

FLOYD HEALTHCARE MANAGEMENT, INC.
ROME, GEORGIA

CONSOLIDATED FINANCIAL STATEMENTS
for the years ended June 30, 2019 and 2018

C O N T E N T S

	<u>Pages</u>
Independent Auditor's Report	1-2
Financial Statements:	
Consolidated Balance Sheets	3-4
Consolidated Statements of Operations and Changes in Net Assets	5
Consolidated Statements of Cash Flows	6-7
Notes to Consolidated Financial Statements	8-52
Supplemental Data:	
Independent Auditor's Report on Supplemental Information	53
Management's Discussion and Analysis of Financial Condition and Results of Operations	54-69



INDEPENDENT AUDITOR'S REPORT

Board of Directors
Floyd Healthcare Management, Inc.
Rome, Georgia

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Floyd Healthcare Management, Inc., which comprise the consolidated balance sheets as of June 30, 2019 and 2018, the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

Continued

Let's Think Together.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Floyd Healthcare Management, Inc. as of June 30, 2019 and 2018, and the results of its operations and changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Changes in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Corporation adopted new accounting guidance, Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Our opinion is not modified with respect to that matter.

As discussed in Note 1 to the consolidated financial statements, the Corporation adopted new accounting guidance, FASB ASC ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

Drayton E. Jackson, LLP

Albany, Georgia
October 28, 2019

FLOYD HEALTHCARE MANAGEMENT, INC.

CONSOLIDATED BALANCE SHEETS

June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 85,698,246	\$ 55,850,678
Assets limited as to use, current	6,734,056	6,669,804
Patient accounts receivable, net	76,045,306	70,599,612
Inventories	11,768,534	9,804,907
Other current assets	<u>12,637,989</u>	<u>13,288,949</u>
Total current assets	<u>192,884,131</u>	<u>156,213,950</u>
Assets limited as to use:		
By board for capital improvements	149,459,503	125,967,383
Under indenture agreement -		
held by trustee	7,471,057	28,411,752
457 F Plan - held by trustee	<u>785,274</u>	<u>1,150,404</u>
Total assets limited as to use	157,715,834	155,529,539
Less amount required to meet current obligations	<u>6,734,056</u>	<u>6,669,804</u>
Noncurrent assets limited as to use	<u>150,981,778</u>	<u>148,859,735</u>
Property, plant and equipment, net	<u>170,242,002</u>	<u>184,742,293</u>
Other assets:		
Other	<u>3,514,410</u>	<u>4,114,043</u>
Total assets	<u>\$ 517,622,321</u>	<u>\$ 493,930,021</u>

	<u>2019</u>	<u>2018</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt	\$ 4,954,286	\$ 3,841,697
Accounts payable	17,202,485	16,342,275
Estimated third-party payor settlements	2,551,130	3,300,333
Accrued expenses:		
Salaries and compensation	7,284,104	6,307,184
Employee benefits	16,560,222	15,103,984
Other	<u>14,482,240</u>	<u>12,261,507</u>
Total current liabilities	63,034,467	57,156,980
Long-term debt, net of current portion	183,532,556	190,026,683
Noncurrent post-retirement liability	30,183,428	25,874,197
Due to the Hospital Authority of Floyd County	<u>9,057,258</u>	<u>9,211,994</u>
Total liabilities	285,807,709	282,269,854
Net assets without donor restrictions	<u>231,814,612</u>	<u>211,660,167</u>
Total liabilities and net assets	<u>\$ 517,622,321</u>	<u>\$ 493,930,021</u>

See auditor's report and notes to financial statements.

FLOYD HEALTHCARE MANAGEMENT, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND
CHANGES IN NET ASSETS
for the years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating revenues:		
Net patient service revenue	\$ 470,876,951	\$ 429,348,199
Other operating revenue	<u>3,416,741</u>	<u>4,068,282</u>
Total operating revenues	<u>474,293,692</u>	<u>433,416,481</u>
Expenses:		
Operating expenses	426,896,370	396,147,502
Depreciation	23,893,543	24,505,509
Interest	<u>7,118,934</u>	<u>7,201,936</u>
Total expenses	<u>457,908,847</u>	<u>427,854,947</u>
Operating income	<u>16,384,845</u>	<u>5,561,534</u>
Nonoperating income (expenses):		
Investment income and other	9,638,454	6,867,833
Pension expense	<u>(65,417)</u>	<u>(2,313,135)</u>
Total nonoperating income	<u>9,573,037</u>	<u>4,554,698</u>
Excess revenues over expenses	25,957,882	10,116,232
Contributions for capital improvement and expansion	1,651,667	-
Defined benefit pension plan:		
Current year actuarial gain (loss)	(8,118,546)	6,575,712
Amortization of actuarial loss	527,206	685,410
Equity transfer to fund Hospital Authority of Floyd County Pension Plan	<u>136,236</u>	<u>763,138</u>
Increase in net assets without donor restrictions	20,154,445	18,140,492
Net assets, beginning of year	<u>211,660,167</u>	<u>193,519,675</u>
Net assets, end of year	<u>\$ 231,814,612</u>	<u>\$ 211,660,167</u>

See auditor's report and notes to financial statements.

FLOYD HEALTHCARE MANAGEMENT, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
for the years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ 20,154,445	\$ 18,140,492
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Proceeds from contributions for capital improvements and expansion	(1,651,667)	-
Depreciation	23,893,543	24,505,509
Amortization	(842,262)	(860,066)
Pension deferrals	7,591,340	(7,261,122)
Pension expense	65,417	2,313,135
Pension contributions	(2,982,396)	(1,107,860)
Realized and unrealized gain on investments	(5,199,901)	(3,408,113)
Changes in:		
Patient accounts receivable	(5,445,694)	(9,585,568)
Inventories and other assets	(713,034)	(4,914,405)
Accounts payable, accrued expenses, and other current liabilities	5,514,101	5,057,046
Estimated third-party payor settlements	(749,203)	1,505,593
Due to the Hospital Authority of Floyd County	<u>(154,736)</u>	<u>(843,538)</u>
Net cash provided by operating activities	<u>39,479,953</u>	<u>23,541,103</u>
Cash flows from investing activities:		
Purchase of property and equipment	(9,393,252)	(12,841,374)
Proceeds from sale of investments	75,279,119	42,823,666
Purchase of investments	(72,630,643)	(54,953,709)
Cash received on lease	<u>-</u>	<u>409,247</u>
Net cash used by investing activities	<u>(6,744,776)</u>	<u>(24,562,170)</u>

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS, Continued
for the years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from financing activities:		
Payment on long-term debt	\$ (4,539,276)	\$ (3,746,971)
Proceeds from the contributions for capital improvements and expansion	<u>1,651,667</u>	<u>-</u>
Net cash used by financing activities	<u>(2,887,609)</u>	<u>(3,746,971)</u>
Net increase (decrease) in cash and cash equivalents	29,847,568	(4,768,038)
Cash and cash equivalents, beginning of year	<u>55,850,678</u>	<u>60,618,716</u>
Cash and cash equivalents, end of year	<u>\$ 85,698,246</u>	<u>\$ 55,850,678</u>

Supplemental disclosures of cash flow information:

- Cash paid for interest in 2019 and 2018 was approximately \$8,000,000.
- During 2019, the Corporation refinanced debt. See Note 7 for additional information.

Pursuant to the Lease Agreement described in Note 1, the non-cash liabilities transferred under the lease agreement for the year ended June 30, 2018 are as follows:

Accrued vacation liability	\$ 302,879
Utilities liability	49,882
Equipment lease	<u>56,486</u>
Total non-cash items received	<u>\$ 409,247</u>

See auditor's report and notes to financial statements.

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019 and 2018

1. Summary of Significant Accounting Policies

Organization

Floyd Healthcare Management, Inc. (Corporation), a Georgia not-for-profit corporation, provided management services to the Hospital Authority of Floyd County through December 31, 1997 pursuant to a management agreement. The following entities comprised the Hospital Authority of Floyd County (Authority) prior to a lease of the facilities as described below: Floyd Medical Center, an acute care hospital providing inpatient, outpatient, and primary care services; Floyd Behavioral Health Center, a long-term care psychiatric facility; Heyman HospiceCare at Floyd; and Floyd Home Health Agency.

Pursuant to the Lease, Transfer and Reversion Agreement between Hospital Authority of Floyd County and Floyd Healthcare Management, Inc. (Lease) the Authority leased the above described operations and substantially all of its net assets to Floyd Healthcare Management, Inc., effective January 1, 1998. The Corporation sold the home healthcare services in 2007. The above-mentioned management agreement was replaced and superseded by the Lease. The consideration to be paid by the Corporation consists primarily of: payment of principal and interest on the Hospital Authority of Floyd County Revenue Anticipation Certificates; payment equal to the contribution which the Authority is required to make to satisfy minimum funding obligations under the Authority's Pension Plan with respect to benefits which had accrued under such plan prior to the Lease; and the provision of healthcare services to indigent, charity and other needy patients equal but not limited to a minimum dollar amount annually as set forth in the Lease.

In 2012, the Authority entered into a lease agreement with Cedartown-Polk County Hospital Authority (Cedartown-Polk Authority) to lease all of the assets associated with Polk Medical Center, a Critical Access Hospital (CAH) providing inpatient and outpatient services. The lease had an effective date of April 1, 2012, at which time the assets and operations of Polk Medical Center transferred to the Authority. Upon signing the lease, the Corporation created a Georgia nonprofit corporation called Polk Medical Center, Inc. (PMCI) to manage the day to day operations of Polk Medical Center through a management agreement. The Corporation is the sole member of PMCI. Pursuant to the lease and related agreements, PMCI applied for and was granted a Certificate of Need to build a new hospital to be owned by Cedartown-Polk Authority to replace the current facilities at Polk Medical Center at no cost to Cedartown-Polk Authority. Construction of the new hospital was completed in November 2014. On November 6, 2014, the new facility opened, at which time, the Authority's lease with Cedartown-Polk Authority ended and a new lease agreement became effective between PMCI and Cedartown-Polk Authority. When the Authority's lease with Cedartown-Polk Authority ended, the assets, liabilities and operations of Polk Medical Center transferred to Cedartown-Polk Authority. The new lease between PMCI and Cedartown-Polk Authority had a 35-year term and an effective date of November 6, 2014, at which time the assets and operations of Polk Medical Center transferred to PMCI.

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FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2019 and 2018

1. Summary of Significant Accounting Policies, Continued

Organization, Continued

Floyd Cherokee Medical Center, LLC (FCMC) is an Alabama limited liability corporation that was created on April 10, 2018. Floyd Healthcare Management, Inc. (Corporation) is the sole member of FCMC. FCMC entered into a lease with an effective date of June 1, 2018 with the Cherokee County Health Care Authority, an Alabama public corporation organized under the laws of the State of Alabama, to transfer control of Cherokee Medical Center to FCMC. Cherokee Medical Center is a 60-bed acute care hospital located in Centre, Alabama.

The consolidated financial statements include the accounts of the Corporation and its affiliates, Floyd Medical Center (FMC), Floyd Behavioral Health Center, Floyd Primary Care, Heyman HospiceCare at Floyd, Floyd Emergency Physicians, Floyd Emergency Medical Services, Accountable Care Organization of Floyd Medical Center, LLC, Floyd Neonatology Physicians, LLC, Polk Medical Center, Inc., and Floyd Cherokee Medical Center, LLC. Significant intercompany transactions have been eliminated.

Use of Estimates

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

Cash and Cash Equivalents

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

The Corporation routinely invests its surplus operating funds in money market mutual funds. These funds generally invest in highly liquid U. S. government and agency obligations.

Inventory

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

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FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2019 and 2018

1. Summary of Significant Accounting Policies, Continued

Assets Limited as to Use

Assets limited as to use include assets set aside by the Board for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes, assets held by trustees under indenture agreements, and assets held by trustee for the 457 F Plan. Amounts required to meet current liabilities of the Corporation have been reclassified in the balance sheet at June 30, 2019 and 2018.

Assets limited as to use invested in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheet. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of revenues over expenses unless the investments are trading securities.

Property and Equipment

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

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

Impairment of Long-Lived Assets

The Corporation evaluates on an ongoing basis the recoverability of its assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is required to be recognized if the carrying value of the asset exceeds the undiscounted future net cash flows associated with that asset. The impairment loss to be recognized is the amount by which the carrying value of the long-lived asset exceeds the asset's fair value. In most instances, the fair value is determined by discounted estimated future cash flows using an appropriate interest rate. The Corporation has not recorded any impairment charges in the accompanying consolidated statements of operations and changes in net assets for the years ended June 30, 2019 and 2018.

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FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2019 and 2018

1. Summary of Significant Accounting Policies, Continued

Costs of Borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Deferred Financing Cost

Costs related to the issuance of the 2012A, 2012B, FMC 2016, and PMCI 2016 Revenue Certificates were deferred and are being amortized using the effective interest method over the life of the related debt. Debt issuance costs related to a recognized debt liability are presented in the balance sheets as a direct deduction from the carrying amount of the related debt liability.

Pension Plan

The Corporation sponsors a defined benefit pension plan. The Corporation recognizes the overfunded and underfunded status of the defined benefit pension plan in its consolidated balance sheets. Changes in the funded status are recorded in the year in which the changes occurred in the consolidated statements of operations. Components of the net periodic pension cost are reported in nonoperating income (expenses). 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.

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2019 and 2018

1. Summary of Significant Accounting Policies, Continued

Excess of Revenues Over Expenses

The consolidated statement of operations and changes in net assets includes excess of revenues over expenses as a performance indicator. Changes in net assets without donor restrictions which are excluded from the performance indicator, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods and services, defined benefit actuarial gains and losses and the resulting amortization associated with those gains and losses, defined benefit prior service costs and credits and the resulting amortization associated with those costs and credits, 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).

Charity Care

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

Net Patient Service Revenue

The Corporation has agreements with third-party payors that provide for payments to the Corporation at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the amount that reflects the consideration to which the Corporation expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors, and others and include 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.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Corporation are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as increases in the appropriate categories of net assets in accordance with donor restrictions.

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FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2019 and 2018

1. Summary of Significant Accounting Policies, Continued

Risk Management

The Corporation is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters. The Corporation is self-insured for employee health and accident benefits as well as medical malpractice claims and judgments, as discussed in Note 9. The provisions for estimated claims under self-insurance plans include estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Income Taxes

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

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

Based on the results of management's evaluation, no liability is recognized in the accompanying balance sheet for unrecognized income tax positions. Further, no interest or penalties have been accrued or charged to expense as of June 30, 2019 and 2018 or for the years then ended. The Corporation's tax returns are subject to possible examination by the taxing authorities. For federal income tax purposes, the tax returns essentially remain open for possible examination for a period of three years after the respective filing deadlines of those returns.

Fair Value Measurements

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

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FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2019 and 2018

1. Summary of Significant Accounting Policies, Continued

FASB ASC 820 describes the following three levels of inputs that may be used:

- Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets and liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2: Observable prices that are based on inputs not quoted on active markets but corroborated by market data.
- Level 3: Unobservable inputs when there is little or no market data available, thereby requiring an entity to develop its own assumptions. The fair value hierarchy gives the lowest priority to Level 3 inputs.

Recently Adopted Accounting Pronouncements

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This comprehensive standard provides guidance on net asset classification and required disclosures on liquidity and availability of resources, requires expanded disclosure about expense and investment returns, and eliminates the requirement to present or disclose the indirect method reconciliation if using the direct method when presenting cash flows. The standard is effective for annual periods beginning after December 15, 2017. The Corporation has adjusted the presentation of these consolidated financial statements for all periods presented, except for the disclosures around liquidity and availability of resources. Those disclosures have been presented for 2019 only, as allowed by ASU No. 2016-14.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which is a new comprehensive revenue recognition standard. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Corporation adopted ASU No. 2014-09 on July 1, 2018 using the full retrospective method of transition with practical expedients in FASB ASC 606-10-65-1(f) with no significant impact. The Corporation performed an analysis of revenue streams and transactions under ASU No. 2014-09. In particular, for net patient service revenue, the Corporation performed an analysis into the application of the portfolio approach as a practical expedient to group patient contracts with similar characteristics, such that revenue for a given portfolio would not be materially different than if it were evaluated on a contract-by-contract basis. Upon adoption, the majority of what was previously classified as provision for bad debts (representing approximately \$129 million for the year ended June 30, 2018) and presented as a reduction to net patient service revenue on the statements of operations is now treated as a price concession that reduces the

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FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2019 and 2018

1. Summary of Significant Accounting Policies, Continued

Recently Adopted Accounting Pronouncements, Continued

transaction price, which is reported as net patient service revenue. Changes in credit issues not assessed at the date of service, are recognized as bad debt expense and included as a component of operating expenses on the statement of operations. The new standard also requires enhanced disclosures related to the disaggregation of revenue and significant judgments made in measurement and recognition. The adoption of this guidance did not materially impact total operating revenues, excess revenues, or net assets.

Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which is a new comprehensive lease accounting model. The new standard clarifies the definition of a lease and requires lessees to recognize right-of-use assets and related lease liabilities for all leases with terms greater than twelve months. The new guidance, including subsequent amendments, is effective for the Corporation as of July 1, 2019. The Corporation is continuing to evaluate the impact the guidance will have on the consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments-Overall (Subtopic 825-10: Recognition and Measurement of Financial Assets and Financial Liabilities)*. The new guidance requires equity investments (except those accounted for under the equity method or those that result in consolidation) to be measured at fair value, with changes in fair value recognized in net income; simplifies the impairment assessment of equity investments without readily determinable fair values; and amends certain disclosure requirements associated with the fair value of financial instruments. The standard is effective for annual periods beginning after December 15, 2018. The Corporation expects to adopt the new guidance for the year ending June 30, 2020 and is continuing to evaluate the impact the guidance will have on the consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows – Restricted Cash*, which requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The provisions of ASU 2016-18 are effective for annual periods beginning after December 15, 2018. The Corporation expects to adopt the new guidance for the year ending June 30, 2020 and is continuing to evaluate the impact the guidance will have on the consolidated financial statements.

Prior Year Reclassification

Certain reclassifications have been made to the fiscal year 2018 consolidated financial statements to conform to the fiscal year 2019 presentation. These reclassifications had no impact on the change in net assets in the accompanying consolidated financial statements.

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2019 and 2018

1. Summary of Significant Accounting Policies, Continued

Subsequent Event

In preparing these consolidated financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through October 28, 2019, the date the consolidated financial statements were issued.

2. Net Patient Service Revenue

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

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

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

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2019 and 2018

2. Net Patient Service Revenue, Continued

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

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

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

- Medicare

Inpatient acute care, psychiatric and rehabilitation services are paid at prospectively determined rates per discharge based on clinical, diagnostic and other factors. Physician services are paid based upon established fee schedules. Outpatient services are paid using prospectively determined rates.

FMC is paid for certain reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports by FMC and audits thereof by the Medicare Administrative Contractor (MAC). FMC's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with FMC. FMC's Medicare cost reports have been audited by the MAC through June 30, 2016.

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2019 and 2018

2. Net Patient Service Revenue, Continued

- Medicaid

Inpatient acute care services are paid at prospectively determined rates per discharge based on clinical, diagnostic and other factors. Outpatient services are paid based upon cost reimbursement methodologies. FMC is paid for certain cost reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports by the Corporation and audits thereof by the Medicaid fiscal intermediary. FMC's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through June 30, 2016.

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

FMC participates in the Georgia Indigent Care Trust Fund (ICTF) Program. FMC receives ICTF payments for treating a disproportionate number of Medicaid and other indigent patients. ICTF payments are based on FMC's estimated uncompensated cost of services to Medicaid and uninsured patients. The amount of ICTF payments recognized in net patient service revenue in the consolidated financial statements include payment adjustments for the years ended June 30, 2019 and 2018 of approximately \$4,400,000 and \$4,200,000, respectively.

The Medicare, Medicaid, and SCHIP Benefits Improvement and Protection Act of 2000 (BIPA) provides for payment adjustments to certain facilities based on the Medicaid Upper Payment Limit (UPL). The UPL payment adjustments are based on a measure of the difference between Medicaid payments and the amount that could be paid based on Medicare payment principles. The net amount of UPL payment adjustments recognized in net patient service revenue was approximately \$2,800,000 and \$3,500,000 to FMC for the years ended June 30, 2019 and 2018, respectively.

During 2010, the state of Georgia enacted legislation known as the Provider Payment Agreement Act (Act) whereby hospitals in the state of Georgia are assessed a "provider payment" in the amount of 1.45% of their net patient revenue. The Act became effective July 1, 2010, the beginning of state fiscal year 2011. The provider payments are due on a quarterly basis to the Department of Community Health. The payments are to be used for the sole purpose of obtaining federal financial participation for medical assistance payments to providers on behalf of Medicaid recipients. The provider payment will result in an increase in hospital payments on Medicaid services of approximately 11.88%. FMC recorded approximately \$4,400,000 and \$4,200,000 relating to the Act in operating expenses in the accompanying statement of operations for the years ended 2019 and 2018, respectively.

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2019 and 2018

2. Net Patient Service Revenue, Continued

- Other Arrangements

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

- Uninsured Patients

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

A summary of PMCI's payment arrangements with major third-party payors follows:

- Medicare

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

PMCI is paid for certain cost reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports by the Corporation and audits thereof by the Medicare Administrative Contractor (MAC). PMCI's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with PMCI. PMCI's Medicare cost reports have been audited by the MAC through June 30, 2016.

- Medicaid

Inpatient acute care services are paid at prospectively determined rates per discharge based on clinical, diagnostic and other factors. Outpatient services are paid based upon cost reimbursement methodologies. PMCI is paid for certain cost reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports by the Corporation and audits thereof by the Medicaid fiscal intermediary. PMCI's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through June 30, 2015.

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2019 and 2018

2. Net Patient Service Revenue, Continued

- Medicaid, Continued

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

PMCI participates in the Georgia Indigent Care Trust Fund (ICTF) Program. The Corporation receives ICTF payments for treating a disproportionate number of Medicaid and other indigent patients. ICTF payments are based on PMCI's estimated uncompensated cost of services to Medicaid and uninsured patients. The amount of ICTF payments recognized in net patient service revenue was approximately \$1,600,000 for the years ended June 30, 2019 and 2018, respectively.

The Medicare, Medicaid and SCHIP Benefits Improvement and Protection Act of 2000 (BIPA) provides for payment adjustments to certain facilities based on the Medicaid Upper Payment Limit (UPL). The UPL payment adjustments are based on a measure of the difference between Medicaid payments and the amount that could be paid based on Medicare payment principles. The net amount of UPL payment adjustments recognized in net patient service revenue was approximately \$80,000 and \$129,000 for the years ended June 30, 2019 and 2018, respectively.

- Other Arrangements

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

- Uninsured Patients

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

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2019 and 2018

2. Net Patient Service Revenue, Continued

A summary of FCMC's payment arrangements with major third-party payors follows:

- Medicare

Inpatient acute care and outpatient services are paid at prospectively determined rates per discharge based on clinical, diagnostic and other factors.

FCMC is paid for certain cost reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports by FCMC and audits thereof by the Medicare Administrative Contractor (MAC). FCMC's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with FCMC.

- Medicaid

Inpatient services rendered to Medicaid program beneficiaries are reimbursed at an all-inclusive per diem rate based on date of adjudication in a given state fiscal year plus an Upper Payment Limit payment. Outpatient services are paid based upon a fee schedule.

Under this plan, private hospitals are assessed a tax, to be paid in quarterly installments, equivalent to 5.5% percent of 2014 revenue for state fiscal year 2019. FCMC anticipates that the total amounts received for Medicaid patients under the new plan will more than offset the amount of the assessment tax. Under the plan, private hospitals could be paid three payments for inpatient care; per diem for claims submitted, lump sum DSH and quarterly access payments based upon the upper payment limit calculation (UPL); and two payments for outpatient care: encounter payments and outpatient UPL.

- Other Arrangements

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

- Uninsured Patients

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

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2019 and 2018

2. Net Patient Service Revenue, Continued

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

Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Corporation's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in the transaction price, were not significant in 2019 and 2018.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Corporation also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The Corporation estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Adjustments arising from a change in the transaction price were not significant for the years ending June 30, 2019 and 2018. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense for the years ended June 30, 2019 and 2018 was not significant.

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

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2019 and 2018

2. Net Patient Service Revenue, Continued

Patients who meet the Corporation'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 June 30, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Medicare	\$ 167,903,240	\$ 135,923,056
Medicaid	60,752,485	63,871,953
Third-party payors	231,535,241	221,275,320
Self-pay	<u>10,685,985</u>	<u>8,277,870</u>
Net patient service revenue	<u>\$ 470,876,951</u>	<u>\$ 429,348,199</u>

Net patient service revenue by facility, line of business, and timing of revenue recognition for the years ended June 30, 2019 and 2018 are as follows:

June 30, 2019

	<u>FMC</u>	<u>PMCI</u>	<u>FCMC</u>	<u>Total</u>
Service lines:				
Hospital	\$390,179,169	\$ 32,213,785	\$ 9,842,027	\$432,234,981
Physician Practice	33,166,637	-	-	33,166,637
Ambulance	<u>5,475,333</u>	<u>-</u>	<u>-</u>	<u>5,475,333</u>
Total	<u>\$428,821,139</u>	<u>\$ 32,213,785</u>	<u>\$ 9,842,027</u>	<u>\$470,876,951</u>

Timing of revenue
and recognition:

Services transferred over time	<u>\$428,821,139</u>	<u>\$ 32,213,785</u>	<u>\$ 9,842,027</u>	<u>\$470,876,951</u>
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FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2019 and 2018

2. Net Patient Service Revenue, Continued

<u>June 30, 2018</u>	<u>FMC</u>	<u>PMCI</u>	<u>FCMC</u>	<u>Total</u>
Service lines:				
Hospital	\$ 360,227,164	\$ 33,057,457	\$ 934,799	\$394,219,420
Physician Practice	30,754,902	-	-	30,754,902
Ambulance	<u>4,373,877</u>	<u>-</u>	<u>-</u>	<u>4,373,877</u>
Total	<u>\$395,355,943</u>	<u>\$ 33,057,457</u>	<u>\$ 934,799</u>	<u>\$429,348,199</u>
Timing of revenue and recognition:				
Services transferred over time	<u>\$ 395,355,943</u>	<u>\$ 33,057,457</u>	<u>\$ 934,799</u>	<u>\$ 429,348,199</u>

Hospital net patient service revenue includes a variety of services mainly covering inpatient acute care services requiring overnight stays, outpatient procedures that require anesthesia or use of the Corporation's diagnostic and surgical equipment, and emergency care services. Performance obligations for the patient services are satisfied over time as the patient simultaneously receives and consumes the benefits the Corporation 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. Retail pharmacy, cafeteria, and gift shop revenue, recorded in other revenue on the consolidated statements of operations, performance obligations are satisfied at a point in time when the goods are provided.

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

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

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2019 and 2018

3. Uncompensated Charges

The Corporation was compensated for services at amounts less than its established rates. Net patient service revenue includes amounts, representing the transaction price, based on standard charges reduced by variable considerations such as contractual adjustments, discounts, and implicit price concessions. The charges for these uncompensated services for 2019 and 2018 were approximately \$1,435,800,000 and \$1,239,900,000, respectively.

Uncompensated charges include charity and indigent care services of approximately \$68,300,000 and \$63,700,000 in 2019 and 2018, respectively. Charity and indigent care services provided to Floyd County residents in 2019 and 2018 were approximately \$32,200,000 and \$31,300,000, respectively. Charity and indigent care services provided to Polk County residents in 2019 and 2018 were approximately \$14,000,000 and \$13,900,000, respectively. The cost of charity and indigent care services provided during 2019 and 2018 was approximately \$16,400,000 and \$16,300,000, respectively computed by applying a total cost factor to the charges foregone.

The following is a summary of uncompensated charges and a reconciliation of gross patient charges to net patient service revenue for 2019 and 2018.

	<u>2019</u>	<u>2018</u>
Gross patient charges	<u>\$ 1,906,685,443</u>	<u>\$ 1,669,261,416</u>
Uncompensated charges:		
Charity and indigent care	68,328,573	63,748,457
Medicare	579,453,033	523,626,762
Medicaid	270,668,403	240,306,838
Other third-party payors	337,058,181	282,975,950
Price concessions	<u>180,300,302</u>	<u>129,255,210</u>
Total uncompensated charges	<u>1,435,808,492</u>	<u>1,239,913,217</u>
Net patient service revenue	<u>\$ 470,876,951</u>	<u>\$ 429,348,199</u>

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2019 and 2018

4. Concentrations of Credit Risk

The Corporation located in Northwest Georgia and Northeast Alabama, grants credit without collateral to its patients substantially all of whom are local residents of Northwest Georgia and Northeast Alabama and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	<u>2019</u>	<u>2018</u>
Medicare	20%	25%
Medicaid	9%	8%
Other	<u>71%</u>	<u>67%</u>
Total	<u>100%</u>	<u>100%</u>

Management considers the concentrations of credit risk with respect to accounts receivable to be limited due to the large number of patients comprising the receivables base.

The Corporation maintains deposits with financial institutions which exceed the Federal Depository insurance limits. At June 30, 2019, management believes the credit risk associated with these deposits is minimal.

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2019 and 2018

5. Assets Limited as to Use

All assets limited as to use are classified as trading securities.

Assets limited as to use are stated at fair value. The composition of assets limited as to use at June 30, 2019 and 2018 is set forth in the following table.

	<u>2019</u>	<u>2018</u>
Assets limited as to use:		
By board for capital improvements:		
Cash and cash equivalents	\$ 527,193	\$ 734,997
CMO and asset backed securities	1,836,762	1,391,081
Mutual funds - equity	55,600,276	48,224,533
Mutual funds - corporate bonds	9,803,248	10,502,216
Mutual funds - fixed income	16,037,127	8,697,344
Mutual funds - international	5,519,063	3,279,039
Mutual funds - real estate	1,511,731	913,561
Corporate bonds	15,759,337	16,365,656
Mortgage backed securities	9,783,052	8,697,990
Federal agency bonds	1,225,840	1,159,737
U.S. Treasury obligations	10,122,443	8,249,095
Investment in Babson Partnership	4,028,315	3,274,214
Investment in TCW Partnership	1,230,689	1,763,757
Equities - common stock	11,553,857	10,547,930
U.S. government index fund	<u>4,920,570</u>	<u>2,166,233</u>
	<u>149,459,503</u>	<u>125,967,383</u>
Under indenture agreement - held by trustee:		
Cash and cash equivalents	<u>7,471,057</u>	<u>28,411,752</u>
457 F Plan - held by trustee:		
Cash and cash equivalents	60,269	110,330
Mutual funds - equity	392,008	945,864
Mutual funds - international	69,452	13,098
Corporate bonds	<u>263,545</u>	<u>81,112</u>
	<u>785,274</u>	<u>1,150,404</u>
Total assets limited as to use	<u>\$ 157,715,834</u>	<u>\$ 155,529,539</u>

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2019 and 2018

5. Assets Limited as to Use, Continued

Interest income, losses, and gains for assets limited as to use, cash equivalents, and other investments are comprised of the following for the years ending June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Income:		
Interest and dividend income	\$ 4,438,553	\$ 3,459,720
Realized gain on trading securities	182,523	88,332
Unrealized gain on trading securities	<u>5,017,378</u>	<u>3,319,781</u>
 Total investment income net of investment expenses	 <u>\$ 9,638,454</u>	 <u>\$ 6,867,833</u>

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

6. Property, Plant and Equipment

A summary of property, plant and equipment at June 30, 2019 and 2018 follows:

	<u>2019</u>	<u>2018</u>
Land	\$ 15,349,575	\$ 15,014,733
Land improvements	4,732,587	4,767,304
Buildings	166,788,415	167,216,158
Fixed equipment	53,497,827	53,479,895
Major moveable equipment	166,729,587	163,625,360
Leasehold improvements	11,036,000	11,093,330
Building under capital lease	<u>6,982,586</u>	<u>6,982,586</u>
	425,116,577	422,179,366
Less accumulated depreciation	<u>258,030,633</u>	<u>240,720,924</u>
	167,085,944	181,458,442
Construction in progress	<u>3,156,058</u>	<u>3,283,851</u>
 Property, plant and equipment, net	 <u>\$ 170,242,002</u>	 <u>\$ 184,742,293</u>

Depreciation expense for the years ended June 30, 2019 and 2018 amounted to approximately \$23,900,000 and \$24,500,000, respectively. Accumulated amortization for buildings under capital lease obligations was \$3,600,000 and \$3,200,000 at June 30, 2019 and 2018, respectively. There are no construction contracts at year end.

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2019 and 2018

7. Long-Term Debt

Long-term debt and capital lease obligations for the years ended June 30, 2019 and 2018 follows:

	<u>2019</u>	<u>2018</u>
Revenue Certificates, Series 2012A payable in installments ranging from \$450,000 to \$585,000 each July 1, until 2026 with a final payment of \$13,380,000 on July 1, 2042. The certificates are guaranteed by the gross revenues of the Obligated Group. The certificates bear interest rates per annum ranging from 2.00% to 5.00%.	\$ 17,565,000	\$ 18,015,000
Revenue Certificates, 2012B payable in installments ranging from \$1,225,000 to \$3,725,000 each July 1, until 2027 with a final payment of \$10,915,000 on July 1, 3032. The certificates are guaranteed by the gross revenues of the Obligated Group. The certificates bear interest rates per annum ranging from 4.00% to 5.00%.	25,050,000	26,275,000
Revenue Certificates, FMC Series 2016 payable in installments ranging from \$1,400,000 to \$6,220,000 each July 1, until 2043. The certificates are guaranteed by the gross revenues of the Obligated Group. The certificates bear interest rates per annum ranging from 3.125% to 5.00%.	80,600,000	82,000,000
Revenue Certificates, PMCI Series 2016 payable in installments ranging from \$35,000 to \$5,515,000 each July 1, until 2039. The certificates are guaranteed by the gross revenues of the Obligated Group. The certificates bear interest rates per annum ranging from 3.125% to 5.00%.	30,245,000	30,325,000

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2019 and 2018

7. Long-Term Debt, Continued

	<u>2019</u>	<u>2018</u>
Notes payable with monthly payments ranging from \$9,266 to \$30,358, guaranteed by the gross revenues of Floyd Healthcare Management, Inc.	\$ 5,094,850	\$ 5,403,487
Capital lease obligations, collateralized by buildings, with interest rates from 5.25% to 5.37% and monthly payments ranging from \$16,100 to \$42,488.	4,750,719	5,128,862
Term loan, guaranteed by the gross revenues of Floyd Healthcare Management, Inc. and the Authority, payable in monthly installments of \$125,000 including interest of 4.02% until 2031.	14,302,504	-
Revolving line of credit guaranteed by the gross revenues of Floyd Healthcare Management, Inc. and the Authority, interest rates vary on a weekly basis. Interest is paid monthly.	<u>-</u>	<u>15,000,000</u>
Total long-term debt	177,608,073	182,147,349
Unamortized bond premium	13,484,560	14,497,587
Less unamortized bond issuance costs	(2,605,791)	(2,776,556)
Less current maturities of long-term debt	<u>(4,954,286)</u>	<u>(3,841,697)</u>
Long-term debt, net of current maturities	<u>\$ 183,532,556</u>	<u>\$ 190,026,683</u>

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2019 and 2018

7. Long-Term Debt, Continued

Scheduled principal repayments on long-term debt and payments on capital lease obligations for the next five years are as follows:

	Long-Term Debt	Capital Lease Obligation
2020	\$ 4,549,217	\$ 656,486
2021	4,731,164	671,632
2022	4,935,030	687,139
2023	5,150,895	703,019
2024	5,373,840	719,281
Thereafter	<u>148,117,208</u>	<u>2,581,872</u>
	172,857,354	6,019,429
Less amount representing interest under capital lease obligation	<u>-</u>	<u>1,268,710</u>
Total	<u>\$ 172,857,354</u>	<u>\$ 4,750,719</u>

Revenue Anticipation Certificates, FMC Series 2016 were issued to (i) finance the cost of acquisition, construction, equipping and installation of certain additions, extensions and improvements to healthcare facilities and equipment operated by Floyd Healthcare Management, Inc.; (ii) pay all or a portion of the costs of issuance of the FMC Series 2016 Certificates; (iii) refund all of the Series 2003 Certificates; and (iv) advance refund all of the Series 2009 Certificates. Under the terms of an escrow agreement, a portion of the proceeds for the FMC Series 2016 Certificates was deposited into an escrow fund in order to redeem the remaining Series 2009 Certificates on July 1, 2019. The defeasance resulted in a loss of approximately \$5,603,000.

Revenue Anticipation Certificates, PMCI Series 2016 were issued to (i) refund the \$34 million due under a Bridge Loan Agreement; (ii) finance certain renovation projects; and (iii) pay costs of issuance of the PMCI Series 2016 Certificates.

Revenue Anticipation Certificates, Series 2012A were issued to (i) finance or refinance, in whole or in part, the costs of the acquisition, construction, renovation, expansion, installation and equipping of new or existing medical and healthcare facilities and equipment of the Corporation; (ii) fund a debt service reserve fund; and (iii) pay all or a portion of the costs of issuance of the Series 2012A Certificates.

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2019 and 2018

7. Long-Term Debt, Continued

Revenue Anticipation Certificates, Series 2012B were issued to (i) refund the \$35,000,000 Series 2002 Certificates; (ii) fund a debt service reserve fund; and (iii) pay all or a portion of the costs of issuance of the Series 2012B Certificates. The provision for payment of the Series 2002 Certificates constitutes a defeasance of the bonds and the lien on the related bond indentures. The defeasance resulted in a loss of approximately \$687,000.

The Corporation, PMCI, and the Authority are members of the Obligated Group of the Revenue Anticipation Certificates FMC Series 2016, PMCI Series 2016, Series 2012A, and Series 2012B. Additionally, if the Authority and the Corporation cannot meet their obligation under the FMC Series 2016, Series 2012A, and Series 2012B Certificates, Floyd County has agreed to make payments to the Certificate Trustee sufficient to guarantee the payment of the principal and interest on these certificates pursuant to Georgia law and the constitutional power of the County.

At its option, to be exercised on or before the 45th day preceding any sinking fund redemption date, the Corporation may (a) deliver to the Certificate Trustee for cancellation FMC Series 2016, PMCI Series 2016, Series 2012A, or Series 2012B Certificates of the appropriate maturity in any aggregate principal amount desired or (b) receive a credit in respect of its sinking fund redemption obligation for any FMC Series 2016, PMCI Series 2016, Series 2012A, or Series 2012B Certificates of the appropriate maturity which prior to said date have been redeemed (otherwise than through the operation of the mandatory sinking fund obligation) and cancelled by the Certificate Trustee and not theretofore applied as a credit against any prior mandatory sinking fund redemption obligation. Each FMC Series 2016, PMCI Series 2016, Series 2012A, or Series 2012B Certificate so delivered or previously redeemed shall be credited by the Certificate Trustee at 100% of the principal amount thereof on the obligation of the Corporation on such sinking fund redemption date and any excess shall be credited on future sinking fund redemption obligations in such order as may be specified by the Corporation. The principal amount of such FMC Series 2016, PMCI Series 2016, Series 2012A, or Series 2012B Certificates to be redeemed by operation of the sinking fund shall be accordingly reduced.

Under the terms of the FMC Series 2016, PMCI Series 2016, Series 2012A, and 2012B indentures, the Corporation is required to maintain certain deposits with a trustee. Such deposits are included with assets limited as to use. The indentures also place limits on the incurrence of additional borrowings and require that the Corporation satisfy certain measures of financial performance as long as the Certificates are outstanding. In the opinion of management, all measures of financial performance have been satisfied.

Notes payable

Notes payable primarily consist of a note the Corporation obtained in 2014 for \$5,000,000 for the construction of the Polk Medical Center medical office building. The note has a stated interest rate of 3.99%. The monthly payments on the note are \$30,358 for twenty years.

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2019 and 2018

7. Long-Term Debt, Continued

Capital Lease Obligations

In 2011, the Corporation entered into a capital lease agreement under which the Corporation leases an office suite devoted to long-term acute care. The lease payments end in January 2031.

In 2011, the Corporation entered into a capital lease agreement under which the Corporation leases premises located within the Rome Cancer Center. The lease payments end in April 2026.

Term Loan

The revolving lines of credit of \$15,000,000 were refinanced during fiscal year 2019. These lines of credit were refinanced into a term loan, payable in monthly payments of \$125,000 including interest based on a 4.02% per annum interest rate with the remaining balance due and payable on a maturity date of September 1, 2023 and will automatically extend for successive periods until paid off in 2031.

Line of Credit

In 2013, the Corporation signed promissory notes for revolving lines of credit totaling \$25,000,000. The loans have a stated interest rate of LIBOR plus 1.3%. During fiscal year 2019, the revolving lines of credit were refinanced so that the \$15,000,000 portion already drawn on the line of credit was converted to a term loan and the undrawn portion remained open for future draws. The refinanced line of credit carries an interest rate of LIBOR plus 0.7%. At June 30, 2019, approximately \$10,000,000 of unused borrowing remains on the lines of credit.

8. Employee Benefit Plans

At January 1, 1998, the Corporation implemented a defined benefit pension plan (Plan) covering substantially all of its employees. The benefits are based on 1.75% of earnings for each year after January 1, 1998, with the total benefit subject to thirty-five years of benefit service maximum. The Corporation's funding policy is to contribute annually an amount intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. Benefit accruals for active participants within the Corporation's retirement plan were effectively frozen on March 31, 2014.

An actuarial valuation of the Plan was performed with a measurement date of June 30, 2019 and a measurement period of July 1, 2018 to June 30, 2019.

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2019 and 2018

8. Employee Benefit Plans, Continued

The following table sets forth the Plan's funded status, the related changes in the defined benefit plan, and amounts recognized in the financial statements at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Plan assets at fair value	\$ 75,183,875	\$ 72,253,348
Projected benefit obligation	<u>(104,582,029)</u>	<u>(96,977,141)</u>
Funded status	<u>\$ (29,398,154)</u>	<u>\$ (24,723,793)</u>
Amounts recognized in the balance sheet consist of:		
Pension liability	\$ (29,398,154)	\$ (24,723,793)
457 F plan liability	<u>(785,274)</u>	<u>(1,150,404)</u>
Noncurrent post-retirement liability	<u>\$ (30,183,428)</u>	<u>\$ (25,874,197)</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 96,977,141	\$ 112,758,305
Interest cost	3,850,233	3,918,177
Actuarial (gain) loss	8,240,694	(8,456,730)
Benefits paid	(4,486,039)	(13,769,082)
Liability loss due to curtailment	<u>-</u>	<u>2,526,471</u>
Benefit obligation at end of year	<u>\$ 104,582,029</u>	<u>\$ 96,977,141</u>

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2019 and 2018

8. Employee Benefit Plans, Continued

	<u>2019</u>	<u>2018</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 72,253,348	\$ 81,978,665
Benefits paid	(4,486,039)	(13,769,082)
Return on plan assets	4,434,170	2,935,905
Employer contributions	<u>2,982,396</u>	<u>1,107,860</u>
Fair value of plan assets at end of year	<u>\$ 75,183,875</u>	<u>\$ 72,253,348</u>
Cumulative amounts recognized in net assets without donor restrictions consist of:		
Net actuarial loss	<u>\$ 32,709,825</u>	<u>\$ 25,118,485</u>

The accumulated benefit obligation for the defined benefit pension plan was approximately \$105,000,000 and \$97,000,000 at June 30, 2019 and 2018, respectively.

	<u>2019</u>	<u>2018</u>
Components of net periodic benefit cost:		
Interest cost	\$ 3,850,233	\$ 3,918,177
Expected return on plan assets	(4,312,022)	(4,816,923)
Amortization of unrecognized net loss	527,206	685,410
Curtailment expense	<u>-</u>	<u>2,526,471</u>
Net periodic benefit cost	<u>65,417</u>	<u>2,313,135</u>
Other changes in plan assets and benefit obligations recognized in the statement of operations and changes in net assets:		
Current year actuarial (gain)/loss	8,118,546	(6,575,712)
Amortization of actuarial loss	<u>(527,206)</u>	<u>(685,410)</u>
Total other changes	<u>7,591,340</u>	<u>(7,261,122)</u>
Total recognized in statement of operations and change in net assets	<u>\$ 7,656,757</u>	<u>\$ (4,947,987)</u>

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2019 and 2018

8. Employee Benefit Plans, Continued

	<u>2019</u>	<u>2018</u>
Assumptions:		
Weighted-average assumptions used to determine benefit obligations at June 30:		
Discount rate	3.71%	4.36%
Rate of compensation increase	N/A	N/A
Expected long-term rate of return	6.00%	6.00%
Weighted-average assumptions used to determine periodic benefit cost for the years ended June 30:		
Discount rate	4.36%	4.04%
Expected long-term return on plan assets	6.00%	6.00%
Rate of compensation increase	N/A	N/A

The discount rate for pension cost purposes is the rate at which the pension obligations could be effectively settled. This rate is developed from yields on available high-quality bonds and reflects the plan's expected cash flows.

The liabilities of the Plan were calculated based on the January 1, 2019 census data projected to June 30, 2019 using reasonable actuarial assumptions and methodology. Liabilities have been calculated using the June 30, 2019 Aon Hewitt AA Above Median Yield Curve with a 3.71% effective discount rate. These rates were selected by Floyd Medical Center as the rates for reporting as of June 30, 2019.

Mortality assumptions are based on RP-2006 Mortality Tables for Employees and Healthy Annuitants with a fully generational projection using Scale MP-2018.

Assumptions used to determine statutory contribution limits must be reasonable taking into account the experience of the plan and reasonable expectations. However, certain assumptions (such as interest and mortality) are either prescribed by the IRS or are subject to IRS approval. The interest rates used to determine the funding target and target normal cost are based on high-quality corporate bond yield curve.

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2019 and 2018

8. Employee Benefit Plans, Continued

The net transition asset/obligation, net actuarial gain/loss, and prior service cost/credit amount expected to be recognized in net periodic benefit cost for the 12 months beginning July 1, 2019 are as follows:

Net transition (assets)/obligation	\$ -
Actuarial loss	782,681
Prior service cost	-
	<u>-</u>
Total	<u>\$ 782,681</u>

Plan Assets

The composition of plan assets at June 30, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Money market funds	\$ 1,237,543	\$ 1,117,388
Mutual funds - corporate bonds	1,602	93,145
AHGT common collective trust funds:		
ACWI-EX US PASS	3,946,394	3,788,208
GBL Real Estate	8,041,244	3,874,739
Global Equity	7,095,797	6,964,023
High Yield Bond	3,710,510	7,558,269
Mid LOC	21,930,682	21,265,418
Non-US Active	6,639,686	6,364,664
US LC Active	4,601,179	3,987,799
US LG FI ACT CR	5,718,282	9,435,027
US Passive Eqty	3,613,222	3,956,281
US SMC Active	2,519,696	2,349,188
US LG GOV BD	<u>6,128,038</u>	<u>1,499,199</u>
Total	<u>\$ 75,183,875</u>	<u>\$ 72,253,348</u>

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2019 and 2018

8. Employee Benefit Plans, Continued

The asset allocation at the end of 2019 and 2018, by asset category:

<u>Asset Category</u>	Actual Allocation, End of Year	
	<u>2019</u>	<u>2018</u>
AHGT ACWI-EX US PASS	5.3%	5.2%
AHGT GBL Real Estate	10.7%	5.4%
AHGT Global Equity	9.4%	9.6%
AHGT High Yield Bond	4.9%	10.5%
AHGT Mid LOC	29.2%	29.4%
AHGT Non-US Active	8.8%	8.8%
AHGT US LC Active	6.1%	5.5%
AHGT US LG FI ACT CR	7.6%	13.1%
AHGT US Passive Eqty	4.8%	5.5%
AHGT US SMC Active	3.4%	3.3%
AHGT US LG GOV BD	8.2%	2.1%
Other	<u>1.6%</u>	<u>1.6%</u>
Total	<u>100%</u>	<u>100%</u>

The Corporation's investment strategy with respect to pension plan assets is to provide a secure source of retirement income to Plan beneficiaries. The Corporation's basis used to determine expected return on assets assumption is determined from a strategic asset allocation study undertaken by an investment consultant to identify an appropriate asset mixture likely to produce a moderate growth of total asset value while managing risk through suitable diversification. The study included an analysis of various asset classes, their correlation to one another, and assumptions as to each asset class' risk and return characteristics.

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2019 and 2018

8. Employee Benefit Plans, Continued

The Corporation has approved the use of the following classes of marketable securities for asset allocation and investment purposes for the Plan:

- Domestic common stocks
- International (non-U.S.) common stocks
- Domestic and foreign government, mortgage-backed and corporate bonds
- Cash equivalents
- AHGT common collective trust funds
- Other asset classes that the Committee may from time to time deem prudent

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2019 and 2018.

- *Mutual funds*: Valued at the daily closing price as reported by the fund. Mutual funds held by the Plan are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Plan are deemed to be actively traded.
- *Money market funds*: Valued at amortized cost, which approximates fair value.
- *Common collective trust funds and pooled investment funds*: Valued daily using the NAV. The NAVs are based on the fair value of each fund's underlying investments. The NAV is used as a practical expedient to estimate fair value. This practical expedient would not be used if it is determined to be probable that the fund will sell the investment for an amount different from the reported NAV.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2019 and 2018

8. Employee Benefit Plans, Continued

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of June 30, 2019 and 2018:

	<u>Assets at Fair Value as of June 30, 2019</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 1,602	\$ -	\$ -	\$ 1,602
Money market funds	<u>-</u>	<u>1,237,543</u>	<u>-</u>	<u>1,237,543</u>
Total assets in the FV hierarchy	<u>\$ 1,602</u>	<u>\$ 1,237,543</u>	<u>\$ -</u>	1,239,145
Investments measured at NAV				<u>73,944,730</u>
Investments at fair value				<u>\$ 75,183,875</u>

	<u>Assets at Fair Value as of June 30, 2018</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 93,145	\$ -	\$ -	\$ 93,145
Money market funds	<u>-</u>	<u>1,117,388</u>	<u>-</u>	<u>1,117,388</u>
Total assets in the FV hierarchy	<u>\$ 93,145</u>	<u>\$ 1,117,388</u>	<u>\$ -</u>	1,210,533
Investments measured at NAV				<u>71,042,815</u>
Investments at fair value				<u>\$ 72,253,348</u>

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2019 and 2018

8. Employee Benefit Plans, Continued

The following table summarizes investments measured at fair value using the NAV per share as a practical expedient.

<u>Investment Type</u>	As of June 30, 2019			
	<u>Fair Value</u>	<u>Underfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
AHGT funds:				
ACWI-EX US PASS	\$ 3,946,394	\$ -	Daily	None
GBL Real Estate	8,041,244	-	Daily	None
Global Equity	7,095,797	-	Daily	None
High Yield Bond	3,710,510	-	Daily	None
Mid LOC	21,930,682	-	Daily	None
Non-US Active	6,639,686	-	Daily	None
US LC Active	4,601,179	-	Daily	None
US LG FI ACT CR	5,718,282	-	Daily	None
US Passive Eqty	3,613,222	-	Daily	None
US SMC Active	2,519,696	-	Daily	None
US LG GOV BD	6,128,038	-	Daily	None
Total AHG funds	<u>\$ 73,944,730</u>	<u>\$ -</u>		

<u>Investment Type</u>	As of June 30, 2018			
	<u>Fair Value</u>	<u>Underfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
AHGT funds:				
ACWI-EX US PASS	\$ 3,788,208	\$ -	Daily	None
GBL Real Estate	3,874,739	-	Daily	None
Global Equity	6,964,023	-	Daily	None
High Yield Bond	7,558,269	-	Daily	None
Mid LOC	21,265,418	-	Daily	None
Non-US Active	6,364,664	-	Daily	None
US LC Active	3,987,799	-	Daily	None
US LG FI ACT CR	9,435,027	-	Daily	None
US Passive Eqty	3,956,281	-	Daily	None
US SMC Active	2,349,188	-	Daily	None
US LG GOV BD	1,499,199	-	Daily	None
Total AHG funds	<u>\$ 71,042,815</u>	<u>\$ -</u>		

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2019 and 2018

8. Employee Benefit Plans, Continued

Contributions

The Corporation expects to make approximately \$3,157,000 in contributions in 2020.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid.

<u>Year Ended</u>	<u>Pension Benefits</u>
2020	\$ 4,741,000
2021	\$ 4,870,000
2022	\$ 4,970,000
2023	\$ 5,092,000
2024	\$ 5,233,000
Year 2025 and beyond	\$ 27,597,000

Effective December 31, 2005, the Corporation froze future accruals for active participants electing to join the plan.

Defined Contribution Plan

Floyd Healthcare Management, Inc. established a 401(k) retirement plan effective January 1, 2006. The plan is a defined contribution 401(k) profit sharing plan covering full-time employees over the age of eighteen who are not participating in the defined benefit pension plan. Employees may immediately contribute between 1% and 25% of their salary, subject to the maximum dollar limit allowed by the IRS. The Corporation will match 100% of the employee's contributions up to 3% of their salary plus 50% of the next 2% of the employee's contributions for all participating employees with at least one year of service and over 1,000 hours worked in a calendar year. The employer contributions during the fiscal years ending June 30, 2019 and 2018 were approximately \$4,700,000 and \$4,300,000, respectively.

9. Self-Insurance

Malpractice

Losses from asserted and unasserted claims are accrued by the Corporation based on claims reported and estimated claims incurred but not reported as derived from the Authority's or the Corporation's risk management program. Also, the Corporation has employed outside consultants to estimate the annual contribution to the fund.

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2019 and 2018

9. Self-Insurance, Continued

Malpractice, Continued

The professional liability self-insurance retention limits are \$2 million per occurrence and \$4 million in aggregate. Malpractice claims in excess of the self-insurance retention limits are insured with commercial insurance carriers on a claims-made basis. The policy covers malpractice claims up to \$20 million in aggregate.

PMCI and FCMC are covered by a claims-made general and professional liability insurance policy with a specified deductible of \$50,000 per incident and excess coverage on a claims-made basis. Liability limits related to this policy in 2019 are \$1 million per occurrence and \$3 million in aggregate. In addition, PMCI and FCMC are covered by the Corporation's umbrella policy that covers malpractice claims up to \$20 million in aggregate. PMCI and FCMC use a third-party administrator to review and analyze incidents that may result in a claim against PMCI and FCMC. In conjunction with the third-party administrator, incidents are assigned reserve amounts for the ultimate liability that may result from an asserted claim.

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

Employee Hospitalization

The Corporation has a self-insurance program for employee health insurance under which a third-party administrator processes and pays claims. The Corporation reimburses the third-party administrator monthly for claims incurred and paid to other providers. The charges, less any deductibles and coinsurance for covered services provided to employees by the Corporation, are written off against gross patient service revenue. In addition, the Corporation has entered into a loss financing agreement with ten 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 \$150 thousand and \$500 thousand. The program also buys a reinsurance policy to cover claims reaching \$1 million. Further, the Corporation purchased additional insurance to cover claims up to \$2 million. Under this self-insurance program, the Corporation paid or accrued and expensed to third parties approximately \$19,100,000 and \$15,500,000 during the years ended June 30, 2019 and 2018, respectively. The Corporation wrote off services to employees net of deductible and coinsurance of approximately \$21,000,000 and \$19,200,000 during the years ended June 30, 2019 and 2018, respectively.

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2019 and 2018

10. Functional Expenses

The Corporation provides general health care services to residents in Northwest Georgia and Northeast Alabama. Expenses related to providing these services in 2019 are as follows:

	<u>Patient Care Services</u>	<u>General and Administrative</u>	<u>Total</u>
Salaries and wages	\$ 157,140,054	\$ 35,551,771	\$ 192,691,825
Employee health and welfare	59,575,184	4,554,997	64,130,181
Professional fees	18,430,619	1,392,034	19,822,653
Supplies and other	99,050,187	51,201,524	150,251,711
Depreciation	16,041,052	7,852,491	23,893,543
Interest	6,261,452	857,482	7,118,934
	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 356,498,548</u>	<u>\$ 101,410,299</u>	<u>\$ 457,908,847</u>

Expenses related to providing these services in 2018 are as follows:

	<u>Patient Care Services</u>	<u>General and Administrative</u>	<u>Total</u>
Salaries and wages	\$ 148,567,951	\$ 33,433,663	\$ 182,001,614
Employee health and welfare	53,102,826	4,014,396	57,117,222
Professional fees	15,668,118	1,395,562	17,063,680
Supplies and other	91,846,294	48,118,692	139,964,986
Depreciation	15,141,560	9,363,949	24,505,509
Interest	6,337,251	864,685	7,201,936
	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 330,664,000</u>	<u>\$ 97,190,947</u>	<u>\$ 427,854,947</u>

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

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2019 and 2018

11. Fair Value of Financial Instruments

The following methods and assumptions were used by the Corporation 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 approximates its fair value due to the short-term nature of these instruments.
- *Assets limited as to use and cash surrender value of life insurance policy:* Amounts reported in the balance sheet are at fair value. See Note 12 for fair value measurement disclosures.
- *Long-term debt:* The fair value of the Corporation's long-term debt is estimated based on the quoted market value for same or similar debt instruments. The carrying amounts for the lines of credit and term loan approximate its fair value. Based on inputs used in determining the estimated fair value, the Corporation's long-term debt would be classified as Level 2 in the fair value hierarchy.

The carrying amounts and fair values of the Corporation's long-term debt at June 30, 2019 and 2018 are as follows:

	<u>2019</u>		<u>2018</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Long-term debt	<u>\$ 186,341,914</u>	<u>\$ 187,981,976</u>	<u>\$ 191,516,074</u>	<u>\$ 187,257,955</u>

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2019 and 2018

12. Fair Value Measurement

Fair values of assets measured on a recurring basis at June 30, 2019 and 2018 are as follows:

		Fair Value Measurements at Reporting Date Using		
		Quoted Price In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Fair Value			
<u>June 30, 2019</u>				
Assets:				
Capital improvements:				
Cash and cash equivalents	\$ 527,193	\$ 527,193	\$ -	\$ -
CMO and asset backed securities	1,836,762	-	1,836,762	-
Mutual funds - equity	55,600,276	55,600,276	-	-
Mutual funds - corporate bonds	9,803,248	9,803,248	-	-
Mutual funds - fixed income	16,037,127	16,037,127	-	-
Mutual funds - international	5,519,063	5,519,063	-	-
Mutual funds - real estate	1,511,731	1,511,731	-	-
Corporate bonds	15,759,337	-	15,759,337	-
Mortgage backed securities	9,783,052	-	9,783,052	-
Federal agency bonds	1,225,840	1,225,840	-	-
U.S. Treasury obligations	10,122,443	10,122,443	-	-
Equities - common stock	11,553,857	11,553,857	-	-
U.S. government index fund	4,920,570	4,920,570	-	-
Under indenture agreement:				
Cash and cash equivalents	7,471,057	7,471,057	-	-
457 F plan - held by trustee:				
Cash and cash equivalents	60,269	60,269	-	-
Mutual funds - equity	392,008	392,008	-	-
Mutual funds - international	69,452	69,452	-	-
Corporate bonds	263,545	263,545	-	-
Cash surrender value of life insurance policy				
	<u>2,117,687</u>	<u>-</u>	<u>2,117,687</u>	<u>-</u>
Total assets in the fair value hierarchy				
	154,574,517	<u>\$ 125,077,679</u>	<u>\$ 29,496,838</u>	<u>\$ -</u>
Investments measured at NAV				
	<u>5,259,004</u>			
Total investments at fair value				
	<u>\$ 159,833,521</u>			

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2019 and 2018

12. Fair Value Measurement, Continued

		Fair Value Measurements at Reporting Date Using		
		Quoted Price In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	<u>June 30, 2018</u>	<u>Fair Value</u>		
Assets:				
Capital improvements:				
Cash and cash equivalents	\$ 734,997	\$ 734,997	\$ -	\$ -
CMO and asset backed securities	1,391,081	-	1,391,081	-
Mutual funds - equity	48,224,533	48,224,533	-	-
Mutual funds - corporate bonds	10,502,216	10,502,216	-	-
Mutual funds - fixed income	8,697,344	8,697,344	-	-
Mutual funds - international	3,279,039	3,279,039	-	-
Mutual funds - real estate	913,561	913,561	-	-
Corporate bonds	16,365,656	-	16,365,656	-
Mortgage backed securities	8,697,990	-	8,697,990	-
Federal agency bonds	1,159,737	1,159,737	-	-
U.S. Treasury obligations	8,249,095	8,249,095	-	-
Equities - common stock	10,547,930	10,547,930	-	-
U.S. government index fund	2,166,233	2,166,233	-	-
Under indenture agreement:				
Cash and cash equivalents	28,411,752	28,411,752	-	-
457 F plan - held by trustee:				
Cash and cash equivalents	110,330	110,330	-	-
Mutual funds - equity	945,864	945,864	-	-
Mutual funds - international	13,098	13,098	-	-
Corporate bonds	81,112	81,112	-	-
Cash surrender value of life insurance policy	<u>2,117,687</u>	<u>-</u>	<u>2,117,687</u>	<u>-</u>
Total assets in the fair value hierarchy	152,609,255	<u>\$ 124,036,841</u>	<u>\$ 28,572,414</u>	<u>\$ -</u>
Investments measured at NAV	<u>5,037,971</u>			
Total investments at fair value	<u>\$ 157,647,226</u>			

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2019 and 2018

12. Fair Value Measurement, Continued

Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets valued using Level 2 inputs are based primarily on quoted prices for similar investments in active or inactive markets. Valuation techniques utilized to determine fair value are consistently applied.

Securities or other assets for which market quotations are not broad, representative or readily available will be valued at fair value in accordance with procedures established by and under the general supervision and responsibility of the investment manager or its designee. Such procedures may include the use of independent pricing services (which use prices based upon yields or prices of securities of comparable quality, type, coupon and maturity) and/or indications as to value from dealers and exchanges; provided that prices obtained from independent pricing sources, including dealers and exchanges, may be adjusted by the investment manager or its designee if, in the reasonable belief of the investment manager or its designee, a more accurate value may be obtained by reference to recent trading activity or by incorporating other relevant information (including considerations of general market conditions) that may not be reflected in pricing obtained from independent pricing sources.

Unlisted securities will be valued at the average of the quoted bid and asked prices in the over-the-counter market. The value of each such security for which readily available market quotations exist is based on a decision as to the broadest and most representative market for such security.

The cash surrender value of life insurance policy represents the fair market value less surrender charges for life insurance policies held by the Corporation.

The mortgage backed securities are primarily invested in Ginnie Mae loan mortgages and Fannie Mae papers.

The following investments are measured at fair value using the NAV per share as a practical expedient.

- The Babson Limited Partnership invests in senior secured loans, other high yield loans, high yield bonds, non-investment grade fixed income or debt securities and other debt instruments as decided by the partnership's investment management. The Babson Partnership values the underlying investments each month and updates the partnership's net assets accordingly. The majority of the partnership's investments are senior secured loans and utilize private secondary markets to value the investment. There is no penalty or fee for a partner to redeem their share of the partnership. There are no unfunded commitments. Any distributions can be accessed monthly. The fair value of the Corporation's investment in the Babson Limited Partnership for the years ended June 30, 2019 and 2018 was approximately \$4,028,000 and \$3,274,000, respectively.

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2019 and 2018

12. Fair Value Measurement, Continued

- TCW Direct Lending, LLC (TCW) invests in highly-customized senior secured loans to middle market companies. TCW engages a third-party valuation firm to assist in the valuation of the investment, which includes using market data on syndicated loans, analyzing the strength of covenants, collateral, and management, as well as the outlook on the borrowing company and its industry. TCW values the underlying investments each quarter and updates the Corporation's investment in TCW accordingly. As of June 30, 2019, the Corporation had committed \$3,000,000 to TCW, with approximately \$2,390,000 that has been drawn down by TCW. The Corporation has an unfunded commitment of \$760,000 which includes \$150,000 of recallable distributions. Any capital distributions from TCW can be accessed monthly. The Corporation is committed to the investment for a three-year investment period and a three year unwind period with two one-year extensions; however, the investment could be sold on a secondary market. The fair value of the Corporation's investment in TCW for the years ended June 30, 2019 and 2018 was approximately \$1,231,000 and \$1,764,000, respectively.

13. Commitments and Contingencies

Operating Leases: The Corporation leases various equipment and facilities under operating leases. Total rental expense in 2019 and 2018 for all operating leases was \$3,500,000 and \$4,200,000, respectively.

The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2019, that have initial or remaining lease terms in excess of one year.

<u>Year Ending</u>	<u>Amount at June 30</u>
2020	\$ 580,750
2021	430,522
2022	<u>255,965</u>
Total	<u>\$ 1,267,237</u>

Litigation: The Corporation is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Corporation's future financial position or results from operations.

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2019 and 2018

13. Commitments and Contingencies, Continued

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

Hospital Authority of Floyd County Pension Plan: Pursuant to the Lease described in Note 1, the Corporation agreed to make an annual payment equal to the contribution which the Authority is required to make to satisfy minimum funding obligations under the Authority's Pension Plan with respect to benefits which had accrued under such plan, prior to the Lease. The pension liability as actuarially determined was approximately \$9,000,000 and \$9,100,000 at June 30, 2019 and 2018, respectively. The liability is included in due to the Hospital Authority of Floyd County.

14. Health Care Reform

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

15. Lease on Cherokee Medical Center

On June 1, 2018, FCMC leased Cherokee Medical Center from the Cherokee County Healthcare Authority. Accordingly, the results of operations for Cherokee Medical Center have been included in the accompanying consolidated financial statements from that date forward. The lease was made for the purpose of strengthening the Corporation's competitive position in the Northeast Alabama service area.

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2019 and 2018

15. Lease on Cherokee Medical Center, Continued

As a part of the lease agreement with the Cherokee County Health Care Authority, FCMC received for operating use all land, building, equipment and supplies that were a part of Cherokee Medical Center as of the effective date of the lease. FCMC accounted for this transaction under business combination accounting. As such, FCMC recorded the assets acquired on the lease's effective date at fair market value as determined by a valuation study performed by a valuation expert. The valuation study primarily relied on the income approach and market approach in determining the fair market value. Under this methodology, the valuation study determined the value of the overall acquisition was de minimis. As such, the Cherokee Medical Center's land, building, equipment and supplies acquired under the lease are recorded at their fair market value which is zero. The major factors impacting the de minimis value were past and projected future operational losses and a limited population of potential buyers. As FCMC did not transfer any consideration for this transaction, there was no gain or goodwill recorded under business combination accounting.

The following assets and liabilities were recognized from the lease (at fair value):

Cash	\$ 409,247
Accrued vacation liability	(302,879)
Utilities liability	(49,882)
Equipment lease	<u>(56,486)</u>
Total identifiable assets and liabilities	<u>\$ -</u>

16. Liquidity and Availability

As of June 30, 2019, the Corporation has a working capital (current assets minus current liabilities) of \$129,849,664 and average days (based on normal expenditures) cash on hand of 72 days.

Financial assets available for general expenditure within one year of the balance sheet date, consists of the following at June 30, 2019:

Cash and cash equivalents	\$ 85,698,246
Patient accounts receivable, net	76,045,306
Other current assets	6,542,297
Assets limited as to use:	
Internally designated for capital improvements	<u>149,459,503</u>
Total financial assets available	<u>\$ 317,745,352</u>

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2019 and 2018

16. Liquidity and Availability, Continued

None of the financial assets available are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. The Corporation estimates that approximately 100% of the internally designated funds for capital improvements could be available for general expenditure within one year in the normal course of operations if approved by the Board of Directors. Accordingly, these assets have been included in the quantitative information above. The Corporation has other assets whose use is limited for debt service, and for retirement plan purposes. These assets whose use is limited are not available for general expenditure within the next year and are not reflected in the amounts above. However, certain internally designated funds could be made available, if necessary. The Corporation has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, as more fully described in Note 7, the Corporation has available an unused line of credit of \$10,000,000, which it could draw upon in the event of an unanticipated liquidity need.



INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTAL INFORMATION

Board of Directors
Floyd Healthcare Management, Inc.
Rome, Georgia

We have audited the consolidated financial statements of Floyd Healthcare Management, Inc. as of and for the years ended June 30, 2019 and 2018, and our report thereon dated October 28, 2019, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The information included in this report on pages 54 to 69, inclusive, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the consolidated financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

Draffin & Tucker, LLP
Albany, Georgia
October 28, 2019

Let's Think Together.

FLOYD HEALTHCARE MANAGEMENT, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
Fiscal Year Ended June 30, 2019

Summary of Financial Condition and Results of Operations

The financial results for Floyd Healthcare Management Inc. (FHMI) for fiscal year ended June 30, 2019 include several events in the operations of our main facilities. Floyd Medical Center, an acute care hospital, and Willowbrooke at Floyd, a behavioral health facility, are located in Rome, with 304 licensed beds. Floyd Polk Medical Center is licensed as a 25-bed critical access hospital in Cedartown, Georgia, and Floyd Cherokee Medical Center is licensed as a 60-bed acute care hospital in Centre, Alabama. These facilities helped produce excess of revenues over expenses in the amount of \$26.0 million on total operating revenues of \$474.3 million. Management's Discussion and Analysis of Financial Condition and Results of Operations will review the financial results for fiscal year 2019, the significant events impacting financial performance, and management's outlook.

Floyd Healthcare Management Inc. recorded gross patient revenues during fiscal year 2019 of \$1,907 million up 14.2% over the previous year. Variable considerations such as contractual adjustments for Medicare, Medicaid and managed care, discounts, indigent and charity care, and implicit price concessions for the fiscal year totaled \$1,436 million, an increase of 15.8%, and represents 75.3% of gross patient revenues. Operating expenses for the fiscal year were \$426.9 million, an increase of 7.8% over the previous year, a result of increased payroll and surgical supplies. Operating expenses as a percent of total operating revenues decreased from 91.4% to 90.0% in fiscal year 2019.

The operating gain on earnings before interest, depreciation and amortization (EBIDA) increased to \$47.4 million in fiscal year 2019 from \$37.3 million in the prior year. The EBIDA margin for fiscal year 2019 was 10.0% compared to 8.6% in the previous year. Capital expenses, including depreciation, amortization and interest were down 2.2% to \$31.0 million. Total expenses for fiscal year 2019 were \$457.9 million, an increase of 7.0% over fiscal year 2018. Non-operating income was \$9.6 million.

The financial performance during the fiscal year continued to be strongly influenced by uncontrollable external and internal issues. Unreasonably low Medicare payments for inpatient and outpatient services continued to impact Floyd Healthcare Management Inc. during fiscal year 2019. Additionally, the State of Georgia's managed care program continued to reimburse FHMI at below cost. Medicare and Medicaid patients make up approximately 58% of Floyd Healthcare Management Inc.'s patient base.

See accompanying independent auditor's report on supplemental information.

FLOYD HEALTHCARE MANAGEMENT, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS, Continued
Fiscal Year Ended June 30, 2019

Summary of Financial Condition and Results of Operations, Continued

Excluding Cherokee Medical Center, Floyd Healthcare Management Inc.'s surgical cases increased 4.4% in fiscal year 2019 to 11,050 cases from 10,588. In addition, Cherokee Medical Center performed 1,141 cases. FHMI continued to see its commercial insurance remain at 31% of gross revenue in fiscal year 2019. Floyd Healthcare Management Inc.'s positive financial performance for fiscal year 2019 is the result of continued process improvements and market share increase. Floyd Healthcare Management Inc. has been and will continue to be a vital health care resource for Rome, northwest Georgia and northeast Alabama. Management remains optimistic that the programs completed, in progress and planned will ensure the long-term growth and viability of the health care system.

Floyd Healthcare Management, Inc. has been and will continue to be a vital health care resource for Rome, northwest Georgia and northeast Alabama. Management remains optimistic that the programs completed, in progress and planned will ensure the long-term growth and viability of the health care system.

The following sections of Management's Discussion and Analysis of Financial Condition and results of Operations will provide expanded information on the financial results and significant events.

Patient Volume, Gross Revenue and Net Revenue

During fiscal year 2019, Floyd Healthcare Management, excluding Floyd Cherokee Medical Center, recorded total inpatient admissions of approximately 18,732. Cherokee recorded 873 for a total of 19,605, an increase of 929 admissions over the previous year. Overall outpatient volumes of 520,972 for the System, which includes 8,770 for Floyd Cherokee Medical Center, increased from the prior year total of 463,319. In fiscal year 2019, Floyd Cherokee Medical Center emergency center saw 9,241 visits, and other organizational emergency center areas saw an additional 109,184 visits, not included in outpatient volumes shown above.

Gross patient revenues by major payer sources included Medicare, commercial insurance and Medicaid representing 39.5%, 30.6% and 18.5% respectively, for fiscal year 2019. Medicare and Medicaid revenues combined for 58% of gross patient revenue, compared to 59% from the prior year. Revenue deductions and bad debt expense combined to account for over \$1,436 million in reductions from gross patient revenues during fiscal year 2019 compared to approximately \$1,240 million in fiscal year 2018. Expressed as a percent of gross patient revenue, total revenue deductions and bad debt expense for fiscal year 2019 consumed 75.3% of each gross patient revenue dollar, up from 74.3% in the prior year. Net patient service revenue increased 9.7% to approximately \$470.9 million.

See accompanying independent auditor's report on supplemental information.

FLOYD HEALTHCARE MANAGEMENT, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS, Continued
Fiscal Year Ended June 30, 2019

Expenses

Operating expense increased 7.8% to \$426.9 million in fiscal year 2019 from \$396.1 million in the prior year. The ratio of operating expense to total operating revenue decreased to 90.0% during fiscal 2019 from 91.4% in the prior year. Staffing expense, including salary, wages and employee benefit programs, increased 7.4% to approximately \$256.8 million. Staffing expenses represent 60.2% of the operating expenses, down from 60.4% in the prior year. Staffing expense continues to reflect sustained or growing service needs for patient care; growing pressures on the availability and costs of selected technical personnel; and overall upward market pressures on wages and employee benefit levels. Operating expenses less staffing expenses for fiscal year 2019 account for approximately \$170.1 million. Total capital expenses for fiscal year 2019 were approximately \$31.0 million, down 2.2% from the prior year. The ratio of capital expense to total revenue decreased to 6.5% down from 7.3% in the prior year.

Liquidity, Investment and Debt

Unrestricted cash resources consisted of approximately \$149.5 million in short and intermediate term investments and approximately \$85.7 million in operating cash for a total of \$235.2 million. For fiscal year 2019, Floyd Healthcare Management Inc. recognized investment income in the amount of approximately \$9.1 million. The number of days cash on hand, measuring the equivalent days of operating expenses contained in Floyd Healthcare Management Inc.'s unrestricted cash resources, including cash, cash equivalents, and funded depreciation were 197.8 days as of June 30, 2019 compared to 164.5 days as of June 30, 2018.

The cumulative investment in property, plant and equipment, based on acquisition cost, was \$428.3 million at June 30, 2019. Accumulated depreciation for these assets at the end of fiscal year 2019 is \$258.0 million, yielding net property, plant and equipment of \$170.2 million. The average age of plant, an accounting measurement of overall plant and equipment age increased to 10.80 years. As of June 30, 2019, Floyd Healthcare Management Inc. was responsible for \$177.6 million in long-term debt, which includes approximately \$42.6 million for the 2012 revenue certificates, and \$110.8 for the 2016 revenue certificates. The Obligated Group's debt service coverage ratio for fiscal year 2019 was 4.33 which was calculated using the future maximum annual debt service payments methodology.

Consolidating Financials by Subsidiaries

The following consolidating Balance Sheet and Statement of Operations for FHMI have been broken down by subsidiary.

See accompanying independent auditor's report on supplemental information.

FLOYD HEALTHCARE MANAGEMENT, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS, Continued
Fiscal Year Ended June 30, 2019

Floyd Healthcare Management, Inc. Consolidating Balance Sheet June 30, 2019						
	Floyd Healthcare Management, Inc.	Polk Medical Center, Inc.	Floyd Cherokee Medical Center, LLC	Accountable Care Organization of Floyd Medical Center, LLC	Floyd Physicians, LLC	Consolidated Totals
<u>ASSETS</u>						
Current assets:						
Cash and cash equivalents	\$ 79,730,860	\$ 4,877,195	\$ 380,592	\$ 735,262	\$(25,663)	\$ 85,698,246
Assets limited as to use, current	5,895,930	838,126	-	-	-	6,734,056
Patient account receivable, net	67,704,268	6,279,828	1,500,409	-	560,801	76,045,306
Inventories	11,141,949	311,879	314,706	-	-	11,768,534
Other current assets	<u>9,549,392</u>	<u>1,954,938</u>	<u>1,058,838</u>	<u>-</u>	<u>74,821</u>	<u>12,637,989</u>
Total current assets	<u>174,022,399</u>	<u>14,261,966</u>	<u>3,254,545</u>	<u>735,262</u>	<u>609,959</u>	<u>192,884,131</u>
Assets limited as to use:						
By Board for capital improvements	110,829,984	38,629,519	-	-	-	149,459,503
Under indenture agreement – held by trustee	6,634,850	836,207	-	-	-	7,471,057
457 F Plan – held by trustee	<u>785,274</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>785,274</u>
Total assets limited as to use	118,250,108	39,465,726	-	-	-	157,715,834
Less amount required to meet current obligations	<u>5,895,930</u>	<u>838,126</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,734,056</u>
Noncurrent assets limited as to use	<u>112,354,178</u>	<u>38,627,600</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>150,981,778</u>
Property, plant and equipment, net	<u>144,232,357</u>	<u>24,629,973</u>	<u>1,370,922</u>	<u>-</u>	<u>8,750</u>	<u>170,242,002</u>
Other assets	<u>3,514,410</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,514,410</u>
Total assets	<u>\$ 434,123,344</u>	<u>\$ 77,519,539</u>	<u>\$ 4,625,467</u>	<u>\$ 735,262</u>	<u>\$ 618,709</u>	<u>\$ 517,622,321</u>

See accompanying independent auditor's report on supplemental information.

FLOYD HEALTHCARE MANAGEMENT, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS, Continued
Fiscal Year Ended June 30, 2019

Floyd Healthcare Management, Inc.
Consolidating Balance Sheet, Continued
June 30, 2019

	Floyd Healthcare Management, Inc.	Polk Medical Center, Inc.	Floyd Cherokee Medical Center, LLC	Accountable Care Organization of Floyd Medical Center, LLC	Floyd Physicians, LLC	Consolidated Totals
LIABILITIES AND NET ASSETS						
Current liabilities:						
Current portion of long-term debt	\$ 4,801,987	\$ 152,299	\$ -	\$ -	\$ -	\$ 4,954,286
Accounts payable	16,061,438	582,348	558,498	-	201	17,202,485
Due to (from) affiliates	(16,624,902)	1,672,120	8,326,133	3,288,309	3,338,340	-
Estimated third-party payor settlements	927,130	1,624,000	-	-	-	2,551,130
Salaries and compensation	6,722,747	230,064	110,227	1,940	219,126	7,284,104
Employee benefits	15,396,391	833,732	318,783	4,821	6,495	16,560,222
Other	<u>12,877,846</u>	<u>1,355,016</u>	<u>150,000</u>	<u>-</u>	<u>99,378</u>	<u>14,482,240</u>
Total current liabilities	<u>40,162,637</u>	<u>6,449,579</u>	<u>9,463,641</u>	<u>3,295,070</u>	<u>3,663,540</u>	<u>63,034,467</u>
Long-term debt, net of current portion	147,281,160	36,251,396	-	-	-	183,532,556
Noncurrent post-retirement liability	30,183,428	-	-	-	-	30,183,428
Due to the Hospital Authority of Floyd County	<u>9,057,258</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,057,258</u>
Total long-term liabilities	<u>186,521,846</u>	<u>36,251,396</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>222,773,242</u>
Total liabilities	226,684,483	42,700,975	9,463,641	3,295,070	3,663,540	285,807,709
Net assets without donor restrictions	<u>207,438,861</u>	<u>34,818,564</u>	<u>(4,838,174)</u>	<u>(2,559,808)</u>	<u>(3,044,831)</u>	<u>231,814,612</u>
Total liabilities and net assets	\$ <u>434,123,344</u>	\$ <u>77,519,539</u>	\$ <u>4,625,467</u>	\$ <u>735,262</u>	\$ <u>618,709</u>	\$ <u>517,622,321</u>

See accompanying independent auditor's report on supplemental information.

FLOYD HEALTHCARE MANAGEMENT, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS, Continued
Fiscal Year Ended June 30, 2019

Floyd Healthcare Management, Inc.
Consolidating Statement of Operations
June 30, 2019

	Floyd Healthcare Management, Inc.	Polk Medical Center, Inc.	Floyd Cherokee Medical Center, LLC	Accountable Care Organization of Floyd Medical Center, LLC	Floyd Physicians, LLC	Consolidated Totals
Operating revenues:						
Net patient service revenue	\$ 426,553,168	\$ 32,213,785	\$ 9,842,027	\$ -	\$ 2,267,971	\$ 470,876,951
Other operating revenue	<u>3,052,252</u>	<u>11</u>	<u>364,478</u>	<u>-</u>	<u>-</u>	<u>3,416,741</u>
Total operating revenues	<u>429,605,420</u>	<u>32,213,796</u>	<u>10,206,505</u>	<u>-</u>	<u>2,267,971</u>	<u>474,293,692</u>
Expenses:						
Operating expenses	388,941,864	20,222,508	14,665,795	404,685	2,661,518	426,896,370
Depreciation	20,996,865	2,843,083	41,614	10,365	1,616	23,893,543
Interest	<u>5,695,027</u>	<u>1,423,907</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,118,934</u>
Total expenses	<u>415,633,756</u>	<u>24,489,498</u>	<u>14,707,409</u>	<u>415,050</u>	<u>2,663,134</u>	<u>457,908,847</u>
Operating income	<u>13,971,664</u>	<u>7,724,298</u>	<u>(4,500,904)</u>	<u>(415,050)</u>	<u>(395,163)</u>	<u>16,384,845</u>
Nonoperating income (expenses):						
Investment income and other	6,756,516	2,861,961	19,977	-	-	9,638,454
Pension expense	<u>(65,417)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(65,417)</u>
Total nonoperating income	<u>6,691,099</u>	<u>2,861,961</u>	<u>19,977</u>	<u>-</u>	<u>-</u>	<u>9,573,037</u>
Excess revenues (expenses)	\$ <u>20,662,763</u>	\$ <u>10,586,259</u>	\$ <u>(4,480,927)</u>	\$ <u>(415,050)</u>	\$ <u>(395,163)</u>	\$ <u>25,957,882</u>

See accompanying independent auditor's report on supplemental information.

FLOYD HEALTHCARE MANAGEMENT, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS, Continued
Fiscal Year Ended June 30, 2019

Mission

Since July 4, 1942, FHMI has provided high quality, cost-effective healthcare to the citizens of northwest Georgia. In fiscal year 2019, FHMI's mission continued by providing the communities we serve with a comprehensive and technologically advanced health care system committed to the delivery of care that is characterized by continually improving quality, accessibility, affordability, and personal dignity.

Community Initiatives

During 2019, FHMI continued its support of several initiatives aimed at improving the health care status of low-income patients and to address the growing burden and cost of uncompensated care.

Floyd County Clinic and We Care Program

The Floyd County Clinic, which Floyd Medical Center operates through the Family Medicine Residency program, had 1,680 outpatient visits in FY 2019. The Clinic provides assistance to financially and medically indigent patients in an effort to reduce their need for emergency and inpatient hospital care. In addition, During FY 2019, 225 outpatient visits were recorded through FHMI's We Care Program, which helps low-income patients without health insurance or governmental benefits control and improve chronic conditions with preventive care.

Indigent Outpatient Pharmacy Program

FHMI provides maintenance prescription pharmaceuticals to low income uninsured outpatients at no cost to the patient through its hospital pharmacy. Any qualified, low-income patient under the care of the Family Medicine Residency program or being discharged from Floyd Medical Center may be eligible to receive the prescribed medications. In FY 2019, FHMI provided 16,791 prescription pharmaceuticals to 797 low-income, uninsured patients at a cost of \$378,921.73. The Floyd Polk Medical Center pharmacy provided \$4,030 in prescription pharmaceuticals to low income, uninsured patients.

Financial Counseling

Patients who come to Floyd Medical Center, Floyd Polk Medical Center, Floyd Cherokee Medical Center or our behavioral health facility with no health insurance coverage or a low annual income meet with a financial counselor to determine if they are eligible for government assistance or for indigent or charity care. In FY 2019, financial counselors assisted 576 low-income residents in seeking eligibility for Medicaid programs including presumptive eligibility. 27,725 individual Medicaid patients were treated at Floyd Medical Center for a total of 45,570 encounters, and 9,418 individual Medicaid patients were treated at Floyd Polk Medical Center for a total of 11,149 encounters. Also, 276 individual Medicaid patients were treated at Willowbrooke at Floyd for a total of 675 encounters.

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FLOYD HEALTHCARE MANAGEMENT, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS, Continued
Fiscal Year Ended June 30, 2019

Faith and Deeds Clinic of Rome

FHMI helped to create, contributed supplies and provided seed money to fund the Faith and Deeds Clinic of Rome, a local organization that provides free primary medical care to low income, uninsured patients in our community. The clinic traces its roots to a volunteer mission effort to provide basic medical care services to Floyd County's homeless community. Now housed in its own facility, the clinic schedules patients with volunteer physicians, dentists and nurses and receive free lab tests and assistance with prescription medications. During FY 2019, physicians from the Floyd Family Medicine Residency program provided volunteer care to Faith and Deeds Clinic patients. FHMI also provides financial support to the clinic.

Mobile Mammography

FHMI's Mobile Mammography Coach is equipped with state-of-the-art, digital mammography equipment and is used to reach out to the mostly rural and underserved areas around Rome. The coach provided 2,313 mammograms to women in our service area in FY 2019. Of those, 522 patients were past due for a mammogram, 191 women had never had a mammogram before and 158 screenings revealed an abnormality that required further testing. And, 15 women were diagnosed with cancer as a result of their visit to the mobile mammography coach. The goal of this program is to reach women who have never had a mammogram, in hope of reducing the breast cancer mortality rate in our region, which is among the highest in the nation. The coach traveled 7,816 miles in FY 2019 to women in seven Georgia counties and two Alabama counties to make mammography and clinical breast exams convenient for them.

Community Benefit

Floyd Healthcare Management, Inc.'s health care system includes Floyd Medical Center, Floyd Polk Medical Center, Floyd Cherokee Medical Center, Willowbrooke at Floyd, Floyd Primary Care, Floyd Urgent Care, Floyd Outpatient Surgery Center, Floyd Physical Therapy & Rehab, Heyman HospiceCare at Floyd, The Breast Center at Floyd and numerous ancillary services. FHMI is vital to its four-county primary service area of Chattooga, Floyd and Polk counties in Georgia and Cherokee County, Alabama, as well as the additional three counties that make up FHMI's secondary service area: Bartow and Gordon counties in Georgia and Calhoun County, Alabama.

FHMI also is an economic engine in Northwest Georgia. The Georgia Hospital Association estimates that the FHMI health system generates more than \$722.3 million in economic activity in the state, which includes annual payroll and benefits, as well as purchases and other business relationships. The organization also is Floyd County's largest employer, with approximately 3,300 employees.

Services

FHMI's health care system provides a complete continuum of medical care to serve the health care needs of people in northwest Georgia and northeast Alabama. Our Primary Care network includes 47 physicians and 34 advance practice providers at 26 Primary Care and Urgent Care locations. FHMI also provides inpatient and outpatient diagnostic, hospice, behavioral health and hospital services.

See accompanying independent auditor's report on supplemental information.

FLOYD HEALTHCARE MANAGEMENT, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS, Continued
Fiscal Year Ended June 30, 2019

At the hub of the health system is Floyd Medical Center, a 304-bed, full-service acute care hospital that provides Joint Commission-certified specialty programs in advanced palliative care, heart failure, inpatient diabetes, stroke care, hip replacement surgery, knee replacement surgery and spine surgery. In addition, Floyd Medical Center is a certified Chest Pain Center, a designated Bariatric Surgery Center of Excellence and The Breast Center at Floyd is a Breast Imaging Center of Excellence and a Quality Breast Center of Excellence. Floyd also is home to a state-designated level II Trauma Center, a level III Neonatal Intensive Care Unit and has specialty centers for Pediatrics and Wound Care and Hyperbarics. The health system also includes Floyd Polk Medical Center, a 25-bed critical access hospital in Cedartown, Ga., and 60-bed Floyd Cherokee Medical Center in Centre, Alabama. FHMI also operates Willowbrooke at Floyd, its behavioral health center in a management agreement with Tanner Health System. Through these locations FHMI is uniquely positioned to provide the full circle of care, including the following medical specialties:

- Alcohol and Chemical Dependency Services
- Bariatric Medicine, Surgery and Aftercare
- Behavioral Health
- Breast Health
- Cardiac Catheterization
- Cardiology
- Cardiac Rehabilitation
- Corporate Health
- Diabetes Care
- Diagnostic Radiology
- Echocardiography
- Emergency Care
- Family Medicine
- Family Medicine Residency Program
- Gynecology
- Hospice
- Hospitalist Care
- Hyperbarics and Wound Care
- Intensive Care
- Interventional Cardiology
- IV Therapy
- Laboratory Services
- Level III Neonatal Intensive Care Unit
- Level II Trauma Care
- Maternity Services
- Neurology
- Neuropsychology
- Neurosurgery
- Neonatal care, intermediate and intensive
- Occupational Medicine
- Oncology

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FLOYD HEALTHCARE MANAGEMENT, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS, Continued
Fiscal Year Ended June 30, 2019

- Orthopedics
- Palliative Care
- Pediatrics
- Pediatric Intermediate Care
- Pharmacy, Inpatient and Outpatient
- Radiology
- Inpatient Rehabilitation Services
- Outpatient Rehabilitation Services
- Senior Enrichment Program
- Sleep Disorders
- Subacute Rehabilitation
- Surgery, Inpatient and Outpatient
- Urgent Care
- Vascular Surgery

Recognized Industry Leader

FHMI is a recognized state and national leader in customer engagement, and our comprehensive health care services have earned FHMI regional, state and national accolades and certifications. Over the past fiscal year, Floyd Medical Center and its affiliates received state, national and international recognition.

Forbes Top Employer

In 2019, Forbes named FHMI a top employer in Georgia. The magazine surveyed 80,000 employees in the United States about their willingness to recommend their employers to other job seekers and asked them to evaluate other employers.

CareChex – Medical Excellence

In 2019, CareChex, an information service of Quantros, Inc., honored Floyd Medical Center for being a top hospital in the nation in the following Medical Excellence categories:

- Overall Hospital Care
- Overall Medical Care
- Overall Surgical Care
- Gastrointestinal Care
- Major Bowel Procedures
- Spinal Fusion
- Spinal Surgery

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FLOYD HEALTHCARE MANAGEMENT, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS, Continued
Fiscal Year Ended June 30, 2019

CareChex – Patient Safety

In 2019, CareChex also recognized Floyd Medical Center for being a top hospital in the nation in the following Patient Safety categories:

- Overall Hospital Care
- Overall Medical Care
- Overall Surgical Care
- Gastrointestinal Care
- Heart attack treatment
- Major Bowel Procedures
- Spinal Fusion
- Spinal Surgery

Hospice Honors Elite

In 2019, Heyman HospiceCare at Floyd was recognized with the 2019 Hospice Honors Elite award, recognizing hospice programs that provide the highest level of quality as measured from patient and family members' points of view. This was the fifth consecutive year Heyman HospiceCare has received this award.

Leapfrog Group Top Rural Hospital

Floyd Polk Medical Center was named a Top Rural Hospital by The Leapfrog Group. Polk was one of only 17 hospitals in the United States awarded this honor, which recognizes excellence in patient safety and quality care.

Accreditations and Certifications

In 2019, FHMI also held the following certifications and accreditation from The Joint Commission:

Floyd Medical Center

- Behavioral Health Care
- Hospital
- Laboratory
- Advanced Palliative Care
- Heart Failure
- Inpatient Diabetes Care
- Primary Stroke Center
- Joint Replacement – Hip
- Joint Replacement – Knee
- Spine Surgery

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FLOYD HEALTHCARE MANAGEMENT, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS, Continued
Fiscal Year Ended June 30, 2019

Floyd Polk Medical Center

- Critical Access Hospital
- Laboratory
- Heart Failure

Floyd Cherokee Medical Center

- Hospital
- Laboratory

In 2019, FHMI also held the following quality designations from other organizations:

- Comprehensive Bariatric Center accreditation from the Metabolic and Bariatric Surgery Accreditation and Quality Improvement Program
- National Quality Measures for Breast Centers Certified Quality Breast Center of Excellence
- Hospice Honors Elite award for Heyman HospiceCare
- American Heart Association / American Stroke Association Get with the Guidelines Gold Plus Award for Stroke Care
- American Heart Association Get with the Guidelines Gold Award for Heart Failure Care (Floyd Medical Center and Floyd Polk Medical Center).
- Level II Trauma Center for Floyd Medical Center from the Georgia Department of Public Health
- Level IV Trauma Center for Floyd Polk Medical Center from the Georgia Department of Public Health
- Level III Neonatal Intensive Care Unit
- Antibiotic Stewardship Gold Honor Roll for Floyd Polk Medical Center.
- Chest Pain Center, American College of Cardiology

Community Service

Individually and corporately, FHMI continues to be actively involved in the communities where we have a presence, lending leadership, time and other valuable resources to efforts to improve the quality of life for families in northwest Georgia and northeast Alabama.

- In FY 2019, the organization's outreach into the community, along with the provision of trauma and neonatal intensive care services resulted in more than 177,000 touch points through educational programs and screenings, physical examinations for athletes, childbirth classes, support groups and community outreach. FHMI co-workers and volunteers contributed 227,747 hours to community endeavors at an expense of \$2,949,151.

See accompanying independent auditor's report on supplemental information.

FLOYD HEALTHCARE MANAGEMENT, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS, Continued
Fiscal Year Ended June 30, 2019

- FHMI offers 8-week, weekend and online childbirth classes to help expectant parents be better prepared for labor, delivery and caring for their baby. Some insurances and government health coverage programs pay for childbirth education. Expectant parents who do not have coverage for these classes are not denied participation. In FY 2019, 84 individuals learned about childbirth, breastfeeding and newborn care through these childbirth education classes at a cost to the organization of \$4,615.
- Cardiopulmonary resuscitation, Stop the Bleed and First Aid educators provide CPR and First Aid training to FHMI employees, employees of other companies and to members of the public. In addition, FHMI's Chest Pain program provides hands-only CPR training in the community. In FY 2019, 422 individuals received CPR and/or First Aid training from FHMI staff members at a cost to the organization of \$3,442.
- Diabetes educators meet with patients in the hospital to help them manage their disease, but they also provide education about prediabetes, diabetes management and other related topics to individuals in the communities we serve. In FY 2019, educators provided 500 hours of free diabetes education at a cost to the organization of \$32,250.
- One of the largest non-billed services expenses at FHMI lies in our efforts to support schools and colleges in training nurses, doctors, nurse practitioners, physician assistants and other health professionals with real-life training opportunities while shadowing or being mentored by FHMI employees in their respective fields. In FY 2019, working with 892 nursing students, FHMI staff members provided 119,332 hours of clinical education at a cost of \$775,658 to the organization. Many of these students eventually accept jobs in our service area, providing much-needed medical expertise in our primary and secondary service areas. In addition, 1,437 allied health students received 64,552 hours of training from FHMI staff members at a cost to the organization of \$429,463. In addition, 97 medical students studying to become physicians trained at FHMI. FHMI staff members provided 5,688 hours of clinical education to medical students not in our residency program at a cost of \$37,206.
- Recognizing that a significant number of individuals do not have family physicians or routinely go for annual physical examinations, FHMI provides screenings and information at health fairs throughout the area. In FY 2019, 3,012 individuals received health information at health fairs at a cost to the organization of \$12,815.

See accompanying independent auditor's report on supplemental information.

FLOYD HEALTHCARE MANAGEMENT, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS, Continued
Fiscal Year Ended June 30, 2019

- Floyd Emergency Medical Services, supplemented by other FHMI departments, is a fixture at community events throughout the year, providing onsite ambulance back-up, First Aid stations and medical support when it is needed. In FY 2019, 145,240 people benefitted from medical care and support at community events at a cost of \$162,072 to the organization.
- FHMI is heavily invested in local schools. In addition to the 24,000 students who are covered by the 27 school nurses provided in Floyd County, Rome City and Polk County schools, FHMI provides health and safety training programs and career day speakers to students throughout the area. In FY 2019, 15,817 students benefitted from school-based education programs presented by FHMI departments at a cost of \$1,466,047. As part of those efforts, FHMI supplies Certified Athletic Trainers to every high school in Floyd, Polk and Chattooga counties. Providing Athletic trainers to schools cost the organization \$1,436,500 in the past fiscal year. These trainers, working with family medicine residency physicians, also provide free physical examinations to student athletes throughout the three-county area. In FY 2019, 150 student athletes received free screenings at a cost to the organization of \$428.

Outreach

- As a system of community hospitals, FHMI is continuously looking for opportunities to reach farther into our community to meet the needs of the full spectrum of individuals who seek medical care in northwest Georgia and northeast Alabama. We currently have several outreach programs aimed at improving access to health care in our community.
- Members of the FHMI team are committed to the community in many ways. In FY 2019, FHMI co-workers loaned their talents and leadership skills to school, civic and professional organizations. A partial list of the leadership roles FHMI employees held during this time includes:
 - Chairman, Unity Christian School Board
 - Treasurer, Cumberland Wilderness Retreat Board of Directors
 - Member, Polk Against Drugs Board of Directors
 - Member, Polk County Chamber of Commerce Education and Workforce Development Committee
 - Director of Student Ministries, Aftershock Coordinator, teacher and Community Cleanup Team, Trion Heights Baptist Church
 - Secretary, Seven Hills Rotary Club of Rome
 - Board of Directors, Polk County Chamber of Commerce
 - Board of Directors, Rockmart Farmers Market
 - Board of Directors, Polk County Rotary Club
 - Board member, Georgia Association for Development Professionals
 - Elder, West Rome Baptist Church
 - Web Chair, Georgia Access Management Association
 - Secretary, Model Blue Devil Marching Band Booster Club

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FLOYD HEALTHCARE MANAGEMENT, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS, Continued
Fiscal Year Ended June 30, 2019

- Committee Member, Model Blue Devil Cheerleading Booster Club
- Committee Member, Floyd Against Drugs Murder Mystery Project
- Co-chair communication committee, Georgia Healthcare Information and Management Systems Society (HIMSS) Board of Directors
- Chair, Georgia HIMSS Board of Directors Golf and Gala Committee
- Leader, Women's Ministry Bible Study
- Children's Ministry Leader
- Floyd County College and Career Academy Board of Directors
- Tennis Captain, Coosa Valley Tennis Association
- Trustee, Second Avenue United Methodist Church
- Nomination Committee, Sam Jones Memorial United Methodist Church
- Executive Committee, Rome-Floyd Chamber of Commerce
- Member, Seven Hills Rotary Club
- Chairman, Distribution Cooperative Inc.
- Sustainability Liaison, Georgia Society for Healthcare Engineers
- Board Member, Georgia Society for Healthcare Engineers
- Finance Chair, Georgia Society for Respiratory Care
- Secretary, Georgia Society for Respiratory Care
- Member, Georgia Composite Medical Board
- President, Georgia Access Management Association
- Board Member, Healthcare Financial Management Association
- Board Member, Free Clinic of Rome
- Board Member, HSI Financial Services
- Customer Solution Council Member, Change Healthcare
- Budget Committee, First Baptist Church of Rome
- TV/Streaming Committee, First Baptist Church of Rome
- Executive Committee, Georgia HIMSS Board of Directors
- Member, Seven Hills Rotary Club
- Executive Committee, Georgia Society for Healthcare Planning, Marketing and Public Relations
- Marketing/Development Chair, St. Mary's Catholic School Parent Advisory Committee
- Mentor, Berry College Center for Integrity in Leadership
- Elder, Deacon, and small group leader, HBC Rome
- Chairman, Haven Health Clinic for Women Board of Managers
- Secretary, Georgia Organization of Nurse Leaders
- Director, Georgia Organization of Nurse Leaders Northern District
- Co-Director, Georgia Organization of Nurse Leaders Northern District
- President, Coosa High School 12th Man Club
- Member, Coosa High School Local School Governance Team
- Regional Spokesperson, American Association of Diabetes Educators
- Member, Challenger Sports Spring Formal Committee

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FLOYD HEALTHCARE MANAGEMENT, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS, Continued
Fiscal Year Ended June 30, 2019

Community Uninsured/Medically Indigent

Perhaps most significant is the continuing commitment of FHMI to provide comprehensive health care services to all individuals regardless of ability to pay. In fiscal year 2019, \$100.2 million in unreimbursed care was delivered to individuals in the form of uncompensated care or through public programs and services. The value of all billable and nonbillable community benefit activities combined totaled \$103.7 million.

While these statistics represent our best efforts to quantify the myriad of services FHMI and its employees provide, the numbers in this report cannot tell the full story of FHMI and its community service. FHMI's commitment to our role as an excellent community hospital may be best illustrated by the extraordinary acts of kindness and compassion that permeate our culture. On a daily basis, the employees of FHMI realize that each encounter is an opportunity to put our mission into action. Fiscal year 2020 begins with FHMI's continued commitment to provide the highest standards of patient care and employee satisfaction; a commitment that enables a culture of high performance and high expectations.

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