POLK MEDICAL CENTER, INC.
ROME, GEORGIA

FINANCIAL STATEMENTS

for the years ended June 30, 2021 and 2020

Draffin Tucker

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Polk Medical Center, Inc.
Rome, Georgia

Report on the Financial Statements

We have audited the accompanying financial statements of Polk Medical Center, Inc. (PMCI), which comprise the balance sheets as of June 30, 2021 and 2020, and the related statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audits. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Continued

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Polk Medical Center, Inc. as of June 30, 2021 and 2020, 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 financial statements, PMCI adopted new accounting guidance, Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)* on July 1, 2020. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated October 25, 2021, on our consideration of PMCI'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 PMCI'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 PMCI's internal control over financial reporting and compliance.

Draffin & Tucker, LLP

Albany, Georgia
October 25, 2021

POLK MEDICAL CENTER, INC.

BALANCE SHEETS
June 30, 2021 and 2020

	2021	2020
ASSETS		
Current assets:		
Cash and cash equivalents	$ 12,190,903	$ 14,999,779
Assets limited as to use, current portion	832,412	824,158
Short-term investments	4,575,029	3,608,345
Patient accounts receivable, net	5,911,283	4,970,878
Supplies	281,047	305,266
Due from Floyd Healthcare Management, Inc.	4,000,022	-
Other current assets	343,275	408,788
Total current assets	28,133,971	25,117,214
Assets limited as to use:		
By board for capital improvements	52,715,159	45,535,065
Under indenture agreement - held by trustee	832,430	824,176
Less amount required to meet current obligations	832,412	824,158
Noncurrent assets limited as to use	52,715,177	45,535,083
Property and equipment, net	18,600,916	20,551,144
Other assets:		
Operating lease right-of-use assets	185,115	-
Finance lease right-of-use assets	2,195,187	2,342,400
Total other assets	2,380,302	2,342,400
Total assets	$ 101,830,366	$ 93,545,841

	2021	2020
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt	$ 80,000	$ 70,000
Current portion of operating lease liabilities	74,428	-
Current portion of finance lease liabilities	102,999	90,126
Accounts payable	616,080	652,692
Accrued salary	306,790	287,020
Accrued benefits	808,880	832,796
Other accrued expenses	1,380,167	1,402,705
Estimated third-party payor settlements	1,223,000	1,804,077
Due to Floyd Healthcare Management, Inc.	-	2,933,265
CARES Act refundable advance	-	3,595,161
Medicare accelerated and advance payments	2,911,169	477,921
Total current liabilities	7,503,513	12,145,763
Medicare accelerated and advance payments, net of current portion	1,946,852	3,345,449
Long-term debt, net of current portion	32,929,289	33,213,844
Operating lease liabilities, net of current portion	110,687	-
Finance lease liabilities, net of current portion	2,567,648	2,664,220
Total liabilities	45,057,989	51,369,276
Net assets without donor restrictions	56,772,377	42,176,565
Total liabilities and net assets	$ 101,830,366	$ 93,545,841

See auditor’s report and notes to financial statements.

POLK MEDICAL CENTER, INC.

STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
for the years ended June 30, 2021 and 2020

	2021	2020
Operating revenues:		
Net patient service revenue	$ 33,267,176	$ 29,435,786
CARES Act funding	3,684,188	84,317
Other operating revenue	37,390	1,994
Total operating revenues	36,988,754	29,522,097
Expenses:		
Operating expenses	21,104,372	20,484,598
Interest	1,409,373	1,415,376
Depreciation and amortization	2,509,828	2,335,329
Total expenses	25,023,573	24,235,303
Operating income	11,965,181	5,286,794
Nonoperating income:		
Investment income	2,026,830	1,825,606
Contributions and other	603,801	246,722
Total nonoperating income	2,630,631	2,072,328
Express revenues	14,595,812	7,359,122
Equity transfer to related party	-	(1,121)
Increase in net assets without donor restrictions	14,595,812	7,358,001
Net assets, beginning of year	42,176,565	34,818,564
Net assets, end of year	$ 56,772,377	$ 42,176,565

See auditor’s report and notes to financial statements.

POLK MEDICAL CENTER, INC.

STATEMENTS OF CASH FLOWS
for the years ended June 30, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Change in net assets	$ 14,595,812	$ 7,358,001
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,509,828	2,335,329
Amortization of bond premium and issue cost	(204,555)	(204,554)
Unrealized gain on investment	(510,207)	(324,081)
Realized gain on investment	(80,771)	(376,722)
Changes in:		
Patient accounts receivable	(940,405)	1,308,950
Supplies	24,219	6,613
Other current assets	65,513	1,546,150
Accounts payable and accrued expenses	(63,296)	174,053
Due to/from Floyd Healthcare Management, Inc.	(6,933,287)	1,261,145
Estimated third-party payor settlements	(581,077)	180,077
CARES Act refundable advance	(3,595,161)	3,595,161
Medicare accelerated and advance payments	1,034,651	3,823,370
Operating lease liabilities	(71,500)	-
Net cash provided by operating activities	5,249,764	20,683,492
Cash flows from investing activities:		
Purchase of property and equipment	(285,344)	(598,900)
Proceeds from sale of investments	16,309,900	43,167,364
Purchase of investments	(23,847,429)	(52,969,288)
Net cash used by investing activities	(7,822,873)	(10,400,824)
Cash flows from financing activities:		
Payments on long-term debt	(70,000)	(80,000)
Payments on finance lease liabilities	(139,242)	(80,951)
Net cash used by financing activities	(209,242)	(160,951)
Net increase (decrease) in cash and cash equivalents	(2,782,351)	10,121,717
Cash and cash equivalents, beginning of year	15,844,676	5,722,959
Cash and cash equivalents, end of year	$ 13,062,325	$ 15,844,676

Continued

POLK MEDICAL CENTER, INC.

STATEMENTS OF CASH FLOWS, Continued
for the years ended June 30, 2021 and 2020

	2021	2020
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash and cash equivalents in current assets	$ 12,190,903	$ 14,999,779
Restricted cash and cash equivalents	871,422	844,897
Total cash and cash equivalents	$ 13,062,325	$ 15,844,676
Supplemental disclosure of cash flow information:		
Cash paid for interest, net of capitalized interest	$ 1,616,000	$ 1,620,000
Assets acquired through leases	$ 312,000	$ -

See auditor's report and notes to financial statements.

1. Summary of Significant Accounting Policies

Organization

Polk Medical Center, Inc. (PMCI) is a Georgia not-for-profit corporation. On November 6, 2014, PMCI entered into a lease agreement with Cedartown-Polk County Hospital Authority (Cedartown-Polk Authority) to lease all of the assets associated with Polk Medical Center, a critical access hospital providing inpatient and outpatient services. This lease has an original 35-year term. Floyd Healthcare Management, Inc. (Corporation) is the sole member of PMCI.

Use of Estimates

The preparation of 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. Estimates also affect 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 investments in highly liquid debt instruments with an original maturity of three months or less.

Short-Term Investments

PMCI holds Medicare advance payments in short-term investments, which consists primarily of corporate bonds with maturities of twelve months or less, carried at fair value. See Notes 3 and 17 for additional information.

Supplies

Supplies are stated at the lower of cost and net realizable value, using the first-in, first-out method.

Continued

1. Summary of Significant Accounting Policies, Continued

Assets Limited As To Use

Assets limited as to use include assets set aside by the Board for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes, and assets held by trustees under indenture agreements. Amounts required to meet current liabilities of PMCI have been reclassified in the balance sheet at June 30, 2021 and 2020.

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 realized and unrealized gains and losses on investments, interest, and dividends) is included in excess revenues unless income or loss is restricted by donor or law.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on 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 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 and 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

PMCI 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. PMCI has not recorded any impairment charges in the accompanying statements of operations and changes in net assets for the years ended June 30, 2021 and 2020.

Continued

1. Summary of Significant Accounting Policies, Continued

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.

Deferred Financing Cost

Costs related to the issuance of the 2016 Revenue Certificates were deferred and are being amortized using 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 sheets as a direct deduction from the carrying amount of the related debt liability.

Refundable Advance

A refundable advance arises when assets are recognized before revenue recognition criteria have been satisfied. CARES Act advance payments are reported as a refundable advance until donor conditions such as qualifying expenditures have been substantially met. See Note 3 for additional information.

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.

Continued

1. Summary of Significant Accounting Policies, Continued

Donor Restricted Gifts

Unconditional promises to give cash and other assets to PMCI are reported at fair value at the date the promise is received. Conditional gifts, 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.

Net Patient Service Revenue

PMCI has agreements with third-party payors that provide for payments to PMCI 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 PMCI 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

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

Excess Revenues

The statement of operations and changes in net assets includes excess revenues as a performance indicator. Changes in net assets without donor restrictions which are excluded from the performance indicator, 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 purpose of acquiring such assets).

Risk Management

PMCI is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses and natural disasters. PMCI has purchased insurance to mitigate the risk of loss for these types of damages. See Notes 10 and 11 for more information.

1. Summary of Significant Accounting Policies, Continued

Income Taxes

PMCI is a not-for-profit corporation that has been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code.

PMCI 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, PMCI 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 balance sheet for unrecognized income tax positions. Further, no interest or penalties have been accrued or charged to expense as of June 30, 2021 and 2020 or for the years then ended. PMCI'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.

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

Recently Adopted Accounting Pronouncements

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. As part of the transition to the new standard, PMCI was required to measure and recognize leases that existed at July 1, 2020 using a modified retrospective approach. PMCI did not elect the package of practical expedients permitted under the new standard that allowed PMCI to carry forward historical lease classification. The reassessment resulted in operating leases qualifying as finance leases upon adoption due to including lease term renewal options in measurement. The impact of adoption on the financial statements was an increase on July 1, 2020 in other noncurrent assets to record right-of-use assets and an increase in other current and noncurrent liabilities to record lease liabilities for current operating leases of approximately $256,000, representing the present value of remaining lease payments for operating leases.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*, to streamline the disclosure requirements of ASC Topic 820, Fair Value Measurement. The update removes, modifies and adds certain disclosure requirements. PMCI adopted the new guidance for the year ending June 30, 2021 and adoption did not have a material impact on the financial statements.

Accounting Pronouncement Not Yet Adopted

In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The new standard increases transparency around contributed nonfinancial assets received by not-for-profit entities, including transparency on how those assets are used and how they are valued. The new guidance is effective for PMCI as of July 1, 2021. PMCI is continuing to evaluate the impact the guidance will have on the financial statements.

Subsequent Event

In preparing these financial statements, PMCI has evaluated events and transactions for potential recognition or disclosure through October 25, 2021, the date the financial statements were issued. See Note 21.

Prior Year Reclassifications

Certain reclassifications have been made to the fiscal year 2020 financial statements to conform to the fiscal year 2021 presentation. These reclassifications had no impact on the change in net assets in the accompanying financial statements.

Continued

2. Net Patient Service Revenue

Net patient service revenue is reported at the amount that reflects the consideration to which PMCI 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, PMCI 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 PMCI. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. PMCI 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 patient services. PMCI 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 PMCI 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, PMCI 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.

PMCI is utilizing the portfolio approach practical expedient in ASC 606 for contracts related to net patient service revenue. PMCI 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, PMCI has concluded that revenue for a given portfolio would not be materially different than if accounting for revenue on a contract-by-contract basis.

PMCI has arrangements with third-party payors that provide for payments to PMCI at amounts different from its established rates. For uninsured patients that do not qualify for charity care, PMCI recognizes revenue on the basis of its standard rates, subject to certain discounts and implicit price concessions as determined by PMCI. PMCI 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

Continued

2. Net Patient Service Revenue, Continued

PMCI's policy, and implicit price concessions provided to uninsured patients. Implicit price concessions represent the difference between amounts billed and the estimated consideration PMCI expects to receive from patients, which are determined based on historical collection experience, current market conditions, and other factors. PMCI determines its estimates of contractual adjustments and discounts based on contractual agreements, discount policies, and historical experience.

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

  PMCI has 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.

  PMCI is paid for certain cost reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports by PMCI and audits thereof by the Medicare Administrative Contractor (MAC). PMCI'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 PMCI. PMCI's Medicare cost reports have been audited by the MAC through June 30, 2016.

- Medicaid

  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. PMCI is paid for certain cost reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports by PMCI and audits thereof by the Medicaid fiscal intermediary. PMCI's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through June 30, 2018.

  PMCI 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.

  Long-term care 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.

Continued

2. Net Patient Service Revenue, Continued

- Medicaid, Continued

  PMCI participates in the Georgia Indigent Care Trust Fund (ICTF) Program. PMCI receives ICTF payments for treating a disproportionate number of Medicaid and other indigent patients. ICTF payments are based on PMCI's estimated uncompensated cost of services to Medicaid and uninsured patients. The amount of ICTF payments recognized in net patient service revenue was approximately $900,000 and $1,500,000 for the years ended June 30, 2021 and 2020, 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 $80,000 for the years ended June 30, 2021 and 2020.

- 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

  PMCI 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 PMCI 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

Continued

2. Net Patient Service Revenue, Continued

authorities will not challenge PMCI'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 PMCI. In addition, the contracts PMCI 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 PMCI'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 2021 or 2020.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. PMCI also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. PMCI 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, 2021 and 2020. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense for the years ended June 30, 2021 and 2020 was not significant.

Consistent with PMCI's mission, care is provided to patients regardless of their ability to pay. Therefore, PMCI 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 PMCI's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue.

Continued

2. Net Patient Service Revenue, Continued

Net patient service revenue by major payor source for the years ended June 30, 2021 and 2020 is as follows:

	2021	2020
Medicare	$ 17,386,333	$ 16,206,529
Medicaid	3,668,692	3,417,713
Third-party payors	7,652,124	8,476,852
Self-pay	4,560,027	1,334,692
Net patient service revenue	$ 33,267,176	$ 29,435,786

Net patient service revenue by facility, line of business, and timing of revenue recognition for the years ended June 30, 2021 and 2020 is as follows:

	Net Patient Service Revenue for the years ended June 30	
	2021	2020
Hospital	$ 33,267,176	$ 29,435,786
Timing of revenue recognition:		
Services transferred over time	$ 33,267,176	$ 29,435,786

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 PMCI's diagnostic and surgical equipment, and emergency care services. Performance obligations for the hospital's patient services are satisfied over time as the patient simultaneously receives and consumes the benefits PMCI 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.

PMCI 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 PMCI'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, PMCI 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

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

3. 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 PMCI'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 PMCI'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 PMCI'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. 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. PMCI reports restricted contributions, whose restrictions are met in the same period in which they are received (simultaneous release), as net assets without donor restrictions. Recognized revenue is reported as operating revenues in the statements of operations and changes in net assets. PMCI received approximately $4,300,000 in grant stimulus funding in fiscal year 2020 and 2021 of which approximately $3,800,000 was recognized as operating revenues on the statement of operations and changes in net assets. PMCI transferred approximately $500,000 of funding related to the general distribution funds to Floyd Healthcare Management, Inc. to help support the Corporation during the COVID-19 pandemic.

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

Continued

3. Coronavirus (COVID-19), Continued

PMCI has received the following program 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. PMCI received approximately $584,000 in funding from this distribution and transferred approximately $500,000 to Floyd Healthcare Management, Inc.

- $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. PMCI received and recognized approximately $60,000 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. PMCI received and recognized approximately $3,595,000 in funding from this distribution.

- $4.9 Million Small Rural Hospital Improvement Program (SHIP) Grant - On April 22, 2020, HHS appropriated approximately $4.9 million to the State of Georgia Department of Community Health, State Office of Rural Health to disburse to 58 rural hospitals in Georgia for the purpose of preventing, preparing for, and responding to COVID-19. PMCI received and recognized approximately $85,000 in funding from this distribution.

The CARES Act also 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 December 31, 2021 with subsequent legislation.

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

- The existing Medicare Accelerated and Advance Payment Program was expanded 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 11 months of repayment, and 50% for the six months afterward. Hospitals then have up to 29 months after recoupment to pay back the funds in full before interest with a rate of 4% would begin to accrue. In April 2020, PMCI received and recorded as a liability approximately $3,823,000 in advanced payments. In September 2020, PMCI received an additional $1,310,000 in advanced payments.

Continued

4. Uncompensated Services

PMCI 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. The charges for these uncompensated services for 2021 and 2020 were approximately $102,300,000 and $100,100,000, respectively.

Uncompensated care includes charity and indigent care services of approximately $3,300,000 and $5,400,000 in 2021 and 2020, respectively. Charity and indigent care services provided to Polk County residents in 2021 and 2020 were approximately $2,700,000 and $4,300,000, respectively. The cost of charity and indigent care services provided during 2021 and 2020 was approximately $600,000 and $1,000,000, respectively computed by applying a total cost factor to the charges foregone.

The following is a summary of uncompensated charges and a reconciliation of gross patient charges to net patient service revenue for 2021 and 2020:

	2021	2020
Gross patient charges	$ 135,612,015	$ 129,580,392
Uncompensated charges:		
Charity and indigent care	3,254,449	5,364,725
Medicare	29,374,681	27,865,203
Medicaid	23,335,015	23,372,600
Other third-party payors	29,511,383	21,916,626
Price concessions	16,869,311	21,625,452
Total uncompensated charges	102,344,839	100,144,606
Net patient service revenue	$ 33,267,176	$ 29,435,786

Continued

5. Concentration of Credit Risk

PMCI grants credit without collateral to patients, most of whom are local residents and are insured under third-party payor agreements. The mix of net receivables from patients and third-party payors was as follows at June 30, 2021 and 2020:

	2021	2020
Medicare	47%	45%
Medicaid	6%	6%
Other third-party payors	47%	49%
Total	100%	100%

PMCI maintains deposits with financial institutions which exceed the Federal Depository insurance limits. At June 30, 2021, management believes the credit risk associated with these deposits is minimal.

6. Assets Limited As To Use

The composition of assets limited as to use as of June 30, 2021 and 2020 is set forth in the following table.

	2021	2020
Assets limited as to use:		
By board for capital improvements:		
Cash and cash equivalents	$ 38,992	$ 20,721
Mutual funds - equity	2,790,609	1,914,843
Mutual funds - fixed income	38,691,339	31,974,912
Mutual funds - international	-	1,123,599
Mutual funds - real estate	349,814	260,338
US government index fund	10,844,405	10,240,652
	52,715,159	45,535,065
Under indenture agreement - held by trustee:		
Cash and cash equivalents	832,430	824,176
Total assets limited as to use	$ 53,547,589	$ 46,359,241

Continued

6. Assets Limited As To Use, Continued

Investment income and gains and losses for investments and cash and cash equivalents, are comprised of the following for the years ending June 30, 2021 and 2020:

	2021	2020
Income:		
Interest and dividend income	$ 1,435,852	$ 1,124,803
Unrealized gain on securities	510,207	324,081
Realized gain on securities	80,771	376,722
Total income less investment expenses	$ 2,026,830	$ 1,825,606

PMCI'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 financial statements.

7. Property and Equipment

A summary of property and equipment at June 30, 2021 and 2020 follows:

	2021	2020
Land	$ 838,635	$ 838,635
Land improvements	283,152	161,430
Buildings	28,399,491	28,399,491
Fixed equipment	48,289	48,289
Major moveable equipment	12,164,338	12,084,868
	41,733,905	41,532,713
Less accumulated depreciation	23,132,989	20,981,569
Property and equipment, net	$ 18,600,916	$ 20,551,144

Depreciation expense for the years ended June 30, 2021 and 2020 amounted to approximately $2,300,000 and $2,100,000, respectively.

Continued

8. Long-Term Debt

Long-term debt for the years ended June 30, 2021 and 2020 follows:

	2021	2020
Revenue certificates, PMCI Series 2016 payable in installments ranging from $35,000 to $5,515,000 each July 1 until 2039. The certificates are guaranteed by the gross revenues of Floyd Healthcare Management, Inc., the Hospital Authority of Floyd County and Polk Medical Center, Inc. The certificates bear interest rates per annum ranging from 3.125% to 5.00%.	$ 30,095,000	$ 30,165,000
Total long-term debt	30,095,000	30,165,000
Unamortized bond premium	3,156,126	3,377,655
Less: unamortized bond issuance costs	241,837	258,811
Less: current maturities of long-term debt	80,000	70,000
Long-term debt, net of current maturities	$ 32,929,289	$ 33,213,844

Scheduled principal repayments on long-term debt for the next five years are as follows:

Year Ending June 30	Amount
2022	$ 80,000
2023	75,000
2024	65,000
2025	60,000
2026	35,000
Thereafter	29,780,000
Total	$ 30,095,000

Continued

8. Long-Term Debt, Continued

Revenue Anticipation Certificates, PMCI Series 2016 were issued to (i) refund the $35 million Bridge Loan Agreement, (ii) finance certain renovation projects; and (iii) pay costs of issuance of the PMCI Series 2016 Certificates. PMCI, the Hospital Authority of Floyd County, and the Corporation are members of the Obligated Group of the Revenue Anticipation Certificates, PMCI Series 2016.

Under the terms of the PMCI Series 2016 indentures, PMCI is required to maintain certain deposits with a trustee. Such deposits are included with assets limited as to use. The indentures also place limits on the incurrence of additional borrowings and require that PMCI satisfy certain measures of financial performance as long as the Certificates are outstanding. In the opinion of management, all measures of financial performance have been satisfied.

9. Leases

PMCI has operating and finance leases for buildings and equipment. PMCI determines if an arrangement is a lease at the inception of a contract. Leases with an initial term of twelve months or less are not recorded on the balance sheets. PMCI 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 PMCI's right to use an underlying asset during the lease term, and lease liabilities represent PMCI'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. PMCI 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 balance sheets when it is reasonably certain the option will be exercised.

As most of PMCI's operating leases do not provide an implicit rate, PMCI uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. PMCI 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

9. Leases, Continued

Operating and finance lease right-of-use assets and lease liabilities as of June 30, 2021 were as follows:

Operating leases:	
Right-of-use assets:	
Operating lease right-of-use assets	$ 185,115
Lease liabilities:	
Current portion	$ 74,428
Long-term	110,687
Total operating lease liabilities	$ 185,115
Finance leases:	
Right-of-use assets:	
Finance lease right-of-use assets	$ 2,195,187
Lease liabilities:	
Current portion	$ 102,999
Long-term	2,567,648
Total finance lease liabilities	$ 2,670,647

Operating expenses for the leasing activity of PMCI as lessee for the year ended June 30, 2021 are as follows:

Lease Type	
Operating lease cost	$ 80,240
Finance lease interest	109,178
Finance lease amortization	202,757
Short-term lease cost	36,973
Total lease cost	$ 429,148

In 2020, rental expense related to operating leases was approximately $52,000.

Continued

9. Leases, Continued

Cash paid for amounts included in the measurement of lease liabilities for the year ended June 30, 2021 is as follows:

Operating cash flows from operating leases	$ 80,240
Operating cash flows from finance leases	109,178
Financing cash flows from finance leases	139,242
Total	$ 328,660

The aggregate future lease payments for operating and finance leases as of June 30, 2021 were as follows:

Year Ending June 30	Finance	Operating
2022	$ 207,662	$ 80,240
2023	213,793	80,240
2024	216,808	33,433
2025	223,312	-
2026	230,012	-
Thereafter	2,482,391	-
Total undiscounted cash flows	3,573,978	193,913
Less: present value discount	(903,331)	(8,798)
Total lease liabilities	$ 2,670,647	$ 185,115

Average lease terms and discount rates at June 30, 2021 were as follows:

Weighted-average remaining lease term (years):	
Operating leases	2.42
Finance leases	14.25
Weighted-average discount rate:	
Operating leases	4.02%
Finance leases	4.01%

Continued

10. Employee Health Insurance

PMCI is included in the Corporation's employee health self-insurance program. The Corporation has a self-insurance program for employee health insurance under which a third-party administrator processes and pays claims. The Corporation reimburses the third-party administrator monthly for claims incurred and paid to other providers. The charges, less any deductibles and coinsurance for covered services provided to employees by the Corporation, are written off against gross patient charges. In addition, the Corporation has entered into a loss financing agreement with ten Georgia hospitals through a program developed by Georgia ADS, LLC. The Shared Financing Layer covers claims from $225,000 to $850,000. In addition, the Georgia ADS program provides reimbursement on eligible claims over $850,000 with an unlimited maximum. Under this self-insurance program, PMCI expensed from allocations of the Corporation approximately $1,995,000 and $1,695,000 for the years ended June 30, 2021 and 2020, respectively.

11. Malpractice Insurance

PMCI is covered by a claims-made general and professional liability insurance policy with a specified deductible of $50,000 per incident and excess coverage on a claims-made basis. Liability limits related to this policy in 2021 are $1 million per occurrence and $3 million in aggregate. In addition, PMCI is covered by the Corporation's umbrella policy that covers malpractice claims up to $15 million in aggregate. PMCI uses a third-party administrator to review and analyze incidents that may result in a claim against PMCI. In conjunction with the third-party administrator, incidents are assigned reserve amounts for the ultimate liability that may result from an asserted claim.

Various claims and assertions have been made against PMCI 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. Commitments and Contingencies

Litigation

PMCI is involved in litigation arising in the course of business. Pursuant to the Lease described in Note 1, all liabilities resulting from litigation not covered under PMCI's insurance policy have been assumed by the Corporation. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on PMCI's future financial position or results from operations.

Continued

12. Commitments and Contingencies, Continued

Compliance Plan

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. PMCI has implemented a compliance plan focusing on such issues. There can be no assurance that PMCI 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 PMCI.

13. Functional Expenses

PMCI provides general health care services to residents in Northwest Georgia.

Expenses related to providing these services in 2021 are as follows:

	2021		
	Patient Care Services	General and Administrative	Total
Salaries and wages	$ 9,684,067	$ 1,014,742	$ 10,698,809
Employee health and welfare	3,404,885	218,709	3,623,594
Professional fees	16,404	266,809	283,213
Supplies and other	4,783,237	1,715,519	6,498,756
Depreciation and amortization	2,161,422	348,406	2,509,828
Interest	1,203,242	206,131	1,409,373
Total	$ 21,253,257	$ 3,770,316	$ 25,023,573

Continued

13. Functional Expenses, Continued

Expenses related to providing these services in 2020 are as follows:

	2020		
	Patient Care Services	General and Administrative	Total
Salaries and wages	$ 9,432,324	$ 1,043,851	$ 10,476,175
Employee health and welfare	3,232,760	228,818	3,461,578
Professional fees	73,957	280,726	354,683
Supplies and other	4,357,621	1,834,541	6,192,162
Depreciation and amortization	2,041,156	294,173	2,335,329
Interest	1,199,264	216,112	1,415,376
Total	$ 20,337,082	$ 3,898,221	$ 24,235,303

The 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. Contribution to City of Cedartown

PMCI agreed to make annual contributions to the City of Cedartown in relation to the construction of water and sewer infrastructure for the new hospital. Pursuant to the agreement, PMCI will make payments for 20 years. PMCI made a contribution in the amount of $310,000 during 2021 and 2020.

Continued

15. Related Party Transactions

PMCI is a wholly owned member of the Corporation and the Corporation makes all payments to employees and vendors on behalf of PMCI. PMCI reimburses the Corporation for these expenditures.

In addition, on October 1, 2015, PMCI entered into a finance lease with the Corporation to lease a portion of the Medical Office Building to PMCI. PMCI made payments to the Corporation of approximately $198,000 and $193,000 in fiscal years 2021 and 2020, respectively.

16. Fair Value of Financial Instruments

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

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

- *Short-term investments and assets limited as to use*: Amounts reported in the balance sheet are at fair value. See Note 17 for fair value measurement disclosures.

- *Long-term debt*: The fair value of PMCI's long-term 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, PMCI's long-term debt would be classified as Level 2 in the fair value hierarchy.

The carrying amounts and fair values of PMCI's long-term debt at June 30, 2021 and 2020 are as follows:

	2021		2020	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	$ 33,251,126	$ 34,725,977	$ 33,542,655	$ 34,229,408

Continued

17. Fair Value Measurement

Fair value of assets measured on a recurring basis at June 30, 2021 and 2020 are as follows:

	Assets at Fair Value as of June 30, 2021			
	(Level 1)	(Level 2)	(Level 3)	Total
Assets:				
Short-term investments:				
Corporate bonds	$ -	$ 3,799,060	$ -	$ 3,799,060
Mortgage backed securities	-	775,969	-	775,969
Capital improvements:				
Cash and cash equivalents	38,992	-	-	38,992
Mutual funds - equity	2,790,609	-	-	2,790,609
Mutual funds - fixed income	38,691,339	-	-	38,691,339
Mutual funds - real estate	349,814	-	-	349,814
US government index fund	10,844,405	-	-	10,844,405
Under indenture agreement:				
Cash and cash equivalents	832,430	-	-	832,430
Total assets	$ 53,547,589	$ 4,575,029	$ -	$ 58,122,618

	Assets at Fair Value as of June 30, 2020			
	(Level 1)	(Level 2)	(Level 3)	Total
Assets:				
Short-term investments:				
Corporate bonds	$ -	$ 3,245,557	$ -	$ 3,245,557
Mortgage backed securities	-	362,788	-	362,788
Capital improvements:				
Cash and cash equivalents	20,721	-	-	20,721
Mutual funds - equity	1,914,843	-	-	1,914,843
Mutual funds - fixed income	31,974,912	-	-	31,974,912
Mutual funds - international	1,123,599	-	-	1,123,599
Mutual funds - real estate	260,338	-	-	260,338
US government index fund	10,240,652	-	-	10,240,652
Under indenture agreement:				
Cash and cash equivalents	824,176	-	-	824,176
Total assets	$ 46,359,241	$ 3,608,345	$ -	$ 49,967,586

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. Valuation techniques utilized to determine fair value are consistently applied. All assets have been valued using a market approach.

Continued

18. Defined Contribution Plan

PMCI participates in the Corporation's 401(k) retirement plan. The plan is a defined contribution 401(k) profit sharing plan covering full-time employees over the age of eighteen who are not participating in the defined benefit pension plan. Employees may immediately contribute between 1% and 25% of their salary, subject to the maximum dollar limit allowed by the IRS. The Corporation will match 100% of the employee's contributions up to 3% of their salary plus 50% of the next 2% of the employee's contributions for all participating employees with at least one year of service and over 1,000 hours worked in a calendar year.

19. Liquidity and Availability

As of June 30, 2021 and 2020, PMCI has a working capital (current assets minus current liabilities) of $20,630,458 and $12,971,451 and average days (based on normal expenditures) cash on hand of 198 days and 191 days, respectively.

Financial assets available for general expenditure within one year of the balance sheet date, consists of the following at June 30, 2021 and 2020:

	2021	2020
Cash and cash equivalents	$ 12,190,903	$ 11,404,618
Patient accounts receivable, net	5,911,283	4,970,878
Other current assets	84,781	119,150
Short-term investments	4,575,029	3,608,345
Due from Floyd Healthcare Management, Inc.	4,000,022	-
Assets limited as to use:		
Board designated for capital improvements	52,715,159	45,535,065
Total financial assets available	$ 79,477,177	$ 65,638,056

Cash and cash equivalents in the table above do not include the CARES Act refundable advance restricted for healthcare-related expenses or lost revenue attributable to COVID-19. As of June 30, 2021 and 2020, PMCI received refundable advances of $-0- and $3,595,000, respectively. 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. PMCI estimates that approximately 100% of the internally designated funds for capital improvements could be available for general expenditure within one year in the normal course of operations if approved by the Board of Directors. Accordingly, these assets have been included in the quantitative information above. PMCI 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. PMCI has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

Continued

20. Rural Hospital Tax Credit Contributions

The State of Georgia (State) passed legislation which allows 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. PMCI submitted the necessary documentation and was approved by the State to participate in the rural hospital tax credit program for 2021 and 2020. Contributions received under the program approximated $602,000 and $222,000 during 2021 and 2020, respectively. PMCI will have to be approved by the State to participate in the program in each subsequent year. Amounts received under the program are recorded as nonoperating income in the statements of operations and changes in net assets.

21. Subsequent Event

Effective July 1, 2021, the Corporation entered into a Member Substitution Agreement (Agreement) with The Charlotte-Mecklenburg Hospital Authority (CMHA). Due to being controlled by the Corporation, PMCI is also subject to the Agreement. Under this Agreement, CMHA contributed approximately $179,000,000 to payoff or refund notes payable and bonds payable in July 2021. As part of the payoff of bonds payable, PMCI refunded the Series 2016 certificates of approximately $30,000,000. In July 2021, the Corporation contributed approximately $112,000,000 to The Floyd-Polk Healthcare Foundation, Inc. which is a newly formed organization to support the health care needs of Floyd and Polk Counties. Of the total amount contributed to The Floyd-Polk Healthcare Foundation, Inc., PMCI contributed approximately $27,850,000. In July 2021, CMHA contributed $30,000,000 to The Floyd-Polk Healthcare Foundation, Inc. In July 2021, the Corporation contributed $2,000,000 to the Hospital Authority of Floyd County. Under this Agreement, CMHA commits to spend significant resources on capital and other operating needs of the Corporation in return for certain representation on the Corporation's Board of Directors and specific board rights.

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*

The Board of Directors
Polk Medical Center, Inc.
Rome, 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 accompanying financial statements of Polk Medical Center, Inc. (PMCI), as of and for the year ended June 30, 2021, and the related notes to the financial statements, and have issued our report thereon dated October 25, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered PMCI'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 PMCI's internal control. Accordingly, we do not express an opinion on the effectiveness of PMCI'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 PMCI'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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether PMCI's financial statements are free of 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*.

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 PMCI's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering PMCI's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Draffin & Tucker, LLP

Albany, Georgia
October 25, 2021