

SOUTHWELL OBLIGATED GROUP
AS DEFINED IN THE MASTER
TRUST INDENTURE BETWEEN
TIFT COUNTY HOSPITAL AUTHORITY,
SOUTHWELL, INC. AND
TIFT REGIONAL HEALTH SYSTEM, INC.

COMBINED SPECIAL-PURPOSE FINANCIAL STATEMENTS

for the years ended September 30, 2024 and 2023



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Tift County Hospital Authority
Southwell, Inc.
Tift Regional Health System, Inc.
Tifton, Georgia

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying combined special-purpose financial statements of Southwell Obligated Group as defined in the Master Trust Indenture (MTI) between the Tift County Hospital Authority (Authority), Southwell, Inc. (Southwell) and Tift Regional Health System, Inc. (System) (collectively Southwell Obligated Group) as Obligated Issuers and U.S. Bank National Association as Master Trustee dated as of December 1, 2002, as amended and supplemented from time to time, which comprise the combined special-purpose balance sheets as of September 30, 2024 and 2023, and the related combined special-purpose statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the combined special-purpose financial statements.

In our opinion, the accompanying combined special-purpose financial statements present fairly, in all material respects, the financial position of Southwell Obligated Group as of September 30, 2024 and 2023, and the results of operations, changes in net assets, and cash flows for the years then ended in accordance with the basis of accounting described in Note 1.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Southwell Obligated Group and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Continued

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Basis of Accounting

The accompanying combined special-purpose financial statements were prepared for the purpose of complying with, and in conformity with, the accounting principles specified in Section 6.6 of the Master Trust Indenture as discussed in Note 1 and are not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America. As a result, the combined special-purpose financial statements may not be suitable for another purpose. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the combined special-purpose financial statements in accordance with requirements set forth in the Master Trust Indenture, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the combined special-purpose financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the combined special-purpose financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the combined special-purpose financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Southwell Obligated Group's internal control. Accordingly, no such opinion is expressed.

Continued

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the combined special-purpose financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Southwell Obligated Group's ability to continue as a going concern for a reasonable period of time.

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

Restriction on Use

This report is intended solely for the information and use of the Board of Directors and management of the Southwell Obligated Group and U.S. Bank National Association, as Master Trustee, and each nationally recognized municipal securities information repository for the purpose of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time, and is not intended to be and should not be used by anyone other than these specified parties.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2025, on our consideration of Southwell Obligated Group'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 Obligated Group'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 Obligated Group's internal control over financial reporting and compliance.

Draffin & Tucker, LLP

Atlanta, Georgia
March 11, 2025

SOUTHWELL OBLIGATED GROUP

Combined Special-Purpose Balance Sheets September 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Assets:		
Current assets:		
Cash and cash equivalents	\$ 32,410,000	\$ 18,194,000
Patient accounts receivable, net	63,926,000	62,114,000
Estimated third-party payor settlements	1,931,000	3,876,000
Supplies, at lower of cost and net realizable value	2,523,000	2,165,000
Professional insurance recoverable	12,940,000	5,144,000
Other current assets	<u>10,841,000</u>	<u>13,697,000</u>
Total current assets	124,571,000	105,190,000
Assets limited as to use	466,430,000	387,059,000
Property and equipment, net	300,055,000	317,993,000
Operating lease right-of-use assets	1,083,000	1,534,000
Finance lease right-of-use assets	4,175,000	5,122,000
Other investments	6,350,000	6,020,000
Prepaid recruitment expense	<u>6,158,000</u>	<u>4,540,000</u>
Total assets	<u>\$ 908,822,000</u>	<u>\$ 827,458,000</u>
Liabilities and Net Assets:		
Current liabilities:		
Current portion of long-term debt	\$ 11,085,000	\$ 10,899,000
Current portion of operating lease liabilities	319,000	525,000
Current portion of finance lease liabilities	836,000	761,000
Accounts payable	22,303,000	19,426,000
Accrued expenses	31,408,000	28,912,000
Estimated third-party payor settlements	1,163,000	1,171,000
Professional insurance payable	<u>17,050,000</u>	<u>6,847,000</u>
Total current liabilities	84,164,000	68,541,000
Deferred compensation	257,000	789,000
Long-term debt, net of current portion	203,726,000	215,151,000
Operating lease liabilities, net of current portion	763,000	1,001,000
Finance lease liabilities, net of current portion	<u>3,117,000</u>	<u>3,975,000</u>
Total liabilities	292,027,000	289,457,000
Net assets without donor restrictions	<u>616,795,000</u>	<u>538,001,000</u>
Total liabilities and net assets	<u>\$ 908,822,000</u>	<u>\$ 827,458,000</u>

See accompanying notes to combined special-purpose financial statements.

SOUTHWELL OBLIGATED GROUP

Combined Special-Purpose Statements of Operations and Changes in Net Assets Years Ended September 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Revenues, gains, and other support:		
Net patient service revenue	\$ 484,124,000	\$ 442,472,000
Other revenue	20,548,000	13,820,000
ARP Act funding	498,000	841,000
Grant revenue	<u>-</u>	<u>600,000</u>
Total revenues, gains, and other support	<u>505,170,000</u>	<u>457,733,000</u>
Expenses:		
Salaries and wages	205,235,000	200,057,000
Employee benefits	61,651,000	63,570,000
Contract and purchased services	30,118,000	28,476,000
Physician services	24,373,000	19,235,000
Supplies and drugs	98,824,000	90,545,000
Depreciation	31,296,000	37,728,000
Goodwill amortization	-	10,000
Interest expense	5,217,000	5,256,000
Other expenses	<u>48,562,000</u>	<u>46,063,000</u>
Total expenses	<u>505,276,000</u>	<u>490,940,000</u>
Operating loss	(<u>106,000</u>)	(<u>33,207,000</u>)
Nonoperating gains:		
Investment income	79,654,000	30,459,000
Rural hospital tax credit contributions	<u>1,831,000</u>	<u>2,479,000</u>
Total nonoperating gains	<u>81,485,000</u>	<u>32,938,000</u>
Excess revenues (expenses)	81,379,000	(269,000)
Capital contributions and related party transfers:		
Capital contributions from Cook County and the City of Adel	472,000	472,000
Transfers from Tift Enterprises, Inc.	586,000	618,000
Transfers to Southwell Ambulatory, Inc.	(3,543,000)	(3,938,000)
Transfers to Southwell Portfolio Insurance Company	<u>(100,000)</u>	<u>-</u>
Change in net assets without donor restrictions	78,794,000	(3,117,000)
Net assets without donor restrictions, beginning of year	<u>538,001,000</u>	<u>541,118,000</u>
Net assets without donor restrictions, end of year	<u>\$ 616,795,000</u>	<u>\$ 538,001,000</u>

See accompanying notes to combined special-purpose financial statements.

SOUTHWELL OBLIGATED GROUP

Combined Special-Purpose Statements of Cash Flows
Years Ended September 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 484,249,000	\$ 452,790,000
ARP Act receipts	498,000	841,000
Payments to employees	(264,922,000)	(261,799,000)
Payments to suppliers and contractors	(195,706,000)	(186,104,000)
Other receipts	20,548,000	13,820,000
Interest paid	(5,186,000)	(5,200,000)
Investment income	23,159,000	9,218,000
Rural hospital tax credit contributions	1,831,000	2,479,000
Transfers from Tift Enterprises, Inc.	586,000	618,000
Transfers to Southwell Ambulatory, Inc.	(3,543,000)	(3,938,000)
Transfers to Southwell Portfolio Insurance Company	(100,000)	-
Net cash provided by operating activities	<u>61,414,000</u>	<u>22,725,000</u>
Cash flows from financing activities:		
Payments on long-term debt	(11,270,000)	(11,005,000)
Payments on finance lease liabilities	(723,000)	(795,000)
Capital contributions from Cook County and the City of Adel	<u>472,000</u>	<u>472,000</u>
Net cash used by financing activities	<u>(11,521,000)</u>	<u>(11,328,000)</u>
Cash flows from investing activities:		
Purchases of property and equipment, net of retirements	(12,471,000)	(15,218,000)
Sale of debt and equity securities	214,344,000	122,860,000
Purchase of debt and equity securities	(237,718,000)	(134,412,000)
Sale (purchase) of other investments	<u>(17,000)</u>	<u>(43,000)</u>
Net cash used by investing activities	<u>(35,862,000)</u>	<u>(26,813,000)</u>
Net change in cash and cash equivalents	14,031,000	(15,416,000)
Cash and cash equivalents, beginning of year	<u>28,397,000</u>	<u>43,813,000</u>
Cash and cash equivalents, end of year	\$ <u>42,428,000</u>	\$ <u>28,397,000</u>

Continued

SOUTHWELL OBLIGATED GROUP

Combined Special-Purpose Statements of Cash Flows, Continued Years Ended September 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash and cash equivalents	\$ 32,410,000	\$ 18,194,000
Cash and cash equivalents included in assets limited as to use	9,667,000	10,165,000
Cash and cash equivalents included in other investments	<u>351,000</u>	<u>38,000</u>
Total cash and cash equivalents	\$ <u>42,428,000</u>	\$ <u>28,397,000</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 78,794,000	\$(3,117,000)
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation	31,296,000	37,728,000
Goodwill amortization	-	10,000
Operating lease right-of-use assets amortization	633,000	506,000
Change in unrealized (gains) losses on investments	(56,495,000)	(21,241,000)
Bond issue cost amortization	31,000	56,000
Capital contributions from Cook County and City of Adel	(472,000)	(472,000)
Changes in:		
Patient accounts receivable	(1,812,000)	9,307,000
Estimated third-party payor settlements	1,937,000	1,011,000
Supplies	(358,000)	1,038,000
Professional insurance recoverable	(7,796,000)	(699,000)
Other current assets	2,856,000	(5,289,000)
Prepaid recruitment expense	(1,618,000)	(326,000)
Accounts payable	2,877,000	1,825,000
Accrued expenses	2,496,000	1,739,000
Professional insurance payable	10,203,000	1,651,000
Refundable advance of grant revenue	-	(600,000)
Deferred compensation	(532,000)	89,000
Operating lease liabilities	<u>(626,000)</u>	<u>(491,000)</u>
Net cash provided by operating activities	\$ <u>61,414,000</u>	\$ <u>22,725,000</u>
Supplemental disclosure of cash flow information:		
Assets acquired through leases	\$ <u>122,000</u>	\$ <u>5,583,000</u>

See accompanying notes to combined special-purpose financial statements.

SOUTHWELL OBLIGATED GROUP

Notes To Combined Special-Purpose Financial Statements September 30, 2024 and 2023

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

Reporting entity. The accompanying combined special-purpose financial statements of Southwell Obligated Group are comprised of Tift County Hospital Authority, Southwell, Inc., and Tift Regional Health System, Inc. All significant intercompany transactions have been eliminated.

Tift County Hospital Authority (Authority) is a public body corporate and politic organized under the Hospital Authorities Law of the State of Georgia. Prior to the lease transaction described below, the Authority owned and operated 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. The Authority provided short-term medical, surgical, obstetrical, pediatric, geriatric psychiatry, and physician care and long-term nursing care to patients in Tift County, Cook County, and the surrounding area.

Southwell, Inc. (Southwell) is the sole member of Tift Regional Health System, Inc. (System).

Effective March 1, 2019, the Authority undertook a corporate restructuring and executed a Lease and Transfer Agreement (Agreement) with the System. 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 combined special-purpose financial statements are prepared on a basis of accounting described in the Master Trust Indenture (MTI) between the Authority, Southwell, and the System as Obligated Issuers (Southwell Obligated Group) and U.S. Bank National Association as Master Trustee dated as of December 1, 2002, as amended and supplemented from time to time. The MTI requires a combined balance sheet and combined statement of operations and changes in net assets for Southwell Obligated Group. The accompanying combined special-purpose financial statements were prepared based on audited financial statements in accordance with generally accepted accounting principles for Southwell and the Authority. The System is included in Southwell's consolidated financial statements as a wholly owned subsidiary.

Southwell is subject to pronouncements of the Financial Accounting Standards Board (FASB) and the Authority is subject to pronouncements of the Governmental Accounting Standards Board (GASB). As Southwell is the more significant of the two entities, Southwell Obligated Group will apply the provisions of pronouncements issued by FASB in all areas of the combined special-purpose financial statements.

Related parties. Southwell owns 100% of the voting stock of Tift Enterprises, Inc. (Enterprises), which owns a 25% interest in Diagnostic PET, LLC. Southwell is also the sole corporate member of Southwell Ambulatory, Inc. (Ambulatory), which operates ambulatory surgical centers. System is the sole corporate member of CareAlliance: An Accountable Care Organization, LLC (ACO). During 2024, Southwell established Southwell Portfolio Insurance Company (Segregated Portfolio) to provide health care facility medical professional liability, commercial general liability, and employee benefit plan administration liability self-insurance. Enterprises, Ambulatory, ACO, and Segregated Portfolio are not part of the obligated group under the MTI and therefore are not included in these combined special-purpose financial statements.

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SOUTHWELL OBLIGATED GROUP

Notes To Combined Special-Purpose Financial Statements, Continued September 30, 2024 and 2023

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

Use of estimates. The preparation of combined special-purpose financial statements 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 combined special-purpose financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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.

Patient accounts receivable. Patient accounts receivable reflects the outstanding amount of consideration to which Southwell Obligated Group 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. As a service to the patient, Southwell Obligated Group bills third-party payors directly and bills the patient when the patient's responsibility for copays, coinsurance, and deductibles is determined. Patient accounts receivable are due in full when billed.

Patient accounts receivable can be impacted by the effectiveness of Southwell Obligated Group's collection efforts. Additionally, significant changes in payor mix, business office operations, economic conditions, or trends in federal and state governmental healthcare coverage could affect the net realizable value of patient accounts receivable. Southwell Obligated Group also continually reviews the net realizable value of patient accounts receivable by monitoring historical cash collections as a percentage of trailing net patient service revenues, as well as by analyzing current period net revenue and admissions by payor classification, aged patient accounts receivable by payor, days revenue outstanding, and the composition of self-pay receivables between pure self-pay patients and the patient responsibility portion of third-party insured receivables.

Patient accounts receivable was approximately \$63,926,000, \$62,114,000 and \$71,421,000 as of September 30, 2024, 2023 and 2022, respectively. Southwell Obligated Group had no significant contract assets or contract liabilities as of September 30, 2024 or 2023.

Allowance for credit losses. In evaluating the collectability of patient accounts receivable, management evaluates historical losses as well as adjustments for current conditions, asset-specific risk characteristics and reasonable and supportable forecasts to determine an allowance for expected credit losses. Management believes that an allowance for credit losses is not required at year end.

Continued

SOUTHWELL OBLIGATED GROUP

Notes To Combined Special-Purpose Financial Statements, Continued September 30, 2024 and 2023

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

Investments. Investments in equity securities with readily determinable fair values and all investments in debt securities, which are 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 revenues 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 7.00% investment in Distribution Cooperative, Inc. and a 15.20% investment in Stratus Healthcare, LLC.

Assets limited as to use. Assets limited as to use include assets held by trustee 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.

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.

Property and equipment. Property and equipment acquisitions over \$5,000 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 combined special-purpose financial statements.

Continued

SOUTHWELL OBLIGATED GROUP

Notes To Combined Special-Purpose Financial Statements, Continued September 30, 2024 and 2023

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

Property and equipment, continued. 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 revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as increases in net assets with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Impairment of long-lived assets. Southwell Obligated Group 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 Obligated Group has not recorded any impairment charges in the accompanying combined special-purpose statements of operations and changes in net assets.

Prepaid recruitment expense. Southwell Obligated Group 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 \$639,000 and \$919,000 during 2024 and 2023, respectively. These expenses are reflected in physician services in the accompanying combined special-purpose statements of operations and changes in net assets.

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. No interest cost was capitalized during 2024 or 2023.

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.

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SOUTHWELL OBLIGATED GROUP

Notes To Combined Special-Purpose Financial Statements, Continued September 30, 2024 and 2023

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

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. The goodwill was fully amortized as of September 30, 2023.

Refundable advance of grant revenue. 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 8 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.

Excess of revenues over expenses. The combined special-purpose statements of operations and changes in net assets 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).

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SOUTHWELL OBLIGATED GROUP

Notes To Combined Special-Purpose Financial Statements, Continued September 30, 2024 and 2023

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

Net patient service revenue. Southwell Obligated Group has agreements with third-party payors that provide for payments to Southwell Obligated Group 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 Obligated Group 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 Obligated Group 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 Obligated Group 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 Obligated Group 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.

Professional insurance recoverable and payable. Professional insurance recoverable represents amounts over the deductible which are the responsibility of the insurance company providing the coverage. Professional insurance payable is accrued liabilities for known claims and incidents, as well as estimated claims incurred but not yet reported.

Income taxes. The Authority is a governmental entity and is exempt from income taxes. Southwell and the System are not-for-profit corporations and have been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code.

Southwell Obligated Group 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 Obligated Group 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.

Continued

SOUTHWELL OBLIGATED GROUP

Notes To Combined Special-Purpose Financial Statements, Continued September 30, 2024 and 2023

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

Income taxes, continued. 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, 2024 and 2023 or for the years then ended. Southwell Obligated Group'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 Pronouncement. In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses* (Topic 326), which introduces a new current expected credit loss (CECL) method for measuring credit losses on financial assets measured at amortized cost, replacing the previous incurred loss method that delays recognition until it is probable a loss has been incurred. The new guidance requires the immediate recognition of estimated credit losses that are expected to occur. Southwell Obligated Group adopted the new guidance effective as of October 1, 2023. Adoption of the new guidance did not have significant impact on the combined special-purpose financial statements.

Subsequent events. In preparing these combined special-purpose financial statements, Southwell Obligated Group has evaluated events and transactions for potential recognition or disclosure through March 11, 2025, the date the combined special-purpose financial statements were issued.

2. Net Patient Service Revenue

Net patient service revenue is reported at the amount that reflects the consideration to which Southwell Obligated Group 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 Obligated Group 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 Obligated Group 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 Obligated Group 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.

Continued

SOUTHWELL OBLIGATED GROUP

Notes To Combined Special-Purpose Financial Statements, Continued September 30, 2024 and 2023

2. Net Patient Service Revenue, Continued

Because all of its performance obligations relate to contracts with a duration of less than one year, Southwell Obligated Group 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 Obligated Group is utilizing the portfolio approach practical expedient in ASC 606 for contracts related to net patient service revenue. Southwell Obligated Group 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 Obligated Group has concluded that revenue for a given portfolio would not be materially different than if accounting for revenue on a contract by contract basis.

Southwell Obligated Group has arrangements with third-party payors that provide for payments to Southwell Obligated Group at amounts different from its established rates. For uninsured patients that do not qualify for charity care, Southwell Obligated Group recognizes revenue on the basis of its standard rates, subject to certain discounts and implicit price concessions as determined by Southwell Obligated Group. Southwell Obligated Group 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 Obligated Group's policy, and implicit price concessions provided to uninsured patients. Implicit price concessions represent difference between amounts billed and the estimated consideration Southwell Obligated Group expects to receive from patients, which are determined based on historical collection experience, current market conditions, and other factors. Southwell Obligated Group 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 Obligated Group and audits thereof by the Medicare Administrative Contractor (MAC). TRMC's Medicare cost reports have been settled by the MAC through September 30, 2020 and SM's Medicare cost reports have been settled by the MAC through June 30, 2022.

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).

Continued

SOUTHWELL OBLIGATED GROUP

Notes To Combined Special-Purpose Financial Statements, Continued September 30, 2024 and 2023

2. Net Patient Service Revenue, Continued

- *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 Obligated Group is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by Southwell Obligated Group and audits thereof by the Medicaid fiscal intermediary. TRMC's Medicaid cost reports have been settled by the Medicaid fiscal intermediary through September 30, 2021 and SM's Medicaid cost reports have been settled by the Medicaid fiscal intermediary through June 30, 2021.

Southwell Obligated Group 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.

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 Obligated Group participates in the Indigent Care Trust Fund (ICTF) Program. Southwell Obligated Group receives ICTF payments for treating a disproportionate number of Medicaid and other indigent patients. ICTF payments are based on Southwell Obligated Group'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 \$13,956,000 and \$5,511,000 during 2024 and 2023, respectively.

Southwell Obligated Group 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 \$3,584,000 and \$4,955,000 during 2024 and 2023, respectively.

Medicaid has five (5) Directed Payment Programs. Southwell Obligated Group participates in the Hospital Directed Payment Program (HDPP) for Public Hospitals. The HDPP payments are based on a measure of the difference between Medicaid CMO payments and the amount that could be paid based on Medicare payment principles. The HDPP payments are made to the CMOs and the CMOs are required to transfer the payments to Southwell Obligated Group. The net amount of HDPP payment adjustments recognized in net patient service revenue was approximately \$4,120,000 and \$4,850,000 during 2024 and 2023, respectively.

Southwell Obligated Group participates in the Supplemental Quality Incentive (SQI) payment program for nursing homes that demonstrate improvement in at least one of four quality metrics. SHR demonstrated improvement in two of the four quality metrics and recognized SQI payments of approximately \$28,000 in net patient service revenue during 2023.

Continued

SOUTHWELL OBLIGATED GROUP

Notes To Combined Special-Purpose Financial Statements, Continued September 30, 2024 and 2023

2. Net Patient Service Revenue, Continued

- *Medicaid, continued.* The State of Georgia has legislation known as the Provider Payment Agreement Act whereby hospitals in Georgia are assessed a “provider payment” in the amount of 1.45% of their net patient revenue. 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 Obligated Group made provider payments to the State of Georgia of approximately \$3,972,000 and \$4,804,000 during 2024 and 2023, 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-Medicare 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 Obligated Group made provider payments to the State of Georgia of approximately \$421,000 and \$472,000 during 2024 and 2023, respectively. The payments are included in other expense in the accompanying statements of operations and changes in net assets.

- *Other arrangements.* Southwell Obligated Group also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to Southwell Obligated Group under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.
- *Uninsured patients.* Southwell Obligated Group 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 Obligated Group 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 Obligated Group'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 Obligated Group. In addition, the contracts Southwell Obligated Group has with commercial payors also provide for retroactive audit and review of claims.

Continued

SOUTHWELL OBLIGATED GROUP

Notes To Combined Special-Purpose Financial Statements, Continued September 30, 2024 and 2023

2. Net Patient Service Revenue, Continued

Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and Southwell Obligated Group'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 2024 and 2023.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. Southwell Obligated Group also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. Southwell Obligated Group estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Adjustments arising from a change in the transaction price were not significant for the years ending September 30, 2024 and 2023. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay based on current or future estimated credit losses (determined on a portfolio basis when applicable) are recorded as credit loss expense. Credit loss expense for the years ended September 30, 2024 and 2023 were not significant.

Consistent with Southwell Obligated Group's mission, care is provided to patients regardless of their ability to pay. Therefore, Southwell Obligated Group 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 Obligated Group'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, 2024 and 2023 is as follows:

	<u>2024</u>	<u>2023</u>
Medicare	\$ 173,457,000	\$ 143,884,000
Medicaid	55,558,000	44,357,000
Blue Cross	119,843,000	121,815,000
Other third-party payors	122,030,000	123,402,000
Self-pay	<u>13,236,000</u>	<u>9,014,000</u>
Total	\$ <u>484,124,000</u>	\$ <u>442,472,000</u>

Continued

SOUTHWELL OBLIGATED GROUP

Notes To Combined Special-Purpose Financial Statements, Continued September 30, 2024 and 2023

2. Net Patient Service Revenue, Continued

Net patient service revenue by facility/line of business and timing of revenue recognition for the years ended September 30, 2024 and 2023 is as follows:

	<u>2024</u>	<u>2023</u>
Tift Regional Medical Center	\$ 347,996,000	\$ 324,555,000
Southwell Medical	17,156,000	14,149,000
Physician services and clinics	108,576,000	93,285,000
Southwell Health and Rehabilitation	<u>10,396,000</u>	<u>10,483,000</u>
Total services transferred over time	\$ <u>484,124,000</u>	\$ <u>442,472,000</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 Obligated Group performs. Requirements to recognize revenue for inpatient services are generally satisfied over periods that average approximately five days and outpatient services are generally satisfied over a period of less than one day. For employee pharmacy and cafeteria, recorded in other revenue on the combined statements of operations, point of sale performance obligations are satisfied at a point in time when the goods are provided.

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

Continued

SOUTHWELL OBLIGATED GROUP

Notes To Combined Special-Purpose Financial Statements, Continued September 30, 2024 and 2023

3. Uncompensated Care

Southwell Obligated Group 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>2024</u>	<u>2023</u>
Gross patient charges	\$ <u>1,702,909,000</u>	\$ <u>1,562,552,000</u>
Uncompensated services:		
Medicare	711,204,000	659,919,000
Medicaid	145,686,000	170,487,000
Blue Cross	63,249,000	57,379,000
Other third-party payors	152,392,000	118,165,000
Charity/indigent/uninsured discount	105,138,000	63,182,000
Price concessions	<u>41,116,000</u>	<u>50,948,000</u>
Total uncompensated care	<u>1,218,785,000</u>	<u>1,120,080,000</u>
Net patient service revenue	\$ <u>484,124,000</u>	\$ <u>442,472,000</u>

The estimated cost of charity/indigent care/uninsured discount was approximately \$31,293,000 and \$19,851,000 in 2024 and 2023, 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.

4. Concentrations of Credit Risk

Southwell Obligated Group 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, 2024 and 2023 was as follows:

	<u>2024</u>	<u>2023</u>
Medicare	30%	31%
Medicaid	7%	8%
Blue Cross	21%	19%
Other third-party payors	41%	41%
Self-pay	<u>1%</u>	<u>1%</u>
Total	<u>100%</u>	<u>100%</u>

Southwell Obligated Group 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.

Continued

SOUTHWELL OBLIGATED GROUP

Notes To Combined Special-Purpose Financial Statements, Continued September 30, 2024 and 2023

5. Assets Limited as to Use and Other Investments

The composition of assets limited as to use as of September 30, 2024 and 2023 is set forth in the following table.

	<u>2024</u>	<u>2023</u>
Internally designated for capital acquisitions:		
Cash	\$ 5,323,000	\$ 6,470,000
Money market (cash equivalent)	665,000	750,000
U.S. Treasury obligations	32,250,000	25,222,000
U.S. Government agency obligations	10,378,000	16,578,000
Corporate obligations	46,459,000	40,075,000
Asset-backed securities	81,686,000	68,093,000
Municipal securities	709,000	790,000
Preferred securities	99,000	88,000
Marketable equity securities	171,599,000	125,807,000
Non-U.S. equity mutual funds	19,912,000	15,980,000
Fixed income mutual funds	41,844,000	36,645,000
Commodity mutual funds	24,014,000	23,567,000
Other mutual funds	<u>24,304,000</u>	<u>20,029,000</u>
Total	<u>459,242,000</u>	<u>380,094,000</u>
Internally designated for malpractice self-insurance:		
Cash	786,000	786,000
Certificates of deposit	<u>3,252,000</u>	<u>3,231,000</u>
Total	<u>4,038,000</u>	<u>4,017,000</u>
Internally designated for deferred compensation:		
Equity mutual funds	<u>257,000</u>	<u>789,000</u>
Held by trustee for debt service reserve:		
Cash	<u>2,893,000</u>	<u>2,159,000</u>
Total assets limited as to use	\$ <u>466,430,000</u>	\$ <u>387,059,000</u>

Continued

SOUTHWELL OBLIGATED GROUP

Notes To Combined Special-Purpose Financial Statements, Continued September 30, 2024 and 2023

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

The composition of other investments as of September 30, 2024 and 2023 is set forth in the following table.

	<u>2024</u>	<u>2023</u>
Other investments:		
Cash	\$ 351,000	\$ 38,000
U.S. Treasury obligations	1,242,000	1,508,000
U.S. Government agency obligations	563,000	504,000
Asset-backed securities	3,102,000	2,926,000
Corporate obligations	243,000	195,000
Distribution Cooperative, Inc.	<u>849,000</u>	<u>849,000</u>
Total	\$ <u>6,350,000</u>	\$ <u>6,020,000</u>

The fair values of investments measured on a recurring basis at September 30, 2024 and 2023 are as follows:

<u>September 30, 2024</u>				
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market	\$ 665,000	\$ 665,000	\$ -	\$ -
Certificates of deposit	3,252,000	3,252,000	-	-
U.S. Treasury obligations	33,492,000	33,492,000	-	-
U.S. Government agency obligations	10,941,000	10,941,000	-	-
Corporate obligations	46,702,000	-	46,702,000	-
Asset-backed securities	84,788,000	-	84,788,000	-
Municipal securities	709,000	-	709,000	-
Preferred securities	99,000	-	99,000	-
Marketable equity securities	171,599,000	171,599,000	-	-
Equity mutual funds	257,000	257,000	-	-
Non-U.S. equity mutual funds	19,912,000	19,912,000	-	-
Fixed income mutual funds	41,844,000	41,844,000	-	-
Commodity mutual funds	24,014,000	24,014,000	-	-
Other mutual funds	<u>24,304,000</u>	<u>24,304,000</u>	<u>-</u>	<u>-</u>
Total	462,578,000	\$ <u>330,280,000</u>	\$ <u>132,298,000</u>	\$ <u>-</u>
Distribution Cooperative, Inc.	849,000			
Cash	<u>9,353,000</u>			
Total	\$ <u>472,780,000</u>			

Continued

SOUTHWELL OBLIGATED GROUP

Notes To Combined Special-Purpose Financial Statements, Continued September 30, 2024 and 2023

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

September 30, 2023				
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market	\$ 750,000	\$ 750,000	\$ -	\$ -
Certificates of deposit	3,231,000	3,231,000	-	-
U.S. Treasury obligations	26,730,000	26,730,000	-	-
U.S. Government agency obligations	17,082,000	17,082,000	-	-
Corporate obligations	40,270,000	-	40,270,000	-
Asset-backed securities	71,019,000	-	71,019,000	-
Municipal securities	790,000	-	790,000	-
Preferred securities	88,000	-	88,000	-
Marketable equity securities	125,807,000	125,807,000	-	-
Equity mutual funds	789,000	789,000	-	-
Non-U.S. equity mutual funds	15,980,000	15,980,000	-	-
Fixed income mutual funds	36,645,000	36,645,000	-	-
Commodity mutual funds	23,567,000	23,567,000	-	-
Other mutual funds	<u>20,029,000</u>	<u>20,029,000</u>	<u>-</u>	<u>-</u>
Total	382,777,000	\$ <u>270,610,000</u>	\$ <u>112,167,000</u>	\$ <u>-</u>
Distribution Cooperative, Inc.	849,000			
Cash	<u>9,453,000</u>			
Total	\$ <u>393,079,000</u>			

A summary of investment income follows:

	<u>2024</u>	<u>2023</u>
Interest and dividends	\$ 12,960,000	\$ 11,270,000
Realized (losses) gains from sale of investments	10,114,000	(1,842,000)
Unrealized gains (losses) on investments	56,495,000	21,241,000
Rental income, net of expenses	(123,000)	(59,000)
Gain (loss) on disposal of capital assets	155,000	(173,000)
Other income	<u>53,000</u>	<u>22,000</u>
Total	\$ <u>79,654,000</u>	\$ <u>30,459,000</u>

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

Continued

SOUTHWELL OBLIGATED GROUP

Notes To Combined Special-Purpose Financial Statements, Continued September 30, 2024 and 2023

6. Property and Equipment

A summary of property and equipment at September 30, 2024 and 2023 follows:

	<u>2024</u>	<u>2023</u>
Land	\$ 10,616,000	\$ 10,676,000
Land improvements	8,984,000	8,948,000
Buildings and improvements	381,609,000	376,009,000
Fixed equipment	29,841,000	29,792,000
Major movable equipment	<u>368,829,000</u>	<u>365,596,000</u>
	799,879,000	791,021,000
Less accumulated depreciation	<u>500,693,000</u>	<u>475,891,000</u>
	299,186,000	315,130,000
Construction-in-progress	<u>869,000</u>	<u>2,863,000</u>
Property and equipment, net	<u>\$ 300,055,000</u>	<u>\$ 317,993,000</u>

7. Goodwill

Goodwill is related to the purchase of Tifton Ophthalmology Associates, P.C. (TOA). The changes in the carrying amount of goodwill are as follows:

	Balance at September 30, <u>2022</u>	<u>Purchases</u>	<u>Amortization</u>	Balance at September 30, <u>2023</u>
TOA	\$ <u>10,000</u>	\$ <u>-</u>	\$(<u>10,000</u>)	\$ <u>-</u>

8. Refundable Advance of Grant Revenue

On July 1, 2020, Southwell Obligated Group entered into a Provider Financial Assistance Agreement (Assistance Agreement) with a grantor. Under the Assistance Agreement, Southwell Obligated Group received a \$6,000,000 conditional grant to maintain the availability of health care and related services during the COVID-19 outbreak. Southwell Obligated Group 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 refundable advance of grant revenue 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 OBLIGATED GROUP

Notes To Combined Special-Purpose Financial Statements, Continued September 30, 2024 and 2023

9. Long-Term Debt

A summary of long-term debt at September 30, 2024 and 2023 follows:

	<u>2024</u>	<u>2023</u>
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.	\$ 69,435,000	\$ 72,470,000
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.	7,905,000	12,313,000
2019-USDA - 2.375% note payable, payable in monthly installments of \$163,000 including interest, secured by the Trust Estate, due November 17, 2048.	35,949,000	37,035,000
2020-USDA - 2.75% note payable, payable in monthly installments of \$82,000 including interest, secured by the Trust Estate, due February 28, 2050.	17,894,000	18,377,000
2021-USDA - 2.125% note payable, payable in monthly installments of \$340,000 including interest, secured by the Trust Estate, due December 15, 2051.	<u>84,201,000</u>	<u>86,460,000</u>
Total long-term debt	215,384,000	226,655,000
Less bond issue cost	(573,000)	(605,000)
Less current portion of long-term debt	<u>(11,085,000)</u>	<u>(10,899,000)</u>
Long-term debt, net of current portion	\$ <u>203,726,000</u>	\$ <u>215,151,000</u>

Southwell Obligated Group 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.

Continued

SOUTHWELL OBLIGATED GROUP

Notes To Combined Special-Purpose Financial Statements, Continued September 30, 2024 and 2023

9. Long-Term Debt, Continued

On June 3, 2021, Southwell Obligated Group issued \$73,540,000 Federally Taxable Refunding Revenue Anticipation Certificates Series 2021 (2021 Series). As security, Southwell Obligated Group created a first pledge of and lien on the gross revenues of Southwell Obligated Group. 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 Obligated Group to provide for the payment of principal and interest on the 2021 Series. Proceeds from the Series 2021 were used to (i) refund a portion of Southwell Obligated Group's outstanding 2013 Series and (ii) pay the cost of issuing the 2021 Series.

On July 1, 2016, Southwell Obligated Group 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 were used for the acquisition, installation, and implementation of an Electronic Medical Records (EMR) system. During the term of the 2016-A Bank, Southwell Obligated Group must maintain a debt service coverage ratio greater than or equal to 1.10 for each quarter. Southwell failed to meet the ratio for the third quarter of 2023. Southwell obtained a waiver of compliance with the ratio for that quarter. The waiver also removed the debt service coverage ratio covenant for the remainder of the agreement but added a day's cash on hand covenant of greater than or equal to 120 days, to be measured semi-annually.

On December 17, 2018, Southwell Obligated Group 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. During the term of the 2019-USDA, Southwell Obligated Group must maintain a debt service coverage ratio greater than or equal to 1.10 and fund a debt service reserve fund.

On February 28, 2020, Southwell Obligated Group 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. During the term of the 2020-USDA, Southwell Obligated Group must maintain a debt service coverage ratio greater than or equal to 1.10 and fund a debt service reserve fund.

On December 15, 2021, Southwell Obligated Group entered into a loan agreement (2021-USDA) for \$90,300,000 with the USDA. Proceeds of the 2021-USDA were used to repay a bank loan which financed the construction of a patient tower and a new emergency center. During the term of the 2021-USDA, Southwell Obligated Group 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 workers' compensation insurance, Southwell Obligated Group has a letter-of-credit from a financial institution. The letter-of-credit is for \$1,564,000 for insurance policy year ending December 31, 2024. As of September 30, 2024, Southwell Obligated Group had not drawn on the letter-of-credit.

Continued

SOUTHWELL OBLIGATED GROUP

Notes To Combined Special-Purpose Financial Statements, Continued September 30, 2024 and 2023

9. Long-Term Debt, Continued

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

<u>Year Ending September 30.</u>	<u>Long-Term Debt</u>
2025	\$ 11,085,000
2026	10,861,000
2027	7,212,000
2028	7,352,000
2029	7,498,000
Thereafter	<u>171,376,000</u>
Total	215,384,000
Less bond issue cost	(<u>573,000</u>)
Total	\$ <u>214,811,000</u>

10. Leases

Southwell Obligated Group has operating and finance leases for buildings and equipment. Southwell Obligated Group 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 combined special-purpose balance sheets.

Southwell Obligated Group has lease agreements which require payments for lease and nonlease components and has elected to account for these as a single lease component.

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

Continued

SOUTHWELL OBLIGATED GROUP

Notes To Combined Special-Purpose Financial Statements, Continued September 30, 2024 and 2023

10. Leases, Continued

Operating and finance lease right-of-use assets and lease liabilities as of September 30, 2024 and 2023 were as follows:

	<u>2024</u>	<u>2023</u>
Operating leases:		
Right-of-use assets:		
Operating lease right-of-use assets	\$ <u>1,083,000</u>	\$ <u>1,534,000</u>
Lease liabilities:		
Current portion	\$ 319,000	\$ 525,000
Long-term	<u>763,000</u>	<u>1,001,000</u>
Total operating lease liabilities	\$ <u>1,082,000</u>	\$ <u>1,526,000</u>
Finance leases:		
Right-of-use assets:		
Finance lease right-of-use assets	\$ <u>4,175,000</u>	\$ <u>5,122,000</u>
Lease liabilities:		
Current portion	\$ 836,000	\$ 761,000
Long-term	<u>3,117,000</u>	<u>3,975,000</u>
Total finance lease liabilities	\$ <u>3,953,000</u>	\$ <u>4,736,000</u>

Operating expenses for the lease activity of Southwell Obligated Group as the lessee for the years ended September 30, 2024 and 2023 are as follows:

<u>Lease Type</u>	<u>2024</u>	<u>2023</u>
Operating lease cost	\$ 706,000	\$ 523,000
Finance lease interest	188,000	37,000
Finance lease amortization	<u>887,000</u>	<u>590,000</u>
Total lease cost	\$ <u>1,781,000</u>	\$ <u>1,150,000</u>

Cash paid for amounts included in the measurement of lease liabilities for the years ended September 30, 2024 and 2023 are as follows:

	<u>2024</u>	<u>2023</u>
Operating cash flows from operating leases	\$ 684,000	\$ 482,000
Operating cash flows from finance leases	189,000	23,000
Financing cash flows from finance leases	<u>723,000</u>	<u>795,000</u>
Total	\$ <u>1,596,000</u>	\$ <u>1,300,000</u>

Continued

SOUTHWELL OBLIGATED GROUP

Notes To Combined Special-Purpose Financial Statements, Continued September 30, 2024 and 2023

10. Leases, Continued

The aggregate future payments on operating and finance leases as of September 30, 2024 were as follows:

<u>Year Ending September 30,</u>	<u>Operating</u>	<u>Finance</u>
2025	\$ 375,000	\$ 988,000
2026	218,000	970,000
2027	214,000	846,000
2028	199,000	531,000
2029	186,000	408,000
Thereafter	<u>50,000</u>	<u>624,000</u>
Total undiscounted cash flows	1,242,000	4,367,000
Less present value discount	(<u>160,000</u>)	(<u>414,000</u>)
Total lease liabilities	\$ <u>1,082,000</u>	\$ <u>3,953,000</u>

Average lease terms and discount rates at September 30, 2024 and 2023 were as follows:

	<u>2024</u>	<u>2023</u>
Weighted-average remaining lease term (years):		
Operating leases	4.47	4.86
Finance leases	5.51	6.34
Weighted-average discount rate:		
Operating leases	6.30%	3.00%
Finance leases	4.20%	3.17%

11. 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 Obligated Group makes certain matching contributions to the 403(b) Plan. Southwell Obligated Group's contributions to the 403(b) Plan were approximately \$7,084,000 and \$6,904,000 during 2024 and 2023, respectively.

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. Contributions to the 457(f) Plan must be approved annually by the Board of Directors. Participants vest in each year's contributions following five years of service. No contributions to the 457(f) Plan were made in 2024 or 2023.

Continued

SOUTHWELL OBLIGATED GROUP

Notes To Combined Special-Purpose Financial Statements, Continued September 30, 2024 and 2023

12. Contingencies

Litigation. Southwell Obligated Group 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 will be resolved without material adverse effect on Southwell Obligated Group'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 Obligated Group 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 Obligated Group 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 Obligated Group has recorded an estimated liability of \$50,000 at September 30, 2024 and 2023, 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 Obligated Group.

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 Southwell Obligated Group'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 Obligated Group's patients, employees, and vendors, all of which are uncertain and cannot be predicted. The extent to which COVID-19 may impact Southwell Obligated Group's financial position or results of operations is uncertain. The federal Public Health Emergency for COVID-19 expired on May 11, 2023.

Continued

SOUTHWELL OBLIGATED GROUP

Notes To Combined Special-Purpose Financial Statements, Continued September 30, 2024 and 2023

13. Insurance Arrangements

General and professional liability. During 2024, Southwell was self-insured for health care facility medical professional liability, commercial general liability, and employee benefit plan administration liability through Segregated Portfolio. Liability limits related to the claims made coverage are \$1,000,000 per event and \$9,000,000 aggregate, with no deductible. Also, Southwell has purchased umbrella professional and general liability insurance coverage. Liability limits related to the occurrence coverage of the umbrella policy are \$10,000,000 per occurrence and \$10,000,000 aggregate. In addition, Southwell has purchased excess liability coverage. Liability limits related to the follow form coverage of the excess liability policy are \$10,000,000 per occurrence and \$10,000,000 aggregate.

Prior to 2024, Southwell Obligated Group had claims-made insurance coverage for professional liability and occurrence insurance coverage for general liability. The insurance policies had limits of \$1,000,000 per claim/occurrence and \$3,000,000 annual aggregate. Southwell Obligated Group was self-insured to cover the deductible portion of its professional and general liability insurance policies. Southwell Obligated Group's deductible for individual claims/occurrences was \$500,000 and annual aggregates of \$6,500,000. Southwell Obligated Group had professional insurance payable of \$17,050,000 and \$6,847,000 and professional insurance recoverable of \$12,940,000 and \$5,144,000 at September 30, 2024 and 2023, respectively.

Employee health. Southwell Obligated Group has a self-insured health plan for its employees. Southwell Obligated Group has purchased stop loss insurance to supplement the health plan, which will reimburse Southwell Obligated Group for individual claims in excess of \$275,000 annually. Southwell Obligated Group incurred expense related to this plan of approximately \$39,446,000 and \$39,031,000 in 2024 and 2023, respectively. Estimated accruals for claims incurred but not reported have been recorded in accrued expenses on the balance sheets. Estimated accruals were approximately \$5,748,000 and \$5,162,000 at September 30, 2024 and 2023, respectively.

Also, Southwell Obligated Group 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)/from the program under the loss financing agreement have been recorded in accrued expenses on the balance sheets. Estimated accruals were approximately \$(1,500,000) and \$(318,000) at September 30, 2024 and 2023, respectively.

Continued

SOUTHWELL OBLIGATED GROUP

Notes To Combined Special-Purpose Financial Statements, Continued September 30, 2024 and 2023

14. Functional Expenses

Southwell Obligated Group provides health care services to residents within its geographic location. Expenses related to providing these services in 2024 and 2023 are as follows:

	September 30, 2024		
	<u>Patient Care Services</u>	<u>General and Administrative</u>	<u>Total</u>
Salaries and wages	\$ 163,524,000	\$ 41,711,000	\$ 205,235,000
Employee benefits	46,570,000	15,081,000	61,651,000
Contract and purchased services	12,319,000	17,799,000	30,118,000
Physician services	24,149,000	224,000	24,373,000
Supplies and drugs	93,423,000	5,401,000	98,824,000
Depreciation	28,479,000	2,817,000	31,296,000
Interest expense	5,217,000	-	5,217,000
Other expenses	<u>10,528,000</u>	<u>38,034,000</u>	<u>48,562,000</u>
Total	<u>\$ 384,209,000</u>	<u>\$ 121,067,000</u>	<u>\$ 505,276,000</u>

	September 30, 2023		
	<u>Patient Care Services</u>	<u>General and Administrative</u>	<u>Total</u>
Salaries and wages	\$ 157,840,000	\$ 42,217,000	\$ 200,057,000
Employee benefits	47,367,000	16,203,000	63,570,000
Contract and purchased services	16,700,000	11,776,000	28,476,000
Physician services	19,025,000	210,000	19,235,000
Supplies and drugs	85,933,000	4,612,000	90,545,000
Depreciation	34,332,000	3,396,000	37,728,000
Goodwill amortization	10,000	-	10,000
Interest expense	5,256,000	-	5,256,000
Other expenses	<u>11,669,000</u>	<u>34,394,000</u>	<u>46,063,000</u>
Total	<u>\$ 378,132,000</u>	<u>\$ 112,808,000</u>	<u>\$ 490,940,000</u>

The combined special-purpose 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.

Continued

SOUTHWELL OBLIGATED GROUP

Notes To Combined Special-Purpose Financial Statements, Continued September 30, 2024 and 2023

15. Fair Value of Financial Instruments

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

- *Cash and cash equivalents, accounts payable, accrued expenses, and estimated third-party payor settlements:* 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 Obligated Group'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 Obligated Group's long-term debt would be classified as Level 2 in the fair value hierarchy.

	2024		2023	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Long-term debt	\$ <u>215,384,000</u>	\$ <u>204,305,000</u>	\$ <u>226,655,000</u>	\$ <u>209,240,000</u>

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, 2024 and 2023.

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, municipal securities, and preferred 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.

Continued

SOUTHWELL OBLIGATED GROUP

Notes To Combined Special-Purpose Financial Statements, Continued September 30, 2024 and 2023

15. Fair Value of Financial Instruments, Continued

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.

16. Rural Hospital Tax Credit Contributions

The State of Georgia (State) passed legislation which will allow individuals or corporations to receive a State tax credit for making a contribution to certain qualified rural hospital organizations during calendar years 2017 through 2029. Southwell Obligated Group submitted the necessary documentation and was approved by the State to participate in the rural hospital tax credit program for calendar years 2017 through 2024. Contributions received under the program approximated \$1,831,000 and \$2,479,000 during fiscal years 2024 and 2023, respectively. Southwell Obligated Group will have to be approved by the State to participate in the program in each subsequent year.

17. Liquidity and Availability

Financial assets available for general expenditure within one year of the balance sheet date, consists of the following at September 30, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Cash and cash equivalents	\$ 32,410,000	\$ 18,194,000
Patient accounts receivable, net	63,926,000	62,114,000
Estimated third-party payor settlements	<u>1,931,000</u>	<u>3,876,000</u>
Total	<u>\$ 98,267,000</u>	<u>\$ 84,184,000</u>

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

Continued

SOUTHWELL OBLIGATED GROUP

Notes To Combined Special-Purpose Financial Statements, Continued September 30, 2024 and 2023

18. CARES and ARP Act Funding

On March 27, 2020, the *Coronavirus, Aid, Relief, and Economic Security 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 and ARP Act). Certain provisions of the CARES and ARP 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 Obligated Group received the following CARES and ARP Act funding during 2024 and 2023:

- \$475 Million Rural Health Clinic COVID-19 Testing and Mitigation Program (RHCCTM) - 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 Obligated Group received \$700,000 in funding from this allocation. Southwell Obligated Group returned \$100,000 to HHS during 2023.
- \$350 Billion APR State Fiscal Recovery Fund (SFRF) - HHS distributed \$350 billion to state, local, and tribal governments to support their response to and recovery from the COVID-19 public health emergency. The State of Georgia was allocated \$4.8 billion. The State of Georgia allocated \$1,045,000 to certain hospitals in the state. The Southwell Obligated Group recognized \$498,000 and \$941,000 in funding from this distribution during 2024 and 2023, respectively.

The CARES and ARP 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 Obligated Group 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 combined special-purpose statements of operations and changes in net assets.

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

Continued

SOUTHWELL OBLIGATED GROUP

Notes To Combined Special-Purpose Financial Statements, Continued September 30, 2024 and 2023

19. Cook County and City of Adel Contributions

Southwell Obligated Group (as the Authority's successor in interest) entered into an Intergovernmental Contract with Cook County (County Contract) whereby Cook County will pay Southwell Obligated Group 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 Obligated Group building and operating a new hospital facility in Cook County and the City of Adel. Southwell Obligated Group received approximately \$263,000 from Cook County during both 2024 and 2023.

Southwell Obligated Group (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 Obligated Group 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 Obligated Group building and operating a new hospital facility in Cook County and the City of Adel. Southwell Obligated Group received approximately \$209,000 from City of Adel during both 2024 and 2023.



INDEPENDENT AUDITOR'S REPORT ON COMBINING INFORMATION

Board of Directors
Tift County Hospital Authority
Southwell, Inc.
Tift Regional Health System, Inc.
Tifton, Georgia

We have audited the accompanying combined special-purpose financial statements of Southwell Obligated Group as defined in the Master Trust Indenture (MTI) between the Tift County Hospital Authority, Southwell, Inc., and Tift Regional Health System, Inc. (collectively Southwell Obligated Group) as Obligated Issuers and U.S. Bank National Association as Master Trustee dated as of December 1, 2002, as amended and supplemented from time to time, as of and for the years ended September 30, 2024 and 2023, and our report thereon dated March 11, 2025, which expressed an unmodified opinion on those combined special-purpose financial statements, appears on pages 1 through 3. Our audits were conducted for the purpose of forming an opinion on the combined special-purpose financial statements as a whole. The combining information included in this report on pages 38 to 41, inclusive, is presented for purposes of additional analysis of the combined special-purpose financial statements rather than to present the financial position, results of operations, and changes in net assets of the individual companies, and is not a required part of the combined special-purpose 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 combining information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined special-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audits of the combined special-purpose financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined special-purpose financial statements or to the combined special-purpose financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining information is fairly stated in all material respects in relation to the combined special-purpose financial statements as a whole.

Draffin & Tucker, LLP

Atlanta, Georgia
March 11, 2025

SOUTHWELL OBLIGATED GROUP
Combining Balance Sheets
(In Thousands)
September 30, 2024

	Tift County Hospital Authority	Southwell, Inc.	Tift Regional Health System, Inc.	Intercompany Eliminations	Total
Assets:					
Current assets:					
Cash and cash equivalents	\$ -	\$ -	\$ 32,410	\$ -	\$ 32,410
Patient accounts receivable, net	-	-	63,926	-	63,926
Estimated third-party payor settlements	-	-	1,931	-	1,931
Supplies, at lower of cost and net realizable value	-	-	2,523	-	2,523
Professional insurance recoverable	-	-	12,940	-	12,940
Other current assets	-	-	10,841	-	10,841
Total current assets	-	-	124,571	-	124,571
Assets limited as to use	-	-	466,430	-	466,430
Property and equipment, net	-	-	300,055	-	300,055
Operating lease right-of-use assets	-	-	1,083	-	1,083
Finance lease right-of-use assets	-	-	4,175	-	4,175
Other investments	-	-	6,350	-	6,350
Prepaid recruitment expense	-	-	6,158	-	6,158
Total assets	\$ -	\$ -	\$ 908,822	\$ -	\$ 908,822
Liabilities and Net Assets:					
Current liabilities:					
Current portion of long-term debt	\$ -	\$ -	\$ 11,085	\$ -	\$ 11,085
Current portion of operating lease liabilities	-	-	319	-	319
Current portion of finance lease liabilities	-	-	836	-	836
Accounts payable	-	-	22,303	-	22,303
Accrued expenses	-	-	31,408	-	31,408
Estimated third-party payor settlements	-	-	1,163	-	1,163
Professional insurance payable	-	-	17,050	-	17,050
Total current liabilities	-	-	84,164	-	84,164
Deferred compensation	-	-	257	-	257
Long-term debt, net of current portion	-	-	203,726	-	203,726
Operating lease liabilities, net of current portion	-	-	763	-	763
Finance lease liabilities, net of current portion	-	-	3,117	-	3,117
Total liabilities	-	-	292,027	-	292,027
Net assets without donor restrictions	-	-	616,795	-	616,795
Total liabilities and net assets	\$ -	\$ -	\$ 908,822	\$ -	\$ 908,822

See report on combining information.

SOUTHWELL OBLIGATED GROUP
Combining Balance Sheets
(In Thousands)
September 30, 2023

	Tift County Hospital Authority	Southwell, Inc.	Tift Regional Health System, Inc.	Intercompany Eliminations	Total
Assets:					
Current assets:					
Cash and cash equivalents	\$ -	\$ -	\$ 18,194	\$ -	\$ 18,194
Patient accounts receivable, net	-	-	62,114	-	62,114
Estimated third-party payor settlements	-	-	3,876	-	3,876
Supplies, at lower of cost and net realizable value	-	-	2,165	-	2,165
Professional insurance recoverable	-	-	5,144	-	5,144
Other current assets	-	-	13,697	-	13,697
Total current assets	-	-	105,190	-	105,190
Assets limited as to use	-	-	387,059	-	387,059
Property and equipment, net	-	-	317,993	-	317,993
Operating lease right-of-use assets	-	-	1,534	-	1,534
Finance lease right-of-use assets	-	-	5,122	-	5,122
Other investments	-	-	6,020	-	6,020
Prepaid recruitment expense	-	-	4,540	-	4,540
Total assets	\$ -	\$ -	\$ 827,458	\$ -	\$ 827,458
Liabilities and Net Assets:					
Current liabilities:					
Current portion of long-term debt	\$ -	\$ -	\$ 10,899	\$ -	\$ 10,899
Current portion of operating lease liabilities	-	-	525	-	525
Current portion of finance lease liabilities	-	-	761	-	761
Accounts payable	-	-	19,426	-	19,426
Accrued expenses	-	-	28,912	-	28,912
Estimated third-party payor settlements	-	-	1,171	-	1,171
Professional insurance payable	-	-	6,847	-	6,847
Total current liabilities	-	-	68,541	-	68,541
Deferred compensation	-	-	789	-	789
Long-term debt, net of current portion	-	-	215,151	-	215,151
Operating lease liabilities, net of current portion	-	-	1,001	-	1,001
Finance lease liabilities, net of current portion	-	-	3,975	-	3,975
Total liabilities	-	-	289,457	-	289,457
Net assets without donor restrictions	-	-	538,001	-	538,001
Total liabilities and net assets	\$ -	\$ -	\$ 827,458	\$ -	\$ 827,458

See report on combining information.

SOUTHWELL OBLIGATED GROUP
Combining Statements of Operations and Changes in Net Assets
(In Thousands)
Year Ended September 30, 2024

	<u>Tift County Hospital Authority</u>	<u>Southwell, Inc.</u>	<u>Tift Regional Health System, Inc.</u>	<u>Intercompany Eliminations</u>	<u>Total</u>
Revenues, gains, and other support:					
Net patient service revenue	\$ -	\$ -	\$ 484,124	\$ -	\$ 484,124
Other revenue	-	-	20,548	-	20,548
ARP Act funding	-	-	498	-	498
	<u>-</u>	<u>-</u>	<u>505,170</u>	<u>-</u>	<u>505,170</u>
Total revenues, gains, and other support	-	-	505,170	-	505,170
Expenses:					
Salaries and wages	-	-	205,235	-	205,235
Employee benefits	-	-	61,651	-	61,651
Contract and purchased services	-	-	30,118	-	30,118
Physician services	-	-	24,373	-	24,373
Supplies and drugs	-	-	98,824	-	98,824
Depreciation	-	-	31,296	-	31,296
Interest expense	-	-	5,217	-	5,217
Other expenses	-	-	48,562	-	48,562
	<u>-</u>	<u>-</u>	<u>505,276</u>	<u>-</u>	<u>505,276</u>
Total expenses	-	-	505,276	-	505,276
Operating loss	-	-	(106)	-	(106)
Nonoperating gains:					
Investment income	-	-	79,654	-	79,654
Rural hospital tax credit contributions	-	-	1,831	-	1,831
	<u>-</u>	<u>-</u>	<u>81,485</u>	<u>-</u>	<u>81,485</u>
Total nonoperating gains	-	-	81,485	-	81,485
Excess revenues (expenses)	-	-	81,379	-	81,379
Capital contributions and related party transfers:					
Capital contributions from Cook County and the City of Adel	-	-	472	-	472
Transfers from Tift Enterprises, Inc.	-	-	586	-	586
Transfers to Southwell Ambulatory, Inc.	-	-	(3,543)	-	(3,543)
Transfers to Southwell Portfolio Insurance Company	-	-	(100)	-	(100)
	<u>-</u>	<u>-</u>	<u>78,794</u>	<u>-</u>	<u>78,794</u>
Change in net assets without donor restrictions	-	-	78,794	-	78,794
Net assets without donor restrictions, beginning of year	-	-	538,001	-	538,001
Net assets without donor restrictions, end of year	\$ <u>-</u>	\$ <u>-</u>	\$ <u>616,795</u>	\$ <u>-</u>	\$ <u>616,795</u>

See report on combining information.

SOUTHWELL OBLIGATED GROUP
Combining Statements of Operations and Changes in Net Assets
(In Thousands)
Year Ended September 30, 2023

	<u>Tift County Hospital Authority</u>	<u>Southwell, Inc.</u>	<u>Tift Regional Health System, Inc.</u>	<u>Intercompany Eliminations</u>	<u>Total</u>
Revenues, gains, and other support:					
Net patient service revenue	\$ -	\$ -	\$ 442,472	\$ -	\$ 442,472
Other revenue	-	-	13,820	-	13,820
ARP Act funding	-	-	841	-	841
Grant revenue	-	-	600	-	600
	<u>-</u>	<u>-</u>	<u>457,733</u>	<u>-</u>	<u>457,733</u>
Total revenues, gains, and other support	<u>-</u>	<u>-</u>	<u>457,733</u>	<u>-</u>	<u>457,733</u>
Expenses:					
Salaries and wages	-	-	200,057	-	200,057
Employee benefits	-	-	63,570	-	63,570
Contract and purchased services	-	-	28,476	-	28,476
Physician services	-	-	19,235	-	19,235
Supplies and drugs	-	-	90,545	-	90,545
Depreciation	-	-	37,728	-	37,728
Goodwill amortization	-	-	10	-	10
Interest expense	-	-	5,256	-	5,256
Other expenses	-	-	46,063	-	46,063
	<u>-</u>	<u>-</u>	<u>490,940</u>	<u>-</u>	<u>490,940</u>
Total expenses	<u>-</u>	<u>-</u>	<u>490,940</u>	<u>-</u>	<u>490,940</u>
Operating loss	<u>-</u>	<u>-</u>	<u>(33,207)</u>	<u>-</u>	<u>(33,207)</u>
Nonoperating gains:					
Investment income	-	-	30,459	-	30,459
Rural hospital tax credit contributions	-	-	2,479	-	2,479
	<u>-</u>	<u>-</u>	<u>32,938</u>	<u>-</u>	<u>32,938</u>
Total nonoperating gains	<u>-</u>	<u>-</u>	<u>32,938</u>	<u>-</u>	<u>32,938</u>
Excess revenues (expenses)	-	-	(269)	-	(269)
Capital contributions and related party transfers:					
Capital contributions from Cook County and the City of Adel	-	-	472	-	472
Transfers from Tift Enterprises, Inc.	-	-	618	-	618
Transfers to Southwell Ambulatory, Inc.	-	-	(3,938)	-	(3,938)
	<u>-</u>	<u>-</u>	<u>(3,117)</u>	<u>-</u>	<u>(3,117)</u>
Change in net assets without donor restrictions	<u>-</u>	<u>-</u>	<u>(3,117)</u>	<u>-</u>	<u>(3,117)</u>
Net assets without donor restrictions, beginning of year	<u>-</u>	<u>-</u>	<u>541,118</u>	<u>-</u>	<u>541,118</u>
Net assets without donor restrictions, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 538,001</u>	<u>\$ -</u>	<u>\$ 538,001</u>

See report on combining information.