Certified Public Accountants

Financial Statements

Northeast Georgia Medical Center, Inc. (A Controlled Affiliate of Northeast Georgia Health System, Inc.)

Years Ended September 30, 2018 and 2017

NORTHEAST GEORGIA MEDICAL CENTER, INC.
(A Controlled Affiliate of Northeast Georgia Health System, Inc.)

Financial Statements

Years Ended September 30, 2018 and 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Northeast Georgia Medical Center, Inc.:

We have audited the accompanying financial statements of Northeast Georgia Medical Center, Inc. (NGMC) which comprise the balance sheets as of September 30, 2018 and 2017, and the related statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northeast Georgia Medical Center, Inc. as of September 30, 2018 and 2017, and the results of its 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.

Emphasis of Matter

Northeast Georgia Medical Center, Inc. is an entity whose sole member is Northeast Georgia Health System, Inc. (NGHS) and is a part of a group of entities controlled or managed by NGHS. As discussed in Note A, NGHS allocates various expenses and liabilities to members of this group of entities, and, as such, the accompanying financial statements reflect the results of these allocations and not necessarily the results of NGMC on a stand-alone basis. Our opinion is not modified with respect to this matter.

PYA, P.C.

Atlanta, Georgia
January 22, 2019

NORTHEAST GEORGIA MEDICAL CENTER, INC.
(A Controlled Affiliate of Northeast Georgia Health System, Inc.)

Balance Sheets

	September 30, 2018	September 30, 2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 46,212,655**	$ 21,779,636
Investments	**86,586,197**	42,098,966
Assets limited as to use, required for current obligations	**7,356,291**	9,077,585
Patient accounts receivable, less allowance for uncollectible receivables of approximately $81,830,396 in 2018 and $101,416,862 in 2017	**111,881,298**	106,229,994
Inventory of supplies	**9,627,190**	9,133,007
Other current assets	**4,178,141**	5,416,637
TOTAL CURRENT ASSETS	**265,841,772**	193,735,825
INVESTMENTS	**792,677,002**	747,772,494
ASSETS LIMITED AS TO USE		
Under indenture agreements - held by trustees	**12,614,232**	44,717,468
By Board for designated purposes	**418,187**	374,394
Other	**16,773,394**	15,868,906
	29,805,813	60,960,768
Less amounts required for current obligations	**(7,356,291)**	(9,077,585)
ASSETS LIMITED AS TO USE	**22,449,522**	51,883,183
PROPERTY, PLANT AND EQUIPMENT, net	**650,459,622**	662,344,394
DUE FROM AFFILIATES, net - Note M	**2,937,180**	3,633,993
OTHER ASSETS		
Property held for future investment	**1,566,001**	1,566,001
Estimated fair value of interest rate swaps	**22,596,296**	13,938,655
Other	**1,631,021**	1,704,422
TOTAL OTHER ASSETS	**25,793,318**	17,209,078
TOTAL ASSETS	**$ 1,760,158,416**	$ 1,676,578,967

NORTHEAST GEORGIA MEDICAL CENTER, INC.
(A Controlled Affiliate of Northeast Georgia Health System, Inc.)

Balance Sheets - Continued

	September 30, 2018	September 30, 2017
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of long-term debt	**$ 21,543,812**	$ 20,715,049
Accrued interest	**4,557,857**	4,563,933
Accounts payable and other accrued expenses	**69,115,425**	59,810,605
Accrued salaries, benefits, compensated absences and amounts withheld	**43,131,230**	31,534,252
Estimated third-party payer settlements	**10,804,138**	10,174,503
TOTAL CURRENT LIABILITIES	**149,152,462**	126,798,342
LONG-TERM DEBT, less current portion	**986,081,340**	1,002,062,213
OTHER LONG-TERM LIABILITIES		
Deferred compensation	**16,773,393**	15,868,907
Estimated fair value of interest rate swaps	**1,738,800**	3,323,844
TOTAL OTHER LONG-TERM LIABILITIES	**18,512,193**	19,192,751
TOTAL LIABILITIES	**1,153,745,995**	1,148,053,306
COMMITMENTS AND CONTINGENCIES - Notes J and P		
NET ASSETS		
Unrestricted	**606,412,421**	528,525,661
TOTAL NET ASSETS	**606,412,421**	528,525,661
TOTAL LIABILITIES AND NET ASSETS	**$ 1,760,158,416**	$ 1,676,578,967

NORTHEAST GEORGIA MEDICAL CENTER, INC.
(A Controlled Affiliate of Northeast Georgia Health System, Inc.)

Statements of Operations and Changes in Net Assets

	Year Ended September 30,	
	2018	***2017***
Unrestricted revenue:		
Patient service revenue, net of contractual adjustments and discounts	**$ 1,186,689,019**	$ 1,058,867,699
Estimated provision for bad debts	**(115,983,904)**	(83,592,320)
Net patient service revenue	**1,070,705,115**	975,275,379
Other operating revenue	**22,112,630**	21,831,031
TOTAL OPERATING REVENUES	**1,092,817,745**	997,106,410
Expenses:		
Salaries and wages	**341,464,789**	317,792,101
Employee benefits	**86,108,687**	84,117,909
Physicians' fees	**14,322,381**	12,806,910
Utilities	**10,346,955**	9,965,838
Supplies	**199,946,062**	185,522,461
Legal, consulting and professional fees	**3,193,161**	1,311,313
Contracted outside services	**40,427,300**	36,758,274
Interest	**37,865,438**	37,832,373
Management fees	**105,714,398**	42,947,556
Depreciation and amortization	**74,073,081**	68,390,987
Other operating expenses	**44,452,557**	109,665,044
TOTAL OPERATING EXPENSES	**957,914,809**	907,110,766
INCOME FROM OPERATIONS	**134,902,936**	89,995,644
Nonoperating gains (losses):		
Donations from affiliates	**868,386**	1,072,332
Gain from investments, net	**49,206,796**	24,482,698
Loss on advanced refunding of long-term debt	**-**	(45,413,740)
Gain (loss) on sale of property, plant and equipment, net	**292,794**	(215,101)
Change in estimated fair value of interest rate swaps	**10,242,685**	10,460,952
Miscellaneous, net	**(88,305)**	(267,958)
NET NONOPERATING GAINS (LOSSES)	**60,522,356**	(9,880,817)
EXCESS OF REVENUE AND GAINS OVER EXPENSES AND LOSSES	**195,425,292**	80,114,827

Statements of Operations and Changes in Net Assets - Continued

	Year Ended September 30, 2018	2017
Other changes in unrestricted net assets:		
Transfers of equity to affiliates, net	**(97,912,687)**	(112,901,345)
Change in net unrealized gains/losses on investments and assets limited as to use	**(19,625,845)**	17,957,508
TOTAL OTHER CHANGES IN UNRESTRICTED NET ASSETS	**(117,538,532)**	(94,943,837)
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	**77,886,760**	(14,829,010)
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	**528,525,661**	543,354,671
UNRESTRICTED NET ASSETS, END OF YEAR	**$ 606,412,421**	$ 528,525,661

NORTHEAST GEORGIA MEDICAL CENTER, INC.
(A Controlled Affiliate of Northeast Georgia Health System, Inc.)

Statements of Cash Flows

	Year Ended September 30, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	**$ 77,886,760**	$ (14,829,010)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	**74,073,081**	68,390,987
(Gain) loss on sale of property, plant and equipment	**(292,794)**	215,101
(Gain) on sale of investments and assets limited as to use	**(24,385,434)**	(803,072)
Loss on advanced refunding of long-term debt	**-**	45,413,740
Change in net unrealized gains/losses on investments and assets limited as to use	**19,625,845**	(17,957,508)
Change in estimated fair value of interest rate swaps	**(10,242,685)**	(10,460,952)
Transfers of equity to affiliates, net	**97,912,687**	112,901,345
Changes in assets and liabilities:		
Net patient accounts receivable	**(5,651,304)**	(5,777,436)
Inventory of supplies	**(494,183)**	(1,149,404)
Other current assets	**1,238,496**	(2,541,632)
Other long-term assets	**73,401**	(534,518)
Accrued interest	**(6,076)**	(467,274)
Accounts payable and other accrued expenses and other long-term liabilities	**17,931,104**	8,708,365
Accrued salaries, benefits, compensated absences and amounts withheld	**11,596,978**	(922,200)
Estimated third-party payer settlements	**629,635**	36,782
Total adjustments	**182,008,751**	195,052,324
NET CASH PROVIDED BY OPERATING ACTIVITIES	**259,895,511**	180,223,314
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	**(62,557,995)**	(108,667,812)
Proceeds from sales of property, plant and equipment	**3,210**	42,484
Purchases of investments and assets limited as to use	**(593,906,014)**	(487,662,294)
Proceeds from maturities and sales of investments and assets limited as to use	**540,428,819**	436,441,556
Advances to affiliates	**(97,215,874)**	(114,178,309)
NET CASH USED IN INVESTING ACTIVITIES	**(213,247,854)**	(274,024,375)

Statements of Cash Flows - Continued

	Year Ended September 30, 2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable and long-term debt, net of issuance costs and discounts	-	492,425,831
Payments to escrow to relieve long-term debt	-	(370,943,122)
Principal payments on long-term obligations	**(22,214,638)**	(16,844,483)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	**(22,214,638)**	104,638,226
NET INCREASE IN CASH AND CASH EQUIVALENTS	**24,433,019**	10,837,165
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**21,779,636**	10,942,471
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 46,212,655**	$ 21,779,636
SUPPLEMENTAL INFORMATION:		
Cash paid during the year for interest	**$ 37,871,514**	$ 38,871,241
SUPPLEMENTAL SCHEDULE OF NON-CASH ACTIVITIES:		
Equipment purchases financed with capital leases	**$ 6,876,786**	$ 2,322,262
Property, plant and equipment received and accrued in payables	**$ 2,699,685**	$ 10,421,483

NOTE A--ORGANIZATION AND OPERATIONS

Northeast Georgia Medical Center, Inc. (NGMC) was formed to serve and promote the public health of the general population and operates an acute care hospital with a 557-bed campus in Gainesville and a 100-bed campus in Braselton, and their related facilities, for the benefit of the general public.

Northeast Georgia Health System, Inc. (NGHS) is the parent company to NGMC. The financial statements of NGMC are included in the consolidated financial statements of NGHS and affiliates. The accompanying financial statements reflect the financial position and operating results of NGMC and include various allocations of expenses, gains, losses and associated liabilities from NGHS. Certain disclosures herein relate to NGHS as a whole (rather than just NGMC) and are identified as NGHS disclosures in the notes to the financial statements. Due to the nature of allocations of NGHS activities and liabilities to NGMC, these financial statements may not reflect the financial position and results of operations of NGMC on a stand-alone basis.

NOTE B--SIGNIFICANT ACCOUNTING POLICIES

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

Cash and Cash Equivalents: Cash and cash equivalents include cash and short-term time deposits and similar money market instruments, with maturities of less than three months when purchased, excluding amounts included as assets limited as to use or in the long-term investment portfolio.

Investments and Assets Limited as to Use: Investments and assets limited as to use are stated at fair value based on quoted market prices. The portion of investments related to financial instruments with remaining maturities of less than one year and the portion of assets limited as to use that is required to satisfy current obligations are classified as current assets.

Assets limited as to use include assets held by trustees under bond indenture agreements, assets designated by the Board for specific purposes, and assets held under deferred compensation arrangements.

Interest and dividend investment income on proceeds of borrowings that are held by trustees, to the extent not capitalized, is reported as a part of other operating revenue. Investment income and losses on all other investments and assets limited as to use (including gains and losses on sales of proceeds of borrowings that are held by trustees) is reported, net of investment expenses, as nonoperating gains and losses. The cost of securities sold is determined on the specific identification method, with net realized gains and losses reported as nonoperating gains and losses.

Unrealized gains and losses on investments and assets limited as to use, except any "other-than-temporary" investment losses, are recorded as other changes in unrestricted net assets.

Management annually evaluates the investment portfolio, including any assets limited as to use, and recognizes any "other-than-temporary" investment losses as deductions from *Excess of Revenue and Gains over Expenses and Losses* as described below. Management's evaluation considers the amount of any decline in fair value, as well as the time period of any such decline.

Inventory of Supplies: Inventory consists of medical and other supplies and is stated at the lower of cost or net realizable value, with cost determined by the first-in, first-out method.

Property, Plant and Equipment and Depreciation: Property, plant and equipment is stated at cost, net of accumulated depreciation. Depreciation is computed by the straight-line method over the estimated useful lives of the assets using the half-year method. The depreciable lives range from 15 to 40 years for buildings and from 3 to 15 years for equipment. Expenditures for maintenance, repairs and minor renewals are charged to operations as incurred. Expenditures for betterments and major renewals are capitalized. Interest cost incurred on specific borrowings during the period of construction of capital assets, net of related income, is capitalized as a component of the cost of the asset. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the financial statements. Any resulting gain or loss is included in nonoperating gains and losses.

NGMC periodically reviews property, plant and equipment for indicators of potential impairment of long-lived assets and, if such review indicates carrying amounts may not be recoverable, adjusts the carrying value and recognizes a loss. Management does not believe that any unrecognized impairment exists at September 30, 2018.

Deferred Financing Costs: Deferred financing costs relate to NGMC's long-term debt and are amortized over the terms of the respective issues in a manner that approximates the effective interest method and are reported as a direct deduction of the related long-term debt.

Derivative Financial Instruments: NGMC is a party to various interest rate swaps as discussed in Note G. These financial instruments are not designated as hedges and have been presented at estimated fair market value in the accompanying Balance Sheets. The estimated fair value is based on amounts NGMC would receive or pay to enter into similar agreements at the Balance

Sheet dates. Changes in estimated fair value are included as nonoperating gains and losses in the accompanying Statements of Operations and Changes in Net Assets. Even though not designated as hedges, the purpose of the interest rate swaps is to reduce the volatility of market rates associated with outstanding debt.

Excess of Revenue and Gains Over Expenses and Losses: The Statements of Operations and Changes in Net Assets include *Excess of Revenue and Gains Over Expenses and Losses.* Changes in unrestricted net assets which are excluded from *Excess of Revenue and Gains Over Expenses and Losses*, consistent with industry practice, include changes in net unrealized gains and losses (except for other-than-temporary impairments) on investments other than trading securities, transfers of assets to and from affiliates for other than goods or services, and contributions of long-lived assets, including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets.

Transactions deemed by management to be ongoing, major, or central to the provision of healthcare services of NGMC are reported as operating revenues and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses.

Charity Care: NGMC provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Generally, care provided for a patient whose household income is at or below 300 percent of the federal poverty guidelines is approved for charity care. Because NGMC does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as revenue.

Net Patient Service Revenue: Net patient service revenue is reported on the accrual basis in the period in which services are provided at the estimated net realizable amounts from patients, third-party payers and others, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Patient accounts receivable are reported net of both an estimated allowance for uncollectible receivables and an estimated allowance for contractual adjustments. The estimated contractual allowance represents the difference between established billing rates and estimated reimbursement from Medicare, Medicaid and other third-party payment programs. NGMC records an estimated reserve for uncollectible receivables based upon prior collection history for groups of receivables, known collection risks and other environmental factors, including the age of the receivables. NGMC's policy does not require collateral or other security for patient accounts receivable. NGMC routinely accepts assignment of, or is otherwise entitled to receive, patient benefits payable under health insurance programs, plans or policies. The estimated provision for bad debts is reported as a deduction from net patient service revenue.

Estimated Self-Insurance Liabilities: Estimated self-insurance liabilities include estimated reserves for reported and unreported professional liability claims, as well as other liabilities which management estimates are not payable within one year. Such estimates are subject to significant change in future periods.

Income Taxes: NGMC is classified as an organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. As such, no provision for income taxes has been made in the accompanying financial statements. At September 30, 2018, management does not believe NGMC holds any uncertain tax positions that would require financial statement recognition or disclosure under generally accepted accounting principles. It is NGMC's policy to recognize interest and/or penalties related to income tax matters as an operating expense where applicable.

Recently Issued Accounting Principles: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers.* Under ASU 2014-09, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. In addition, the accounting standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The standard is effective for fiscal years beginning after December 15, 2017. Management will adopt this ASU effective October 1, 2018.

In February 2016, the FASB issued ASU No. 2016-01, *Financial Instruments - Overall*, which, among other items, requires reporting the change in fair value of equity investments as a component of net income rather than as a change in net assets. ASU 2016-01 is effective for not-for-profit entities for fiscal years beginning after December 15, 2018 and can be early implemented only for fiscal years beginning after December 15, 2017. As provided in this standard, management has elected to eliminate the disclosure of the fair value of financial instruments measured at amortized cost. This election is allowed without early adoption of the standard. Management cannot determine the impact of implementing the remaining sections of the standard until the year of adoption.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which requires balance sheet recognition of a liability and right-to-use asset for substantially all leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018 and requires a modified retrospective transition approach for leases existing at the date of adoption. Management is currently evaluating the impact of the adoption of this standard on the financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities,* which requires not-for-profit entities to present two classes of net assets in the financial statements, rather than the three classes required by current standards. The two classes of net assets under the ASU are "net assets with donor restrictions" and "net assets without donor restrictions." ASU 2016-14 is effective for fiscal years beginning after December 15, 2017. Management will adopt this ASU effective October 1, 2018.

In August 2016, the FASB issued ASU No. 2016-15 *Statement of Cash Flows (Topic 320)* (ASU 2016-15), which clarifies classification of certain cash receipts and payments within the statement of cash flows. ASU 2016-15 provides guidance on eight specific cash flow issues, including treatment of distributions received from equity method investees. ASU 2016-15 states that investors will make an accounting policy election to classify distributions received from equity method investees using either the "cumulative earnings approach" or the "nature of the distribution approach." These approaches determine the classification of distributions from equity method investees between operating and investing activities. In November 2016, the FASB issued ASU No. 2016-18 *Statement of Cash Flows (Topic 320) Restricted Cash* (ASU 2016-18), which clarifies classification and presentation of changes in cash whose use is restricted by donors. ASU 2016-15 and ASU 2016-18 are effective for fiscal years beginning after December 15, 2018, and early adoption is permitted. Management is currently evaluating the impact of the adoption of these ASUs on the financial statements.

In March 2017, the FASB issued ASU No. 2017-08, *Receivables-Nonrefundable Fees and Other Costs: Premium Amortization on Purchased Callable Debt Securities* (ASU 2017-08), which shortens the amortization period for any premium to the earliest call date. Bonds purchased with a discount are not impacted by this ASU. ASU 2017-08 will be effective for fiscal years beginning after December 15, 2019. Management is evaluating the impact of this standard on the financial statements.

In June 2018, the FASB issued ASU No. 2018-08, *Not for Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08), which provides clarity in distinguishing grants or similar contracts between exchange transactions or contributions and guidance on classifying whether or not a transaction is conditional. ASU 2018-08 is effective for contributions received during fiscal years beginning after December 15, 2018, and early adoption is permitted. Management is evaluating the impact of the adoption of this ASU on the financial statements.

NOTE C--NET PATIENT SERVICE REVENUE/RECEIVABLES

A reconciliation of the amount of services provided to patients at established rates to net patient service revenue as presented in the Statements of Operations and Changes in Net Assets for the years ended September 30, 2018 and 2017 is as follows:

	2018	*2017*
Gross patient service charges	$4,172,622,015	$3,541,444,852
Less estimated contractual adjustments	(2,985,932,996)	(2,482,577,153)
Less estimated provision for bad debts	(115,983,904)	(83,592,320)
Net patient service revenue	$1,070,705,115	$ 975,275,379

The allocation of patient services revenue, net of contractual allowances and discounts (but before the provision for bad debts), is based on a calculation which applies a ratio of total payments and actual bad debts write-offs to total patient service revenue as recorded in the Statements of Operations and Changes in Net Assets. Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts) is composed of the following for the years ended September 30:

	2018	*2017*
Third-party payers	$1,106,070,346	$ 963,776,288
Self-pay patients	80,618,673	95,091,411
	$1,186,689,019	$1,058,867,699

Patient accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, NGMC analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts.

NGMC's estimated allowance for uncollectible accounts decreased from approximately 22% of gross patient accounts receivable at September 30, 2017 to approximately 20% of gross patient accounts receivable at September 30, 2018. NGMC’s bad debt write-offs were approximately $131,286,000 and $108,855,000 for the years ended September 30, 2018 and 2017, respectively.

Amounts of charges related to charity care were approximately $211,552,000 and $170,628,000 in 2018 and 2017, respectively, which are net of indigent care trust fund proceeds of $8,752,000 and $6,347,000 in 2018 and 2017, respectively. Under an agreement with the Georgia Department of Community Health Division of Medical Assistance (Georgia Medicaid), the Hospital Authority of Hall County and the City of Gainesville through NGMC pays into an indigent care trust fund and is then eligible to receive indigent care trust fund payments.

The estimated cost of providing charity care totaled approximately $46,220,000 and $41,700,000 for the years ended September 30, 2018 and 2017, respectively. The estimated costs of providing charity care are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing charity care. The ratio of costs to charges is calculated based on NGMC's total expenses divided by gross patient service revenue.

In addition to the patient charity care services, NGMC provides a number of other services to benefit the impoverished for which little or no payment is received. Medicare, Medicaid and State indigent programs do not cover the full cost of providing care to beneficiaries of those programs. NGMC also provides services to the community at large for which it receives little or no payment. Estimated contractual adjustments for the years ended September 30, 2018 and 2017 include approximately $66,978,000 and $83,306,000, respectively, related to discounts provided to self-insured patients in order to facilitate prompt payment.

NOTE D--THIRD-PARTY PAYER AGREEMENTS

NGMC provides services to patients under contractual arrangements with the Medicare and Medicaid programs. Certain amounts earned under these contractual arrangements are subject to audit and final determination by fiscal intermediaries and other appropriate governmental authorities or their agents. Activity with respect to audits of governmental programs and reimbursement, such as the Medicare Recovery Audit Contractor (RAC) program, is ongoing. In the opinion of management, adequate provision has been made for any adjustments which may result from such reviews. However, due to the uncertainties involved, it is at least reasonably possible that management's estimates will change in the future. In addition, participation in these programs subjects NGMC to significant rules and regulations; failure to adhere to such could result in regulatory investigations, fines, and penalties. A summary of the payment arrangements with major third-party payers follows:

- *Medicare:* Acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates based upon diagnostic related group assignments, which are determined by the patient's clinical diagnosis and medical procedures utilized. NGMC receives additional payments from Medicare based on the provision of services to a disproportionate share of Medicaid and other low-income patients. The Medicare program reimburses for outpatient services under a prospective method utilizing an ambulatory payment classification system which classifies outpatient services based upon medical procedures and diagnosis codes. Certain nonacute services and defined capital costs are paid based on a cost reimbursement methodology. NGMC is paid at a tentative rate with final settlement determined after submission of their annual cost reports and audits thereof by the Medicare fiscal intermediary. NGMC's Medicare cost reports have been audited by the Medicare fiscal intermediary through 2013. Any differences between the estimated amounts and the ultimate settlements are recorded as additions to, or deductions from, net patient service revenue in the year of settlement.

- *Medicaid:* Inpatient acute care services rendered to Medicaid program beneficiaries are paid based on prospectively determined rates per discharge using diagnosis related group assignments. Outpatient services are paid under a cost reimbursement methodology at a tentative rate with final settlement determined after submission of annual cost reports by NGMC and audits thereof by the Georgia Department of Community Health. NGMC's Medicaid cost reports have been audited through 2015. Any differences between the estimated amounts and the ultimate settlements are recorded as additions to, or deductions from, net patient service revenue in the year of settlement.

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

NGMC also participates in the Georgia Department of Community Health Upper Payment Limit (UPL) program. The UPL program allows for non-state local government hospitals and nursing homes to be paid 100 percent of the amount Medicare would pay for similar Medicaid services. During fiscal years 2018 and 2017, NGMC received approximately $13,730,000 and $3,458,000, respectively, from the UPL program. These amounts are included in net patient service revenue.

Net patient accounts receivable from the Medicare and Medicaid programs were approximately 33% and 12%, respectively, of total net patient accounts receivable at September 30, 2018, and approximately 27% and 12%, respectively, at September 30, 2017.

Effective July 1, 2010, the State of Georgia enacted legislation known as the Provider Payment Agreement Act (the Act) whereby certain hospitals, as defined in the Act, are assessed a "provider payment" in the amount of 1.45% of their net patient revenue, as defined in the Act. The payments are to be used for the sole purpose of obtaining federal financial participation for medical assistance payments to providers on behalf of Medicaid recipients and are considered a community benefit by providers. Approximately $10,645,000 and $9,180,000 relating to the Act are included in other operating expenses in the accompanying Statements of Operations and Changes in Net Assets for the years ended September 30, 2018 and 2017, respectively.

In March 2010, Congress adopted comprehensive healthcare and insurance legislation through the issuance of the *Patient Protection and Affordable Care Act*. The legislation, among other matters, is designated to expand access to coverage to substantially all citizens through a combination of public program expansion and private industry health insurance. Changes to existing Medicaid coverage and payments have occurred and are expected to continue to occur as a result of this legislation. Implementing regulations are generally required for these legislative acts, which are to be adopted over a period of years and, accordingly, the specific impact of any future regulations is not determinable.

NOTE E--INVESTMENTS AND ASSETS LIMITED AS TO USE

A portion of NGMC's assets limited as to use are maintained in shared accounts with the assets of NGHS and other subsidiaries of NGHS and are stated at fair value based on quoted market prices. A pro-rata share of investment gains and losses is allocated to NGMC based on its percentage of assets in the shared accounts. The composition of NGMC's share of assets limited as to use at September 30 is as follows:

	2018	*2017*
Indenture agreements - held by trustees:		
Cash and money market funds	$ 749,611	$ 11,872,755
Corporate bonds	11,769,321	32,537,063
Accrued income	95,300	307,650
	12,614,232	44,717,468
By Board for designated purposes:		
Cash and money market funds	190,991	147,199
Certificate of deposit	227,196	227,195
	418,187	374,394
Other:		
Cash and money market funds	1,975,913	2,018,902
Mutual funds	13,795,972	11,825,342
Government bonds	48	97
Equity securities	1,001,461	1,013,863
Other	-	1,010,702
	16,773,394	15,868,906
	29,805,813	60,960,768
Less assets limited as to use that are required for current obligations	(7,356,291)	(9,077,585)
	$ 22,449,522	$ 51,883,183

The composition of NGMC investments at September 30, 2018 and 2017 is as follows:

	2018	2017
Cash and money market funds	$ 86,586,185	$ 42,098,966
Government bonds	34,310,799	18,300,552
Corporate bonds	174,800,221	153,204,785
Equity securities	582,202,971	575,148,550
Accrued income	1,363,023	1,118,607
	879,263,199	789,871,460
Less current investments	(86,586,197)	(42,098,966)
	$ 792,677,002	$ 747,772,494

The age of unrealized losses on investments and assets limited as to use that are temporarily impaired for NGHS as a whole are as follows at September 30, 2018:

	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate bonds	$ 45,777,938	$ (448,014)	$ 175,084,614	$ (8,649,606)	$ 220,862,551	$ (9,097,620)
Equity securities	83,887,629	(17,101,324)	154,136,229	(11,035,741)	238,023,858	(28,137,065)
Total temporarily impaired securities	$ 129,665,567	$ (17,549,338)	$ 329,220,843	$ (19,685,347)	$ 458,886,409	$ (37,234,685)

The age of unrealized losses on investments and assets limited as to use that are temporarily impaired for NGHS as a whole are as follows at September 30, 2017:

	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate bonds	$ 49,715,504	$ (369,930)	$ 72,097,252	$ (4,896,115)	$ 121,812,756	$ (5,266,045)
Equity securities	(4,642,316)	(15,648,691)	152,720,715	(15,136,501)	148,078,399	(30,785,192)
Total temporarily impaired securities	$ 45,073,188	$ (16,018,621)	$ 224,817,967	$ (20,032,616)	$ 269,891,155	$ (36,051,237)

There were no other-than-temporary losses identified during the 2018 and 2017 fiscal years. The investment and assets limited as to use portfolios had a net unrealized gain of approximately $54,000 and $19,680,000 as of September 30, 2018 and 2017, respectively. Management estimates based upon their analysis, that investments and assets limited as to use with unrealized losses as of September 30, 2018 are not other-than-temporarily impaired and, as such, no other-than-temporary impairment loss has been recognized in the accompanying Statements of Operations and Changes in Net Assets. Such analysis included industry outlooks, specific company forecasts, and input from their investment manager. A decline in the fair value of any available-for-sale security below cost that is deemed to be other-than-temporary results in a reduction in the carrying amount to fair value.

To determine whether impairment is other-than-temporary for equity securities, management considers such factors as the length of time and extent to which market value has been less than cost; the financial condition and prospects of the issuer; and the intent and ability of NGHS to retain its investment in the issuer for a period of time sufficient to allow for recovery. To determine whether impairment is other-than-temporary for debt securities, management considers whether NGHS expects to recover the entire amortized cost basis of the security by reviewing the present value of the future cash flows associated with the security. The shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis is referred to as a credit loss. If a credit loss is identified, management then considers whether it is more-likely-than-not that the company will be required to sell the security, prior to recovery. If management concludes that it is not more-likely-than-not that it will be required to sell the security, then the security is not other-than-temporarily impaired, and the shortfall is recorded as a component of net assets. If the security is determined to be other-than-temporarily impaired, the credit loss is recognized as a charge to non-operating expense and a new cost basis for the security is established. While management estimates that no other-than-temporary impairment exists at September 30, 2018, it is reasonably possible that management's estimate will change in the near term.

Investment income on proceeds of borrowings that are held by trustees, to the extent not capitalized, was $538,021 and $1,256,148 for the years ended September 30, 2018 and 2017, respectively, and is included as a part of other operating revenue in the accompanying Statements of Operations and Changes in Net Assets. The net gain (loss) from all other investments and assets limited as to use for the years ended September 30, 2018 and 2017, respectively, was comprised of the following:

	2018	***2017***
Interest and dividend income	$ 26,944,124	$ 25,763,756
Net realized gains (losses)	24,385,434	803,072
Investment expense	(2,122,762)	(2,084,130)
Net investment gain	$ 49,206,796	$ 24,482,698

Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risk factors in the near term could materially affect the amounts reported in the financial statements.

NOTE F--PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment and related accumulated depreciation at September 30, 2018 and 2017 are as follows:

	2018	2017
Land	$ 7,604,005	$ 7,604,005
Land improvements	12,063,281	11,948,635
Building and building equipment	621,849,193	588,189,777
Fixed equipment	92,096,594	91,749,095
Departmental equipment	555,968,465	503,018,025
Capital leases	15,243,322	15,304,840
Vehicles	3,029,235	2,850,998
	1,307,854,095	1,220,665,375
Less accumulated depreciation	(668,568,405)	(646,710,340)
	639,285,690	573,955,035
Construction in progress - Note P	11,173,932	88,389,359
	$ 650,459,622	$ 662,344,394

No interest expense was capitalized as part of construction in progress during the year ended September 30, 2018. Interest expense of $571,594 was capitalized for the year ended September 30, 2017.

NOTE G--LONG-TERM DEBT

A summary of long-term debt at September 30, 2018 and 2017 is as follows:

	2018	2017
Revenue Anticipation Certificates, Series 2017A		
Interest rates ranging from 4.00% to 5.00%; interest payments due semi-annually through February 2045	$ 170,025,000	$ 170,025,000
Plus unamortized premium	15,220,506	15,675,982

	2018	*2017*
Revenue Anticipation Certificates, Series 2017B		
Interest rates ranging from 3.75% to 5.50%; interest payments due semi-annually through February 2045	140,540,000	140,540,000
Plus unamortized premium	18,773,543	19,335,345
Revenue Anticipation Certificates, Series 2017C		
Variable rate certificate; interest payments due monthly through February 2047	75,000,000	75,000,000
Revenue Anticipation Certificates, Series 2017D		
Variable rate certificate; interest payments due monthly through February 2044	71,650,000	75,000,000
Revenue Anticipation Certificates, Series 2014A		
Interest rates ranging from 4.00% to 5.50%; interest payments due semi-annually through August 2054	206,925,000	206,925,000
Plus unamortized premium	17,222,615	17,701,021
Revenue Anticipation Certificates, Series 2014B		
Variable rate certificates; interest payments due monthly through August 2035	135,500,000	135,500,000
Less unamortized discount	(561,266)	(594,281)
Revenue Anticipation Certificates, Series 2011A		
Variable rate certificates; interest payments due monthly through May 2026	34,550,000	38,050,000
Revenue Anticipation Certificates, Series 2010A		
Interest rates ranging from 4.00% to 5.50%; interest payments due semi-annually through February 2045	64,190,000	68,320,000
Less unamortized discount	(2,338,687)	(2,427,218)
Revenue Anticipation Certificates, Series 2010B		
Interest rates ranging from 4.00% to 5.50%; interest payments due semi-annually through February 2045	55,655,000	59,185,000
Less unamortized discount	(607,562)	(630,562)

	2018	*2017*
Other notes payable at rates ranging from 1.90% to 4.15%	31,156	72,095
Capitalized leases	11,186,340	10,622,114
	1,012,961,645	1,028,299,496
Less current portion	(21,543,812)	(20,715,049)
Less issuance cost	(5,336,493)	(5,522,234)
	$ 986,081,340	$ 1,002,062,213

All of the outstanding Revenue Anticipation Certificates utilize the same basic structure. The Hospital Authority of Hall County and the City of Gainesville (the Authority) issues Revenue Anticipation Certificates that are exempt from Federal income tax. The Authority loans the proceeds from the sale of the Certificates to NGHS and NGMC. For each issue of Certificates, there is a trust indenture that controls the business terms of that debt. NGHS and NGMC (the Obligated Group) are bound by a note payable to the Authority to provide amounts sufficient to pay the maturing installments of principal and interest. The trust indentures require that certain funds be deposited with the trustee. These funds are included in assets limited as to use in the accompanying Balance Sheets and are available to pay principal and interest, subject to the provisions of the indentures.

In connection with the formation of NGHS, the Authority entered into a lease agreement dated October 1, 1986 with NGMC whereby the Authority leased all of its assets (including the main hospital campus) to NGMC. In return, NGMC assumed all of the debt and other obligations of the Authority. The lease includes ongoing covenants including a duty to provide indigent care. The lease had an initial term of forty years and has since been extended to September 1, 2054. Management believes that NGMC was in compliance with all of its lease obligations as of September 30, 2018.

All of the outstanding Revenue Anticipation Certificates are secured by a Master Trust Agreement, with parity to all issues, whereby the Obligated Group has pledged all of its gross revenues to secure the prompt payment of the Certificates. The Master Trust Agreement limits additional indebtedness and provides that any default on any obligation secured under the Master Trust Agreement is a default under the Master Trust Agreement as well. NGMC has also mortgaged its interest in the main hospital campus (including equipment and related assets) to the Master Trustee under a 2010 Leasehold Deed to Secure Debt and Security Agreement.

The terms of the various indentures require the maintenance of certain financial ratios and compliance with other covenants. Management believes the Obligated Group was in compliance with all financial and other covenants as of September 30, 2018 and 2017.

In February 2017, the Obligated Group issued Revenue Anticipation Certificates Series 2017A, Series 2017B, Series 2017C, and Series 2017D in the aggregate principal amount of $460,565,000. The proceeds of the sale of the Series 2017 Certificates, were used to (i) advance refund a portion of the outstanding amount of the Series 2010A and Series 2010B Certificates, (ii) finance a portion of the costs of certain additions and improvements to, and equipment for, the healthcare facilities operated by NGHS and its affiliates in Hall County, Georgia, and (iii) pay related costs of issuing the Series 2017 Certificates. As a result of the refinancing, NGHS recorded a loss on advanced refunding of long-term debt of $45,413,740.

The Series 2017A Certificates consist of $170,025,000 term certificates maturing at various dates through February 15, 2045 bearing interest at rates ranging from 4.00% to 5.00% and subject to mandatory sinking fund redemption payments beginning February 15, 2038 and ending February 15, 2042, which range from $10,775,000 to $12,995,000; and mandatory sinking fund redemption payments beginning February 15, 2043 and ending February 15, 2045, which range from $11,825,000 to $13,065,000. Certificates maturing on or after February 15, 2028 are subject to optional redemption at par plus accrued interest by the Authority, at the direction of NGHS, on or after February 15, 2027.

The Series 2017B Certificates consist of $140,540,000 term certificates maturing at various dates through February 15, 2045 bearing interest at rates ranging from 3.75% to 5.50% and subject to mandatory sinking fund redemption payments beginning February 15, 2038 and ending February 15, 2042, which range from $6,215,000 to $10,460,000; and mandatory sinking fund redemption payments beginning February 15, 2043 and ending February 15, 2045, which range from $6,890,000 to $7,655,000. Certificates maturing on or after February 15, 2028 are subject to optional redemption at par plus accrued interest by the Authority, at the direction of NGHS, on or after February 15, 2027.

The Series 2017C Certificate consists of a $75,000,000 term certificate which matures February 15, 2047 and bears interest at a variable "R-FLOATs Rate" as defined in the Series 2017C Trust Indenture as the lowest interest rate that would, in the opinion of the remarketing agent, result in the market value of the certificate being 100% of the principal amount thereof on the applicable weekly rate determination date. The one-month London Inter-Bank Offered Rate (LIBOR) rate factors in to the remarketing agent's determination. The certificate is subject to mandatory sinking fund redemption payments beginning February 15, 2044 and ending February 15, 2047, which range from $8,225,000 to $27,550,000. Certificates in the R-FLOATs weekly rate mode are subject to optional redemption in whole or in part at a redemption price equal to 100% of the principal amount of the certificate to be redeemed, plus accrued interest, on the first day of each month.

The Series 2017D Certificate consists of a $75,000,000 term certificate which matures February 15, 2044 and bears interest at a variable rate of 67% of the one-month LIBOR plus a spread of 60 basis points. The spread of 60 basis points will be increased if the credit rating assigned to NGHS is downgraded. There has not been a downgrade of NGHS' credit rating as of September 30, 2017. The certificate is subject to mandatory sinking fund redemption payments beginning February 15, 2018 and ending February 15, 2044, which range from $435,000 to $11,565,000.

In December 2014, the Authority issued Revenue Anticipation Certificates Series 2014A and 2014B in an aggregate principal amount of $342,425,000. The Series 2014A and 2014B Certificates are collectively referred to as the "2014 Certificates." NGHS used the proceeds of the 2014 Certificates to refinance the Series 2012 Certificates, as well as portions of the 2010 Certificates, in addition to other uses.

The Series 2014A Certificates consist of $27,500,000 term certificates maturing August 15, 2046 bearing interest at 4.00% and subject to mandatory sinking fund redemption payments beginning August 15, 2041, which range from $2,500,000 to $15,000,000; $60,375,000 term certificates maturing August 15, 2049 bearing interest at 5.25% and subject to mandatory sinking fund redemption payments beginning August 15, 2046, which range from $2,560,000 to $20,265,000; and $119,050,000 term certificates maturing August 15, 2054 bearing interest at 5.50% and subject to mandatory sinking fund redemption payments beginning August 15, 2050, which range from $21,330,000 to $26,425,000.

The Series 2014A Certificates are subject to optional redemption by the Authority, at the direction of NGHS, on or after February 15, 2025.

The Series 2014B Certificates consist of $135,500,000 term certificates maturing August 15, 2035, initially bearing interest at a variable rate, and subject to mandatory sinking fund redemption payments beginning August 15, 2020, which range from $3,040,000 to $22,800,000. The Authority issued the Series 2014B Certificates in Floating Rate Note (FRN) mode. During this initial FRN Period, the Certificates shall bear interest at the USD Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index plus a spread of 95 basis points. The initial FRN Period ends on February 17, 2020. All 2014B Certificates are subject to mandatory tender for purchase on February 18, 2020. NGHS is obligated to provide funds to purchase the Certificates on that date. NGHS may then retire the Certificates, or reissue the Certificates for a new FRN Period, or convert the Certificates to a different mode. NGHS may call the Certificates for redemption at par on or after August 22, 2019.

In August 2011, the Authority issued Revenue Anticipation Certificates Series 2011A in the aggregate principal amount of $46,625,000. The 2011A Certificates bear interest daily at a rate of 67% of the one-month LIBOR plus a spread of 55 basis points. The spread of 55 basis points will be increased if the credit rating assigned to NGHS is downgraded. There has not been a downgrade of NGHS' credit rating as of September 30, 2018.

The 2011A Certificates were amended by the parties in February 2015. The 2011A Certificates will bear interest at the variable interest rate through the Indexed Put Date which is October 1, 2021. NGHS is obligated to provide funds to purchase the 2011A Certificates at the end of a one-year Term Out Period, which is October 1, 2022. During the one-year Term Out Period, the 2011A Certificates will bear interest at 12%. NGHS may call the 2011A Certificates for early redemption at par.

The Series 2011A Certificates are due on May 15, 2026 and are subject to mandatory sinking fund redemption prior to maturity in amounts ranging from $3,500,000 on May 15, 2018 to $5,400,000 on May 15, 2025 with a final maturity of $2,750,000 on May 15, 2026.

In February 2010, the Authority issued Revenue Anticipation Certificates Series 2010A in the aggregate principal amount of $319,830,000. Also, in February 2010, the Authority issued Revenue Anticipation Certificates Series 2010B in the aggregate amount of $250,000,000. The Series 2010A and 2010B Certificates are collectively referred to as the "2010 Certificates."

The 2010A Certificates maturing on February 15, 2025 and February 15, 2034 were redeemed during fiscal year 2015 using proceeds from the 2014B Certificates. Various certificates maturing on dates ranging from February 15, 2021 through February 15, 2045 were advance refunded during 2017 using proceeds from the 2017A Certificates. The remaining Series 2010A Certificates consist of $11,240,000 term certificates maturing February 15, 2030 bearing interest at 5.0% and subject to mandatory sinking fund redemption payments beginning February 15, 2025; $22,895,000 term certificates maturing February 15, 2040 bearing interest at 5.375% and subject to mandatory sinking fund redemption payments beginning February 15, 2034; $20,045,000 term certificates maturing February 15, 2045 bearing interest at 5.5% and subject to mandatory sinking fund redemption payments beginning February 15, 2041; and $14,140,000 of serial certificates which are payable each February 15th and conclude February 15, 2021. The outstanding serial certificates bear interest at rates ranging from 4.0% to 5.0% and have annual maturities ranging from $1,125,000 to $4,545,000.

The Series 2010A Certificates maturing on or prior to February 15, 2020 are not subject to optional redemption prior to maturity. The Series 2010A Certificates maturing on or after February 15, 2021 are subject to optional redemption at par by the Authority, at the direction of NGHS, on or after February 15, 2020.

The 2010B Certificates maturing on February 15, 2030 and February 15, 2035 were redeemed during fiscal year 2015 using proceeds from the 2014A Certificates. Various certificates maturing on dates ranging from February 15, 2021 through February 15, 2045 were advance refunded during 2017 using proceeds from the 2017B Certificates. The remaining Series 2010B Certificates consist of $1,745,000 term certificates maturing February 15, 2025 bearing interest at 5.0% and subject to mandatory sinking fund redemption payments beginning February 15, 2023; $1,305,000 term certificates maturing February 15, 2025 bearing interest at 4.5% and subject to mandatory sinking fund redemption payments beginning February 15, 2023; $3,315,000 term certificates maturing February 15, 2029 bearing interest at 5.5% and subject to mandatory sinking fund redemption payments beginning February 15, 2026; $3,860,000 term certificates maturing February 15, 2030 bearing interest at 4.75% and subject to mandatory sinking fund redemption payments beginning February 15, 2026; $6,955,000 term certificates maturing February 15, 2033 bearing interest at 5.0% and subject to mandatory sinking fund redemption payments beginning February 15, 2031; $6,745,000 term certificates maturing February 15, 2037 bearing interest at 5.25% and subject to mandatory sinking fund redemption payments beginning February 15, 2035; $9,965,000 term certificates maturing February 15, 2040 bearing interest at 5.125% and subject to mandatory sinking fund redemption payments beginning February 15, 2038; $12,265,000 term certificates maturing February 15, 2045 bearing interest at 5.25% and subject to mandatory sinking fund redemption payments beginning February 15, 2041; and $9,500,000 of serial certificates which are payable each February 15th and conclude February 15, 2022 bearing interest at rates ranging from 4.00% to 5.0% and having annual maturities ranging from $915,000 to $3,900,000.

The Series 2010B Certificates maturing on or prior to February 15, 2020 are not subject to optional redemption prior to maturity. The Series 2010B Certificates maturing on or after February 15, 2021 are subject to optional redemption at par by the Authority, at the direction of NGHS, on or after February 15, 2020.

The advance refunding of the 2010A and 2010B Certificates, previously described, was accomplished by placing funds in escrow accounts in order to satisfy remaining scheduled principal and interest payments of the outstanding debt. Management believes the amounts deposited in such escrow accounts have contractually relieved NGHS and NGMC of any future obligations with respect to this debt. Debt outstanding and not recognized in the Balance Sheet at September 30, 2018, due to the advance refunding, totaled $334,550,000.

The Series 2010B, 2014A and 2017B Certificates are also secured by an Intergovernmental Contract between the Authority and Hall County, Georgia. If the Obligated Group fails to timely pay these Certificates, Hall County has promised to assess up to seven mills of property tax as an additional source of payment for the Certificate holders.

Long-term debt at September 30, 2018 and 2017 also includes notes payable to financial institutions, as well as capital leases extending through fiscal 2022.

Scheduled maturities of long-term debt, excluding net unamortized original issue discount and premium, and capital lease obligations, excluding interest, for each of the next five years and in the aggregate at September 30, 2018 are as follows:

Year Ending September 30,	
2019	$ 20,378,417
2020	20,505,820
2021	17,453,259
2022	16,850,000
2023	17,410,000
Thereafter	872,655,000
	$ 965,252,496

In connection with the issuance of the Series 2011A Certificates, which refunded the previously issued Series 2008A Certificates, NGHS entered into an interest rate swap agreement with a bank as counterparty. Under terms of the agreement, NGHS will pay the counterparty a fixed rate of 3.371% based upon a notional amount approximately equal to the principal amount of the Certificates and will receive an amount based on the same notional amount at a floating rate equal to 65% of the one-month LIBOR plus 19 basis points. The estimated fair market value of the swap was a liability of $1,738,800 at September 30, 2018.

During 2011, NGHS also entered into a fixed spread basis swap agreement with a bank as counterparty in order to reduce its fixed rate debt service costs through a swap structure that takes on basis risk. The swap has a notional value of $100,000,000. NGHS pays an amount equal to the SIFMA Municipal Swap Index and receives 67% of the three-month LIBOR plus 62 basis points until December 1, 2030, when the agreement terminates. The estimated fair market value of the swap was an asset of $3,846,407 at September 30, 2018.

In anticipation of the Obligated Group issuing the 2017 Certificates, NGHS entered into two separate swap agreements in October 2016. One of the swap agreements had a notional amount of $54,200,000 and requires NGHS to pay a fixed rate of 1.278% and receive a variable rate from the counterparty established at 70% of USD-LIBOR-BBA. The second swap agreement had a notional amount of $81,300,000 and requires NGHS to pay a fixed rate of 1.283% and receive a variable rate from the counterparty established at 70% of USD-LIBOR-BBA. The estimated fair market value of these two swaps was an asset of $6,367,878 and $12,382,011 at September 30, 2018, respectively.

Pursuant to the agreement(s) and depending on the movement of the applicable rates, both NGHS and the counterparty are subject to the requirement of posting collateral in order to secure its respective obligations under the agreements. No collateral was required to be posted by NGHS or the counterparty as of September 30, 2018 or 2017.

The swap agreements have not been designated as hedges and are reflected at estimated fair market value. An asset of $22,596,296 and a liability of $1,738,800 have been recognized in the accompanying Balance Sheet as of September 30, 2018. An asset of $13,938,655 and a liability of $3,323,844 have been recognized in the accompanying Balance Sheet as of September 30, 2017.

NOTE H--PENSION PLANS

NGHS sponsors a defined benefit pension plan (the plan). An employee was eligible to participate in the plan following the attainment of age 21 and completion of at least 1,000 hours of service during a calendar year. Generally, NGHS and its affiliates make annual contributions to the plan equal to the amount necessary to meet the minimum funding standards of ERISA. Employees are not permitted to contribute to the plan.

Normal retirement benefits are provided at the later of age 65 or on the participant's fifth anniversary of entering the plan. Early retirement benefits are available at age 55 and completion of ten years of vesting service. Prior to changes in the plan (discussed below), the plan also provided for disability, death and delayed retirement benefits.

The plan formula changed effective January 1, 2006 so that the benefit is equal to a past service benefit plus a future service benefit. The past service benefit is equal to the benefit earned as of December 31, 2005 under the existing formula. The future service benefit is equal to 1% of earnings for each calendar year in which the participant works at least 1,000 hours. Effective January 1, 2006, the defined benefit pension plan was closed to new employees. Additionally, the plan no longer provided disability benefits.

The following table sets forth the plan's changes in projected benefit obligations, changes in the plan's assets and funded status of the plan as determined by management with assistance from the plan's independent consulting actuary at September 30, 2018 and 2017:

	Year Ended September 30,	
	2018	***2017***
Change in benefit obligations		
Benefit obligations, beginning of year	$ 284,727,516	$ 282,331,442
Service cost	9,597,157	9,951,075
Interest cost	10,781,756	10,423,098
Benefits paid	(8,878,027)	(8,175,197)
Actuarial (gain) loss	(20,240,035)	(9,802,902)
Benefit obligations, end of year	$ 275,988,367	$ 284,727,516

	Year Ended September 30, 2018	2017
Change in plan assets		
Fair value of plan assets, beginning of year	$ 261,299,378	$ 240,095,384
Actual return on plan assets	24,908,788	14,379,191
Contributions of plan sponsor	10,000,000	15,000,000
Benefits paid	(8,878,027)	(8,175,197)
Fair value of plan assets, end of year	$ 287,330,139	$ 261,299,378
Funded status of the plan at end of year	$ 11,341,772	$ (23,428,138)

Employer contributions and benefits paid in the above table include only those amounts contributed directly to, or paid directly from, plan assets in fiscal years 2018 and 2017.

The accumulated benefit obligation (ABO) of the plan was $272,702,738 and $280,576,467 at September 30, 2018 and 2017, respectively. In accordance with generally accepted accounting principles, NGHS recognizes the funded status of the plan as an asset or liability and the gains or losses and prior service costs or credits not yet recognized as pension expense as a change in unrestricted net assets.

Amounts recognized in the Consolidated Balance Sheets of NGHS consist of the following:

	September 30, 2018	2017
Noncurrent assets (liabilities)	$ 11,341,772	$ (42,236,058)
Net asset (liability) recognized	$ 11,341,772	$ (42,236,058)

Amounts recognized in unrestricted net assets of NGHS consist of the following:

	Year Ended September 30, 2018	2017
Unrecognized net actuarial loss	$ 90,057,210	$ 123,445,020
Unrecognized prior service cost	-	-
	$ 90,057,210	$ 123,445,020

Net periodic pension cost and other amounts recognized in unrestricted net assets of NGHS consist of the following:

	Year Ended September 30, 2018	2017
Net periodic pension cost		
Service cost with interest to year-end	$ 9,597,157	$ 9,951,075
Interest cost on the projected benefit obligation	10,781,756	10,423,098
Expected return on plan assets	(21,547,988)	(20,904,327)
Amortization of prior service cost	-	-
Amortization of net actuarial loss	9,786,975	11,702,807
Net periodic pension cost	$ 8,617,900	$ 11,172,653
Other changes in unrestricted net assets		
Net (gain) loss	$ (23,600,835)	$ (3,277,766)
Amortization of prior service cost	-	-
Amortization of net actuarial loss	(9,786,975)	(11,702,807)
Total recognized in unrestricted net assets	$ (33,387,810)	$ (14,980,573)
Total recognized in net periodic pension cost and unrestricted net assets	$ (24,769,910)	$ (3,807,920)

Management estimates that a net loss in the amount of $7,115,000 will be amortized from the unrestricted net assets of NGHS into net periodic pension cost over the next fiscal year.

The actuarial assumptions used for the plan as of September 30, 2018 and 2017 are as follows:

	September 30, 2018	2017
Discount rates	4.25%	3.85%
Rates of increase in future compensation levels	varies by age	varies by age
Expected long-term rate of return on plan assets	7.99%	8.50%
Rates of increase in maximum benefit and compensation limits	3.00%	3.00%

The discount rate has a significant effect on the calculation of the pension benefit obligations. Estimates used in the discount rate and other assumptions are subject to change in the future.

The determination of the expected long-term rate of return on plan assets is based on assumptions that are developed by the plan's investment consultant for each investment category as to the rate of return, risk, yield, and correlation with other categories that serve as components of the long-term strategy. Based on these assumptions, eligible components are tested over the desired time frame given the acceptable tolerance of risk determined by NGHS. The expected long-term rate of return reflects assumptions as to continued execution of the current strategic asset allocation, modern portfolio theory, and the plan's investment policy.

The composition of plan assets at September 30, 2018 and 2017 is as follows:

	Carrying Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2018				
Money market funds	$ 11,467,518	$ 11,467,518	$ -	$ -
Government bonds	9,978,800	-	9,978,800	-
Corporate bonds	51,049,996	-	51,049,996	-
Mutual funds and equity securities	214,110,176	214,110,176	-	-
Accrued income	723,649	723,649	-	-
	$ 287,330,139	$ 226,301,343	$ 61,028,796	$ -
September 30, 2017				
Money market funds	$ 3,516,248	$ 3,516,248	$ -	$ -
Corporate bonds	48,012,654	-	48,012,654	-
Mutual funds and equity securities	209,161,468	209,161,468	-	-
Accrued income	609,008	609,008	-	-
	$ 261,299,378	$ 213,286,724	$ 48,012,654	$ -

NGHS' investment policy requires the pension fund to reflect the requirements of ERISA and to be managed within the following diversification parameters: large and mid-cap multi-national equities of 25-40%; dividend-oriented equities representing a defensive equity strategy with loss mitigation provided by covered call options of 25-40%; and investment grade fixed income securities with an emphasis on intermediate maturities of 20-25%. NGHS is evaluating the amount, if any, that will be contributed to this plan during fiscal year 2019.

Estimated future benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

Year Ending September 30,	
2019	$ 9,414,893
2020	10,107,949
2021	10,898,809
2022	11,635,189
2023	12,354,589
2024-2028	70,674,460

NOTE I--OTHER RETIREMENT PLANS

During 2006, NGHS created the Northeast Georgia Health System, Inc. 401(k) Retirement Savings Plan for substantially all employees. The Plan provides for matching contributions by NGHS which are 100% of each employee's elective deferrals up to 1% of compensation and 50% of each employee's elective deferrals that exceed 1% of compensation but that do not exceed 6%. Expense for NGMC under the 401(k) Retirement Savings Plan was $8,798,516 and $5,275,857 for 2018 and 2017, respectively.

NGHS also has other deferred compensation and benefit plans maintained for specific purposes. Assets and liabilities are included in the accompanying financial statements of NGMC where appropriate.

NOTE J--ESTIMATED LIABILITY FOR SELF-INSURANCE CLAIMS

NGHS has established trust funds for the purpose of funding professional liability and self-insured workers' compensation, which covers NGMC, up to specified retention levels, generally $4,000,000 per occurrence and $10,000,000 in the aggregate (annually) for professional liability and $400,000 per occurrence for worker's compensation with no annual aggregate. Losses exceeding aggregate annual limits up to maximum limits are covered by insurance purchased from commercial carriers and management intends to maintain such insurance coverage in the future. As of September 30, 2018, management is not aware of any claims that will ultimately settle above the specified retention levels and, accordingly, has not recognized any insurance recovery receivables.

Funding for professional liability is on a claims-made basis, while workers' compensation is determined on an occurrence basis. Funding of the trusts is based upon estimates of potential liability provided by annual independent actuarial valuations and includes provisions for claims reported and claims incurred but not reported in excess of insurance limits. NGMC is involved in litigation relating to medical malpractice and workers' compensation and other claims arising in the ordinary course of business. There are also known incidents occurring through September 30, 2018 that may result in the assertion of additional claims and other unreported claims may be asserted arising from services provided in the past. Estimated self-insurance liabilities in the Consolidated Balance Sheets of NGHS and affiliates consist of amounts accrued by NGHS related to these self-insurance programs and have not been discounted. Amounts accrued by NGHS were approximately $35,730,000 at September 30, 2018 and $32,669,000 at September 30, 2017.

NGMC was charged by NGHS for participation and coverage in these programs. Such amounts are not recognized in insurance expense but are recognized in other operating expenses as part of a cost allocation methodology change by NGHS during 2017 (see Note M). The charges for workers' compensation by NGHS for the years ended September 30, 2018 and 2017 were $891,874 and $1,123,490, respectively.

NGHS maintains a self-insurance program to provide medical and dental coverage for eligible employees and their dependents. Reinsurance above $225,000 annually per individual with no aggregate limit is maintained through a commercial excess coverage policy. Operating expenses in the accompanying Statements of Operations and Changes in Net Assets for the years ended September 30, 2018 and 2017 includes $41,805,644 and $48,927,250, respectively, related to these benefits. Approximately $13,200,000 and $11,800,000, representing estimated incurred but unpaid medical and dental claims, are included in accounts payable and accrued expenses at September 30, 2018 and 2017, respectively.

NOTE K--CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject NGMC to concentrations of credit risk consist primarily of cash and cash equivalents, investments and assets limited as to use (Note E) and net patient revenue and accounts receivable.

NGMC places cash and cash equivalents with banking institutions that are insured by the Federal Deposit Insurance Corporation. At times, NGMC has deposits in excess of these insurance limits. NGMC is exposed to loss of the uninsured amounts in the event of nonperformance by the banking institution; however, NGMC does not anticipate any such losses.

NGMC grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payer agreements. The estimated mix of net patient service revenue from patients and major third-party payers for the years ended September 30, 2018 and 2017 is as follows:

	2018	*2017*
Governmental programs		
Medicare	51%	48%
Medicaid	10%	10%
Commercial insurance	28%	31%
Self-pay and other	11%	11%
	100%	100%

NOTE L--FUNCTIONAL EXPENSES

NGMC does not present expense information by functional classification because its resources and activities are primarily related to providing health care services. Further, since NGMC receives substantially all of its resources from providing health care services in a manner similar to a business enterprise, other indicators contained in these financial statements are considered important in evaluating how well management has discharged their stewardship responsibilities.

NOTE M--RELATED PARTY TRANSACTIONS

NGMC routinely engages in transactions with NGHS and other controlled affiliates of NGHS, including Northeast Georgia Physician Group, Inc. (NGPG), NGMC-Barrow, LLC (NGMC-Barrow), The Heart Center, LLC (THC), Northeast Georgia Health Partners, LLC (NGHP), and The Medical Center Foundation (the Foundation). Amounts due from affiliates bear no interest and represent capital and other expenditures paid on behalf of affiliates at September 30, 2018 and 2017, respectively.

In 2018 and 2017, NGMC purchased capital assets for NGHS in the amounts of $11,211,488 and $10,379,017, respectively, for NGPG in the amounts of $1,417,647 and $5,977,144, respectively, for THC in the amounts of $2,558,307 and $789,869, respectively, and for NGMC-Barrow in the amount of $4,618,410 and $11,123,717, respectively.

During 2018 and 2017, donations in the amounts of $777,399 and $976,379, respectively, were received from the Foundation.

In 2018 and 2017, NGHS charged NGMC with allocated management fees in the amounts of $105,714,398 and $42,947,556, respectively. In 2017, NGHS changed its overhead cost allocation methodology and certain salary, insurance and other operating expenses previously recognized in NGMC's Statements of Operations and Changes in Net Assets based on natural classification, are now recognized in other operating expenses. In 2018, the process was further refined and the remaining allocation generally represents information technology costs allocated from NGMC to NGHS and other controlled affiliates of NGHS. Administrative overhead allocated from NGMC was $17,601,730 for the year ended September 30, 2018 and the allocation to NGMC was $50,816,623 for the year ended September 30, 2017.

During 2018 and 2017, amounts due to/from NGHS, NGMC-Barrow, NGPG, THC, and NGHP were transferred from/to those entities through a non-cash transfer of net assets as reflected in the accompanying Statements of Operations and Changes in Net Assets. Accrued salaries include $8,241,879 related to affiliated entities that was included in the non-cash transfers of net assets. The transfer of net assets, including the amounts due to/from these related parties, consisted of the following for the years ended September 30, 2018 and 2017:

	2018	*2017*
NGHS	$ (5,043,255)	$ 9,642,400
NGMC-Barrow	15,894,959	21,540,899
NGPG	56,057,710	59,483,735
NGHP	1,976,994	1,456,957
THC	29,959,054	20,226,912
	$ 98,845,462	$ 112,350,903

Other transfers of equity to/from affiliates includes approximately $1,976,000 and $1,853,000 in 2018 and 2017, respectively, related to routine operating support for the Foundation, and approximately $2,909,000 and $1,303,000 in 2018 and 2017, respectively, representing net assets released from restrictions at the Foundation for capital expenditures.

NOTE N--FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Cash and Cash Equivalents: The carrying amounts reported in the Balance Sheets for cash, cash equivalents and short-term investments approximate fair value.

Investments: Fair value of issues traded on public exchanges is based on the market price in such exchanges at year end. The fair value of other issues is also based on quoted market prices.

Assets Limited as to Use: Fair value of issues traded on public exchanges is based on the market price in such exchanges at year end. The fair value of other issues is also based on quoted market prices and other observable inputs.

Estimated Self-Insurance and Other Long-Term Liabilities: It is not practical to estimate the fair market value of estimated self-insurance liabilities due to the uncertainty of when these amounts may be paid. Deferred compensation liabilities are based on the related investments which are reported at fair value. Interest rate swaps are reported at estimated fair value based on terms and projected interest rates.

The carrying value of certain other financial instruments approximates fair value due to the nature and short-term maturities of these investments.

NOTE O--FAIR VALUE MEASUREMENTS

Generally accepted accounting principles establish a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- *Level 1:* Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

- *Level 2:* Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

- *Level 3:* Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following table presents assets and liabilities reported at fair value and their respective classification under the valuation hierarchy:

	Carrying Value	*Quoted Prices in Active Markets (Level 1)*	*Significant Other Observable Inputs (Level 2)*	*Significant Unobservable Inputs (Level 3)*
September 30, 2018				
Assets measured at fair value on a recurring basis:				
Cash and money market funds	$ 89,729,896	$ 89,729,896	$ -	$ -
Mutual funds	13,795,972	13,795,972	-	-
Government bonds	34,310,847	34,310,847	-	-
Corporate bonds	186,569,542	-	186,569,542	-
Equity securities	583,204,432	583,204,432	-	-
Interest rate swap agreements	22,596,296	-	22,596,296	-
Accrued income	1,458,323	1,458,323	-	-
Total assets	$ 931,665,308	$ 722,499,470	$ 209,165,838	$ -

	Carrying Value	*Quoted Prices in Active Markets (Level 1)*	*Significant Other Observable Inputs (Level 2)*	*Significant Unobservable Inputs (Level 3)*
Liabilities measured at fair value on a recurring basis:				
Interest rate swap agreements	$ 1,738,800	$ -	$ 1,738,800	$ -
September 30, 2017				
Assets measured at fair value on a recurring basis:				
Cash and money market funds	$ 56,365,017	$ 56,365,017	$ -	$ -
Mutual funds	11,825,342	11,825,342	-	-
Government bonds	18,300,649	18,300,649	-	-
Corporate bonds	185,741,848	-	185,741,848	-
Equity securities	576,162,413	576,162,413	-	-
Interest rate swap agreements	13,938,655	-	13,938,655	-
Other	1,010,702	1,010,702	-	-
Accrued income	1,426,257	1,426,257	-	-
Total assets	$ 864,770,883	$ 665,090,380	$ 199,680,503	$ -
Liabilities measured at fair value on a recurring basis:				
Interest rate swap agreements	$ 3,323,844	$ -	$ 3,323,844	$ -

NOTE P--COMMITMENTS AND CONTINGENCIES

NGHS construction in progress at September 30, 2018 relates primarily to ongoing projects, routine capital improvements at existing facilities, and scheduled projects related to an NGHS Development Plan to be completed over the next several years. The estimated cost to complete current construction in progress at September 30, 2018 is approximately $44,468,000, over that time frame. Cost to complete construction in progress under signed contracts at September 30, 2018 is approximately $7,944,000.

NGMC also leases medical and other equipment under various operating leases. Future minimum lease payments under these leases are not significant.

NOTE Q--SUBSEQUENT EVENTS

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued. During this period, management did not note any material recognizable subsequent events that required recognition or disclosure in the September 30, 2018 financial statements.