

SOUTHWELL, INC.

CONSOLIDATED FINANCIAL STATEMENTS
for the years ended September 30, 2021 and 2020



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Southwell, Inc.
Tifton, Georgia

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We 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 consolidated financial statements are free from material misstatement.

Continued

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Southwell, Inc. as of September 30, 2021 and 2020, and the results of its operations, 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 consolidated financial statements, Southwell adopted new accounting guidance, Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, on October 1, 2020, using a modified retrospective approach. 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 February 21, 2022, on our consideration of Southwell'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 Southwell'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 Southwell's internal control over financial reporting and compliance.

Draffin & Tucker, LLP

Atlanta, Georgia
February 21, 2022

SOUTHWELL, INC.

Consolidated Balance Sheets
September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets:		
Current assets:		
Cash and cash equivalents	\$ 93,177,000	\$ 94,764,000
Short-term investments	-	5,321,000
Patient accounts receivable, net	57,152,000	57,807,000
Estimated third-party payor settlements	8,167,000	3,098,000
Supplies, at lower of cost and net realizable value	3,716,000	3,448,000
Professional insurance recoverable	6,329,000	2,564,000
Other current assets	<u>9,144,000</u>	<u>9,841,000</u>
Total current assets	177,685,000	176,843,000
Assets limited as to use	421,150,000	445,594,000
Property and equipment, net	357,103,000	322,075,000
Operating lease right-of-use assets	1,232,000	-
Finance lease right-of-use assets	1,469,000	782,000
Other investments	6,369,000	1,019,000
Prepaid recruitment expense	3,991,000	3,027,000
Goodwill	<u>3,186,000</u>	<u>5,816,000</u>
 Total assets	 \$ <u>972,185,000</u>	 \$ <u>955,156,000</u>

Continued

SOUTHWELL, INC.

Consolidated Balance Sheets, Continued
September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Liabilities and Net Assets:		
Current liabilities:		
Current portion of long-term debt	\$ 9,519,000	\$ 7,520,000
Current portion of operating lease liabilities	564,000	-
Current portion of finance lease liabilities	416,000	37,000
Accounts payable	28,905,000	38,342,000
Accrued expenses	28,594,000	27,096,000
Estimated third-party payor settlements	1,242,000	1,018,000
Professional insurance payable	6,757,000	3,009,000
Medicare accelerated payments, current portion	19,463,000	5,203,000
Refundable advance of grant revenue	<u>3,000,000</u>	<u>5,400,000</u>
Total current liabilities	98,460,000	87,625,000
Medicare accelerated payments, net of current portion	-	20,122,000
Deferred compensation	935,000	802,000
Long-term debt, net of current portion	237,403,000	247,378,000
Operating lease liabilities, net of current portion	651,000	-
Finance lease liabilities, net of current portion	<u>889,000</u>	<u>561,000</u>
Total liabilities	338,338,000	356,488,000
Net assets without donor restrictions	<u>633,847,000</u>	<u>598,668,000</u>
Total liabilities and net assets	\$ <u>972,185,000</u>	\$ <u>955,156,000</u>

See accompanying notes to consolidated financial statements.

SOUTHWELL, INC.

Consolidated Statements of Operations and Changes in Net Assets
Years Ended September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Revenues, gains, and other support:		
Net patient service revenue	\$ 418,384,000	\$ 391,677,000
Other revenue	8,020,000	9,110,000
CARES Act funding	657,000	38,140,000
Grant revenue	<u>2,400,000</u>	<u>600,000</u>
Total revenues, gains, and other support	<u>429,461,000</u>	<u>439,527,000</u>
Expenses:		
Salaries and wages	195,212,000	184,206,000
Employee benefits	57,408,000	48,929,000
Contract and purchased services	26,662,000	22,026,000
Physician services	15,582,000	17,624,000
Supplies and drugs	80,615,000	80,008,000
Depreciation	34,869,000	35,940,000
Goodwill amortization	2,630,000	2,371,000
Interest expense	4,190,000	4,762,000
Other expense	<u>40,507,000</u>	<u>40,348,000</u>
Total expenses	<u>457,675,000</u>	<u>436,214,000</u>
Operating income (loss)	(<u>28,214,000</u>)	<u>3,313,000</u>
Nonoperating gains:		
Investment income	60,759,000	29,135,000
Rural hospital tax credit contributions	1,863,000	1,003,000
Gain on extinguishment of debt	299,000	-
Other loss	<u>-</u>	(<u>2,691,000</u>)
Total nonoperating gains	<u>62,921,000</u>	<u>27,447,000</u>
Excess of revenues over expenses	34,707,000	30,760,000
Capital contributions from Cook County and the City of Adel	<u>472,000</u>	<u>1,259,000</u>
Change in net assets without donor restrictions	35,179,000	32,019,000
Net assets without donor restrictions, beginning of year	<u>598,668,000</u>	<u>566,649,000</u>
Net assets without donor restrictions, end of year	<u>\$ 633,847,000</u>	<u>\$ 598,668,000</u>

See accompanying notes to consolidated financial statements.

SOUTHWELL, INC.

Consolidated Statements of Cash Flows
Years Ended September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 413,310,000	\$ 416,664,000
CARES Act receipts	657,000	38,140,000
Grant revenue	-	6,000,000
Payments to employees	(251,122,000)	(232,346,000)
Payments to suppliers and contractors	(178,217,000)	(157,684,000)
Other receipts	8,020,000	9,110,000
Other loss expenditures	-	(2,691,000)
Interest paid	(4,347,000)	(4,987,000)
Investment income	45,340,000	30,000,000
Rural hospital tax credit contributions	<u>1,863,000</u>	<u>1,003,000</u>
Net cash provided by operating activities	<u>35,504,000</u>	<u>103,209,000</u>
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	73,540,000	20,000,000
Payments on long-term debt	(80,381,000)	(45,377,000)
Payments on finance lease liabilities	(398,000)	-
Bond issue cost	(679,000)	-
Capital contributions from Cook County and the City of Adel	<u>472,000</u>	<u>1,259,000</u>
Net cash used by financing activities	<u>(7,446,000)</u>	<u>(24,118,000)</u>
Cash flows from investing activities:		
Purchases of property and equipment, net of retirements	(69,479,000)	(89,046,000)
Sale of debt and equity securities	400,937,000	375,280,000
Purchase of debt and equity securities	(390,202,000)	(326,752,000)
Sale of short-term investments	755,000	4,750,000
Purchase of short-term investments	-	(855,000)
Purchase of other investments	(5,299,000)	(170,000)
Purchase of ambulatory surgical centers	<u>-</u>	<u>(3,751,000)</u>
Net cash used by investing activities	<u>(63,288,000)</u>	<u>(40,544,000)</u>
Net change in cash and cash equivalents	(35,230,000)	38,547,000
Cash and cash equivalents, beginning of year	<u>138,521,000</u>	<u>99,974,000</u>
Cash and cash equivalents, end of year	<u>\$ 103,291,000</u>	<u>\$ 138,521,000</u>

Continued

SOUTHWELL, INC.

Consolidated Statements of Cash Flows, Continued
Years Ended September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash and cash equivalents	\$ 93,177,000	\$ 94,764,000
Cash and cash equivalents included in short-term investments	-	4,566,000
Cash and cash equivalents included in assets limited as to use	10,063,000	39,191,000
Cash and cash equivalents included in other investments	<u>51,000</u>	<u>-</u>
Total cash and cash equivalents	\$ <u>103,291,000</u>	\$ <u>138,521,000</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 35,179,000	\$ 32,019,000
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation	34,869,000	35,940,000
Goodwill amortization	2,630,000	2,371,000
Operating lease right-of-use assets amortization	637,000	-
Change in unrealized (gains) losses on investments	(15,419,000)	865,000
Bond premium and issue cost amortization	(157,000)	(225,000)
Gain on extinguishment of debt	(299,000)	-
Capital contributions from Cook County and the City of Adel	(472,000)	(1,259,000)
Changes in:		
Patient accounts receivable	655,000	(1,140,000)
Estimated third-party payor settlements	(4,845,000)	(5,366,000)
Supplies	(268,000)	(536,000)
Professional insurance recoverable	(3,765,000)	(1,376,000)
Other current assets	697,000	(2,538,000)
Operating lease right-of-use assets	(1,869,000)	-
Prepaid recruitment expense	(964,000)	(1,602,000)
Accounts payable	(9,437,000)	12,274,000
Accrued expenses	1,498,000	789,000
Professional insurance payable	3,748,000	1,466,000
Medicare accelerated payments	(5,862,000)	25,325,000
Refundable advance of grant revenue	(2,400,000)	5,400,000
Deferred compensation	133,000	802,000
Operating lease liabilities	<u>1,215,000</u>	<u>-</u>
Net cash provided by operating activities	\$ <u>35,504,000</u>	\$ <u>103,209,000</u>
Supplemental disclosure of cash flow information:		
Assets acquired through leases	\$ <u>2,957,000</u>	\$ <u>-</u>

See accompanying notes to consolidated financial statements.

SOUTHWELL, INC.

Notes To Consolidated Financial Statements September 30, 2021 and 2020

1. Description of Reporting Entity and Summary of Significant Accounting Policies

Reporting entity. Southwell, Inc. (Southwell), located in Tifton, Georgia, is a comprehensive healthcare system which provides short-term medical, surgical, obstetrical, pediatric, geriatric psychiatry, and physician care and long-term nursing care to patients in Tift County and the surrounding area.

Southwell is the sole member of Tift Regional Health System, Inc. (System). System operates Tift Regional Medical Center (TRMC) (an acute care hospital), Southwell Medical (SM) (an acute care hospital), Southwell Health and Rehabilitation (SHR) (a nursing home), and several physician practices.

Effective March 1, 2019, the System undertook a corporate restructuring and executed a Lease and Transfer Agreement (Agreement) with Tift County Hospital Authority (Authority), a public body corporate and politic organized under the Hospital Authorities Law of the State of Georgia. Under the Agreement, the System assumed substantially all of the operations, assets, and liabilities of the Authority and agreed to operate the facilities for an initial period of forty years. Also, the System makes nominal lease payments to the Authority plus amounts sufficient to make debt service payments on Authority conduit debt obligations as they come due, and assumes all operational, financial, indigent care, and community responsibilities. The governing board of the System is initially comprised of five former members of the Authority plus three additional members and is self-perpetuating. The governing board of Southwell is initially comprised of three current members of the Authority, four former members of the Authority, plus one additional member, and is self-perpetuating. Because Southwell's and the System's Board of Directors are self-perpetuating, and the Authority does not have financial accountability for Southwell or the System, Southwell and the System are excluded from the Authority's reporting entity subsequent to the restructuring. Due to the nature of the restructuring, the Agreement was accounted for as a transaction between entities under common control, whereby the Authority transferred its net position at carrying values as of March 1, 2019.

The Authority was the sole corporate member of CareAlliance: An Accountable Care Organization, LLC (ACO). In connection with the restructuring, the Authority's membership in the ACO was transferred to the System.

Southwell owns 100% of the voting stock of Tift Enterprises, Inc. (Enterprises). Enterprises owns a 25% interest in Diagnostic PET, LLC.

Southwell is the sole member of Southwell Ambulatory, Inc. (Ambulatory). Ambulatory operates ambulatory surgical centers.

The accompanying consolidated financial statements include Southwell, System, ACO, Enterprises, and Ambulatory. All significant intercompany transactions have been eliminated.

Use of estimates. The preparation of consolidated 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.

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SOUTHWELL, INC.

Notes To Consolidated Financial Statements, Continued September 30, 2021 and 2020

1. Description of Reporting Entity and Summary of Significant Accounting Policies, Continued

Use of estimates, continued. Significant items subject to such estimates and assumptions include the determination of variable consideration for patient contracts, estimated third-party payor settlements, and insurance reserves. In particular, laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates associated with these programs will change by a material amount in the near term.

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. Short-term investments consist of certificates of deposit with maturities ranging from 6 months to 12 months.

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

Investments without a readily determinable fair value are included in other investments on the balance sheets. These investments consist of a 9.00% investment in Distribution Cooperative, Inc., a 15.12% investment in Stratus Healthcare, LLC, and a 25.00% investment in Diagnostic PET, LLC.

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

SOUTHWELL, INC.

Notes To Consolidated Financial Statements, Continued
September 30, 2021 and 2020

1. Description of Reporting Entity and Summary of Significant Accounting Policies, Continued

Assets limited as to use. Assets limited as to use include assets held by trustee for capital acquisitions and for debt service reserve, and assets internally designated for capital acquisitions, malpractice self-insurance, and deferred compensation, over which the Board retains control and may at its discretion subsequently use for other purposes.

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. Buildings and equipment under finance lease obligations are amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the building or equipment. Such amortization is included in depreciation in the consolidated 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 of revenue over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as increases in net assets with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Impairment of long-lived assets. Southwell 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. Southwell has not recorded any impairment charges in the accompanying consolidated statements of operations and changes in net assets.

Prepaid recruitment expense. Southwell has entered into recruiting arrangements and educational loans with physicians that are to be repaid with interest at the prime rate plus 1%. The loans may be considered repaid by the physicians meeting certain community service obligations for a period of time. When and if these conditions are met, the loans are forgiven. If the physician ceases to meet the community service obligations before the loan is forgiven, the outstanding principal and accrued interest becomes due immediately. The amount of loans to physicians charged to expense was approximately \$750,000 and \$410,000 during 2021 and 2020, respectively. These expenses are reflected in physician services in the accompanying consolidated statements of operations and changes in net assets.

Continued

SOUTHWELL, INC.

Notes To Consolidated Financial Statements, Continued September 30, 2021 and 2020

1. Description of Reporting Entity and 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. Interest cost capitalized during 2021 and 2020 was approximately \$1,275,000 and \$2,939,000, respectively.

Costs incurred in connection with the issuance of long-term debt are deferred and amortized over the term of the debt using the effective interest method. 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.

Goodwill. Goodwill represents the excess of the acquisition price over the fair value of net assets acquired through business combinations. Goodwill is being amortized over five years, the time period of restrictive non-compete covenants included with the acquisition of physician practices. When events or circumstances indicate that goodwill may be impaired, goodwill is tested for impairment. Impairment, if any, will be recognized for the difference between the fair value of the physician practice and its carrying amount and will be limited to the carrying amount of goodwill. Southwell 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. Southwell's evaluation determined it is not more likely than not that the reporting unit's fair value is less than its' carrying value.

Refundable advance. A refundable advance arises when assets are received before revenue recognition criteria has been satisfied. Grant advance payments are reported as a refundable advance until donor conditions such as qualifying expenditures have been substantially met. See Note 9 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

SOUTHWELL, INC.

Notes To Consolidated Financial Statements, Continued
September 30, 2021 and 2020

1. Description of Reporting Entity and Summary of Significant Accounting Policies, Continued

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

Net patient service revenue. Southwell has agreements with third-party payors that provide for payments to Southwell 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 Southwell 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. Southwell provides care to patients who meet certain criteria under its Financial Assistance Policy (FAP) without charge or at amounts less than its established rates. Because Southwell does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

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

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

Continued

SOUTHWELL, INC.

Notes To Consolidated Financial Statements, Continued
September 30, 2021 and 2020

1. Description of Reporting Entity and Summary of Significant Accounting Policies, Continued

Income taxes. Southwell, System, and Ambulatory are not-for-profit corporations and have been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. ACO is considered a disregarded entity of the System. Enterprises is a for-profit corporation.

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

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-to-use assets and related lease liabilities for all leases with terms greater than twelve months. As part of the transition to the new standard, Southwell was required to measure and recognize leases that existed at October 1, 2020 using a modified retrospective approach. Southwell applied the new standard at the adoption date and recognized a cumulative-effect adjustment to the opening balance of net assets in the period of adoption. Southwell elected the package of practical expedients permitted under the new standard that allowed it to carry forward historical lease classification. Southwell also elected the practical expedient that allowed it to not separate nonlease components from the associated lease components. At October 1, 2020, the impact of adoption on the consolidated financial statements was an increase in other noncurrent assets to record the right-to-use assets and an increase in other current and noncurrent liabilities to record lease liabilities for operating (lease and nonlease components) leases of approximately \$2,957,000, representing the present value of remaining lease payments.

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. Southwell adopted the new guidance for the year ending September 30, 2021 and adoption did not have a material impact on the consolidated financial statements.

Continued

SOUTHWELL, INC.

Notes To Consolidated Financial Statements, Continued September 30, 2021 and 2020

1. Description of Reporting Entity and Summary of Significant Accounting Policies, Continued

Subsequent events. In preparing these financial statements, Southwell has evaluated events and transactions for potential recognition or disclosure through February 21, 2022, the date the financial statements were issued.

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

2. Net Patient Service Revenue

Net patient service revenue is reported at the amount that reflects the consideration to which Southwell 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, Southwell 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. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. Southwell believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving inpatient, outpatient, and emergency care services. Southwell 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 it is believed that additional services are not required to be provided to the patient.

Because all of its performance obligations relate to contracts with a duration of less than one year, Southwell 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.

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

Continued

2. Net Patient Service Revenue, Continued

Southwell has arrangements with third-party payors that provide for payments to Southwell at amounts different from its established rates. For uninsured patients that do not qualify for charity care, Southwell recognizes revenue on the basis of its standard rates, subject to certain discounts and implicit price concessions as determined by Southwell. Southwell 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 Southwell's policy, and implicit price concessions provided to uninsured patients. Implicit price concessions represent difference between amounts billed and the estimated consideration Southwell expects to receive from patients, which are determined based on historical collection experience, current market conditions, and other factors. Southwell 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.* Inpatient and outpatient services rendered to Medicare program beneficiaries are generally paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Certain other reimbursable items are reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by Southwell and audits thereof by the Medicare Administrative Contractor (MAC). TRMC's Medicare cost reports have been settled by the MAC through September 30, 2017 and SM's Medicare cost reports have been settled by the MAC through June 30, 2017.

Nursing home services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system called Patient Driven Payment Model (PDPM).

- *Medicaid.* Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates. Outpatient services rendered to Medicaid program beneficiaries are generally reimbursed under a cost reimbursement methodology. Southwell is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by Southwell and audits thereof by the Medicaid fiscal intermediary. TRMC's Medicaid cost reports have been settled by the Medicaid fiscal intermediary through September 30, 2018 and SM's Medicaid cost reports have been settled by the Medicaid fiscal intermediary through June 30, 2017.

Southwell has also entered into contracts with certain care management organizations (CMOs) to receive reimbursement for providing services to selected enrolled Medicaid beneficiaries. Payment arrangements with these CMOs consist primarily of prospectively determined rates and discounts from established charges.

Continued

SOUTHWELL, INC.

Notes To Consolidated Financial Statements, Continued September 30, 2021 and 2020

2. Net Patient Service Revenue, Continued

- *Medicaid, continued.* 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.

Southwell participates in the Indigent Care Trust Fund (ICTF) Program. Southwell receives ICTF payments for treating a disproportionate number of Medicaid and other indigent patients. ICTF payments are based on Southwell's estimated uncompensated cost of services to Medicaid and uninsured patients. The net amount of ICTF payments recognized in net patient service revenue was approximately \$6,630,000 and \$4,110,000 during 2021 and 2020, respectively.

Southwell participates in the Medicaid Upper Payment Limit (UPL) program. The UPL payment adjustments are based on a measure of the difference between Medicaid payments and the amount that could be paid based on Medicare payment principles. The net amount of UPL payment adjustments recognized in net patient service revenue was approximately \$5,292,000 and \$5,510,000 during 2021 and 2020, respectively.

The State of Georgia has legislation known as the Provider Payment Agreement Act (Act) whereby hospitals in Georgia are assessed a "provider payment" in the amount of 1.45% of their net patient revenue. The provider payments are due on a quarterly basis to the State of Georgia. The payments are used for the sole purpose of obtaining federal financial participation for medical assistance payments to providers on behalf of Medicaid recipients. The provider payment results in a corresponding increase in Medicaid payments for hospital services of approximately 11.88%. Southwell made provider payments to the State of Georgia of approximately \$4,988,000 and \$4,521,000 during 2021 and 2020, respectively. The payments are included in other expense in the accompanying statements of operations and changes in net assets.

The State of Georgia also has legislation known as the Nursing Home Provider Fee Act whereby nursing homes in Georgia are assessed a daily provider fee for each bed occupied by a non-Medicaid patient. The provider fees are for the purpose of obtaining additional federal funding to supplement Medicaid payments made to nursing homes. The provider fees are returned to the nursing homes through both higher Medicaid rates and an add-on. Southwell made provider payments to the State of Georgia of approximately \$509,000 and \$544,000 during 2021 and 2020, respectively. The payments are included in other expense in the accompanying statements of operations and changes in net assets.

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

Continued

SOUTHWELL, INC.

Notes To Consolidated Financial Statements, Continued September 30, 2021 and 2020

2. Net Patient Service Revenue, Continued

- *Uninsured patients.* Southwell has a Financial Assistance Policy (FAP) in accordance with Internal Revenue Code § 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 Southwell 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 Southwell'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 Southwell. In addition, the contracts Southwell 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 Southwell'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. Southwell also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. Southwell 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 in 2021 or 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 2021 and 2020 was not significant.

Continued

SOUTHWELL, INC.

Notes To Consolidated Financial Statements, Continued September 30, 2021 and 2020

2. Net Patient Service Revenue, Continued

Consistent with Southwell's mission, care is provided to patients regardless of their ability to pay. Therefore, Southwell 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 Southwell'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.

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

	<u>2021</u>	<u>2020</u>
Medicare	\$ 146,481,000	\$ 131,348,000
Medicaid	40,011,000	42,435,000
Blue Cross	130,382,000	118,337,000
Other third-party payors	<u>101,510,000</u>	<u>99,557,000</u>
Total	\$ <u>418,384,000</u>	\$ <u>391,677,000</u>

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

	<u>2021</u>	<u>2020</u>
Tift Regional Medical Center	\$ 311,996,000	\$ 288,508,000
Southwell Medical	11,967,000	11,539,000
Physician services and clinics	79,244,000	81,476,000
Southwell Health and Rehabilitation	8,764,000	7,405,000
Southwell Ambulatory	<u>6,413,000</u>	<u>2,749,000</u>
Total services transferred over time	\$ <u>418,384,000</u>	\$ <u>391,677,000</u>

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 diagnostic and surgical equipment, and emergency care services. Performance obligations are satisfied over time as the patient simultaneously receives and consumes the benefits Southwell performs. Requirements to recognize revenue 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. For employee pharmacy and cafeteria, recorded in other revenue on the consolidated statements of operations, performance obligations are satisfied at a point in time when the goods are provided.

Continued

SOUTHWELL, INC.

Notes To Consolidated Financial Statements, Continued September 30, 2021 and 2020

2. Net Patient Service Revenue, Continued

Southwell 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 Southwell'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, Southwell 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.

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

3. Uncompensated Care

Southwell was compensated for services at amounts less than its standard charges. 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 following is a reconciliation of gross patient revenue at standard charges to net patient service revenue:

	<u>2021</u>	<u>2020</u>
Gross patient charges	\$ <u>1,503,408,000</u>	\$ <u>1,401,877,000</u>
Uncompensated services:		
Medicare	612,615,000	599,808,000
Medicaid	161,348,000	146,548,000
Blue Cross	52,556,000	46,021,000
Other third-party payors	111,755,000	84,027,000
Charity/indigent/uninsured discount	84,055,000	79,373,000
Price concessions	<u>62,695,000</u>	<u>54,423,000</u>
Total uncompensated care	<u>1,085,024,000</u>	<u>1,010,200,000</u>
Net patient service revenue	\$ <u><u>418,384,000</u></u>	\$ <u><u>391,677,000</u></u>

The estimated cost of charity/indigent care/uninsured discount was approximately \$25,588,000 and \$24,698,000 during 2021 and 2020, respectively. The estimated cost of charity/indigent care/uninsured discount includes the direct and indirect cost of providing charity/indigent care/uninsured discount services and is estimated by utilizing a ratio of cost to gross charges applied to the gross uncompensated charges associated with providing charity/indigent care/uninsured discount.

Continued

SOUTHWELL, INC.

Notes To Consolidated Financial Statements, Continued September 30, 2021 and 2020

4. Concentrations of Credit Risk

Southwell 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 September 30, 2021 and 2020 was as follows:

	<u>2021</u>	<u>2020</u>
Medicare	25%	29%
Medicaid	5%	9%
Blue Cross	28%	21%
Other third-party payors	41%	40%
Self-pay	<u>1%</u>	<u>1%</u>
Total	<u>100%</u>	<u>100%</u>

Southwell maintains deposits at major financial institutions which exceed the \$250,000 Federal Deposit Insurance Corporation limit. Management believes the credit risks related to these deposits is minimal.

5. Assets Limited as to Use and Other Investments

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

	<u>2021</u>	<u>2020</u>
Internally designated for capital acquisitions:		
Cash	\$ 3,490,000	\$ 751,000
Money market (cash equivalent)	4,998,000	12,230,000
Certificates of deposit	-	249,000
U.S. Treasury obligations	37,880,000	49,849,000
U.S. Government agency obligations	6,290,000	11,162,000
Corporate obligations	60,384,000	73,831,000
Asset-backed securities	69,498,000	74,160,000
Marketable equity securities	131,683,000	138,535,000
Non-U.S. equity mutual funds	19,938,000	20,014,000
Fixed income mutual funds	39,721,000	-
Commodity mutual funds	21,491,000	14,985,000
Other mutual funds	<u>20,149,000</u>	<u>19,706,000</u>
Total	<u>415,522,000</u>	<u>415,472,000</u>

Continued

SOUTHWELL, INC.

Notes To Consolidated Financial Statements, Continued
September 30, 2021 and 2020

5. Assets Limited as to Use and Other Investments, Continued

	<u>2021</u>	<u>2020</u>
Internally designated for self-insurance:		
Cash	\$ 786,000	\$ 786,000
Certificates of deposit	<u>3,118,000</u>	<u>3,110,000</u>
Total	<u>3,904,000</u>	<u>3,896,000</u>
Internally designated for deferred compensation:		
Equity mutual funds	<u>935,000</u>	<u>802,000</u>
Held by trustee for capital acquisitions:		
Money market (cash equivalent)	<u>-</u>	<u>24,962,000</u>
Held by trustee for debt service reserve:		
Cash	<u>789,000</u>	<u>462,000</u>
Total assets limited as to use	\$ <u>421,150,000</u>	\$ <u>445,594,000</u>

The composition of other investments as of September 30, 2021 and 2020 is set forth in the following table.

	<u>2021</u>	<u>2020</u>
Other Investments:		
Cash	\$ 51,000	\$ -
U.S. Treasury obligations	753,000	-
U.S. Government agency obligations	456,000	-
Asset-backed securities	3,922,000	-
Corporate obligations	210,000	-
Diagnostic PET, LLC	128,000	170,000
Distribution Cooperative, Inc.	<u>849,000</u>	<u>849,000</u>
Total	\$ <u>6,369,000</u>	\$ <u>1,019,000</u>

Continued

SOUTHWELL, INC.

Notes To Consolidated Financial Statements, Continued
September 30, 2021 and 2020

5. Assets Limited as to Use and Other Investments, Continued

The fair values of investments measured on a recurring basis at September 30, 2021 and 2020 are as follows:

	September 30, 2021			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds	\$ 4,998,000	\$ 4,998,000	\$ -	\$ -
Certificates of deposit	3,118,000	3,118,000	-	-
U.S. Treasury obligations	38,633,000	38,633,000	-	-
U.S. Government agency obligations	6,746,000	6,746,000	-	-
Corporate obligations	60,594,000	-	60,594,000	-
Asset-backed securities	73,420,000	-	73,420,000	-
Marketable equity securities	131,683,000	131,683,000	-	-
Equity mutual funds	935,000	935,000	-	-
Non-U.S. equity mutual funds	19,938,000	19,938,000	-	-
Fixed income mutual funds	39,721,000	39,721,000	-	-
Commodity mutual funds	21,491,000	21,491,000	-	-
Other mutual funds	<u>20,149,000</u>	<u>20,149,000</u>	<u>-</u>	<u>-</u>
Total	421,426,000	\$ <u>287,412,000</u>	\$ <u>134,014,000</u>	\$ <u>-</u>
Diagnostic PET, LLC	128,000			
Distribution Cooperative, Inc.	849,000			
Cash	<u>5,116,000</u>			
Total	\$ <u>427,519,000</u>			

Continued

SOUTHWELL, INC.

Notes To Consolidated Financial Statements, Continued
September 30, 2021 and 2020

5. Assets Limited as to Use and Other Investments, Continued

	September 30, 2020			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market funds	\$ 37,192,000	\$ 37,192,000	\$ -	\$ -
Certificates of deposit	3,359,000	3,359,000	-	-
U.S. Treasury obligations	49,849,000	49,849,000	-	-
U.S. Government agency obligations	11,162,000	11,162,000	-	-
Corporate obligations	73,831,000	-	73,831,000	-
Asset-backed securities	74,160,000	-	74,160,000	-
Marketable equity securities	138,535,000	138,535,000	-	-
Equity mutual funds	802,000	802,000	-	-
Non-U.S. equity mutual funds	20,014,000	20,014,000	-	-
Commodity mutual funds	14,985,000	14,985,000	-	-
Other mutual funds	<u>19,706,000</u>	<u>19,706,000</u>	<u>-</u>	<u>-</u>
Total	443,595,000	\$ <u>295,604,000</u>	\$ <u>147,991,000</u>	\$ <u>-</u>
Diagnostic PET, LLC	170,000			
Distribution Cooperative, Inc.	849,000			
Cash	<u>1,999,000</u>			
Total	\$ <u>446,613,000</u>			

A summary of investment income follows:

	<u>2021</u>	<u>2020</u>
Interest and dividends	\$ 7,801,000	\$ 9,250,000
Realized gains from sale of investments	37,126,000	20,017,000
Unrealized gains (losses) on investments	15,419,000	(865,000)
Gain on other investments	428,000	670,000
Rental income, net of expenses	(92,000)	(14,000)
Gain on disposal of capital assets	47,000	20,000
Other income	<u>30,000</u>	<u>57,000</u>
Total	\$ <u>60,759,000</u>	\$ <u>29,135,000</u>

Southwell'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 consolidated financial statements.

Continued

SOUTHWELL, INC.

Notes To Consolidated Financial Statements, Continued
September 30, 2021 and 2020

6. Property and Equipment

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

	<u>2021</u>	<u>2020</u>
Land	\$ 11,495,000	\$ 11,120,000
Land improvements	8,055,000	7,764,000
Buildings and improvements	232,655,000	229,327,000
Fixed equipment	29,333,000	29,333,000
Major movable equipment	<u>338,161,000</u>	<u>328,676,000</u>
	619,699,000	606,220,000
Less accumulated depreciation	<u>407,807,000</u>	<u>374,799,000</u>
	211,892,000	231,421,000
Construction-in-progress	<u>145,211,000</u>	<u>90,654,000</u>
Property and equipment, net	\$ <u>357,103,000</u>	\$ <u>322,075,000</u>

Contracts of approximately \$128,764,00 exist for the construction of a new patient tower at TRMC, the renovation and expansion of the emergency center at TRMC, expansion of the surgery area at SM, and construction of buildings for endoscopy and gastroenterology practices at Ambulatory. At September 30, 2021, the remaining commitment on these contracts approximated \$15,181,000.

7. Goodwill

Goodwill is related to the purchases of Tiftarea Surgical Partners, LLC (TSP), Georgia Sports Medicine & Orthopedic Clinic, P.C. (GSM), Tiftarea Urology, P.C. (TU), Urosurg, LLC (US), Tifton Ophthalmology Associates, P.C. (TOA), Lowndes County Ambulatory Surgical Center, Inc. (LCASC), Valdosta Endoscopy Center (VEC), and Valdosta Gastroenterology Associates, LLC (VGA). The changes in the carrying amount of goodwill are as follows:

	Balance at September 30, <u>2020</u>	<u>Purchases</u>	<u>Amortization</u>	Balance at September 30, <u>2021</u>
TU and US	\$ 2,246,000	\$ -	\$(1,498,000)	\$ 748,000
TOA	59,000	-	(24,000)	35,000
LCASC	1,772,000	-	(559,000)	1,213,000
VEC and VGA	<u>1,739,000</u>	<u>-</u>	<u>(549,000)</u>	<u>1,190,000</u>
Total	\$ <u>5,816,000</u>	\$ <u>-</u>	\$(<u>2,630,000</u>)	\$ <u>3,186,000</u>

Continued

SOUTHWELL, INC.

Notes To Consolidated Financial Statements, Continued September 30, 2021 and 2020

7. Goodwill, Continued

	Balance at September 30, <u>2019</u>	<u>Purchases</u>	<u>Amortization</u>	Balance at September 30, <u>2020</u>
TSP and GSM	\$ 664,000	\$ -	\$(664,000)	\$ -
TU and US	3,744,000	-	(1,498,000)	2,246,000
TOA	83,000	-	(24,000)	59,000
LCASC	-	1,865,000	(93,000)	1,772,000
VEC and VGA	<u>-</u>	<u>1,831,000</u>	<u>(92,000)</u>	<u>1,739,000</u>
Total	\$ <u>4,491,000</u>	\$ <u>3,696,000</u>	\$(<u>2,371,000</u>)	\$ <u>5,816,000</u>

On January 1, 2020, Ambulatory purchased Valdosta Endoscopy Center, LLC and Valdosta Gastroenterology Associates, LLC for approximately \$1,895,000. Also on January 1, 2020, Ambulatory purchased Lowndes County Ambulatory Surgical Center, Inc. for approximately \$1,856,000.

8. Medicare Accelerated and Advance Payments

The *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act) expanded the Medicare Accelerated and Advance Payment (MAAP) program to increase cash flow to healthcare providers impacted by the COVID-19 pandemic. In April 2020, Southwell received approximately \$25,325,000 in MAAP payments. The MAAP payments must be repaid and recoupment begins one year after the date of receipt. Medicare will recoup 25% of Medicare payments owed to Southwell for eleven months. Medicare will then recoup 50% of Medicare payments owed to Southwell for the succeeding six months. Any outstanding balance must then be repaid. Medicare recouped approximately \$5,862,000 in MAAP payments during 2021.

9. Grant Revenue

On July 1, 2020, Southwell entered into a Provider Financial Assistance Agreement (Assistance Agreement) with a grantor. Under the Assistance Agreement, Southwell received a \$6,000,000 conditional grant to maintain the availability of health care and related services during the COVID-19 outbreak. Southwell has agreed to provide telehealth services, maintain adequate care management staff, and provide extended service hours to patients for the period July 1, 2020 through December 31, 2022. Grant funds are recorded as a refundable advance in the balance sheet until earned. The grant is being recognized as income evenly over the period the services are provided and reported as grant revenue in the statements of operations and changes in net assets.

Continued

SOUTHWELL, INC.

Notes To Consolidated Financial Statements, Continued
September 30, 2021 and 2020

10. Long-Term Debt

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

	<u>2021</u>	<u>2020</u>
2013 Series - 2.875% to 5.000% 2013 Series Revenue Anticipation Certificates, principal maturing in varying annual amounts and interest payable semi-annually, secured by the Trust Estate and an intergovernmental contract with Tift County, due December 1, 2023.	\$ 4,020,000	\$ 74,295,000
2021 Series - 0.272% to 2.977% Federally Taxable 2021 Series Refunding Revenue Anticipation Certificates, principal maturing in varying annual amounts and interest payable semi-annually, secured by the Trust Estate and an intergovernmental contract with Tift County, due December 1, 2042.	73,540,000	-
2016-A Bank - 1.80% note payable, payable in monthly installments of \$383,000 including interest, secured by EMR system and Trust Estate, due July 2026.	21,244,000	25,413,000
2018-A Bank - 2.80% note payable, interest payable quarterly and principal payment due at maturity, secured by Trust Estate, due March 24, 2022.	90,300,000	90,300,000
2019-USDA - 2.375% note payable, payable in monthly installments of \$163,000 including interest, secured by the Trust Estate, due November 17, 2048.	39,131,000	40,142,000
2020-USDA - 2.75% note payable, payable in monthly installments of \$82,000 including interest, secured by the Trust Estate, due February 28, 2050.	<u>19,302,000</u>	<u>19,746,000</u>
Total long-term debt	247,537,000	249,896,000
Add unamortized bond premium	53,000	5,002,000
Less bond issue cost	(668,000)	-
Less current portion of long-term debt	<u>(9,519,000)</u>	<u>(7,520,000)</u>
Long-term debt, net of current portion	\$ <u>237,403,000</u>	\$ <u>247,378,000</u>

Continued

SOUTHWELL, INC.

Notes To Consolidated Financial Statements, Continued September 30, 2021 and 2020

10. Long-Term Debt, Continued

Southwell operates under a Master Trust Indenture (MTI) that provides for the issuance of long-term debt under an obligated group structure. Through February 28, 2019, the Authority was the sole member of the Obligated Group. Effective March 1, 2019, Southwell and the System were added as members of the Obligated Group. All bonds and notes payable are covered under the MTI. Debt agreements covered by the MTI are secured by the Trust Estate which consists of a first pledge and lien on gross revenues of the Obligated Group.

On January 17, 2013, Southwell issued \$83,260,000 Revenue Anticipation Certificates Series 2013 (2013 Series). As security, Southwell created a first pledge of and lien on the gross revenues of Southwell. Pursuant to an intergovernmental contract, Tift County is obligated to make payments, if necessary, in amounts sufficient (limited to ad valorem tax not to exceed 7 mills) to enable Southwell to provide for the payment of principal and interest on the 2013 Series. Proceeds from the Series 2013 were issued to (i) finance or refinance certain additions, extensions, and improvements to Southwell's healthcare and related facilities, (ii) refund Southwell's outstanding 2002 Fixed, (iii) repay a bank loan, and (iv) pay the cost of issuing the 2013 Series.

On June 3, 2021, Southwell issued \$73,540,000 Federally Taxable Refunding Revenue Anticipation Certificates Series 2021 (2021 Series). As security, Southwell created a first pledge of and lien on the gross revenues of Southwell. Pursuant to an intergovernmental contract, Tift County is obligated to make payments, if necessary, in amounts sufficient (limited to ad valorem tax not to exceed 7 mills) to enable Southwell to provide for the payment of principal and interest on the 2021 Series. Proceeds from the Series 2021 were issued to (i) refund a portion of Southwell's outstanding 2013 Series and (ii) pay the cost of issuing the 2021 Series.

On July 1, 2016, Southwell entered into a master equipment lease/purchase agreement (2016-A Bank) for \$42,000,000 with a financial institution. Proceeds of the 2016-A Bank will be used for the acquisition, installation, and implementation of an Electronic Medical Records (EMR) system. During the term of the 2016-A Bank, Southwell must maintain a debt service coverage ratio greater than or equal to 1.10.

On September 24, 2018, Southwell entered into a loan agreement (2018-A Bank) for \$90,300,000 with a financial institution. Proceeds of the 2018-A Bank will be used for the construction of a patient tower and a new emergency center. During the term of the 2018-A Bank, Southwell must maintain a debt service coverage ratio greater than or equal to 1.25 and days unrestricted cash on hand greater than or equal to 75. Also on that date, Southwell obtained a nonrevolving line-of-credit with the financial institution for \$62,020,000 (2018-B Bank) subject to the same use and covenants as the 2018-A Bank. As of September 30, 2021, Southwell had not drawn on 2018-B Bank.

On December 17, 2018, Southwell entered into a loan agreement (2019-USDA) for \$41,856,000 with the United States Department of Agriculture (USDA). Proceeds of the 2019-USDA were used to repay a bank loan (2016-B). During the term of the 2019-USDA, Southwell must maintain a debt service coverage ratio greater than or equal to 1.10 and fund a debt service reserve fund.

Continued

SOUTHWELL, INC.

Notes To Consolidated Financial Statements, Continued September 30, 2021 and 2020

10. Long-Term Debt, Continued

On February 28, 2020, Southwell entered into a loan agreement (2020-USDA) for \$20,000,000 with the USDA. Proceeds of the 2020-USDA were used to repay a bank loan (2018-D). During the term of the 2020-USDA, Southwell must maintain a debt service coverage ratio greater than or equal to 1.10 and fund a debt service reserve fund.

Subsequent to year-end, on December 15, 2021, Southwell entered into a loan agreement (2021-USDA) for \$90,300,000 with the United States Department of Agriculture (USDA). Proceeds of the 2021-USDA were used to repay a bank loan (2018-A). During the term of the 2021-USDA, Southwell must maintain a debt service coverage ratio greater than or equal to 1.10 and fund a debt service reserve fund.

As a condition of its worker's compensation insurance, Southwell has a letter-of-credit from a bank. The letter-of-credit is for \$838,000 for insurance policy year ending December 31, 2021. As of September 30, 2021, Southwell had not drawn on the letter-of-credit.

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

<u>Year Ending September 30,</u>	<u>Long-Term Debt</u>
2022	\$ 9,519,000
2023	10,998,000
2024	11,258,000
2025	11,456,000
2026	10,861,000
Thereafter	<u>193,445,000</u>
Total	247,537,000
Add unamortized bond premium	53,000
Less bond issue cost	<u>(668,000)</u>
Total	<u>\$ 246,922,000</u>

11. Leases

Southwell has operating and finance leases for buildings and equipment. Southwell determines if an arrangement is a lease at inception of a contract. Leases with an initial term of twelve months or less are not recorded on the consolidated balance sheets.

Southwell has lease agreements which require payments for lease and nonlease components and has elected to account for these as a single lease component. For leases that commenced before the effective date of ASU 2016-02, Southwell elected the permitted practical expedients to not reassess the following: (i) whether any expired or existing contracts contain leases; (ii) the lease classification for any expired or existing leases; and (iii) initial direct costs for any existing leases.

Continued

SOUTHWELL, INC.

Notes To Consolidated Financial Statements, Continued September 30, 2021 and 2020

11. Leases, Continued

Right-of-use assets represent Southwell's right to use an underlying asset during the lease term, and lease liabilities represent Southwell'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. Southwell's lease terms include options to extend or terminate the lease when it is reasonably certain that the option will be exercised. As most of Southwell's operating leases do not provide an implicit rate, Southwell uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. Southwell 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.

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

	<u>2021</u>
Operating leases:	
Right-of-use assets:	
Operating lease right-of-use assets	\$ <u>1,232,000</u>
Lease liabilities:	
Current portion	\$ 564,000
Long-term	<u>651,000</u>
Total operating lease liabilities	\$ <u>1,215,000</u>
Finance leases:	
Right-of-use assets:	
Finance lease right-of-use assets	\$ <u>1,469,000</u>
Lease liabilities:	
Current portion	\$ 416,000
Long-term	<u>889,000</u>
Total finance lease liabilities	\$ <u>1,305,000</u>

Operating expenses for the lease activity of Southwell as the lessee for the year ended September 30, 2021 are as follows:

<u>Lease Type</u>	<u>2021</u>
Operating lease cost	\$ 682,000
Finance lease interest	40,000
Finance lease amortization	<u>418,000</u>
Total lease cost	\$ <u>1,140,000</u>

Continued

SOUTHWELL, INC.

Notes To Consolidated Financial Statements, Continued September 30, 2021 and 2020

11. Leases, Continued

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

	<u>2021</u>
Operating cash flows from operating leases	\$ 694,000
Operating cash flows from finance leases	39,000
Financing cash flows from finance leases	<u>398,000</u>
Total lease cost	\$ <u>1,131,000</u>

The aggregate future payments on operating and finance leases as of September 30, 2021 are as follows:

<u>Year Ending September 30,</u>	<u>Finance</u>	<u>Operating</u>
2022	\$ 443,000	\$ 590,000
2023	401,000	310,000
2024	54,000	222,000
2025	54,000	94,000
2026	51,000	50,000
Thereafter	<u>406,000</u>	<u>-</u>
Total undiscounted cash flows	1,409,000	1,266,000
Less: present value discount	(<u>104,000</u>)	(<u>51,000</u>)
Total lease liabilities	\$ <u>1,305,000</u>	\$ <u>1,215,000</u>

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

	<u>2021</u>
Weighted-average remaining lease term (years):	
Operating leases	2.91
Finance leases	6.87
Weighted-average discount rate:	
Operating leases	3.00%
Finance leases	2.59%

12. Retirement Plan and Deferred Compensation Plan

The Tift Regional Health System 403(b) Plan (403(b) Plan) is a defined contribution plan established to provide benefits at retirement to all employees. All employees may make contributions up to a maximum annual amount as set periodically by the Internal Revenue Service. Southwell makes certain matching contributions to the 403(b) Plan. Southwell's contributions to the 403(b) Plan were approximately \$6,632,000 and \$5,768,000 for 2021 and 2020, respectively.

Continued

Notes To Consolidated Financial Statements, Continued
September 30, 2021 and 2020

12. Retirement Plan and Deferred Compensation Plan, Continued

The Tift Regional Health System 457(f) Deferred Compensation Plan (457(f) Plan) is a nonqualified, unfunded, ineligible deferred compensation plan for certain key executives and highly compensated employees. Southwell contributes 5% of each participant's compensation in excess of the compensation limit imposed by the IRS to the 457(f) Plan. Participants vest in each year's contributions following five years of service. Contributions to the 457(f) were approximately \$-0- and \$732,000 in 2021 and 2020, respectively.

13. Contingencies

Litigation. Southwell is subject to litigation, regulatory investigations, and compliance matters arising in the course of business. After consultation with legal counsel, management estimates that any matters would be resolved without material adverse effect on Southwell's future financial position or results from operations.

Medicare recovery audit contractors. The Centers for Medicare and Medicaid Services utilizes Recovery Audit Contractors (RACs) who are paid a contingent fee to detect and correct improper Medicare payments. RACs have authority to pursue improper payments with a three year look back from the date a claim was paid.

Southwell has received notifications from RACs regarding potential Medicare overpayments due to incorrect coding of claims. When notification of a potential claim overpayment is received, Southwell accrues a liability for the estimated amount of Medicare overpayment. The liability is then reduced when claims are refunded to Medicare or successfully appealed. Southwell has recorded an estimated liability of \$50,000 and \$200,000 at September 30, 2021 and 2020, respectively, related to claims being audited by the RAC. The estimated liability is reported in estimated third-party payor settlements in the balance sheets.

Healthcare 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 certain provisions 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 Southwell.

COVID-19. As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen. The outbreak has put an unprecedented strain on the U.S. healthcare system, disrupted or delayed production and delivery of materials and products in the supply chain, and caused staffing shortages. The extent of the impact of COVID-19 on the Southwell'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, state, and federal governments, and impact on Southwell's patients, employees, and vendors, all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the Southwell's financial position or results of operations is uncertain.

Continued

SOUTHWELL, INC.

Notes To Consolidated Financial Statements, Continued September 30, 2021 and 2020

14. Insurance Arrangements

General and professional liability. Southwell has claims-made insurance coverage for professional liability and occurrence insurance coverage for general liability. The insurance policies have limits of \$1,000,000 per claim/occurrence and \$3,000,000 annual aggregate. Southwell is self-insured to cover the deductible portion of its professional and general liability insurance policy. Southwell's deductible is \$100,000 for individual claims or \$1,000,000/\$300,000 (professional/general) annual aggregate. Southwell had professional insurance payable of \$3,350,000 and \$3,009,000 and professional insurance recoverable of \$2,922,000 and \$2,564,000 at September 30, 2021 and 2020, respectively.

Employee health. Southwell has a self-insured health plan for its employees. Southwell has purchased stop loss insurance to supplement the health plan, which will reimburse Southwell for individual claims in excess of \$225,000 annually. Southwell incurred expense related to this plan of approximately \$34,927,000 and \$29,676,000 in 2021 and 2020, respectively. Estimated accruals for claims incurred but not reported have been recorded in accrued expenses on the balance sheet. Estimated accruals were approximately \$4,069,000 and \$3,552,000 at September 30, 2021 and 2020, respectively.

Also, Southwell has entered into a loss financing agreement with other Georgia hospitals through a program developed by Georgia ADS, LLC. The program is designed to provide for the financing and payment of covered claims between \$225,000 and \$750,000. Commercial insurance has been obtained to provide coverage for claims exceeding \$750,000. Estimated accruals for amounts owed to the program under the loss financing agreement have been recorded in accrued expenses on the balance sheets. Estimated accruals were approximately \$968,000 and \$1,033,000 at September 30, 2021 and 2020, respectively.

15. Functional Expenses

Southwell provides health care services to residents within its geographic location. Expenses related to providing these services in 2021 and 2020 are as follows:

	September 30, 2021		
	<u>Patient Care Services</u>	<u>General and Administrative</u>	<u>Total</u>
Salaries and wages	\$ 155,692,000	\$ 39,520,000	\$ 195,212,000
Employee benefits	45,786,000	11,622,000	57,408,000
Contract and purchased services	15,585,000	11,077,000	26,662,000
Physician services	15,406,000	176,000	15,582,000
Supplies and drugs	75,334,000	5,281,000	80,615,000
Depreciation	31,731,000	3,138,000	34,869,000
Goodwill amortization	2,630,000	-	2,630,000
Interest expense	4,190,000	-	4,190,000
Other expense	<u>11,696,000</u>	<u>28,811,000</u>	<u>40,507,000</u>
Total	\$ <u>358,050,000</u>	\$ <u>99,625,000</u>	\$ <u>457,675,000</u>

Continued

SOUTHWELL, INC.

Notes To Consolidated Financial Statements, Continued
September 30, 2021 and 2020

15. Functional Expenses, Continued

	September 30, 2020		
	<u>Patient Care Services</u>	<u>General and Administrative</u>	<u>Total</u>
Salaries and wages	\$ 141,171,000	\$ 43,035,000	\$ 184,206,000
Employee benefits	37,498,000	11,431,000	48,929,000
Contract and purchased services	11,928,000	10,098,000	22,026,000
Physician services	17,024,000	600,000	17,624,000
Supplies and drugs	74,738,000	5,270,000	80,008,000
Depreciation	32,705,000	3,235,000	35,940,000
Goodwill amortization	2,371,000	-	2,371,000
Interest expense	4,762,000	-	4,762,000
Other expense	<u>11,554,000</u>	<u>28,794,000</u>	<u>40,348,000</u>
Total	<u>\$ 333,751,000</u>	<u>\$ 102,463,000</u>	<u>\$ 436,214,000</u>

The consolidated 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. Cost not directly attributable to a function is depreciation which is allocated to a function based on square footage. Employee benefits are allocated based on salaries and wages.

16. Fair Value of Financial Instruments

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

- *Cash and cash equivalents, short-term investments, accounts payable, accrued expenses, estimated third-party payor settlements, Medicare accelerated payments and refundable advances:* The carrying amount reported in the balance sheet approximate their fair value due to the short-term nature of these instruments.
- *Assets as limited as to use and other investments:* Amounts reported in the balance sheet are at fair value. See Note 5 for fair value measurement disclosures.
- *Long-term debt:* Fair value of Southwell's revenue anticipation certificates are based on quoted market prices and the carrying amounts for other long-term debt approximate their fair value. Based on inputs used in determining the estimated fair value, Southwell's long-term debt would be classified as Level 2 in the fair value hierarchy.

	2021		2020	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Long-term debt	\$ <u>247,590,000</u>	\$ <u>248,978,000</u>	\$ <u>254,898,000</u>	\$ <u>254,284,000</u>

Continued

SOUTHWELL, INC.

Notes To Consolidated Financial Statements, Continued September 30, 2021 and 2020

16. Fair Value of Financial Instruments, Continued

Following is a description of the valuation methodologies used for assets at fair value. There have been no changes in the methodologies used at September 30, 2021.

Money market funds and certificates of deposit: Valued at amortized cost, which approximates fair value.

U.S. Treasury obligations and U.S. Government agency obligations: Certain U.S. government securities are valued at the closing price reported in the active market in which the individual security is traded. Other U.S. government securities are valued based on yields currently available on comparable securities of issuers with similar credit ratings.

Corporate obligations: Certain corporate obligations are valued at the closing price reported in the active market in which the security is traded. Other corporate obligations are valued based on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar securities, the security is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks.

Asset-backed securities: Asset-backed securities use valuation techniques that reflect market participants' assumptions and maximize the use of relevant observable inputs including quoted prices for similar assets, benchmark yield curves, and market corroborated inputs.

Marketable equity securities, equity mutual funds, non-U.S. equity mutual funds, fixed income mutual funds, commodity mutual funds, and other mutual funds: Certain equity securities and mutual funds are valued at the closing price reported on the active market on which the individual securities are traded. Other equity securities and mutual funds are valued based on quoted prices for similar investments in active or inactive markets or valued using observable market data.

17. 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. Southwell submitted the necessary documentation and was approved by the State to participate in the rural hospital tax credit program for calendar years 2017 through 2021. Contributions received under the program approximated \$1,863,000 and \$1,003,000 during fiscal year 2021 and 2020, respectively. Southwell will have to be approved by the State to participate in the program in each subsequent year.

Continued

SOUTHWELL, INC.

Notes To Consolidated Financial Statements, Continued September 30, 2021 and 2020

18. Liquidity and Availability

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

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 93,177,000	\$ 94,764,000
Short-term investments	-	5,321,000
Patient accounts receivable, net	57,152,000	57,807,000
Estimated third-party payor settlements	8,167,000	3,098,000
Conditional grant refundable advance	(3,000,000)	(5,400,000)
Total	\$ <u>155,496,000</u>	\$ <u>155,590,000</u>

Southwell has internally designated and held by trustee assets limited as to use, which are more fully described in Note 5, that are not available for expenditure within the next year and not reflected in the amounts above. However, the internally designated amounts could be made available if necessary. Southwell's restricted conditional grant refundable advance is not available for general expenditure and is excluded from the table above.

As of September 30, 2021 and 2020, Southwell was in compliance with loan covenants regarding days cash on hand.

Southwell structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

19. CARES Act Funding

On March 27, 2020, the *Coronavirus, Aid, Relief, and Economic Security Act* (CARES Act) was passed, on April 24, 2020, the *Paycheck Protection Program and Health Care Enhancement Act* was passed, and on March 11, 2021 the *American Rescue Plan Act* was passed (collectively, CARES Act). Certain provisions of the CARES Act provide relief funds to healthcare providers. The funding is to be used to support healthcare-related expenses or lost revenue attributable to COVID-19. The U.S. Department of Health and Human Services (HHS) began distributing funds in April 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 remain open. Southwell 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. Southwell received approximately \$5,413,000 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. Southwell received approximately \$3,704,000 in funding from this distribution.

Continued

SOUTHWELL, INC.

Notes To Consolidated Financial Statements, Continued
September 30, 2021 and 2020

19. CARES Act Funding, Continued

- \$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. Southwell received approximately \$13,966,000 in funding from this distribution.
- \$225 Million for COVID-19 Testing - On May 20, 2020, HHS distributed \$225 million to over 4,500 rural health clinics (RHCs) based on a fixed payment of approximately \$49,500 per RHC. Southwell received approximately \$99,000 in funding from this distribution.
- \$4.9 Billion Distribution to 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. Southwell received approximately \$288,000 in funding from this distribution.
- \$10 Billion Distribution to Safety Net Hospitals - On June 12, 2020, HHS distributed \$10 billion to safety net hospitals that disproportionately provide care to the most vulnerable and operate on thin margins. Southwell received approximately \$5,000,000 in funding from this distribution.
- \$10 Billion Distribution to COVID-19 High-Impact Areas (2nd round) - On July 20, 2020, HHS distributed \$10 billion to 695 hospitals in COVID-19 high-impact areas. Southwell received approximately \$9,000,000 in funding from this distribution.
- \$2.5 Billion Distribution for Skilled Nursing Facilities (SNFs) - On August 27, 2020, 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. Southwell received approximately \$148,000 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. Southwell received approximately \$84,000 in funding from this distribution.
- \$4.9 Million Georgia Hospital Association Research and Education Foundation, Inc. (GHAREF) Grant - The Assistant Secretary of Preparedness and Response (ASPR) of HHS allocated approximately \$350 million to state hospital associations and other entities to disburse to health care providers on the front lines of the COVID-19 pandemic. GHAREF received approximately \$4.9 million to disburse to hospitals in Georgia. Southwell received approximately \$132,000 in funding from this distribution.
- \$5 Million Rural Hospital Stabilization Operational Support Grant - The State of Georgia appropriated \$5,000,000 for rural hospital stabilization grants and for additional emergency preparedness expenses. The grant was distributed based on data collected specific to COVID-19 inpatient admissions. Southwell received approximately \$288,000 from this distribution.

Continued

SOUTHWELL, INC.

Notes To Consolidated Financial Statements, Continued
September 30, 2021 and 2020

19. CARES Act Funding, Continued

- \$1.2 Million Provider Relief Fund Supplemental Grant - On May 13, 2020, HHS appropriated approximately \$1.2 million to the State of Georgia, Department of Community Health, State Office of Rural Health to disburse to 88 rural health clinics in Georgia for the purpose of supporting healthcare-care expenses or lost revenue attributed to COVID-19. Southwell received approximately \$18,000 in funding from this distribution.
- \$150 Billion Coronavirus Relief Fund (CRF) - HHS distributed \$150 billion to state, local, and tribal governments through the CRF. The State of Georgia received \$5.9 billion in CRF funds. The State of Georgia allocated \$77.8 million of the CRF funds to nursing homes. Southwell was allocated \$168,000 in CRF funds from the State of Georgia. Southwell must submit expenses for reimbursement to the State of Georgia to receive the funds. Southwell received reimbursement of \$144,000 in 2021. Southwell has received an additional \$12,000 in 2022.
- \$2.25 Billion Allocation to Nursing Homes for the Quality Incentive Payment Program - HHS allocated \$2.25 billion to NHs that pass two initial gateway qualification tests on both their rate of infection and rate of mortality. Payments were made monthly from October 2020 through January 2021 based on the previous month's performance with an additional payment made in February 2021 based on the aggregate performance period. Southwell received \$55,000 in funding from this allocation.
- \$475 Million Rural Health Clinic COVID-19 Testing and Mitigation Program - On June 6, 2021, HHS distributed \$475 million to 4,752 RHCs based on a fixed payment of \$100,000 per RHC. The funding is to be used for maintaining and increasing COVID-19 testing efforts, expanding access to testing in rural communities, and expanding the range of mitigation activities in local communities. Southwell received \$200,000 in funding from this allocation.
- \$398 Million Small Rural Hospital Improvement Program COVID-19 Testing and Mitigation Program - HHS appropriated \$398 million to state governments to distribute to rural hospitals. The State of Georgia received \$13,436,000 to distribute to 52 rural hospitals. Southwell received \$258,000 in funding from this distribution.
- \$8.5 Billion American Rescue Plan Rural Payments - In November 2021, HHS distributed \$8.5 billion to 43,842 rural healthcare providers. Southwell received \$12,769,000 in funding from this distribution.
- \$17 Billion Provider Relief Fund Phase 4 General Distribution (Batch 1) - In December 2021, HHS distributed batch 1 of Phase 4 of the Provider Relief Funds. Southwell received \$3,880,00 in funding from this distribution.

SOUTHWELL, INC.

Notes To Consolidated Financial Statements, Continued September 30, 2021 and 2020

19. CARES Act Funding, Continued

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 March 31, 2022 with subsequent legislation. Beginning April 1, 2022, the suspension is phase out through June 30, 2022.
- Medicare Add-on for Inpatient Hospital COVID-19 Patients - Increased the Medicare payment for hospital patients admitted with COVID-19 by 20%.

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. Southwell reports restricted contributions, whose restrictions are met in the same period in which they are recognized (simultaneous release), as net assets without donor restrictions. Recognized revenue is reported as operating revenues, gains, and other support in the consolidated statements of operations and changes in net assets.

CARES Act funding may be subject to audits. While Southwell 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.

20. Cook County, City of Adel, and Adel Industrial Development Authority Contributions

Southwell (as the Authority's successor in interest) entered into an Intergovernmental Contract with Cook County (County Contract) whereby Cook County will pay Southwell three hundred sixty (360) equal monthly installments that when discounted by 3.25%, equals a net contribution of \$5,000,000. The contribution is in consideration of Southwell building and operating a new hospital facility in Cook County and the City of Adel. Southwell received approximately \$263,000 from Cook County during both 2021 and 2020.

Southwell (as the Authority's successor in interest) entered into an Intergovernmental Contract with City of Adel (City Contract) whereby City of Adel will pay Southwell three hundred sixty (360) equal monthly installments that when discounted by 3.25%, equals a net contribution of \$4,000,000. The contribution is in consideration of Southwell building and operating a new hospital facility in Cook County and the City of Adel. Southwell received approximately \$209,000 from City of Adel during both 2021 and 2020.

Southwell (as the Authority's successor in interest) entered into an Intergovernmental Contract with Adel Industrial Development Authority (AIDA) whereby AIDA would acquire tracts of land and convey the land to Southwell for the construction of a new hospital facility in Cook County and the City of Adel. Southwell recorded the fair value of the land received from AIDA, approximately \$787,000, in 2020.



INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATING INFORMATION

Board of Directors
Southwell, Inc.
Tifton, Georgia

We have audited the consolidated financial statements of Southwell, Inc. as of and for the years ended September 30, 2021 and 2020, and our report thereon dated February 21, 2022, which expressed an unmodified opinion on those consolidated financial statements, appears on pages 1 through 2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information included in this report on pages 40 to 45, inclusive, is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations, and changes in net assets of the individual companies, and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations, and changes in net assets of the individual companies.

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

Draffin & Tucker, LLP

Atlanta, Georgia
February 21, 2022

Let's Think Together.®

SOUTHWELL, INC.
Consolidating Balance Sheets
(In Thousands)
September 30, 2021

	<u>Southwell, Inc.</u>	<u>Tift Regional Health System, Inc.</u>	<u>Southwell Ambulatory, Inc.</u>	<u>CareAlliance: An Accountable Care Organization, LLC</u>	<u>Tift Enterprises, Inc.</u>	<u>Intercompany Eliminations</u>	<u>Total</u>
Assets:							
Current assets:							
Cash and cash equivalents	\$ -	\$ 92,740	\$ 427	\$ 10	\$ -	\$ -	\$ 93,177
Patient accounts receivable, net	-	56,063	1,089	-	-	-	57,152
Estimated third-party payor settlements	-	8,167	-	-	-	-	8,167
Supplies, at lower of cost and net realizable value	-	3,716	-	-	-	-	3,716
Professional insurance recoverable	-	6,329	-	-	-	-	6,329
Other current assets	-	9,118	26	-	-	-	9,144
Total current assets	-	176,133	1,542	10	-	-	177,685
Assets limited as to use	-	421,150	-	-	-	-	421,150
Property and equipment, net	-	351,530	5,573	-	-	-	357,103
Operating lease right-of-use assets	-	825	407	-	-	-	1,232
Finance lease right-of-use assets	-	1,469	-	-	-	-	1,469
Other investments	-	6,241	-	-	128	-	6,369
Prepaid recruitment expense	-	3,824	167	-	-	-	3,991
Goodwill	-	783	2,403	-	-	-	3,186
Total assets	\$ -	\$ 961,955	\$ 10,092	\$ 10	\$ 128	\$ -	\$ 972,185
Liabilities and Net Assets:							
Current liabilities:							
Current portion of long-term debt	\$ -	\$ 9,519	\$ -	\$ -	\$ -	\$ -	\$ 9,519
Current portion of operating lease liabilities	-	444	120	-	-	-	564
Current portion of finance lease liabilities	-	416	-	-	-	-	416
Accounts payable	-	28,508	397	-	-	-	28,905
Accrued expenses	-	27,828	766	-	-	-	28,594
Estimated third-party payor settlements	-	1,242	-	-	-	-	1,242
Professional insurance payable	-	6,757	-	-	-	-	6,757
Medicare accelerated payments, current portion	-	19,463	-	-	-	-	19,463
Refundable advance grant revenue	-	3,000	-	-	-	-	3,000
Total current liabilities	-	97,177	1,283	-	-	-	98,460
Deferred compensation	-	935	-	-	-	-	935
Long-term debt, net of current portion	-	237,403	-	-	-	-	237,403
Operating lease liabilities, net of current portion	-	367	284	-	-	-	651
Finance lease liabilities, net of current portion	-	889	-	-	-	-	889
Total liabilities	-	336,771	1,567	-	-	-	338,338
Net assets without donor restrictions	-	625,184	8,525	10	128	-	633,847
Total liabilities and net assets	\$ -	\$ 961,955	\$ 10,092	\$ 10	\$ 128	\$ -	\$ 972,185

See report on consolidating information.

SOUTHWELL, INC.
Consolidating Balance Sheets
(In Thousands)
September 30, 2020

	<u>Southwell, Inc.</u>	<u>Tift Regional Health System, Inc.</u>	<u>Southwell Ambulatory, Inc.</u>	<u>CareAlliance: An Accountable Care Organization, LLC</u>	<u>Tift Enterprises, Inc.</u>	<u>Intercompany Eliminations</u>	<u>Total</u>
Assets:							
Current assets:							
Cash and cash equivalents	\$ -	\$ 93,749	\$ 1,005	\$ 10	\$ -	\$ -	\$ 94,764
Short-term investments	-	5,321	-	-	-	-	5,321
Patient accounts receivable, net	-	56,770	1,037	-	-	-	57,807
Estimated third-party payor settlements	-	3,098	-	-	-	-	3,098
Supplies, at lower of cost and net realizable value	-	3,448	-	-	-	-	3,448
Professional insurance recoverable	-	2,564	-	-	-	-	2,564
Other current assets	-	<u>9,816</u>	<u>25</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,841</u>
Total current assets	-	174,766	2,067	10	-	-	176,843
Assets limited as to use	-	445,594	-	-	-	-	445,594
Property and equipment, net	-	320,938	1,137	-	-	-	322,075
Finance lease right-of-use assets	-	782	-	-	-	-	782
Other investments	-	849	-	-	170	-	1,019
Prepaid recruitment expense	-	3,002	25	-	-	-	3,027
Goodwill	-	<u>2,305</u>	<u>3,511</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,816</u>
Total assets	\$ -	\$ <u>948,236</u>	\$ <u>6,740</u>	\$ <u>10</u>	\$ <u>170</u>	\$ -	\$ <u>955,156</u>
Liabilities and Net Assets:							
Current liabilities:							
Current portion of long-term debt	\$ -	\$ 7,520	\$ -	\$ -	\$ -	\$ -	\$ 7,520
Current portion of finance lease liabilities	-	37	-	-	-	-	37
Accounts payable	-	38,271	71	-	-	-	38,342
Accrued expenses	-	26,961	135	-	-	-	27,096
Estimated third-party payor settlements	-	1,018	-	-	-	-	1,018
Professional insurance payable	-	3,009	-	-	-	-	3,009
Medicare accelerated payments, current portion	-	5,203	-	-	-	-	5,203
Refundable advance grant revenue	-	<u>5,400</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,400</u>
Total current liabilities	-	87,419	206	-	-	-	87,625
Medicare accelerated payments, net of current portion	-	20,122	-	-	-	-	20,122
Deferred compensation	-	802	-	-	-	-	802
Long-term debt, net of current portion	-	247,378	-	-	-	-	247,378
Finance lease liabilities, net of current portion	-	<u>561</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>561</u>
Total liabilities	-	356,282	206	-	-	-	356,488
Net assets without donor restrictions	-	<u>591,954</u>	<u>6,534</u>	<u>10</u>	<u>170</u>	<u>-</u>	<u>598,668</u>
Total liabilities and net assets	\$ -	\$ <u>948,236</u>	\$ <u>6,740</u>	\$ <u>10</u>	\$ <u>170</u>	\$ -	\$ <u>955,156</u>

See report on consolidating information.

SOUTHWELL, INC.
Consolidating Statements of Operations and Changes in Net Assets
(In Thousands)
September 30, 2021

	<u>Southwell, Inc.</u>	<u>Tift Regional Health System, Inc.</u>	<u>Southwell Ambulatory, Inc.</u>	<u>CareAlliance: An Accountable Care Organization, LLC</u>	<u>Tift Enterprises, Inc.</u>	<u>Intercompany Eliminations</u>	<u>Total</u>
Revenues, gains, and other support:							
Net patient service revenue	\$ -	\$ 411,971	\$ 6,413	\$ -	\$ -	\$ -	\$ 418,384
Other revenue	-	8,019	1	-	-	-	8,020
CARES Act funding	-	657	-	-	-	-	657
Grant revenue	-	2,400	-	-	-	-	2,400
	<u>-</u>	<u>423,047</u>	<u>6,414</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>429,461</u>
Total revenues, gains, and other support	<u>-</u>	<u>423,047</u>	<u>6,414</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>429,461</u>
Expenses:							
Salaries and wages	-	187,242	7,970	-	-	-	195,212
Employee benefits	-	55,838	1,570	-	-	-	57,408
Contract and purchased services	-	26,213	445	-	4	-	26,662
Physician services	-	15,574	8	-	-	-	15,582
Supplies and drugs	-	79,883	732	-	-	-	80,615
Depreciation	-	34,516	353	-	-	-	34,869
Goodwill amortization	-	1,521	1,109	-	-	-	2,630
Interest expense	-	4,190	-	-	-	-	4,190
Other expense	-	39,300	1,207	-	-	-	40,507
	<u>-</u>	<u>444,277</u>	<u>13,394</u>	<u>-</u>	<u>4</u>	<u>-</u>	<u>457,675</u>
Total expenses	<u>-</u>	<u>444,277</u>	<u>13,394</u>	<u>-</u>	<u>4</u>	<u>-</u>	<u>457,675</u>
Operating income (loss)	<u>-</u>	<u>(21,230)</u>	<u>(6,980)</u>	<u>-</u>	<u>(4)</u>	<u>-</u>	<u>(28,214)</u>

Continued

SOUTHWELL, INC.
Consolidating Statements of Operations and Changes in Net Assets, Continued
(In Thousands)
September 30, 2021

	<u>Southwell, Inc.</u>	<u>Tift Regional Health System, Inc.</u>	<u>Southwell Ambulatory, Inc.</u>	<u>CareAlliance: An Accountable Care Organization, LLC</u>	<u>Tift Enterprises, Inc.</u>	<u>Intercompany Eliminations</u>	<u>Total</u>
Nonoperating gains:							
Investment income	\$ -	\$ 60,331	\$ -	\$ -	\$ 428	\$ -	\$ 60,759
Rural hospital tax credit contributions	-	1,863	-	-	-	-	1,863
Gain on extinguishment of debt	<u>-</u>	<u>299</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>299</u>
Total nonoperating gains	<u>-</u>	<u>62,493</u>	<u>-</u>	<u>-</u>	<u>428</u>	<u>-</u>	<u>62,921</u>
Excess (deficit) of revenues over expenses	-	41,263	(6,980)	-	424	-	34,707
Capital contributions from Cook County and the City of Adel	-	472	-	-	-	-	472
Transfers between System and Enterprises	-	466	-	-	(466)	-	-
Transfers between System and Ambulatory	<u>-</u>	<u>(8,971)</u>	<u>8,971</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets without donor restrictions	-	33,230	1,991	-	(42)	-	35,179
Net assets without donor restrictions, beginning of year	<u>-</u>	<u>591,954</u>	<u>6,534</u>	<u>10</u>	<u>170</u>	<u>-</u>	<u>598,668</u>
Net assets without donor restrictions, end of year	\$ <u>-</u>	\$ <u>625,184</u>	\$ <u>8,525</u>	\$ <u>10</u>	\$ <u>128</u>	\$ <u>-</u>	\$ <u>633,847</u>

See report on consolidating information.

SOUTHWELL, INC.
Consolidating Statements of Operations and Changes in Net Assets
(In Thousands)
September 30, 2020

	<u>Southwell, Inc.</u>	<u>Tift Regional Health System, Inc.</u>	<u>Southwell Ambulatory, Inc.</u>	<u>CareAlliance: An Accountable Care Organization, LLC</u>	<u>Tift Enterprises, Inc.</u>	<u>Intercompany Eliminations</u>	<u>Total</u>
Revenues, gains, and other support:							
Net patient service revenue	\$ -	\$ 388,928	\$ 2,749	\$ -	\$ -	\$ -	\$ 391,677
Other revenue	-	9,110	-	-	-	-	9,110
CARES Act funding	-	38,140	-	-	-	-	38,140
Grant revenue	<u>-</u>	<u>600</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>600</u>
Total revenues, gains, and other support	<u>-</u>	<u>436,778</u>	<u>2,749</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>439,527</u>
Expenses:							
Salaries and wages	-	181,394	2,812	-	-	-	184,206
Employee benefits	-	48,391	538	-	-	-	48,929
Contract and purchased services	-	21,738	251	33	4	-	22,026
Physician services	-	17,624	-	-	-	-	17,624
Supplies and drugs	-	79,646	362	-	-	-	80,008
Depreciation	-	35,867	73	-	-	-	35,940
Goodwill amortization	-	2,186	185	-	-	-	2,371
Interest expense	-	4,762	-	-	-	-	4,762
Other expense	<u>-</u>	<u>39,716</u>	<u>629</u>	<u>3</u>	<u>-</u>	<u>-</u>	<u>40,348</u>
Total expenses	<u>-</u>	<u>431,324</u>	<u>4,850</u>	<u>36</u>	<u>4</u>	<u>-</u>	<u>436,214</u>
Operating income (loss)	<u>-</u>	<u>5,454</u>	<u>(2,101)</u>	<u>(36)</u>	<u>(4)</u>	<u>-</u>	<u>3,313</u>

Continued

SOUTHWELL, INC.
Consolidating Statements of Operations and Changes in Net Assets, Continued
(In Thousands)
September 30, 2020

	<u>Southwell, Inc.</u>	<u>Tift Regional Health System, Inc.</u>	<u>Southwell Ambulatory, Inc.</u>	<u>CareAlliance: An Accountable Care Organization, LLC</u>	<u>Tift Enterprises, Inc.</u>	<u>Intercompany Eliminations</u>	<u>Total</u>
Nonoperating gains:							
Investment income	\$ -	\$ 28,465	\$ -	\$ -	\$ 670	\$ -	\$ 29,135
Rural hospital tax credit contributions	-	1,003	-	-	-	-	1,003
Other loss	<u>-</u>	<u>(2,691)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,691)</u>
Total nonoperating gains	<u>-</u>	<u>26,777</u>	<u>-</u>	<u>-</u>	<u>670</u>	<u>-</u>	<u>27,447</u>
Excess (deficit) of revenues over expenses	-	32,231	(2,101)	(36)	666	-	30,760
Capital contributions from Cook County and the City of Adel	-	1,259	-	-	-	-	1,259
Transfers between System and Enterprises	-	496	-	-	(496)	-	-
Transfers between System and Ambulatory	-	(8,635)	8,635	-	-	-	-
Transfers between System and ACO	<u>-</u>	<u>(36)</u>	<u>-</u>	<u>36</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets without donor restrictions	-	25,315	6,534	-	170	-	32,019
Net assets without donor restrictions, beginning of year	<u>-</u>	<u>566,639</u>	<u>-</u>	<u>10</u>	<u>-</u>	<u>-</u>	<u>566,649</u>
Net assets without donor restrictions, end of year	\$ <u><u>-</u></u>	\$ <u><u>591,954</u></u>	\$ <u><u>6,534</u></u>	\$ <u><u>10</u></u>	\$ <u><u>170</u></u>	\$ <u><u>-</u></u>	\$ <u><u>598,668</u></u>

Continued