

TAYLOR REGIONAL HOSPITAL, INC.

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CONSOLIDATED FINANCIAL STATEMENTS

for the years ended March 31, 2023 and 2022



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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Taylor Regional Hospital, Inc.  
Hawkinsville, Georgia

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the accompanying consolidated financial statements of Taylor Regional Hospital, Inc. (Hospital), which comprise the consolidated balance sheets as of March 31, 2023 and 2022, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Taylor Regional Hospital, Inc. as of March 31, 2023 and 2022, and the results of operations, 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.

#### ***Basis for Opinion***

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

Continued

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### ***Substantial Doubt about the Hospital's Ability to Continue as a Going Concern***

The accompanying financial statements have been prepared assuming that the Hospital will continue as a going concern. As discussed in Note 23 to the financial statements, the Hospital has suffered recurring losses from operations (excluding CARES and ARP Act funding), cash flow management difficulties, decreased patient revenue, and negative working capital. These issues indicate that substantial doubt exists about the Hospital's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding those matters are also described in Note 23. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

### ***Emphasis of Matter***

As discussed in Note 1 to the consolidated financial statements, the Hospital adopted new accounting guidance, Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, on April 1, 2022, using a modified retrospective approach. Our opinion is not modified with respect to this matter.

### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hospital's ability to continue as a going concern for within one year after the date that the financial statements are available to be issued.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hospital's ability to continue as a going concern for a reasonable period of time.

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

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2023, on our consideration of the Hospital'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 the Hospital'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 the Hospital's internal control over financial reporting and compliance.

*Draffin & Tucker, LLP*

Atlanta, Georgia  
September 27, 2023

TAYLOR REGIONAL HOSPITAL, INC.

Consolidated Balance Sheets  
March 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<b>Assets:</b>		
Current assets:		
Cash and cash equivalents	\$ 254,363	\$ 1,309,824
Assets limited as to use	53,175	46,909
Patient accounts receivable, net	3,980,663	3,421,906
Estimated third-party payor settlements	1,820,047	2,828,635
Grant receivable	649,650	186,368
Supplies, at lower of cost (first-in, first-out) and net realizable value	293,685	358,836
Other current assets	<u>724,902</u>	<u>671,055</u>
Total current assets	7,776,485	8,823,533
Assets limited as to use	202,120	299,074
Property and equipment, net	15,408,051	14,844,509
Finance lease right-of-use assets	561,620	273,802
Operating lease right-of-use assets	201,758	-
Other investments	213,963	210,893
Goodwill	<u>2,400,000</u>	<u>2,800,000</u>
Total assets	\$ <u>26,763,997</u>	\$ <u>27,251,811</u>
<b>Liabilities and Net Assets:</b>		
Current liabilities:		
Short-term debt	\$ 1,574,360	\$ 341,360
Long-term debt, current portion	341,987	345,159
Finance leases, current portion	196,643	214,552
Operating leases, current portion	79,735	-
Medicare advance payments, current portion	110,272	1,463,836
Accounts payable	6,691,923	5,052,881
Accrued expenses	1,323,544	1,537,060
Estimated third-party payor settlements	89,322	104,126
Refundable advance of CARES and ARP Act funding	<u>41,866</u>	<u>2,836,146</u>
Total current liabilities	10,449,652	11,895,120
Long-term debt, net of current portion	5,395,713	5,731,984
Finance leases, net of current portion	372,375	50,872
Operating leases, net of current portion	122,928	-
Medicare advance payments, net of current portion	<u>173,205</u>	<u>-</u>
Total liabilities	16,513,873	17,677,976
Net assets without donor restrictions	<u>10,250,124</u>	<u>9,573,835</u>
Total liabilities and net assets	\$ <u>26,763,997</u>	\$ <u>27,251,811</u>

See accompanying notes to financial statements.

TAYLOR REGIONAL HOSPITAL, INC.

Consolidated Statements of Operations and Changes in Net Assets  
Years Ended March 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<b>Revenues, gains, and other support:</b>		
Net patient service revenue	\$ 24,315,999	\$ 28,654,003
CARES and ARP Act funding	6,017,249	5,896,023
County contributions for indigent care	244,861	240,917
Shared services fees	376,968	376,968
Other revenue	<u>1,161,249</u>	<u>803,406</u>
Total revenues, gains, and other support	<u>32,116,326</u>	<u>35,971,317</u>
<b>Expenses:</b>		
Salaries and wages	15,613,479	15,645,672
Employee benefits	2,996,873	4,010,713
Supplies and drugs	3,108,487	2,998,222
Purchased services and professional fees	5,612,219	6,643,567
Depreciation and amortization	989,977	851,483
Interest expense	459,376	390,143
Goodwill amortization	400,000	400,000
Other expenses	<u>4,131,550</u>	<u>3,879,701</u>
Total expenses	<u>33,311,961</u>	<u>34,819,501</u>
Operating income (loss)	( <u>1,195,635</u> )	<u>1,151,816</u>
<b>Nonoperating income (loss):</b>		
Investment income (loss)	8,339	( 116,600 )
Rural hospital tax credit contributions	767,545	572,187
Rural hospital stabilization grant	436,815	444,435
Contributions	9,575	218,369
PPP loan and interest forgiven by SBA	<u>-</u>	<u>3,452,364</u>
Total nonoperating income	<u>1,222,274</u>	<u>4,570,755</u>
Excess revenues	26,639	5,722,571
<b>Capital grants:</b>		
ARP SFRF capital funding	<u>649,650</u>	<u>-</u>
Increase in net assets without donor restrictions	676,289	5,722,571
Net assets, beginning of year	<u>9,573,835</u>	<u>3,851,264</u>
Net assets, end of year	\$ <u>10,250,124</u>	\$ <u>9,573,835</u>

See accompanying notes to financial statements.

TAYLOR REGIONAL HOSPITAL, INC.

Consolidated Statements of Cash Flows  
Years Ended March 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 676,289	\$ 5,722,571
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization	989,977	851,483
Goodwill amortization	400,000	400,000
Operating lease right-of-use assets amortization	95,425	-
Impairment loss on other investments	-	130,000
Unrealized gain on other investments	( 3,070)	( 4,624)
PPP loan and interest forgiven by SBA	-	( 3,452,364)
Donation of land	-	( 105,007)
Changes in:		
Patient accounts receivable	( 558,757)	( 834,947)
Estimated third-party payor settlements	993,784	212,896
Grant receivable	( 463,282)	( 186,368)
Supplies	65,151	( 86,534)
Due from Hospital Authority of Bleckley County	-	3,146
Other current assets	( 53,847)	( 32,785)
Accounts payable	1,774,245	1,096,321
Accrued expenses	( 213,516)	( 128,452)
Medicare advance payments	(1,180,359)	( 1,351,271)
Refundable advance of CARES and ARP Act funding	(2,794,280)	( 2,750,091)
Operating lease liabilities	( 94,520)	-
Net cash used by operating activities	( 366,760)	( 516,026)
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(1,339,557)	( 8,676,289)
Net cash used by investing activities	(1,339,557)	( 8,676,289)
<b>Cash flows from financing activities:</b>		
Proceeds from short-term debt	2,999,622	-
Payments on short-term debt	(1,766,622)	-
Payments on long-term debt	( 339,443)	( 348,670)
Payments on finance lease liabilities	( 333,389)	( 268,434)
Net cash provided (used) by financing activities	560,168	( 617,104)
Change in cash and cash equivalents	(1,146,149)	( 9,809,419)
Cash and cash equivalents, beginning of year	1,655,807	11,465,226
Cash and cash equivalents, end of year	\$ 509,658	\$ 1,655,807

Continued



TAYLOR REGIONAL HOSPITAL, INC.

Consolidated Statements of Cash Flows, Continued  
Years Ended March 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<b>Reconciliation of cash and cash equivalents to the balance sheet:</b>		
Cash and cash equivalents	\$ 254,363	\$ 1,309,824
Cash and cash equivalents included in assets limited as to use	<u>255,295</u>	<u>345,983</u>
Total cash and cash equivalents	\$ <u>509,658</u>	\$ <u>1,655,807</u>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid for interest	\$ <u>443,453</u>	\$ <u>381,495</u>
<b>Noncash investing activities:</b>		
Property and equipment acquired through accounts payable	\$ <u>-</u>	\$ <u>135,203</u>
Property and equipment acquired through donation	\$ <u>-</u>	\$ <u>105,007</u>
Impairment loss on other investments	\$ <u>-</u>	\$ <u>130,000</u>
Assets acquired through leases	\$ <u>934,166</u>	\$ <u>-</u>
<b>Noncash financing activities:</b>		
PPP loan and interest forgiven by SBA	\$ <u>-</u>	\$ <u>3,452,364</u>

See accompanying notes to financial statements.

# TAYLOR REGIONAL HOSPITAL, INC.

## Notes to Consolidated Financial Statements March 31, 2023 and 2022

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### 1. Summary of Significant Accounting Policies

*Organization.* Taylor Regional Hospital, Inc. (Hospital) is a not-for-profit health care organization. Hospital operates Taylor Regional Hospital, a 49-bed acute care hospital, Pinewood Manor Nursing Home and Rehabilitation Center (Nursing Home), a 102-bed long-term care facility, and physician offices.

The Hospital is the sole corporate member of the following entities:

- Taylor Memorial Care Foundation, Inc. (Foundation) - a not-for-profit organization that raises funds in support of the Hospital.
- Taylor Regional Health Network, LLC (Network) - a holding company for an investment in Secure Health Plans of Georgia, LLC.

The consolidated financial statements of the Hospital include all of the aforementioned entities. All significant intercompany transactions have been eliminated.

*Use of estimates.* The preparation of the 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

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

*Investments.* Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheet. Investments without a readily determinable fair value are measured at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer. Certain investments are accounted for on the equity method. These investments are included in other investments on the consolidated balance sheets. Investment income or loss (including interest, dividends, and gains and losses, both realized and unrealized) is included in excess revenues (expenses) unless the income or loss is restricted by donor or law.

*Assets limited as to use.* Assets limited as to use include funds restricted for debt service and funds restricted as reserve for long-term debt. These funds consist of money market accounts.

Continued

TAYLOR REGIONAL HOSPITAL, INC.

Notes to Consolidated Financial Statements, Continued  
March 31, 2023 and 2022

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**1. Summary of Significant Accounting Policies, Continued**

*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 using the straight-line method. Equipment under finance 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 and amortization in the consolidated financial statements.

Gifts of long-lived assets such as land, buildings, or equipment are reported as increases in net assets without donor restrictions, and are excluded from excess revenues (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 Hospital 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. The factors considered by the Hospital in performing this assessment include current operating results, trends, and prospects, as well as the effects of obsolescence, demand, competition, and other economic factors. The Hospital has not recorded any impairment charges in the accompanying consolidated statements of operations and changes in net assets.

*Refundable advance of CARES and ARP Act funding.* A refundable advance arises when assets are recognized before revenue recognition criteria have been satisfied. CARES and ARP Act advance payments are reported as a refundable advance until donor conditions such as qualifying expenditures have been substantially met. See Note 21 for additional information.

*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.

Costs incurred in connection with the issuance of bonds are deferred and amortized over the term of the bonds using the effective interest method. Debt issuance costs related to a recognized debt liability are presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability.

*Goodwill.* Goodwill represents the excess of the acquisition price over the fair value of net assets acquired through business combinations. Goodwill is being amortized on a straight-line basis over ten years. Goodwill is also tested for impairment at the reporting unit level (Nursing Home) when a triggering event occurs. The Hospital considered whether certain factors (such as macroeconomic conditions, industry considerations, cost factors, and the sequence of events) during the COVID-19 pandemic constituted a triggering event. The Hospital's evaluation determined it is not more likely than not that the reporting unit's fair value is less than its' carrying value.

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TAYLOR REGIONAL HOSPITAL, INC.

Notes to Consolidated Financial Statements, Continued  
March 31, 2023 and 2022

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**1. Summary of Significant Accounting Policies, Continued**

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

- *Net assets without donor restrictions* - net assets available for use in general operations and not subject to donor-imposed restrictions. The Board of Directors has discretionary control over these resources. Designated amounts represent those net assets that the Board has set aside for a particular purpose. All revenue not restricted by donors and donor restricted contributions whose restrictions are met in the same period in which they are received are accounted for in net assets without donor restrictions.
- *Net assets with donor restrictions* - net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. All revenues restricted by donors as to either timing or purpose of the related expenditures or required to be maintained in perpetuity as a source of investment income are accounted for in net assets with donor restrictions. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions.

*Excess revenues (expenses).* The statement of operations includes excess revenues (expenses). Changes in net assets which are excluded from excess revenues (expenses), consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods and services and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

*Net patient service revenue.* The Hospital has agreements with third-party payors that provide for payments to the Hospital 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 Hospital 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.

Continued

TAYLOR REGIONAL HOSPITAL, INC.

Notes to Consolidated Financial Statements, Continued  
March 31, 2023 and 2022

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**1. Summary of Significant Accounting Policies, Continued**

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

*Donor-restricted gifts.* Unconditional promises to give cash and other assets to the Hospital 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. 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.

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

*Income taxes.* The Hospital and Foundation are not-for-profit corporations and have been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. Network is considered a disregarded entity of the Hospital.

The Hospital 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 Hospital 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 March 31, 2023 and 2022, or for the years then ended. The Hospital'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.

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TAYLOR REGIONAL HOSPITAL, INC.

Notes to Consolidated Financial Statements, Continued  
March 31, 2023 and 2022

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**1. Summary of Significant Accounting Policies, Continued**

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

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

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

*Recently adopted accounting pronouncements.* In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which is a new comprehensive lease accounting model. The new standard clarifies the definition of a lease and requires lessees to recognize right-of-use assets and related lease liabilities for all leases with terms greater than twelve months. As part of the transition to the new standard, the Hospital was required to measure and recognize leases that existed at April 1, 2022 using a modified retrospective approach. The Hospital applied the new standard at the adoption date. The Hospital elected the package of practical expedients permitted under the new standard that allowed it to carry forward historical lease classification. The Hospital also elected the practical expedient that allowed it to not separate nonlease components from the associated lease components. At April 1, 2022, the impact of adoption on the consolidated financial statements was an increase in noncurrent assets to record the right-of-use assets and an increase in current and noncurrent liabilities to record lease liabilities of approximately \$637,538, representing the present value of remaining lease payments.

*Subsequent events.* In preparing these financial statements, the Hospital has evaluated events and transactions for potential recognition or disclosure through September 27, 2023, the date the financial statements were available to be issued.

Continued

TAYLOR REGIONAL HOSPITAL, INC.

Notes to Consolidated Financial Statements, Continued  
March 31, 2023 and 2022

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**2. Net Patient Service Revenue**

Net patient service revenue is reported at the amount that reflects the consideration to which the Hospital expects to be entitled in exchange for providing patient care. These amounts are due from patients or third-party payors and includes variable consideration for retroactive revenue adjustments, if any, under reimbursement programs. Generally, the Hospital 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 Hospital. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Hospital believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving inpatient, outpatient, emergency, physician, and long-term care services. The Hospital measures the performance obligation from admission into the hospital/nursing home 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 Hospital 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 Hospital 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.

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

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TAYLOR REGIONAL HOSPITAL, INC.

Notes to Consolidated Financial Statements, Continued  
March 31, 2023 and 2022

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**2. Net Patient Service Revenue, Continued**

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

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

- *Medicare.* Inpatient and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Certain other reimbursable items are reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor (MAC). The Hospital's Medicare cost reports have been settled by the MAC through March 31, 2020.

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

- *Medicaid.* Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates. Outpatient services rendered to Medicaid program beneficiaries are generally reimbursed under a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary. The Hospital's Medicaid cost reports have been settled by the Medicaid fiscal intermediary through March 31, 2020.

The Hospital 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 and discounts from established charges.

Long-term care services are reimbursed by the Medicaid program based on a prospectively determined per diem. The per diem is determined by the facility's historical allowable operating costs adjusted for certain incentives and inflation factors.

Continued



TAYLOR REGIONAL HOSPITAL, INC.

Notes to Consolidated Financial Statements, Continued  
March 31, 2023 and 2022

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**2. Net Patient Service Revenue, Continued**

- *Medicaid, continued.* The Hospital participates in the Georgia Indigent Care Trust Fund (ICTF) Program. The Hospital receives ICTF payments for treating a disproportionate number of Medicaid and other indigent patients. ICTF payments are based on the Hospital's estimated uncompensated cost of services to Medicaid and uninsured patients. The amount of ICTF payments recognized in net patient service revenue was approximately \$639,000 and \$208,000 for 2023 and 2022, respectively.

The Hospital participates in the Medicaid Upper Payment Limit (UPL) program. The UPL payment adjustments are based on a measure of the difference between Medicaid payments and the amount that could be paid based on Medicare payment principles. The net amount of UPL payment adjustments recognized in net patient service revenue was approximately \$2,345,000 and \$2,720,000 for 2023 and 2022, respectively.

During 2022, Medicaid implemented five (5) new Directed Payment Programs. The Hospital participates in the Hospital Directed Payment Program (HDPP) for Private Hospitals. The HDPP payments are based on a measure of the difference between Medicaid CMO payments and the amount that could be paid based on Medicare payment principles. The HDPP payments are made to the Medicaid CMOs and the CMOs are required to transfer the payments to the Hospital. The net amount of HDPP payments recognized in net patient service revenue was approximately \$83,000 during 2023.

The State of Georgia has legislation known as the Provider Payment Agreement Act whereby hospitals in Georgia are assessed a "provider payment" in the amount of 1.45% of their net patient revenue. The provider payments are due on a quarterly basis to the State of Georgia. The payments are used for the sole purpose of obtaining federal financial participation for medical assistance payments to providers on behalf of Medicaid recipients. The provider payment results in a corresponding increase in Medicaid payments for hospital services of approximately 11.88%. The Hospital made provider payments to the State of Georgia of approximately \$254,000 and \$257,000 during 2023 and 2022, respectively. The payments are included in other expense in the accompanying statements of operations and changes in net assets.

The State of Georgia also has legislation known as the Nursing Home Provider Fee Act whereby nursing homes in Georgia are assessed a daily provider fee for each bed occupied by a non-Medicare patient. The provider fees are due on a quarterly basis to the State of Georgia. The provider fees are for the purpose of obtaining additional federal funding to supplement Medicaid payments made to nursing homes. The provider fees are returned to the nursing homes through both higher Medicaid rates and an add-on. The Hospital made provider payments to the State of Georgia of approximately \$375,000 and \$377,000 in 2023 and 2022, respectively. The payments are included in other expense in the accompanying consolidated statements of operations and changes in net assets.

Continued

TAYLOR REGIONAL HOSPITAL, INC.

Notes to Consolidated Financial Statements, Continued  
March 31, 2023 and 2022

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**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.* The Hospital has a Financial Assistance Policy (FAP) in accordance with Internal Revenue Code § 501(r). Based on the FAP, following a determination of financial assistance eligibility, an individual will not be charged more than the Amounts Generally Billed (AGB) for emergency or other medical care provided to individuals with insurance covering that care. AGB is calculated by reviewing claims that have been paid in full (including deductibles and coinsurance paid by the patient) to the Hospital 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 the Hospital'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 Hospital. In addition, the contracts the Hospital 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 Hospital'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 2023 or 2022.

Generally patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Hospital also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The Hospital 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

Continued

TAYLOR REGIONAL HOSPITAL, INC.

Notes to Consolidated Financial Statements, Continued  
March 31, 2023 and 2022

**2. Net Patient Service Revenue, Continued**

estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Adjustments arising from a change in the transaction price were not significant in 2023 or 2022. 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 2023 and 2022 was not significant.

Consistent with the Hospital's mission, care is provided to patients regardless of their ability to pay. Therefore, the Hospital 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 the Hospital'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 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
Medicare	\$ 12,063,633	\$ 14,339,826
Medicaid	8,255,004	8,771,986
Other third-party payors	3,430,625	5,524,623
Self-pay	<u>566,737</u>	<u>17,568</u>
Total	\$ <u>24,315,999</u>	\$ <u>28,654,003</u>

Net patient service revenue by facility/line of business and timing of revenue recognition for 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
Hospital	\$ 15,173,406	\$ 16,724,968
Nursing home	6,421,539	6,999,088
Physician offices	<u>2,721,054</u>	<u>4,929,947</u>
Total services transferred over time	\$ <u>24,315,999</u>	\$ <u>28,654,003</u>

Net patient service revenue includes a variety of services mainly covering inpatient acute care services requiring overnight stays, outpatient procedures that require anesthesia or use of diagnostic and surgical equipment, and emergency care services. Performance obligations for the hospital, nursing home and physician offices patient services are satisfied over time as the patient simultaneously receives and consumes the benefits the Hospital performs. Requirements to recognize revenue for inpatient services are generally satisfied over periods that average approximately five days and for outpatient services are generally satisfied over a period of less than one day. For retail pharmacy and cafeteria 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.

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# TAYLOR REGIONAL HOSPITAL, INC.

## Notes to Consolidated Financial Statements, Continued March 31, 2023 and 2022

### 2. Net Patient Service Revenue, Continued

The Hospital 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 Hospital'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 Hospital 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 Hospital 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 Hospital otherwise would have recognized is one year or less in duration.

### 3. Uncompensated Services

The Hospital was compensated for services at amounts less than its standard charges. Net patient service revenue includes amounts representing the transaction price based on standard charges reduced by variable considerations such as contractual adjustments, discounts, and implicit price concessions. The following is a reconciliation of gross patient charges to net patient service revenue:

	<u>2023</u>	<u>2022</u>
Gross patient charges	\$ <u>62,582,270</u>	\$ <u>71,845,215</u>
Uncompensated services:		
Medicare	15,155,574	17,266,088
Medicaid	5,202,137	5,560,281
Medicaid ICTF, UPL, HDPP	( 3,066,627)	( 2,927,165)
Blue Cross	3,459,029	4,802,332
Other third-party payors	13,168,585	12,566,457
Uninsured discounts	1,171,511	1,017,203
Charity and indigent	780,421	511,150
Price concessions	<u>2,395,641</u>	<u>4,394,866</u>
Total uncompensated care	<u>38,266,271</u>	<u>43,191,212</u>
Net patient service revenue	\$ <u>24,315,999</u>	\$ <u>28,654,003</u>

The Hospital incurred charity care costs of approximately \$415,000 and \$248,000 during 2023 and 2022, respectively. The charity care costs were estimated by calculating a ratio of cost to gross charges and multiplying that ratio by the gross uncompensated charges associated with providing care to charity patients.

Continued

TAYLOR REGIONAL HOSPITAL, INC.

Notes to Consolidated Financial Statements, Continued  
March 31, 2023 and 2022

**4. Assets Limited as to Use**

The composition of assets limited as to use at March 31, 2023 and 2022 is set forth in the following table.

	<u>2023</u>	<u>2022</u>
Restricted for debt service:		
Cash and cash equivalents	\$ 53,504	\$ 52,543
Restricted for loan reserve:		
Cash and cash equivalents	<u>201,791</u>	<u>293,440</u>
Total	\$ <u>255,295</u>	\$ <u>345,983</u>

Investment income and gains and losses for cash and cash equivalents, assets limited as to use, and other investments are comprised of the following for 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Interest and dividends	\$ 5,269	\$ 8,776
Impairment loss on other investments	-	( 130,000)
Unrealized gains on other investments	<u>3,070</u>	<u>4,624</u>
Total	\$ <u>8,339</u>	\$ <u>(116,600)</u>

**5. Property and Equipment**

A summary of property and equipment at March 31, 2023 and 2022 follows:

	<u>2023</u>	<u>2022</u>
Land	\$ 620,213	\$ 620,213
Land improvements	163,559	163,559
Buildings and improvements	15,905,568	15,596,718
Equipment	<u>12,967,891</u>	<u>12,887,415</u>
	29,657,231	29,267,905
Less accumulated depreciation and amortization	<u>22,509,124</u>	<u>21,868,313</u>
	7,148,107	7,399,592
Construction-in-progress	8,238,318	5,693,170
Construction deposit	<u>21,626</u>	<u>1,751,747</u>
Net	\$ <u>15,408,051</u>	\$ <u>14,844,509</u>

A contract of approximately \$6,437,000 exists for renovation of the emergency department and central energy plant. The Hospital made a deposit on the construction of approximately \$6,260,000. At March 31, 2023, the remaining commitment on the contract approximated \$177,000.

Continued

TAYLOR REGIONAL HOSPITAL, INC.

Notes to Consolidated Financial Statements, Continued  
March 31, 2023 and 2022

**6. Other Investments**

A summary of other investments at March 31, 2023 and 2022 follows:

	<u>2023</u>	<u>2022</u>
American Oncology Associates, LLC	\$ -	\$ -
Secure Health Plans of Georgia, LLC	179,846	176,793
The Coca-Cola Company common stock	<u>34,117</u>	<u>34,100</u>
Total	\$ <u>213,963</u>	\$ <u>210,893</u>

The Hospital accounts for its investment in American Oncology Associates, LLC (AOA) at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer. During 2022, the investment in AOA was determined to be impaired and the investment was written off. The Hospital accounts for its investment in Secure Health Plans of Georgia, LLC on the equity method. The Hospital's investment in The Coca-Cola Company is reported at fair market value, measured using Level 1 inputs.

**7. Goodwill**

Goodwill is related to the Hospital's purchase of the Nursing Home in 2015. In 2020, the Hospital implemented ASU 2019-06 and began amortizing goodwill on a straight-line basis over 10 years. A schedule of changes in goodwill for 2023 and 2022 follows:

	<u>2023</u>	<u>2022</u>
Beginning of year	\$ 2,800,000	\$ 3,200,000
Additions	-	-
Amortization	( 400,000)	( 400,000)
Impairment	<u>-</u>	<u>-</u>
End of year	\$ <u>2,400,000</u>	\$ <u>2,800,000</u>

Continued

# TAYLOR REGIONAL HOSPITAL, INC.

## Notes to Consolidated Financial Statements, Continued March 31, 2023 and 2022

### 8. Medicare Accelerated and Advance Payments

The *Coronavirus Aid, Relief, and Economic Security Act* expanded the Medicare Accelerated and Advance Payment (MAAP) program to increase cash flow to healthcare providers impacted by the COVID-19 pandemic. In April 2020, the Hospital received \$2,815,107 in MAAP payments. The MAAP payments must be repaid and recoupment begins one year after the date of receipt. Medicare will recoup 25% of Medicare payments owed to the Hospital for eleven months and then recoup 50% of Medicare payments owed to the Hospital for the succeeding six months. Any outstanding balance must then be repaid. The Hospital was approved for a 35-month Extended Repayment Plan (ERP) at 4% interest for the outstanding balance. During 2023 and 2022, \$1,180,359 and \$1,351,271 in MAAP payments were repaid. Scheduled MAAP repayments (excluding interest) are as follows:

	<u>MAAP</u>
2024	\$ 110,272
2025	114,765
2026	<u>58,440</u>
Total	\$ <u>283,477</u>

### 9. Short-Term Debt

A summary of short-term debt at March 31, 2023 and 2022 follows:

	<u>2023</u>	<u>2022</u>
Note payable to a charitable trust, interest at 4.25%, unsecured. Principal and interest due at maturity. Latest renewal was in January 2023 with a due date of June 2023.	\$ 624,360	\$ 341,360
Note payable to a financial institution, interest at Prime Rate (8.00% at March 31, 2023), secured by ARP SFRF funds, due January 2024.	<u>950,000</u>	<u>-</u>
Total short-term debt	\$ <u>1,574,360</u>	\$ <u>341,360</u>

In June 2023, the Hospital paid \$312,180 on the note payable to the charitable trust. The charitable trust forgave the remaining \$312,180.

In August 2023, the charitable trust loaned the Hospital \$430,000 for up to 6 months, interest at 6.00%, unsecured.

In August 2023, the charitable trust provided the Hospital a \$1,000,000 line-of-credit through August 2024, interest at 6.00%, unsecured.

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TAYLOR REGIONAL HOSPITAL, INC.

Notes to Consolidated Financial Statements, Continued  
March 31, 2023 and 2022

**10. Long-Term Debt**

A summary of long-term debt at March 31, 2023 and 2022, follows:

	<u>2023</u>	<u>2022</u>
Hospital Authority First Mortgage Revenue Certificates, secured by property and revenues. Interest payments due monthly at 6.00%. Principal payments due annually through 2044.	\$ 4,635,000	\$ 4,715,000
3.375% note payable, USDA, secured by EHR equipment. Annual payments of \$293,362, with final payment due August 8, 2027.	1,226,525	1,470,284
7.90% note payable, secured by equipment. Monthly payments of \$4,365, with final payment due August 12, 2022.	<u>-</u>	<u>21,399</u>
Total long-term debt	5,861,525	6,206,683
Less bond issue costs	123,825	129,540
Less current portion	<u>341,987</u>	<u>345,159</u>
Long-term debt, net of current portion	\$ <u>5,395,713</u>	\$ <u>5,731,984</u>

In December 2014, the Hospital Authority of Pulaski County (Pulaski Authority) issued First Mortgage Revenue Certificates (Certificates) totaling \$5,100,000. The Certificates were issued for the purpose of purchasing the Nursing Home. As security for the obligations under the Certificates, a security interest in the property and gross revenues of the Nursing Home has been granted to the Trustee.

Pursuant to the Trust Indenture to the Certificates, the Hospital is required to maintain and make monthly deposits to a Certificate Fund, which shall be used to pay the principal of, and the interest on, the Certificates. The Hospital is also required to maintain and make monthly deposits to an Ad Valorem Tax Fund, which shall be used to pay ad valorem taxes due to the City of Hawkinsville and/or Pulaski County. These funds are reported as assets limited as to use in the consolidated balance sheets.

The Nursing Home is required to meet certain financial covenants as defined in the Lease Agreement for the Certificates. The Nursing Home did not meet the days cash on hand financial covenant during 2023. The Nursing Home did meet the debt service coverage and accounts payable aging financial covenants during 2023.

Under the terms of the USDA note payable, the Hospital is required to maintain and make annual deposits (as defined) to a reserve account. The funds are reported as assets limited as to use in the consolidated balance sheets. As of March 31, 2023, the reserve account was underfunded.

Continued



# TAYLOR REGIONAL HOSPITAL, INC.

## Notes to Consolidated Financial Statements, Continued March 31, 2023 and 2022

### 10. Long-Term Debt, Continued

On April 17, 2020, the Hospital received loan proceeds in the amount of \$3,412,644 under the Paycheck Protection Program (PPP). The PPP, established as part of the CARES Act, provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable after the covered period as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the covered period. The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1 percent, with a deferral of payments for the first ten months after the covered period. The Hospital believes its use of the proceeds is consistent with the PPP and applied for forgiveness. The Hospital will recognize any forgiveness of the loan and accrued interest at the time the Hospital is legally released from the debt. The Small Business Administration forgave the PPP loan and all accrued interest in June 2021.

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

	<u>Long-Term Debt</u>
2024	\$ 341,987
2025	360,491
2026	379,283
2027	398,372
2028	301,392
Thereafter	<u>4,080,000</u>
	5,861,525
Less bond issue costs	<u>123,825</u>
Total	<u>\$ 5,737,700</u>

### 11. Leases

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

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

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# TAYLOR REGIONAL HOSPITAL, INC.

## Notes to Consolidated Financial Statements, Continued March 31, 2023 and 2022

### 11. Leases, Continued

Right-of-use assets represent the Hospital's right to use an underlying asset during the lease term, and lease liabilities represent the Hospital'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. The Hospital's lease terms include options to extend or terminate the lease when it is reasonably certain that the option will be exercised. The Hospital's operating leases do not provide an implicit rate, therefore the Hospital uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The Hospital considers recent debt issuances, as well as publicly available data for instruments with similar characteristics when calculating its incremental borrowing rate. Finance lease agreements generally include an interest rate that is used to determine the present value of future lease payments. Operating fixed lease expense and finance lease amortization expense are recognized on a straight-line basis over the lease term. Variable lease costs consist of ad valorem taxes and insurance on a building and are not significant to total lease expense.

Finance and operating lease right-of-use assets and lease liabilities as of March 31, 2023 were as follows:

	<u>2023</u>
Finance leases:	
Right-of-use assets:	
Finance lease right-of-use assets	\$ <u>561,620</u>
Lease liabilities:	
Current portion	\$ 196,643
Long-term	<u>372,375</u>
Total finance lease liabilities	\$ <u>569,018</u>
Operating leases:	
Right-of-use assets:	
Operating lease right-of-use assets	\$ <u>201,758</u>
Lease liabilities:	
Current portion	\$ 79,735
Long-term	<u>122,928</u>
Total finance lease liabilities	\$ <u>202,663</u>

Continued

TAYLOR REGIONAL HOSPITAL, INC.

Notes to Consolidated Financial Statements, Continued  
March 31, 2023 and 2022

**11. Leases, Continued**

Operating expenses for the leasing activity of the Hospital as the lessee for the year ended March 31, 2023 are as follows:

<u>Lease Type</u>	<u>2023</u>
Operating lease cost	\$ 103,410
Finance lease interest	27,662
Finance lease amortization	<u>349,165</u>
Total lease cost	<u>\$ 480,237</u>

In 2022, rental expense related to operating leases was approximately \$222,000.

Cash paid for amounts included in the measurement of lease liabilities for the year ended March 31, 2023 are as follows:

	<u>2023</u>
Operating cash flows from operating leases	\$ 102,504
Operating cash flows from finance leases	26,982
Financing cash flows from finance leases	<u>333,389</u>
Total	<u>\$ 462,875</u>

The aggregate future payments on finance and operating leases as of March 31, 2023 are as follows:

<u>Year Ending March 31</u>	<u>Finance</u>	<u>Operating</u>
2024	\$ 220,579	\$ 84,741
2025	152,425	59,541
2026	141,760	62,261
2027	79,685	5,209
2028	<u>29,055</u>	<u>-</u>
Total undiscounted cash flows	623,504	211,752
Less present value discount	( <u>54,486</u> )	( <u>9,089</u> )
Total lease liabilities	<u>\$ 569,018</u>	<u>\$ 202,663</u>

Continued

TAYLOR REGIONAL HOSPITAL, INC.

Notes to Consolidated Financial Statements, Continued  
March 31, 2023 and 2022

**11. Leases, Continued**

Average lease terms and discount rates at March 31, 2023 were as follows:

	<u>2023</u>
Weighted-average remaining lease term (years):	
Operating leases	2.89
Finance leases	2.78
Weighted-average discount rate:	
Operating leases	3.25%
Finance leases	3.25%

**12. Retirement Plan**

The Taylor Regional 403(b) Retirement Savings Plan (Plan) is a defined contribution plan established by the Hospital to allow its employees to make voluntary salary reduction contributions to annuity contracts or custodial accounts. The Hospital does not exercise any discretionary authority in the administration of the Plan. The Hospital does not make matching contributions to the Plan.

**13. Contingencies**

*Litigation.* The Hospital is subject to litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that any matters will be resolved without a material adverse effect on the Hospital's future financial position or results from operations. See general and professional liability insurance disclosures in Note 16.

*Compliance plan.* The health care industry has recently 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. The 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 Hospital has implemented a compliance plan focusing on such issues. There can be no assurance that the Hospital will not be subjected to future investigations with accompanying monetary damages.

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

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# TAYLOR REGIONAL HOSPITAL, INC.

## Notes to Consolidated Financial Statements, Continued March 31, 2023 and 2022

### 13. Contingencies, Continued

*COVID-19.* As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen. The outbreak has put an unprecedented strain on the U.S. healthcare system, disrupted or delayed production and delivery of materials and products in the supply chain, and caused staffing shortages. The extent of the impact of COVID-19 on the Hospital's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on the Hospital's patients, employees, and vendors, all of which are uncertain and cannot be predicted. The extent to which COVID-19 may impact the Hospital's financial position or results of operations is uncertain. The federal Public Health Emergency for COVID-19 expired on May 11, 2023.

### 14. Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors, net of allowance for doubtful accounts, at March 31, 2023 and 2022, was as follows:

	<u>2023</u>	<u>2022</u>
Medicare	40%	49%
Medicaid	19%	15%
Blue Cross	11%	15%
Other third-party payors	16%	7%
Private pay	<u>14%</u>	<u>14%</u>
Total	<u>100%</u>	<u>100%</u>

The Hospital maintains deposits at financial institutions which exceed the \$250,000 Federal Depository Insurance Corporation limit. Management believes that credit risk related to these deposits is minimal.

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TAYLOR REGIONAL HOSPITAL, INC.

Notes to Consolidated Financial Statements, Continued  
March 31, 2023 and 2022

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**15. Shared Services Agreement**

On January 29, 2019, the Hospital entered into a Shared Services Agreement with the Hospital Authority of Bleckley County (Authority) for a term of 24 months. On April 1, 2021, the Hospital entered into a new Shared Services Agreement (SS Agreement) with the Authority for a term of 24 months, with an automatic renewal for an additional 5-year term unless notice given. Under the SS Agreement, the Hospital will provide certain management and general administrative support services for the benefit of the Authority through the sharing of staff and other resources. The Authority shall pay the Hospital the following for the cost of the shared services:

- A monthly fee of \$23,388 (amount to be recalculated every 24 months after the effective day of the SS Agreement)
- 18% of the salary of the Chief Executive Officer (CEO) of the Hospital
- Actual cost for any goods or services from third-parties that the Hospital prepays on the Authority's behalf.

Under the SS Agreement, the Hospital recognized approximately \$377,000 of shared services fees from the Authority in both 2023 and 2022.

**16. Insurance Arrangements**

*General and professional liability insurance.* The Hospital has claims-made insurance coverage for professional liability and occurrence insurance coverage for general liability. The insurance policies each have limits of \$1,000,000 per claim and \$3,000,000 annual aggregate. Each policy has a per claim deductible of \$50,000.

*Self-insured health plan.* The Hospital is self-insured for employee health insurance. The Hospital maintains reinsurance through a commercial excess coverage policy, which will reimburse the Hospital for individual claims in excess of \$175,000 annually. The Hospital incurred expenses related to the plan of approximately \$1,862,000 and \$2,785,000 during 2023 and 2022, respectively. Estimated accruals for claims incurred but not reported of \$146,000 and \$210,000 at March 31, 2023 and 2022, respectively, have been recorded.

Continued

TAYLOR REGIONAL HOSPITAL, INC.

Notes to Consolidated Financial Statements, Continued  
March 31, 2023 and 2022

**17. Functional Expenses**

The Hospital provides health care services to residents within its geographic location. Expenses related to providing these services are characterized functionally as follows:

	2023		
	<u>Health Care Services</u>	<u>General and Administrative</u>	<u>Total</u>
Salaries and wages	\$ 11,269,975	\$ 4,343,504	\$ 15,613,479
Employee benefits	2,163,175	833,698	2,996,873
Supplies and drugs	2,797,907	310,579	3,108,486
Purchased services and professional fees	4,152,912	1,459,307	5,612,219
Depreciation and amortization	861,775	128,202	989,977
Interest expense	428,921	30,455	459,376
Goodwill amortization	400,000	-	400,000
Other expense	<u>1,230,946</u>	<u>2,900,605</u>	<u>4,131,551</u>
Total	\$ <u>23,305,611</u>	\$ <u>10,006,350</u>	\$ <u>33,311,961</u>

  

	2022		
	<u>Health Care Services</u>	<u>General and Administrative</u>	<u>Total</u>
Salaries and wages	\$ 12,139,123	\$ 3,506,549	\$ 15,645,672
Employee benefits	3,111,821	898,892	4,010,713
Supplies and drugs	2,893,355	104,867	2,998,222
Purchased services and professional fees	3,428,392	3,215,175	6,643,567
Depreciation and amortization	660,714	190,769	851,483
Interest expense	363,601	26,542	390,143
Goodwill amortization	400,000	-	400,000
Other expense	<u>1,397,184</u>	<u>2,482,517</u>	<u>3,879,701</u>
Total	\$ <u>24,394,190</u>	\$ <u>10,425,311</u>	\$ <u>34,819,501</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 are allocated to a function based on a percentage of salaries and wages.

Continued

# TAYLOR REGIONAL HOSPITAL, INC.

## Notes to Consolidated Financial Statements, Continued March 31, 2023 and 2022

### 18. County Contributions

The Hospital receives contributions from Pulaski County, Georgia (County) for the funding of indigent care services. The amount of such funds and assistance is entirely at the discretion of the County. Indigent care funds received approximated \$245,000 and \$241,000 in 2023 and 2022, respectively.

### 19. Rural Hospital Tax Credit Contributions

The State of Georgia (State) passed legislation which will allow individuals or corporations to receive a State tax credit for making a contribution to certain qualified rural hospital organizations during calendar years 2017 through 2024. The Hospital submitted the necessary documentation and was approved by the State to participate in the rural hospital tax credit program for calendar years 2017 through 2023. Contributions received under the program approximated \$768,000 and \$572,000 during fiscal years 2023 and 2022, respectively. The Hospital will have to be approved by the State to participate in the program in each subsequent year.

### 20. Liquidity and Availability

The Hospital had the following working capital and average days cash on hand (based on normal expenditures) at March 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Working capital	<u>\$(2,673,167)</u>	<u>\$(3,071,587)</u>
Days cash on hand	3 Days	14 Days

Financial assets available for general expenditure within one year of the balance sheet date consist of the following at March 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 212,497	\$(1,526,322)
Patient accounts receivable, net	3,980,663	3,421,906
Estimated third-party payor settlements	<u>1,820,047</u>	<u>2,828,635</u>
Total financial assets available	<u>\$ 6,013,207</u>	<u>\$ 4,724,219</u>

Cash and cash equivalents in the table above do not include the CARES and ARP Act refundable advance restricted for healthcare-related expenses or lost revenue attributable to COVID-19 of \$41,866 and \$2,836,146 at March 31, 2023 and 2022, respectively. No other financial assets available in the table above are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. The Hospital has other assets whose use is limited for debt service and loan reserve. These assets whose use is limited are not available for general expenditure within the next year and are not reflected in the amounts above.

Continued



TAYLOR REGIONAL HOSPITAL, INC.

Notes to Consolidated Financial Statements, Continued  
March 31, 2023 and 2022

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**21. CARES and ARP Act Funding**

On March 27, 2020, the *Coronavirus Aid, Relief, and Economic Security Act* was passed, on April 24, 2020, the *Paycheck Protection Program and Health Care Enhancement Act* was passed, and on March 11, 2021, the *American Rescue Plan Act* was passed (collectively, CARES and ARP Act). Certain provisions of the CARES and ARP Act provide relief funds to 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 (HHS) began distributing funds in April 2020 to eligible providers in an effort to provide relief to both providers in areas heavily impacted by COVID-19 and those providers who are struggling to remain open due to patients delaying care and canceling elective services. The Hospital has received the following CARES and ARP Act funding:

- \$30 Billion Provider Relief Fund (PRF) General Distribution (1<sup>st</sup> 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. The Hospital received \$546,626 in funding from this distribution.
- \$20 Billion PRF General Distribution (2nd round) - On April 24, 2020, HHS distributed \$20 billion to Medicare fee-for-service providers based on revenues from cost report data or revenue submissions. The Hospital received \$112,543 in funding from this distribution.
- \$10 Billion PRF 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. The Hospital received \$3,846,176 in funding from this distribution.
- \$225 Million for Rural Health Clinic COVID-19 Testing (RHCCT) - On May 20, 2020, HHS distributed \$225 million to over 4,500 rural health clinics (RHCs) based on a fixed payment of \$49,461 per RHC. The Hospital received \$445,153 in funding from this distribution.
- \$4.9 Billion PRF Allocation for Skilled Nursing Facilities (SNFs) - On May 22, 2020, HHS distributed \$4.9 billion to over 13,000 certified SNFs based on a fixed payment of \$50,000 plus \$2,500 per certified bed. The Hospital received \$305,000 in funding from this distribution.
- \$10.2 Billion PRF Safety Net Hospitals Distribution - On June 12, 2020, HHS distributed \$10.2 billion to almost 800 providers that disproportionately serve Medicaid recipients and the uninsured. The Hospital received \$5,000,000 in funding from this distribution.
- \$12 Billion PRF COVID-19 High-Impact Distribution (2nd Round) - On June 15, 2020, HHS distributed \$12 billion to 395 hospitals that has 100 or more COVID-19 admissions between January 1, 2020 and June 10, 2020. The Hospital received \$3,590 in funding from this distribution.
- \$1 Billion PRF to Certain Specialty Rural Providers - On July 9, 2020, HHS distributed \$1 billion to specialty rural hospitals. The Hospital received \$413,013 in funding from this distribution.

Continued

TAYLOR REGIONAL HOSPITAL, INC.

Notes to Consolidated Financial Statements, Continued  
March 31, 2023 and 2022

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**21. CARES and ARP Act Funding, Continued**

- \$2.5 Billion PRF Nursing Home Distribution - On August 27, 2020, HHS distributed \$2.5 billion to nursing homes to support increased testing, staffing, and PPE needs. The Hospital received \$157,900 in funding from this distribution.
- \$2.25 Billion PRF Allocation to Nursing Homes for the Quality Incentive Payment (QIP) Program - HHS allocated \$2.25 billion to NHs that passed two initial gateway qualification tests on both their rate of infection and rate of mortality. Payments were made monthly in October 2020 through January 2021 based on the previous month's performance with an additional payment made in February 2021 based on the aggregate performance period. The Hospital received \$136,569 in funding from this allocation.
- \$5 Million Rural Hospital Stabilization Operational Support Grant - The State of Georgia appropriated \$5,000,000 for rural hospital stabilization grants and for additional emergency preparedness expenses. The grant was distributed based on data collected specific to COVID-19 inpatient admissions. The Hospital received \$65,634 in funding from this grant.
- \$4.9 Million Small Rural Hospital Improvement Program (SHIP) Grant - On April 22, 2020, HHS appropriated approximately \$4.9 million to the State of Georgia Department of Community Health, State Office of Rural Health to disburse to 58 rural hospitals in Georgia for the purpose of preventing, preparing for, and responding to COVID-19. The Hospital received \$84,317 in funding from this distribution.
- \$1.2 Million Supplemental Grant - On May 13, 2020, HHS appropriated approximately \$1.2 million to the State of Georgia, Department of Community Health, State Office of Rural Health to disburse to 88 rural health clinics in Georgia for the purpose of supporting healthcare-care expenses or lost revenue attributed to COVID-19. The Hospital received \$17,701 in funding from this distribution.
- \$4.9 Million Georgia Hospital Association Research and Education Foundation, Inc. (GHAREF) Grant - The Assistant Secretary of Preparedness and Response (ASPR) of HHS allocated approximately \$350 million to state hospital associations and other entities to disburse to health care providers on the front lines of the COVID-19 pandemic. GHAREF received approximately \$4.9 million to disburse to hospitals in Georgia. The Hospital received \$28,863 in funding from this distribution.
- \$475.2 Million for Rural Health Clinic COVID-19 Testing and Mitigation (RHCCTM) - In June 2021, HHS distributed \$475.2 million to 4,752 Rural Health Clinics to maintain and increase COVID-19 testing efforts, expand access to testing in rural communities, and expand the range of mitigation activities in local communities. The Hospital received \$900,000 in funding from the distribution.
- \$8.5 Billion ARP Rural Payments - In November 2021, HHS distributed \$8.5 billion to 43,842 rural healthcare providers. The Hospital received \$1,527,850 in funding from this distribution.

Continued

TAYLOR REGIONAL HOSPITAL, INC.

Notes to Consolidated Financial Statements, Continued  
March 31, 2023 and 2022

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**21. CARES and ARP Act Funding, Continued**

- \$17 Billion PRF Phase 4 General Distribution - In December 2021, HHS distributed phase 4 of the Provider Relief Funds. The Hospital received \$275,348 in funding from this distribution.
- \$150 Billion Coronavirus Relief Fund (CRF) - HHS distributed \$150 billion to state, local, and tribal governments through the CRF. The State of Georgia received \$3.5 billion in CRF funds. The State of Georgia allocated \$77.8 million of the CRF funds to nursing homes. The Hospital must submit expenses for reimbursement to the State of Georgia to receive the funds. The Hospital received reimbursement of \$184,357.
- \$398 Million ARP SHIP COVID-19 Testing and Mitigation Initiative Grant - In July 2021, HHS appropriated \$398 million to state governments to distribute to rural hospitals. The State of Georgia Department of Community Health, State Office of Rural Health received \$13,435,552 to distribute to 52 rural hospitals. The Hospital received \$258,376 in funding from this distribution.
- \$170 Million Hospital ARP State Fiscal Recovery Fund (SFRF) - HHS distributed \$150 billion to state, local, and tribal governments through the SFRF. The State of Georgia received \$4.8 billion in SFRF funds. The State of Georgia allocated \$170 million to hospitals for capital improvements to prevent or mitigate COVID-19. The Hospital was allocated \$1,045,000 through this program. The Hospital must incur the expenses before being reimbursed by the SFRF funds.
- \$60.72 Million Nursing Home ARP State Fiscal Recovery Fund (SFRF) - HHS distributed \$150 billion to state, local, and tribal governments through the SFRF. The State of Georgia received \$4.8 billion in SFRF funds. The State of Georgia allocated \$60.72 million to nursing homes to mitigate COVID-19. The Hospital was allocated \$165,000 through this program. The Hospital must incur the expenses before being reimbursed by the SFRF funds.
- Employee Retention Credit (ERC) - ERC is a refundable tax credit against certain employment taxes for eligible employers. The Hospital believes it qualifies for the tax credit and filed for refunds. The Hospital received ERC of \$3,057,970 (including interest of \$82,371) related to employment taxes for calendar quarters 1 and 2 of 2021. While the Hospital believes it is in compliance with the ERC regulations and eligibility requirements, there is a possibility payment could be recouped based on audit results.

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

Continued

TAYLOR REGIONAL HOSPITAL, INC.

Notes to Consolidated Financial Statements, Continued  
March 31, 2023 and 2022

**21. CARES and ARP Act Funding, Continued**

The CARES and ARP Act funding is a conditional contribution and accounted for as a refundable advance until conditions have been substantially met or explicitly waived by the grantor. Because the use of the funds is limited to the purposes stated in the terms and conditions, the contributions are grantor restricted. The Hospital reports restricted contributions, whose restrictions are met in the same period in which they are recognized (simultaneous release), as net assets without donor restrictions. Recognized revenue is reported as operating revenues, gains, and other support in the consolidated statements of operations and changes in net assets.

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

Below is a schedule of the CARES and ARP Act funds recognized as revenue by year along with remaining unspent funds.

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>Remaining Funds</u>
PRF:				
General 1	\$ -	\$ -	\$ 546,626	\$ -
General 2	-	-	112,543	-
Rural	-	-	3,846,176	-
SNFs	-	-	305,000	-
Safety Net	-	4,878,755	121,245	-
High-Impact	-	-	3,590	-
Specialty Rural	-	413,013	-	-
Nursing Homes	-	157,900	-	-
QIP	-	136,569	-	-
Phase 4	275,348	-	-	-
ARP:				
Rural	1,527,850	-	-	-
SFRF-Hospital	649,650	-	-	395,350
SFRF-NH	165,000	-	-	-
SHIP	91,081	125,429	-	41,866
RHCCT	-	-	445,153	-
RHCCTM	900,000	-	-	-
CRF	-	184,357	-	-
SHIP grant	-	-	84,317	-
Supplemental	-	-	17,701	-
GHAREF grant	-	-	28,863	-
GA Stabilization	-	-	65,634	-
ERC	<u>3,057,970</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	\$ <u>6,666,899</u>	\$ <u>5,896,023</u>	\$ <u>5,576,848</u>	\$ <u>437,216</u>

Continued

TAYLOR REGIONAL HOSPITAL, INC.

Notes to Consolidated Financial Statements, Continued  
March 31, 2023 and 2022

**22. Rural Hospital Stabilization Grant**

The Georgia Department of Community Health (DCH) issues grants to provide funding to rural community hospitals for the development of community specific projects based on the identified “Hub and Spoke” model adopted by the Georgia Rural Hospital Stabilization Committee and to provide assistance for financial stabilization and sustainability. The grants are issued in phases and the Hospital must incur the expenses before being reimbursed by DCH. The Hospital has been awarded the following grant.

	<u>Phase 6</u>
Grant award	\$ 881,250
Grant expenditures:	
2022	( 444,435)
2023	<u>( 436,815)</u>
Remaining grant funds available at March 31, 2023	\$ <u>-</u>

**23. Financial Position**

The Hospital has been dependent on CARES and ARP Act funding related to the COVID-19 pandemic the last three (3) years. As stated in Note 13, the PHE for COVID-19 ended on May 11, 2023. Therefore, additional CARES and ARP Act funding in the future is limited. Excluding the CARES and ARP funding, the Hospital has sustained the following recurring operating losses.

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Operating income (loss)	\$(1,195,635)	\$ 1,151,816	\$ 2,997,682
CARES and ARP Act funding	<u>(6,017,249)</u>	<u>(5,896,023)</u>	<u>(5,576,848)</u>
Operating loss excluding CARES and ARP Act funding	\$( <u>7,212,884</u> )	\$( <u>4,744,207</u> )	\$( <u>2,579,166</u> )

As noted in Note 20, the Hospital has had negative working capital the last two (2) years. Also, the Hospital had less than a week’s operating cash on hand at March 31, 2023 and less than a month’s operating cash on hand at March 31, 2022.

Continued

TAYLOR REGIONAL HOSPITAL, INC.

Notes to Consolidated Financial Statements, Continued  
March 31, 2023 and 2022

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**23. Financial Position, Continued**

Management's plan to improve the Hospital's financial position are as follows:

- *Expense reduction.* The Hospital is continuing to implement various strategies to reduce operating expenses. The following strategies have been implemented or are being considered:
  - Terminated contract with a physician clinic billing software company at an annual savings of \$252,000.
  - Will be terminating contract with outside laundry service and begin providing the service through employees. Estimated annual savings is \$115,000.
  - Will be terminating contract with outside lawn maintenance company at an estimated annual savings of \$21,000.
  - The lease on a building being rented for administrative space will be terminated in October 2023. The estimated annual savings are \$60,000.
  - The Hospital will change from using physician hospitalist services to utilizing a nurse practitioner with an estimated savings of \$261,000.
  - The Hospital will no longer utilize on-call anesthesia services for a savings of \$300,000.
  - Nursing home billing will be done in-house and no longer outsourced for a savings of \$130,000.
  - Non-emergent patient transportation has been outsourced to a new company at a yearly savings of \$50,000.
  - The Hospital is evaluating moving to an insured plan for employee health insurance.
- *Revenue increasing initiatives:* The Hospital is continuing to enhance service lines as well as develop new services to increase revenue for the Hospital. The following strategies have been implemented or are being considered:
  - The Hospital is evaluating the impact of converting to a Rural Emergency Hospital (REH). REH hospitals receive a subsidy of approximately \$3.2 million each year.
  - A neurosurgeon will increase the surgeries he performs at the hospital. The additional surgeries are expected to add significant cash flow.
  - The SS Agreement with the Authority (Note 15) is being renegotiated. Additional fees from the SS Agreement are expected to be \$16,000 annually.
  - A new Pain Clinic will open in September 2023 that will bring additional ancillary charges and rent payments.
  - Payor contracts with insurance companies are being reviewed to determine if renegotiation is necessary.
  - Emergency room level charges have been increased along with certain surgery charges.
  - A new marketing director will look to expand contributions received from the rural hospital tax credit program.

Continued

TAYLOR REGIONAL HOSPITAL, INC.

Notes to Consolidated Financial Statements, Continued  
March 31, 2023 and 2022

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**23. Financial Position, Continued**

- *Borrowing capacity:* Should it become necessary to borrow funds to support operations, the Hospital has obtained a letter of support from a charitable trust, stating the ability and intent of the trust to lend up to \$1,000,000 to the Hospital.
- *Grants:* The Hospital has applied for the following grants:
  - Federal grant of \$4,150,000 to update the facilities and build a new medical office building.
  - State grant of \$833,333 to update the facilities.
- *Sale of assets:* The Hospital has closed the physician clinics in Unadilla, Rochelle, and Kathleen. The Unadilla clinic building has been sold while the Rochelle and Kathleen offices are for sale.



## INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATING INFORMATION

Board of Directors  
Taylor Regional Hospital, Inc.  
Hawkinsville, Georgia

We have audited the consolidated financial statements of Taylor Regional Hospital, Inc. as of and for the years ended March 31, 2023 and 2022, and our report thereon dated September 27, 2023, which expressed an unmodified opinion on those financial statements, appears on pages 1 through 3. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information included in this report on pages 39 to 42, inclusive, is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations and changes in net assets of the individual companies, and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations, and changes in net assets of the individual companies.

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

*Driffin & Tucker, LLP*

Atlanta, Georgia  
September 27, 2023

Let's Think Together.®



TAYLOR REGIONAL HOSPITAL, INC.  
Consolidating Balance Sheets  
March 31, 2023

	Taylor Regional Hospital, Inc.	Taylor Memorial Care Foundation, Inc.	Taylor Regional Health Network, LLC	Eliminations	Total
<b>Assets:</b>					
Current assets:					
Cash and cash equivalents	\$ 230,540	\$ 23,823	\$ -	\$ -	\$ 254,363
Assets limited as to use	53,175	-	-	-	53,175
Patient accounts receivable, net	3,980,663	-	-	-	3,980,663
Estimated third-party payor settlements	1,820,047	-	-	-	1,820,047
Grant receivable	649,650	-	-	-	649,650
Supplies	293,685	-	-	-	293,685
Other current assets	<u>724,902</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>724,902</u>
Total current assets	7,752,662	23,823	-	-	7,776,485
Assets limited as to use	202,120	-	-	-	202,120
Property and equipment, net	15,303,044	105,007	-	-	15,408,051
Finance lease right-of-use assets	561,620	-	-	-	561,620
Operating lease right-of-use assets	201,758	-	-	-	201,758
Other investments	-	34,117	179,846	-	213,963
Goodwill	<u>2,400,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,400,000</u>
Total assets	<u>\$ 26,421,204</u>	<u>\$ 162,947</u>	<u>\$ 179,846</u>	<u>\$ -</u>	<u>\$ 26,763,997</u>
<b>Liabilities and Net Assets:</b>					
Current liabilities:					
Short-term debt	\$ 1,574,360	\$ -	\$ -	\$ -	\$ 1,574,360
Long-term debt, current portion	341,987	-	-	-	341,987
Finance leases, current portion	196,643	-	-	-	196,643
Operating leases, current portion	79,735	-	-	-	79,735
Medicare advance payments, current portion	110,272	-	-	-	110,272
Accounts payable	6,691,923	-	-	-	6,691,923
Accrued expenses	1,323,544	-	-	-	1,323,544
Estimated third-party payor settlements	89,322	-	-	-	89,322
Refundable advance of CARES and ARP Act funding	<u>41,866</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>41,866</u>
Total current liabilities	10,449,652	-	-	-	10,449,652
Long-term debt, net of current portion	5,395,713	-	-	-	5,395,713
Finance leases, net of current portion	372,375	-	-	-	372,375
Operating leases, net of current portion	122,928	-	-	-	122,928
Medicare advance payments, net of current portion	<u>173,205</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>173,205</u>
Total liabilities	16,513,873	-	-	-	16,513,873
Net assets without donor restrictions	<u>9,907,331</u>	<u>162,947</u>	<u>179,846</u>	<u>-</u>	<u>10,250,124</u>
Total liabilities and net assets	<u>\$ 26,421,204</u>	<u>\$ 162,947</u>	<u>\$ 179,846</u>	<u>\$ -</u>	<u>\$ 26,763,997</u>

See report on consolidating information.

TAYLOR REGIONAL HOSPITAL, INC.  
Consolidating Balance Sheets  
March 31, 2022

	Taylor Regional Hospital, Inc.	Taylor Memorial Care Foundation, Inc.	Taylor Regional Health Network, LLC	Eliminations	Total
<b>Assets:</b>					
Current assets:					
Cash and cash equivalents	\$ 1,227,538	\$ 82,286	\$ -	\$ -	\$ 1,309,824
Assets limited as to use	46,909	-	-	-	46,909
Patient accounts receivable, net	3,421,906	-	-	-	3,421,906
Estimated third-party payor settlements	2,828,635	-	-	-	2,828,635
Grant receivable	186,368	-	-	-	186,368
Supplies	358,836	-	-	-	358,836
Other current assets	<u>671,055</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>671,055</u>
Total current assets	8,741,247	82,286	-	-	8,823,533
Assets limited as to use	299,074	-	-	-	299,074
Property and equipment, net	14,739,502	105,007	-	-	14,844,509
Finance lease right-of-use assets	273,802	-	-	-	273,802
Other investments	87,805	34,100	176,793	(87,805)	210,893
Goodwill	<u>2,800,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,800,000</u>
Total assets	\$ <u>26,941,430</u>	\$ <u>221,393</u>	\$ <u>176,793</u>	\$ <u>(87,805)</u>	\$ <u>27,251,811</u>
<b>Liabilities and Net Assets:</b>					
Current liabilities:					
Short-term debt	\$ 341,360	\$ -	\$ -	\$ -	\$ 341,360
Long-term debt, current portion	345,159	-	-	-	345,159
Finance leases, current portion	214,552	-	-	-	214,552
Medicare advance payments, current portion	1,463,836	-	-	-	1,463,836
Accounts payable	5,041,365	11,516	-	-	5,052,881
Accrued expenses	1,537,060	-	-	-	1,537,060
Estimated third-party payor settlements	104,126	-	-	-	104,126
Refundable advance of CARES and ARP Act funding	<u>2,836,146</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,836,146</u>
Total current liabilities	11,883,604	11,516	-	-	11,895,120
Long-term debt, net of current portion	5,731,984	-	-	-	5,731,984
Finance leases, net of current portion	<u>50,872</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>50,872</u>
Total liabilities	17,666,460	11,516	-	-	17,677,976
Net assets without donor restrictions	<u>9,274,970</u>	<u>209,877</u>	<u>176,793</u>	<u>(87,805)</u>	<u>9,573,835</u>
Total liabilities and net assets	\$ <u>26,941,430</u>	\$ <u>221,393</u>	\$ <u>176,793</u>	\$ <u>(87,805)</u>	\$ <u>27,251,811</u>

See report on consolidating information.

TAYLOR REGIONAL HOSPITAL, INC.  
Consolidating Statements of Operations and Changes in Net Assets  
Year Ended March 31, 2023

	Taylor Regional Hospital, Inc.	Taylor Memorial Care Foundation, Inc.	Taylor Regional Health Network, LLC	Eliminations	Total
<b>Revenues, gains, and other support:</b>					
Net patient service revenue	\$ 24,315,999	\$ -	\$ -	\$ -	\$ 24,315,999
CARES and ARP Act funding	6,017,249	-	-	-	6,017,249
County contributions for indigent care	244,861	-	-	-	244,861
Shared services fees	376,968	-	-	-	376,968
Other revenue	<u>1,145,935</u>	<u>15,314</u>	<u>-</u>	<u>-</u>	<u>1,161,249</u>
Total revenues, gains, and other support	<u>32,101,012</u>	<u>15,314</u>	<u>-</u>	<u>-</u>	<u>32,116,326</u>
<b>Expenses:</b>					
Salaries and wages	15,613,479	-	-	-	15,613,479
Employee benefits	2,996,873	-	-	-	2,996,873
Supplies and drugs	3,108,487	-	-	-	3,108,487
Purchased services and professional fees	5,612,219	-	-	-	5,612,219
Depreciation and amortization	989,977	-	-	-	989,977
Interest expense	459,376	-	-	-	459,376
Goodwill amortization	400,000	-	-	-	400,000
Other expenses	<u>4,119,918</u>	<u>11,632</u>	<u>-</u>	<u>-</u>	<u>4,131,550</u>
Total expenses	<u>33,300,329</u>	<u>11,632</u>	<u>-</u>	<u>-</u>	<u>33,311,961</u>
Operating income (loss)	<u>( 1,199,317)</u>	<u>3,682</u>	<u>-</u>	<u>-</u>	<u>( 1,195,635)</u>
<b>Nonoperating income (loss):</b>					
Investment income (loss)	( 83,503)	984	3,053	87,805	8,339
Rural hospital tax credit contributions	767,545	-	-	-	767,545
Rural hospital stabilization grant	436,815	-	-	-	436,815
Contributions	<u>61,171</u>	<u>( 51,596)</u>	<u>-</u>	<u>-</u>	<u>9,575</u>
Total nonoperating income (loss)	<u>1,182,028</u>	<u>( 50,612)</u>	<u>3,053</u>	<u>87,805</u>	<u>1,222,274</u>
Excess revenue (expenses)	<u>( 17,289)</u>	<u>( 46,930)</u>	<u>3,053</u>	<u>87,805</u>	<u>26,639</u>
<b>Capital grants:</b>					
ARP SFRF capital funding	<u>649,650</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>649,650</u>
Change in net assets without donor restrictions	632,361	( 46,930)	3,053	87,805	676,289
Net assets, beginning of year	<u>9,274,970</u>	<u>209,877</u>	<u>176,793</u>	<u>(87,805)</u>	<u>9,573,835</u>
Net assets, end of year	<u>\$ 9,907,331</u>	<u>\$ 162,947</u>	<u>\$ 179,846</u>	<u>\$ -</u>	<u>\$ 10,250,124</u>

See report on consolidating information.

TAYLOR REGIONAL HOSPITAL, INC.  
Consolidating Statements of Operations and Changes in Net Assets  
Year Ended March 31, 2022

	Taylor Regional Hospital, Inc.	Taylor Memorial Care Foundation, Inc.	Taylor Regional Health Network, LLC	Eliminations	Total
<b>Revenues, gains, and other support:</b>					
Net patient service revenue	\$ 28,654,003	\$ -	\$ -	\$ -	\$ 28,654,003
CARES and ARP Act funding	5,896,023	-	-	-	5,896,023
County contributions for indigent care	240,917	-	-	-	240,917
Shared services fees	376,968	-	-	-	376,968
Other revenue	<u>704,910</u>	<u>98,496</u>	<u>-</u>	<u>-</u>	<u>803,406</u>
Total revenues, gains, and other support	<u>35,872,821</u>	<u>98,496</u>	<u>-</u>	<u>-</u>	<u>35,971,317</u>
<b>Expenses:</b>					
Salaries and wages	15,645,672	-	-	-	15,645,672
Employee benefits	4,010,713	-	-	-	4,010,713
Supplies and drugs	2,998,222	-	-	-	2,998,222
Purchased services and professional fees	6,643,567	-	-	-	6,643,567
Depreciation and amortization	851,483	-	-	-	851,483
Interest expense	390,143	-	-	-	390,143
Goodwill amortization	400,000	-	-	-	400,000
Other expenses	<u>3,864,670</u>	<u>15,031</u>	<u>-</u>	<u>-</u>	<u>3,879,701</u>
Total expenses	<u>34,804,470</u>	<u>15,031</u>	<u>-</u>	<u>-</u>	<u>34,819,501</u>
Operating income	<u>1,068,351</u>	<u>83,465</u>	<u>-</u>	<u>-</u>	<u>1,151,816</u>
<b>Nonoperating income (loss):</b>					
Investment income (loss)	( 122,148)	5,791	( 243)	-	( 116,600)
Rural hospital tax credit contributions	572,187	-	-	-	572,187
Rural hospital stabilization grant	444,435	-	-	-	444,435
Contributions	146,378	71,991	-	-	218,369
PPP loan and interest forgiven by SBA	<u>3,452,364</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,452,364</u>
Total nonoperating income (loss)	<u>4,493,216</u>	<u>77,782</u>	<u>( 243)</u>	<u>-</u>	<u>4,570,755</u>
Excess revenue (expenses)	5,561,567	161,247	( 243)	-	5,722,571
Net assets, beginning of year	<u>3,713,403</u>	<u>48,630</u>	<u>177,036</u>	<u>(87,805)</u>	<u>3,851,264</u>
Net assets, end of year	<u>\$ 9,274,970</u>	<u>\$ 209,877</u>	<u>\$ 176,793</u>	<u>\$(87,805)</u>	<u>\$ 9,573,835</u>

See report on consolidating 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

Board of Directors  
Taylor Regional Hospital, Inc.  
Hawkinsville, Georgia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Taylor Regional Hospital, Inc. (Hospital), which comprise the consolidated balance sheet as of March 31, 2023, and the related consolidated statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 27, 2023. Our report on the consolidated financial statements includes an emphasis-of-matter paragraph describing conditions, discussed in Note 23 to the consolidated financial statements, that raised substantial doubt about the Hospital's ability to continue as a going concern.

**Report on Internal Control over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be a material weaknesses and significant deficiencies.

Continued

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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 the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness (2023-001).

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. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies (2023-002 and 2023-003).

## **Report on Compliance and Other Matters**

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

## **Taylor Regional Hospital, Inc.'s Response to Findings**

*Government Auditing Standards* require the auditor to perform limited procedures on the Hospital's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. The Hospital's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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

A handwritten signature in black ink that reads "Draffin & Tucker, LLP". The signature is written in a cursive, flowing style.

Atlanta, Georgia  
September 27, 2023

TAYLOR REGIONAL HOSPITAL, INC.

Schedule of Findings and Responses  
March 31, 2023

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**Material Weakness**

**2023-001 - Implementation of ASU 2016-02, *Leases (Topic 842)***

<b>Criteria:</b>	The FASB issues new accounting standards updates (ASU) periodically. Management should implement any new ASU on its effective date.
<b>Condition:</b>	New accounting standard ASU 2016-02, <i>Leases (Topic 842)</i> , was not implemented on its effective date of April 1, 2022. The recording of lease right-of-use assets and lease liabilities was done after year-end through audit adjustments.
<b>Cause:</b>	Procedures are not in place to ensure that standards are implemented on the effective date.
<b>Effect:</b>	Interim (monthly/quarterly) financial statements did not reflect lease right-of-use assets and lease liabilities as required by the new accounting standard.
<b>Recommendation:</b>	Management should track the implementation date of all new accounting standards to ensure the new standards are implemented timely.
<b>Views of Responsible Officials and Planned Corrective Actions:</b>	In the future, management will track new accounting standards closely to ensure all new standards are implemented in a timely manner.

Continued

TAYLOR REGIONAL HOSPITAL, INC.

Schedule of Findings and Responses, Continued  
March 31, 2023

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**Significant Deficiency**

**2023-002 - Loan Compliance**

<b>Criteria:</b>	The USDA loan requires \$29,366 be set aside into a Reserve Account annually until there is \$293,362 accumulated.
<b>Condition:</b>	The Reserve Account was underfunded at year-end.
<b>Cause:</b>	Cash flow issues near year-end did not allow for the proper funding of the Reserve Account.
<b>Effect:</b>	The Hospital was not in compliance with the terms of the USDA loan.
<b>Recommendation:</b>	The Hospital should immediately fund the Reserve Account to the proper funding level required by the USDA loan.
<b>Views of Responsible Officials and Planned Corrective Actions:</b>	Management properly funded the reserve account on June 15, 2023.

**Significant Deficiency**

**2023-003 - Payroll System Accrual of Unemployment Taxes**

<b>Criteria:</b>	The payroll system should accrue the proper amount of unemployment taxes due related to each payroll.
<b>Condition:</b>	Beginning in January 2023, the payroll system began accruing more unemployment taxes than were due.
<b>Cause:</b>	While the cause could not be identified, many payroll systems are updated at the beginning of each calendar year with new tax tables. It is likely an update caused the payroll system to accrue the incorrect amounts.
<b>Effect:</b>	Unemployment expense and related liability were overstated.
<b>Recommendation:</b>	The Hospital should review payroll taxes and withholdings periodically to ensure the proper amounts are being recorded.
<b>Views of Responsible Officials and Planned Corrective Actions:</b>	Management has corrected the issue. In the future, management will ensure that both the payroll and information technology departments are updating tax tables in the payroll system timely.