue	$ 98,439,000	$ 95,739,000

4. Concentrations of Credit Risk

The Corporation 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 at June 30, 2020 and 2019, was as follows:

	2020	2019
Medicare	27%	22%
Medicaid	16%	17%
Other third-party payors	52%	52%
Patients	5%	9%
Total	100%	100%

At June 30, 2020, the Corporation had deposits at major financial institutions which exceeded the $250,000 Federal Deposit Insurance Corporation limit. Management believes the credit risks related to these deposits is minimal.

Continued

5. Investments

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

Assets Limited as to Use

	2020	2019
Internally designated for capital improvements:		
Cash and cash equivalents	$ 4,319,000	$ 4,669,000
Government and agency securities	6,131,000	5,467,000
Mutual funds – income and growth	355,000	344,000
U.S. corporate bonds	8,303,000	7,938,000
Exchange traded funds	9,282,000	9,068,000
Asset and mortgage backed securities	920,000	424,000
Common stock	17,386,000	18,085,000
Real estate investment trusts	732,000	1,916,000
Total	47,428,000	47,911,000
Held by trustee under indenture:		
Cash and cash equivalents	1,320,000	1,294,000
Total assets limited as to use	$ 48,748,000	$ 49,205,000

The Corporation'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 changes could materially affect the amounts reported in the accompanying combined financial statements.

Continued

5. Investments, Continued

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

		Fair Value Measurements at Reporting Date Using		
	Fair Value	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2020				
Assets:				
Government and agency securities	$ 6,131,000	$ 6,131,000	$ -	$ -
Mutual funds – income and growth	355,000	355,000	-	-
U.S. corporate bonds	8,303,000	8,303,000	-	-
Exchange traded funds	9,282,000	9,282,000	-	-
Asset and mortgage backed securities	920,000	920,000	-	-
Common stock	17,386,000	17,386,000	-	-
Real estate investment trusts	732,000	732,000	-	-
Total assets	$ 43,109,000	$ 43,109,000	$ -	$ -
June 30, 2019				
Assets:				
Government and agency securities	$ 5,467,000	$ 5,467,000	$ -	$ -
Mutual funds – income and growth	344,000	344,000	-	-
U.S. corporate bonds	7,938,000	7,938,000	-	-
Exchange traded funds	9,068,000	9,068,000	-	-
Asset and mortgage backed securities	424,000	424,000	-	-
Common stock	18,085,000	18,085,000	-	-
Real estate investment trusts	1,916,000	1,916,000	-	-
Total assets	$ 43,242,000	$ 43,242,000	$ -	$ -

Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Valuation techniques utilized to determine fair value are consistently applied.

All assets have been valued using a market approach.

Continued

6. Property and Equipment

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

	2020	2019
Land	$ 3,677,000	$ 3,771,000
Land improvements	1,236,000	1,236,000
Buildings and improvements	50,037,000	49,596,000
Fixed equipment	13,620,000	13,627,000
Movable equipment	33,993,000	32,387,000
	102,563,000	100,617,000
Less accumulated depreciation	(65,853,000)	(62,424,000)
	36,710,000	38,193,000
Construction in progress	618,000	66,000
Property and equipment, net	$ 37,328,000	$ 38,259,000

Depreciation expense for the years ended June 30, 2020 and 2019 amounted to approximately $3,655,000 and $3,621,000, respectively. Also, construction contracts exist for various projects at year end with a total commitment of approximately $1,500,000. At June 30, 2020, the remaining commitment on these contracts is approximately $1,445,000.

7. Notes Receivable

Notes receivable consist primarily of loans to physicians and medical school students for tuition and related educational expenses, which are secured by promissory notes. In general, the receivables are being forgiven over a period of time in which the physician practices medicine in Cordele, Georgia. If the physician discontinues medical practice in Cordele or the student is no longer enrolled in medical school, the outstanding principal and accrued interest becomes due immediately. The amounts forgiven and charged to expense during 2020 and 2019 were approximately $118,000 and $110,000, respectively.

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 Corporation.

Continued

8. Long-Term Debt

A summary of long-term debt at June 30, 2020 and 2019 follows:

	2020	2019
2013 Revenue Certificates, with principal payments due on July 1st each year from 2029 through 2043, varying rates of interest from 3.50% to 4.15%, collateralized by a pledge of the Authority's gross receipts. Net of unamortized issue costs of $649,000 and $679,000 at June 30, 2020 and 2019, respectively.	$ 15,851,000	$ 15,821,000
2015 Revenue Certificates, with principal payments due on July 1st each year from 2017 through 2028, interest at 2.47%, collateralized by a pledge of the Authority's gross receipts. Net of unamortized issue costs of $122,000 and $140,000 at June 30, 2020 and 2019, respectively.	7,878,000	8,700,000
Total long-term debt	23,729,000	24,521,000
Less current installments of long-term debt	870,000	840,000
Total long-term debt excluding current installments	$ 22,859,000	$ 23,681,000

The Series 2008A, 2008B, 2013 and 2015 Certificates were issued pursuant to a trust indenture between the Authority and U.S. Bank National Association, as Trustee.

On May 1, 2008, the Authority issued $10,000,000 of the Hospital Authority of Crisp County, Georgia Revenue Anticipation Certificates (Crisp Regional Hospital Project) Series 2008A for the purpose of (i) refunding the Authority's outstanding revenue notes (Crisp Regional Hospital Project), Series 2007, (ii) financing, in whole or in part, the cost of the acquisition, construction, and equipping of capital improvements (ICU addition) to the healthcare facilities of the Authority located in Crisp County, Georgia (Project), (iii) paying the premium for a municipal bond insurance policy relating to the Series 2008A Certificates, and (iv) paying all or a portion of the costs of issuing the Series 2008A Certificates.

On May 28, 2008, the Authority issued $3,000,000 of the Hospital Authority of Crisp County, Georgia Revenue Anticipation Certificates (Crisp Regional Hospital Project), Series 2008B for the purpose of (i) financing in whole or in part, the costs of the acquisition, construction and equipping of capital improvements (ICU addition) to the healthcare facilities of the Authority located in Crisp County, Georgia (Project), (ii) paying the premium for a municipal bond insurance policy relating to the Series 2008B Certificates, and (iii) paying a portion of the costs of issuing the Series 2008B Certificates.

Continued

8. Long-Term Debt, Continued

On June 1, 2013, the Authority issued $16,500,000 of the Hospital Authority of Crisp County, Georgia Revenue Anticipation Certificates (Crisp Regional Hospital Project), Series 2013 for the purpose of (i) expansions and renovations to the emergency department, (ii) acquisition, expansions and renovations to skilled nursing facilities, (iii) acquisition and installation of information technology equipment and software, (iv) routine capital equipment, and (v) acquisition and installation of certain radiology and fluorography equipment.

On April 1, 2015, the Authority issued $11,185,000 of the Hospital Authority of Crisp County, Georgia Revenue Anticipation Certificates (Crisp Regional Hospital Project), Series 2015 for the purpose of defeasing the Series 2008A Certificates maturing in the years 2016 and after and the Series 2008B Certificates maturing in the years 2017 and after.

The Series 2013 Certificates are subject to optional redemption prior to maturity, either in whole or in part, at any time not earlier than July 1, 2020, from any monies deposited with the Trustee and available for such purposes, at a redemption price equal to 100% of the principal amount to be redeemed plus accrued interest to the date fixed for redemption.

The Series 2013 Certificates maturing on July 1, 2036, 2038, and 2042, are subject to mandatory sinking fund redemption at a redemption price equal to 100% of the principal amount of each Series 2013 Certificate (or portion thereof) to be redeemed plus accrued interest to the date fixed for redemption. Redemption price of these certificates will range from $1,080,000 to $1,430,000 during the redemption period.

The Series 2015 Certificates are subject to optional redemption prior to maturity, either in whole or in part, at any time, at a redemption price equal to 100% of the principal amount to be redeemed plus accrued interest to the redemption date.

The Series 2015 Certificates maturing on July 1, 2016 through July 1, 2027 are subject to mandatory sinking fund redemption at a redemption price equal to 100% of the principal amount of each Series 2015 Certificate (or portion thereof) to be redeemed, plus accrued interest to the redemption date. Redemption price for these Certificates will range from $755,000 to $1,145,000.

In accordance with the Trust Agreement with U. S. Bank National Association, the Corporation is required to establish sinking funds to accumulate specific principal and interest payments due on January 1 and July 1 each year. In addition, the Corporation is required to meet certain debt service restrictions. As of June 30, 2020, management believes the requirements of the Agreement were met.

In August 2020, subsequent to year-end, the Corporation entered into a term note agreement with a bank for the purpose of financing equipment in the amount of approximately $1,123,000. The note incurs interest at a rate of 2.90% with 84 monthly principal and interest payments of approximately $15,000 and is secured by the financed equipment.

Continued

8. Long-Term Debt, Continued

In August 2020, subsequent to year-end, the Corporation entered into a promissory note agreement with the Crisp County Power Commission for the purpose of funding building renovations in the amount of $1,000,000. The note incurs interest at a rate of 0% with 120 monthly payments of approximately $8,000 and is secured by a certificate of deposit.

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

Year	Long-Term Debt
2021	$ 870,000
2022	905,000
2023	935,000
2024	975,000
2025	1,015,000
Thereafter	19,800,000
	24,500,000
Less debt issue costs	771,000
Total	$ 23,729,000

9. Goodwill and Intangibles, Net

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

	2020	2019
Certificate of Need – Cordele Health and Rehabilitation Center, Inc.	$ 1,800,000	$ 1,800,000
Information system intangible assets	7,950,000	4,080,000
Accumulated amortization	(675,000)	(26,000)
Intangible assets, net	9,075,000	5,854,000
Goodwill	1,747,000	1,747,000
Total goodwill and intangible assets, net	$ 10,822,000	$ 7,601,000

During 2018, the Corporation entered into a contract to convert its information systems. The cost associated with the conversion resulted in an intangible asset which is being amortized over the information system's estimated useful life. At June 30, 2020, a contract exists for a new information system for the skilled nursing facilities with a total commitment of approximately $362,000, and a remaining commitment of approximately $362,000.

The goodwill is related to the Hospital's purchase of Cordele Health and Rehabilitation Center, Inc., Crisp Regional Nursing and Rehabilitation Center and various physician practices. Goodwill is evaluated annually for impairment.

Continued

9. Goodwill and Intangibles, Net, Continued

The changes in the carrying amount of goodwill for the year ended June 30, 2020 and 2019 are as follows:

	2020	2019
Balance at beginning of the year:		
Goodwill	$ 1,747,000	$ 1,747,000
Accumulated impairment losses	-	-
Net beginning goodwill	1,747,000	1,747,000
Goodwill acquired during the year	-	-
Impairment losses	-	-
	-	-
Balance at end of the year:		
Goodwill	1,747,000	1,747,000
Accumulated impairment losses	-	-
Net ending goodwill	$ 1,747,000	$ 1,747,000

10. Retirement Plan

The Corporation has a defined contribution plan for all full-time employees. The Hospital funds tax-sheltered annuities for employees under the defined contribution plan. Amounts to be funded are based on an employee's years of employment. Funding ranges from 3% to 5% of an employee's base salary.

Retirement benefits included in the June 30, 2020 and 2019 financial statements are approximately $647,000 and $825,000, respectively.

11. Malpractice Insurance

The Corporation is covered by a per occurrence general and professional liability insurance policy with a specified deductible per incident and excess coverage on a claims-made basis. Self-insured retention related to this policy in 2020 and 2019 is $250,000 per occurrence. The specific loss, other coverage aggregate and health care professional liability aggregate limits are $10,000,000.

The Corporation uses a third-party administrator to review and analyze incidents that may result in a claim against the Corporation. In conjunction with the third-party administrator, incidents are assigned reserve amounts for the ultimate liability that may result from an asserted claim.

Continued

11. Malpractice Insurance, Continued

Various claims and assertions have been made against the Corporation 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.

12. Employee Health Insurance

The Corporation is under a self-insurance program for the purpose of providing group health insurance for Corporation employees and their covered dependents. This program was created to minimize the total cost of annual medical insurance to the Corporation. The Corporation has purchased stop-loss insurance coverage for claims in excess of $175,000 for each individual employee.

Under this self-insurance program, the Corporation paid or accrued approximately $5,867,000 and $5,505,000 in 2020 and 2019, respectively. These amounts are included in the combined statements of operations and changes in net assets as employee health and welfare expense.

13. Functional Expenses

The Corporation provides general health care services to residents within its geographic location. Expenses related to providing these services are as follows:

	2020		
	Patient Care Services	General and Administrative	Total
Salaries	$ 35,419,000	$ 6,886,000	$ 42,305,000
Employee benefits	8,775,000	1,706,000	10,481,000
Supplies and drugs	16,292,000	1,613,000	17,905,000
Purchased services and professional fees	13,873,000	7,674,000	21,547,000
Other	2,636,000	5,739,000	8,375,000
Depreciation and amortization	3,110,000	1,193,000	4,303,000
Interest	650,000	250,000	900,000
Total	$ 80,755,000	$ 25,061,000	$ 105,816,000

Continued

13. Functional Expenses, Continued

	2019		
	Patient Care Services	General and Administrative	Total
Salaries	$ 34,095,000	$ 6,120,000	$ 40,215,000
Employee benefits	8,343,000	1,497,000	9,840,000
Supplies and drugs	15,891,000	1,512,000	17,403,000
Purchased services and professional fees	12,454,000	5,988,000	18,442,000
Other	2,709,000	5,456,000	8,165,000
Depreciation and amortization	2,617,000	1,004,000	3,621,000
Interest	664,000	255,000	919,000
Total	$ 76,773,000	$ 21,832,000	$ 98,605,000

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 based on a square footage basis. Benefit expense is allocated consistent with salaries.

14. Contingencies

Regulatory Compliance

The healthcare industry has 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 national 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 Corporation has implemented a compliance plan focusing on such issues. There can be no assurance that the Corporation will not be subjected to future investigations with accompanying monetary damages.

Health Care Reform

There has been increasing pressure on Congress and some state legislatures to control and reduce the cost of healthcare at the national and the state levels. 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 Corporation.

Continued

14. Contingencies, Continued

Litigation

The Corporation has been named as a defendant in certain lawsuits arising in the ordinary course of business. Management does not expect these matters to have a material adverse effect on the financial position and results of operations of the Corporation.

15. Fair Values of Financial Instruments

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

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

- *Assets limited as to use:* Amounts reported in the balance sheet are at fair value. See Note 5 for fair value measurement disclosures.

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

The following table summarizes the carrying amounts and fair value for long-term debt:

	2020		2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	$ 24,500,000	$ 25,042,000	$ 25,340,000	$ 25,542,000

16. 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. The Corporation submitted the necessary documentation and was approved by the State to participate in the rural hospital tax credit program for calendar years 2019 and 2020. Contributions received or accrued under the program in 2020 and 2019 approximated $724,000 and $999,000, respectively, and are reported as undesignated gifts and bequests on the combined statements of operations and changes in net assets. The Corporation will have to be approved by the State to participate in the program in each subsequent year.

Continued

17. Liquidity and Availability

As of June 30, 2020 and 2019, the Corporation has working capital of approximately $24,233,000 and $19,784,000 and average days (based on normal expenditures) cash on hand of 52 and 8 days, respectively.

Financial assets available for general expenditure within one year of June 30, 2020 and 2019, consist of the following:

	2020	2019
Cash	$ 15,161,000	$ 2,114,000
Patient accounts receivable, net	18,522,000	19,967,000
Estimated third-party payor settlements	192,000	1,204,000
Assets limited as to use:		
Internally designated for capital improvements	47,428,000	47,911,000
Other current assets	1,444,000	2,646,000
Total financial assets available	$ 82,747,000	$ 73,842,000

None of the 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 Corporation estimates that 100% of the Board designated funds for capital improvements are 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 Corporation has other assets whose use is limited for debt service. These assets whose use is limited are not available for general expenditure within the next year and are not reflected in the amounts above. The Corporation has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

20. Coronavirus

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen. The outbreak has put an unprecedented strain on the US 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 Corporation's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, remedial actions and stimulus measures adopted by local and federal governments, impact on the Corporation'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 Corporation's financial position or results of operations is uncertain.

Continued

20. Coronavirus, Continued

CARES Act

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. The Corporation has received the following CARES Act funding:

- \$30 Billion General Distribution (1st round) – On April 10, 2020, HHS distributed \$30 billion to nearly 320,000 Medicare fee-for-service providers based on their portion of 2019 Medicare fee-for-service payments. The Corporation received approximately \$1,415,000 in funding from this distribution.

- \$20 Billion General Distribution (2nd round) – On April 24, 2020, HHS distributed \$20 billion to Medicare fee-for-service providers based on revenues from cost report data or revenue submissions. The Corporation received approximately \$620,000 in funding from this distribution.

- \$10 Billion Rural Distribution – On May 6, 2020, HHS distributed \$10 billion to almost 4,000 rural health care providers including hospitals, health clinics, and health centers. The Corporation received approximately \$5,101,000 in funding from this distribution.

- \$4.9 Billion Allocation for Skilled Nursing Facilities (SNFs) – On May 22, 2020, HHS distributed \$4.9 billion to over 13,000 certified SNFs based on a fixed payment of \$50,000 plus \$2,500 per certified bed. The Corporation received approximately \$708,000 in funding from this distribution.

- \$10 Billion High Impact Distribution – On July 17, 2020, subsequent to year-end, HHS distributed \$10 billion to more than 1,000 providers with over 160 COVID-19 admissions between January 1, 2020 and June 10, 2020 (one admission per day) or a disproportionate intensity of COVID-19 admissions. Payments were determined as \$50,000 per COVID-19 admission. The Corporation received approximately \$4,300,000 in funding from this distribution.

- \$2.5 Billion Allocation for SNFs – On August 7, 2020, subsequent to year-end, HHS distributed \$2.5 billion to over 15,000 certified SNFs based on a fixed payment of \$10,000 plus \$1,450 per certified bed. The Corporation received approximately \$372,000 in funding from this distribution.

Continued

20. Coronavirus, Continued

CARES Act, Continued

In addition, the CARES Act did the following:

- Sequestration – Suspended the Medicare sequestration payment adjustment, which reduces the payments to providers by 2%, for the period of May 1, 2020 through December 31, 2020.

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

On April 24, 2020, the Paycheck Protection Program and Health Care Enhancement Act was passed. This Act provides additional funding to replenish and supplement key programs under the CARES Act, including funds to health care providers for COVID-19 testing. The Corporation has received the following funding under this Act.

- $225 Million Rural Health Clinic Distribution – On May 20, 2020, HHS distributed $225 million to over 4,500 rural health clinics (RHCs) based on a fixed payment of $49,461 per RHC. The Corporation received approximately $148,000 in funding from this distribution.

The CARES Act funding is a conditional contribution and accounted for as a refundable advance until conditions have been substantially met or explicitly waived by the grantor. Because the use of the funds is limited to the purposes stated in the terms and conditions, the contributions are grantor restricted. The Corporation 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 other operating revenue in the combined statements of operations and changes in net assets. The Corporation received and recognized approximately $7,857,000 in grant stimulus funding in fiscal year 2020.

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

The CARES Act also expanded the existing Medicare Accelerated and Advance Payment Program (MAPP) by allowing qualifying providers to receive an advanced Medicare payment. The advance payment is a loan that will have to be repaid. Repayment begins one year after the date the MAPP funds were issued, at which time, Medicare payments owed to the Corporation will be recouped at varying rates ranging from 25% to 50% for 17 months. After 29 months, the remaining balance of the MAPP funds, if any, will become due in full. Providers will have 30 days to pay the remaining balance and if payment is not received, interest will accrue on the outstanding balance at a rate of 4%. In April and May 2020, the Corporation received approximately $2,678,000 in MAPP funds. In September 2020, subsequent to year-end, the Corporation received an additional advance payment of approximately $5,621,000.

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*

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*

Board of Directors
Crisp Regional Health Services, Inc.
Cordele, 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 Crisp Regional Health Services, Inc. (Corporation), which comprise the combined balance sheet as of June 30, 2020, and the related combined statements of operations and 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 December 4, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered the Corporation'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 combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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.

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

Continued

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation'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 Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

DRAFFIN + TUCKER, LLP

Albany, Georgia
December 4, 2020