FLOYD CHEROKEE MEDICAL CENTER, LLC
CENTRE, ALABAMA

FINANCIAL STATEMENTS

for the years ended June 30, 2021 and 2020

Draffin Tucker

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Draffin Tucker

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Floyd Cherokee Medical Center, LLC
Centre, Alabama

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Continued

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Floyd Cherokee Medical Center, LLC as of June 30, 2021 and 2020, and the results of its operations and changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, FCMC adopted new accounting guidance, Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)* on July 1, 2020. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2021, on our consideration of FCMC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of FCMC's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering FCMC's internal control over financial reporting and compliance.

Draffin & Tucker, LLP

Albany, Georgia
October 25, 2021

FLOYD CHEROKEE MEDICAL CENTER, LLC

BALANCE SHEETS
June 30, 2021 and 2020

	2021	2020
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,576,636	$ 8,420,449
Patient accounts receivable, net	2,129,717	1,122,505
Estimated third-party payor settlements	29,551	29,551
Supplies	257,624	233,999
Other current assets	708,663	512,119
Total current assets	4,702,191	10,318,623
Property and equipment, net	2,296,989	1,269,338
Finance lease right-of-use assets	719,837	-
Total assets	$ 7,719,017	$ 11,587,961
LIABILITIES AND NET ASSETS		
Liabilities:		
Current portion of finance lease liabilities	$ 228,947	$ -
Accounts payable	502,291	306,025
Accrued salary	220,626	117,116
Accrued benefits	387,947	321,689
Other accrued expenses	50,000	150,000
CARES Act refundable advance	300,000	8,419,649
Total current liabilities	1,689,811	9,314,479
Finance lease liabilities, net of current portion	507,632	-
Due to Floyd Healthcare Management, Inc.	11,522,363	9,219,799
Total liabilities	13,719,806	18,534,278
Net deficit without donor restrictions	(6,000,789)	(6,946,317)
Total liabilities and net deficit	$ 7,719,017	$ 11,587,961

See auditor's report and notes to financial statements.

FLOYD CHEROKEE MEDICAL CENTER, LLC

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

	2021	2020
Operating revenues:		
Net patient service revenue	$ 14,611,326	$ 9,717,261
CARES Act funding	1,135,257	59,740
Contribution from Cherokee Authority for operations	400,000	400,000
Other operating revenue	165,537	58,598
Total operating revenues	16,312,120	10,235,599
Expenses:		
Salaries and benefits	7,864,218	5,772,883
Professional fees	1,894,066	1,732,663
Supplies and other	5,144,557	4,681,474
Interest	33,567	-
Amortization	235,821	-
Depreciation	214,402	185,029
Total expenses	15,386,631	12,372,049
Operating income (loss)	925,489	(2,136,450)
Nonoperating income:		
Interest income	1,165	4,669
Undesignated gifts and bequests	18,874	23,638
Excess revenues (expenses)	945,528	(2,108,143)
Net deficit, beginning of year	(6,946,317)	(4,838,174)
Net deficit, end of year	$(6,000,789)	$(6,946,317)

See auditor's report and notes to financial statements.

FLOYD CHEROKEE MEDICAL CENTER, LLC

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

	2021	2020
Cash flows from operating activities:		
Change in net assets	$ 945,528	$(2,108,143)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Amortization	235,821	-
Depreciation	214,402	185,029
Changes in:		
Patient accounts receivable	(1,007,212)	377,904
Supplies	(23,625)	80,707
Estimated third-party payor settlements	-	(29,551)
Other current assets	(196,544)	546,719
Accounts payable and accrued expenses	266,034	(242,678)
CARES Act refundable advance	(8,119,649)	8,419,649
Due to Floyd Healthcare Management, Inc.	2,197,264	893,666
Net cash provided (used) by operating activities	(5,487,981)	8,123,302
Cash flows from investing activities:		
Purchase of property and equipment	(1,136,753)	(83,445)
Cash flows from financing activities:		
Payments on finance lease liabilities	(219,079)	-
Net increase (decrease) in cash and cash equivalents	(6,843,813)	8,039,857
Cash and cash equivalents, beginning of year	8,420,449	380,592
Cash and cash equivalents, end of year	$ 1,576,636	$ 8,420,449
Supplemental disclosure of cash flow information:		
Assets acquired through leases	$ 956,000	$ -
Cash paid for interest	$ 34,000	$ -

See auditor's report and notes to financial statements.

1. Summary of Significant Accounting Policies

Organization

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 (Cherokee 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.

Use of Estimates

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

Cash and Cash Equivalents

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

Supplies

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

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method. Finance lease assets are amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the asset. Such amortization is included in amortization expense in the financial statements. Interest costs incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Continued

1. Summary of Significant Accounting Policies, Continued

Property and Equipment, Continued

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

Impairment of Long-Lived Assets

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

Refundable Advance

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

Net Assets

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

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

Continued

1. Summary of Significant Accounting Policies, Continued

Net Assets, Continued

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 a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Net Patient Service Revenue

FCMC has agreements with third-party payors that provide for payments to FCMC 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 FCMC expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors, and others and includes variable consideration for retroactive revenue adjustments under reimbursement arrangements with third-party payors. Retroactive adjustments are included in the determination of the estimated transaction price and adjusted in future periods as settlements are determined.

Charity Care

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

Donor Restricted Gifts

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

Continued

1. Summary of Significant Accounting Policies, Continued

Excess Revenues (Expenses)

The statement of operations and changes in net assets includes excess revenues (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, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

Risk Management

FCMC 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. FCMC has purchased insurance to mitigate the risk of loss for these types of damages. See Notes 8 and 9 for more information.

Income Taxes

The Corporation is recognized as exempt by the IRS as an IRC Section 501(c)(3) entity and is the sole member of FCMC. As such, FCMC is deemed by the IRS to be a disregarded entity and takes the tax-exempt status of the Corporation.

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, 2021 and 2020 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.

Continued

1. Summary of Significant Accounting Policies, Continued

Recently Adopted Accounting Pronouncement

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

Accounting Pronouncement Not Yet Adopted

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

Subsequent Event

In preparing these financial statements, FCMC has evaluated events and transactions for potential recognition or disclosure through October 25, 2021, the date the financial statements were available to be issued. See Note 16.

2. Net Patient Service Revenue

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

Continued

2. Net Patient Service Revenue, Continued

Performance obligations are determined based on the nature of the services provided by FCMC. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. FCMC believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patient services. FCMC 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 FCMC 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, FCMC 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.

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

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

Continued

2. Net Patient Service Revenue, Continued

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

- Medicare

  Certain inpatient acute care services 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

  Effective October 1, 2020, the Alabama Medicaid Agency approved FCMC as a public hospital to be reimbursed as follows. The Hospital Funding Program governs Medicaid payments. For public hospitals, the Hospital Funding Program utilizes federal funds derived from disproportionate share hospital (DSH) payments to provide inpatient and outpatient payments.

  Hospitals receive quarterly DSH payments during the state fiscal year (SFY), base per diem payments for inpatient services, and outpatient payments based on the Medicaid fee schedule maintained by the Medicaid Agency. These payments are determined and provided by the Alabama Medicaid Agency. The Alabama Medicaid Agency claims the maximum allowable DSH amount from the federal government and distributes these funds to hospitals based on a hospital's share of statewide uncompensated care.

  DSH transactions are considered interim payments by the Centers for Medicare and Medicaid Services (CMS), the federal agency responsible for managing states' Medicaid programs. The Alabama Medicaid Agency is required to conduct reconciliations of DSH payments to hospitals with actual cost incurred by the hospitals. The reconciliation process for SFY 2018 was in progress at year-end. Based on these reconciliations, the State of Alabama through the Medicaid Agency is responsible for any excess funds claimed above allowed amounts or unclaimed funds below allowed amounts from CMS. If the reconciliation shows the cost incurred for all public hospitals is more than the total DSH payments received, no individual hospital adjustment will be made; however, if the cost incurred for all public hospitals is less than the total DSH payments received, each individual hospital will be required to reimburse its pro rata share of payments received for the difference noted. During 2021, there were no audit findings requiring reimbursement from public hospitals.

Continued

2. Net Patient Service Revenue, Continued

- Blue Cross

  Inpatient services rendered to Blue Cross subscribers are paid at prospectively determined rates per day of hospitalization. Outpatient services are paid on an enhanced ambulatory patient grouping (EAPG) methodology. Under this methodology, FCMC is reimbursed at prospectively determined rates per service.

- Other Arrangement

  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 the Corporation for medically necessary care by Medicare and private health insurers during a 12-month look-back period.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge FCMC'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 FCMC. In addition, the contracts FCMC 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 FCMC'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.

Continued

2. Net Patient Service Revenue, Continued

Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in the transaction price, were not significant in 2021 or 2020.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. FCMC also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. FCMC estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Adjustments arising from a change in the transaction price were not significant for the years ending June 30, 2021 and 2020. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense for the years ended June 30, 2021 and 2020 was not significant.

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

Patients who meet FCMC'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, 2021 and 2020 is as follows:

	2021	2020
Medicare	$ 3,299,384	$ 2,683,196
Medicaid	7,193,663	2,449,988
Third-party payors	629,259	3,679,161
Self-pay	3,489,020	904,916
Net patient service revenue	$ 14,611,326	$ 9,717,261

Continued

2. Net Patient Service Revenue, Continued

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

	2021	2020
Hospital	$ 11,736,207	$ 9,717,261
Rural Health Clinics	2,875,119	-
Timing of revenue and recognition:		
Services transferred over time	$ 14,611,326	$ 9,717,261

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

FCMC 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 FCMC'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, FCMC 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.

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

3. Coronavirus (COVID-19)

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen. The outbreak has put an unprecedented strain on the U.S. healthcare system, disrupted or delayed production and delivery of materials and products in the supply chain, and caused staffing shortages. The extent of the impact of COVID-19 on FCMC's operational and financial performance depends on certain developments, including the duration and spread of the outbreak, remedial actions and stimulus measures adopted by local and federal governments, and impact on FCMC's customers, employees and vendors all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact FCMC's financial position or results of operations is uncertain.

Continued

3. Coronavirus (COVID-19), Continued

On March 27, 2020, the President signed the Coronavirus Aid, Relief and Economic Security Act (CARES Act). Certain provisions of the CARES Act provide relief funds to hospitals and other healthcare providers. The funding will be used to support healthcare-related expenses or lost revenue attributable to COVID-19. The U.S. Department of Health and Human Services began distributing funds on April 10, 2020, to eligible providers in an effort to provide relief to both providers in areas heavily impacted by COVID-19 and those providers who are struggling to keep their doors open due to healthy patients delaying care and canceling elective services. On April 24, 2020, the *Paycheck Protection Program and Health Care Enhancement Act* was passed. This act provides additional funding to replenish and supplement key programs under the CARES Act, including funds to health care providers for COVID-19 testing. CARES Act funding is a conditional contribution and accounted for as a refundable advance until conditions have been substantially met or explicitly waived by the grantor. Because the use of funds is limited to the purposes stated in the terms and conditions, the contributions are grantor restricted. FCMC reports restricted contributions, whose restrictions are met in the same period in which they are received (simultaneous release), as net assets without donor restrictions. Recognized revenue is reported as operating revenues in the statements of operations and changes in net assets. FCMC received approximately $9,250,000 in grant stimulus funding in fiscal year 2020 and 2021 of which approximately $1,200,000 was recognized as operating revenues on the statements of operations and changes in net assets and approximately $300,000 was recorded as a CARES Act refundable advance on the balance sheet as of June 30, 2021. FCMC transferred approximately $7,750,000 of funding related to the general distribution funds to Floyd Healthcare Management, Inc. to help support the Corporation during the COVID-19 pandemic.

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

FCMC has received the following program funding:

- $30 Billion General Distribution (1st round) - On April 10, 2020, HHS distributed $30 billion to nearly 320,000 Medicare fee-for-service providers based on their portion of 2019 Medicare fee-for-service payments. FCMC received and transferred approximately $202,000 in funding from this distribution to Floyd Healthcare Management, Inc.

- $10 Billion Rural Distribution - On May 6, 2020, HHS distributed $10 billion to almost 4,000 rural health care providers including hospitals, health clinics, and health centers. FCMC received and transferred approximately $3,420,000 in funding from this distribution to Floyd Healthcare Management, Inc.

Continued

3. Coronavirus (COVID-19), Continued

- $10 Billion Safety Net Hospitals Distribution - On June 12, 2020, HHS distributed $10 billion to almost 800 providers that disproportionately serve Medicaid recipients and the uninsured. FCMC received $5,000,000 in funding from this distribution. FCMC transferred approximately $4,130,000 to Floyd Healthcare Management, Inc.

- Alabama Small Rural Hospital Improvement Program (SHIP) Grant - In April of 2020, the Alabama Hospital Association announced that the Health Resources and Services Administration's (HRSA) Federal Office of Rural Health Policy received $180 million to support COVID-19 related activities, of which nearly $150 million will go to hospitals responding to the health crisis through the SHIP grant mechanism. FCMC expended approximately $83,000 of COVID-19 related expenses which will be reimbursed through the SHIP program and was recognized as CARES Act funding.

The CARES Act also did the following:

- Sequestration - Suspended the Medicare sequestration payment adjustment, which reduces payments to providers by 2%, for the period May 1, 2020 through December 31, 2020 and extended to December 31, 2021 with subsequent legislation.

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

4. Uncompensated Charges

FCMC was compensated for services at amounts less than its established rates. Net patient service revenue includes amounts, representing the transaction price, based on standard charges reduced by variable considerations such as contractual adjustments, discounts and implicit price concessions. The charges for these uncompensated services for 2021 and 2020 were approximately $69,700,000 and $65,300,000, respectively.

Uncompensated care includes charity and indigent care services of approximately $200,000 and $370,000 in 2021 and 2020, respectively. The cost of charity and indigent care services provided during 2021 and 2020 were approximately $30,000 and $60,000, respectively, computed by applying a total cost factor to the charges forgone.

Continued

4. Uncompensated Charges, Continued

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

	2021	2020
Gross patient charges	$ 84,283,292	$ 75,036,851
Uncompensated charges:		
Charity and indigent care	202,201	373,789
Medicare	15,398,738	17,419,399
Medicaid	12,531,600	12,570,669
Other third-party payors	34,795,296	27,219,392
Price concessions	6,744,131	7,736,341
Total uncompensated care	69,671,966	65,319,590
Net patient service revenue	$ 14,611,326	$ 9,717,261

5. Concentration of Credit Risk

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

	2021	2020
Medicare	22%	23%
Medicaid	21%	5%
Other third-party payors	57%	72%
Total	100%	100%

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

Continued

6. Property and Equipment

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

	2021	2020
Buildings	$ 906,509	$ 906,509
Fixed equipment	195,205	136,843
Leasehold improvements	57,866	-
Moveable equipment	1,204,384	462,384
	2,363,964	1,505,736
Less accumulated depreciation	662,088	236,398
	1,701,876	1,269,338
Construction in progress	595,113	-
Property and equipment, net	$ 2,296,989	$ 1,269,338

Depreciation expense for the years ended June 30, 2021 and 2020 amounts to approximately $214,000 and $185,000, respectively.

7. Leases

FCMC has finance leases for buildings and equipment. FCMC determines if an arrangement is a lease at the inception of a contract. Leases with an initial term of twelve months or less are not recorded on the balance sheets. FCMC has lease agreements which require payments for lease and nonlease components and has elected to account for these as a single lease component.

Right-of-use assets represent FCMC's right to use an underlying asset during the lease term, and lease liabilities represent FCMC's obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the commencement date, based on the net present value of fixed lease payments over the lease term. FCMC has entered into lease arrangements that contain options to extend or terminate the lease in future periods. These options are included in the lease term used to compute the lease liabilities as presented on the balance sheets when it is reasonably certain the option will be exercised.

Finance lease agreements generally include an interest rate that is used to determine the present value of future lease payments. Finance lease amortization expense is recognized on a straight-line basis over the lease term. Variable lease costs consist primarily of common area maintenance and are not significant total lease expense.

Continued

7. Leases, Continued

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

Finance leases:	
Right-of-use assets:	
Finance lease right-of-use assets	$ 719,837
Lease liabilities:	
Current portion	$ 228,947
Long-term	507,632
Total finance lease liabilities	$ 736,579

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

Lease Type	Amount
Finance lease interest	$ 33,567
Finance lease amortization	235,821
Short-term lease cost	176,899
Total lease cost	$ 446,287

In 2020, rental expense related to operating leases was $212,000.
Cash paid for amounts included in the measurement of lease liabilities for the year ended July 30, 2021 is as follows:

Operating cash flows from finance leases	$ 33,567
Financing cash flows from finance leases	219,079
Total	$ 252,646

Continued

7. Leases, Continued

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

Year Ending June 30	Amount
2022	$ 253,524
2023	254,418
2024	90,331
2025	57,062
2026	48,412
Thereafter	95,529
Total undiscounted cash flows	799,276
Less: present value discount	(62,697)
Total lease liabilities	$ 736,579

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

Weighted-average remaining lease term (years):	
Finance leases	4.15
Weighted-average discount rate:	
Finance leases	4.02%

8. Employee Health Insurance

FCMC is included in the Corporation's employee health self-insurance program. The Corporation has a self-insurance program for employee health insurance under which a third-party administrator processes and pays claims. The Corporation reimburses the third-party administrator monthly for claims incurred and paid to other providers. The charges, less any deductibles and coinsurance for covered services provided to employees by the Corporation, are written off against gross patient charges. In addition, the Corporation has entered into a loss financing agreement with ten Georgia hospitals through a program developed by Georgia ADS, LLC. The Shared Financing Layer covers claims from $225,000 to $850,000. In addition, the Georgia ADS Program provides reimbursement on eligible claims over $850,000 with an unlimited maximum. Under this self-insurance program, FCMC expensed from allocations of the Corporation approximately $665,000 and $594,000 for the years ended June 30, 2021 and 2020, respectively.

Continued

9. Malpractice Insurance

FCMC is covered by a claims-made general and professional liability insurance policy with a specified deductible of $50,000 per incident and excess coverage on a claims-made basis. Liability limits related to this policy in 2020 are $1,000,000 per occurrence and $3,000,000 in aggregate. In addition, FCMC is covered by the Corporation's umbrella policy that covers malpractice claims up to $15 million in aggregate. FCMC uses a third-party administrator to review and analyze incidents that may result in a claim against 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 FCMC 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.

10. Commitments and Contingencies

Litigation

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

Compliance Plan

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

Continued

10. Commitments and Contingencies, Continued

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 FCMC.

11. Functional Expenses

FCMC provides general health care services to residents in Northeast Alabama. Expenses related to providing these services in 2021 and 2020 are as follows:

	2021		
	Patient Care Services	General and Administrative	Total
Salaries and wages	$ 5,859,250	$ 709,719	$ 6,568,969
Employee health and welfare	1,116,576	178,673	1,295,249
Professional fees	1,841,359	52,707	1,894,066
Provider tax	-	134,897	134,897
Supplies and other	3,594,205	1,415,455	5,009,660
Depreciation	173,335	41,067	214,402
Amortization	39,751	196,070	235,821
Interest	12,059	21,508	33,567
Total	$ 12,636,535	$ 2,750,096	$ 15,386,631

	2020		
	Patient Care Services	General and Administrative	Total
Salaries and wages	$ 4,002,294	$ 770,758	$ 4,773,052
Employee health and welfare	822,023	177,808	999,831
Professional fees	1,683,951	48,712	1,732,663
Provider tax	-	521,395	521,395
Supplies and other	2,162,908	1,997,171	4,160,079
Depreciation	155,918	29,111	185,029
Total	$ 8,827,094	$ 3,544,955	$ 12,372,049

Continued

11. Functional Expenses, Continued

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

12. Cherokee Authority Contribution

The Cherokee Authority has agreed to make annual contributions to FCMC in support of operating Cherokee Medical Center. The contributions were $400,000 in 2021 and 2020. Cherokee Authority has committed to provide $400,000 per year during the term of the lease.

13. Defined Contribution Plan

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

14. Liquidity and Availability

As of June 30, 2021 and 2020, FCMC has working capital (current assets minus current liabilities) of $3,012,380 and $1,004,144, and average days (based on normal expenditures) cash on hand of 38 days and 0 days, respectively.

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

	2021	2020
Cash and cash equivalents	$ 1,276,636	$ 800
Patient accounts receivable, net	2,129,717	1,122,505
Estimated third-party payor settlements	29,551	29,551
Other current assets	280,001	498,643
Total financial assets available	$ 3,715,905	$ 1,651,499

Continued

14. Liquidity and Availability, Continued

Cash and cash equivalents in the table above do not include the CARES Act refundable advance restricted for healthcare-related expenses or lost revenue attributable to COVID-19 of approximately $300,000 and $8,420,000 as of June 30, 2021 and 2020, respectively. No other financial assets available are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. FCMC has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. FCMC is supported by the Corporation. See Note 15 for additional information.

15. Economic Dependency

FCMC is a wholly owned member of the Corporation and the Corporation makes all payments to employees and vendors on behalf of FCMC. FCMC entered into a management agreement with the Corporation where the Corporation has agreed to provide financial support until the FCMC revenues are sufficient to reimburse the Corporation. The Corporation has the ability and intent to continue to support FCMC. FCMC owes the Corporation approximately $11,500,000 and $9,200,000 in 2021 and 2020, respectively, reported as a noncurrent liability.

16. Subsequent Event

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

ADDITIONAL INFORMATION

INDEPENDENT AUDITOR'S REPORT ON
SUPPLEMENTAL INFORMATION

The Board of Directors
Floyd Cherokee Medical Center, LLC
Centre, Alabama

We have audited the accompanying financial statements of Floyd Cherokee Medical Center, LLC, as of and for the years ended June 30, 2021 and 2020, and our report thereon dated October 25, 2021, which expressed an unmodified opinion on the financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The information included in this report on page 27, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Draffin & Tucker, LLP

Albany, Georgia
October 25, 2021

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FLOYD CHEROKEE MEDICAL CENTER, LLC

BOARD OF DIRECTORS AND EXECUTIVE OFFICIALS (UNAUDITED)
June 30, 2021

Name and Address	Title	Expiration of Term
Kay Chumbler	Chairman	June 30, 2022
George A. Bosworth, M.D.	Vice Chairman	June 30, 2022
David Early	Board Member	June 30, 2023
Chad A. Hopper	Board Member	June 30, 2023
James J. Howell, Jr.	Board Member	June 30, 2024
Johna M. Lindsey	Board Member	June 30, 2024
Kurt Stuenkel	Secretary	
Non-Voting Members		
Thomas H. Manning	Legal Counsel	
Susan Ingram	Corporate Secretary	

See independent auditor's report on supplemental information.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Directors
Floyd Cherokee Medical Center, LLC
Centre, Alabama

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of Floyd Cherokee Medical Center, LLC (FCMC), as of and for the year ended June 30, 2021, and the related notes to the financial statements, and have issued our report thereon dated October 25, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered FCMC's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of FCMC's internal control. Accordingly, we do not express an opinion on the effectiveness of FCMC's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of FCMC's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Continued

Compliance and Other Matters

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of FCMC's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering FCMC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Draffin & Tucker, LLP

Albany, Georgia
October 25, 2021