Certified Public Accountants

Consolidated Financial Statements

Northeast Georgia Health System, Inc. and Affiliates

Years Ended September 30, 2018 and 2017

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Consolidated Financial Statements

Years Ended September 30, 2018 and 2017

PYA
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Northeast Georgia Health System, Inc.:

We have audited the accompanying consolidated financial statements of Northeast Georgia Health System, Inc. and Affiliates (the System), which comprise the consolidated balance sheets as of September 30, 2018 and 2017, 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.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the System's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Northeast Georgia Health System, Inc. and Affiliates as of September 30, 2018 and 2017, and the results of their 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.

PYA, P.C.

Atlanta, Georgia
January 22, 2019

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Consolidated Balance Sheets

	September 30, 2018	September 30, 2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 50,620,303**	$ 23,524,525
Investments	**86,586,197**	42,098,966
Assets limited as to use, required for current obligations	**19,460,989**	15,492,004
Patient accounts receivable, less estimated allowance for uncollectible receivables of $88,815,750 in 2018 and $116,323,354 in 2017	**126,256,919**	122,353,012
Inventory of supplies	**10,047,907**	9,691,667
Other current assets	**8,562,286**	11,460,071
TOTAL CURRENT ASSETS	**301,534,601**	224,620,245
INVESTMENTS	**792,677,002**	747,772,494
ASSETS LIMITED AS TO USE		
Under indenture agreements - held by trustees	**12,614,232**	44,717,468
Under self-insurance agreements	**39,972,028**	39,568,100
By Board for designated capital purposes	**83,133,927**	78,994,894
Other	**63,739,494**	60,976,346
	199,459,681	224,256,808
Less amounts required for current obligations	**(19,460,989)**	(15,492,004)
ASSETS LIMITED AS TO USE	**179,998,692**	208,764,804
PROPERTY, PLANT AND EQUIPMENT, net	**811,949,435**	812,174,157
OTHER ASSETS		
Goodwill	**3,263,093**	3,263,093
Pension asset	**11,341,772**	-
Property held for future investment	**6,754,418**	9,264,974
Estimated fair value of interest rate swaps	**22,596,296**	13,938,655
Other	**4,060,126**	5,042,580
TOTAL OTHER ASSETS	**48,015,705**	31,509,302
TOTAL ASSETS	**$ 2,134,175,435**	$ 2,024,841,002

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Consolidated Balance Sheets - Continued

	September 30, 2018	September 30, 2017
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of long-term debt	**$ 21,706,172**	$ 20,787,049
Accrued interest	**4,557,857**	4,563,933
Accounts payable and other accrued expenses	**69,180,975**	60,601,371
Accrued salaries, benefits, compensated absences and amounts withheld	**70,852,551**	63,550,760
Estimated third-party payer settlements	**10,574,158**	10,174,503
TOTAL CURRENT LIABILITIES	**176,871,713**	159,677,616
LONG-TERM DEBT, less current portion	**986,530,405**	1,002,350,213
ESTIMATED SELF-INSURANCE LIABILITIES	**35,729,842**	32,668,860
OTHER LONG-TERM LIABILITIES		
Deferred compensation	**33,007,826**	31,630,793
Estimated fair value of interest rate swaps	**1,738,800**	3,323,844
Pension liability	**-**	23,428,138
TOTAL OTHER LONG-TERM LIABILITIES	**34,746,626**	58,382,775
TOTAL LIABILITIES	**1,233,878,586**	1,253,079,464
COMMITMENTS AND CONTINGENCIES - Notes J and P		
NET ASSETS		
Unrestricted	**879,512,270**	751,996,138
Temporarily restricted	**15,319,339**	14,486,125
Permanently restricted	**5,465,240**	5,279,275
TOTAL NET ASSETS	**900,296,849**	771,761,538
TOTAL LIABILITIES AND NET ASSETS	**$ 2,134,175,435**	$ 2,024,841,002

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Consolidated 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	**$ 1,397,190,942**	$ 1,243,695,555
Estimated provision for bad debts	**(130,622,402)**	(90,974,495)
Net patient service revenue	**1,266,568,540**	1,152,721,060
Other operating revenue	**25,745,627**	26,148,003
TOTAL OPERATING REVENUES	**1,292,314,167**	1,178,869,063
Expenses:		
Salaries and wages	**574,555,844**	529,456,255
Employee benefits	**126,553,710**	122,107,994
Physicians' fees	**17,899,234**	14,645,310
Utilities	**14,342,637**	14,030,598
Supplies	**215,950,986**	200,911,383
Legal, consulting and professional fees	**12,154,743**	7,933,273
Contracted outside services	**59,732,002**	60,478,132
Insurance	**11,164,288**	11,231,059
Interest	**37,865,438**	37,830,938
Depreciation and amortization	**87,654,729**	79,738,102
Other operating expenses	**90,527,765**	86,896,405
TOTAL OPERATING EXPENSES	**1,248,401,376**	1,165,259,449
INCOME FROM OPERATIONS	**43,912,791**	13,609,614
Nonoperating gains (losses):		
Gain from investments, net	**59,200,474**	29,889,333
Loss on advanced refunding of long-term debt	**-**	(45,413,740)
Gain (loss) on sale of property, plant and equipment, net	**1,740,705**	(201,196)
Change in estimated fair value of interest rate swaps	**10,242,685**	10,460,952
Miscellaneous, net	**(1,214,562)**	(622,690)
NET NONOPERATING GAINS (LOSSES)	**69,969,302**	(5,887,341)
EXCESS OF REVENUE AND GAINS OVER EXPENSES AND LOSSES	**113,882,093**	7,722,273

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Consolidated Statements of Operations and Changes in Net Assets - Continued

	Year Ended September 30,	
	2018	***2017***
Other changes in unrestricted net assets:		
Change in net unrealized gains/losses on investments and assets limited as to use	**(22,590,257)**	20,356,408
Pension asset/liability adjustments	**33,387,810**	14,980,573
Net assets released for capital expenditures	**2,908,838**	1,302,274
Other changes	**(72,352)**	(102,360)
TOTAL OTHER CHANGES IN UNRESTRICTED NET ASSETS	**13,634,039**	36,536,895
INCREASE IN UNRESTRICTED NET ASSETS	**127,516,132**	44,259,168
Temporarily restricted net assets:		
Contributions for equipment, education, indigent patients and community benefits	**3,868,811**	3,312,173
Partnership earnings	**111,393**	147,871
Change in estimated allowance for bad debts and discounts on pledges	**643,177**	8,928
Net assets released from restrictions	**(3,686,237)**	(2,278,653)
Other changes, net	**(103,930)**	(1,675,109)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	**833,214**	(484,790)
Permanently restricted net assets:		
Donations	**131,855**	2,500
Partnership earnings and other changes	**54,110**	1,664,645
INCREASE IN PERMANENTLY RESTRICTED NET ASSETS	**185,965**	1,667,145
INCREASE IN NET ASSETS	**128,535,311**	45,441,523
NET ASSETS, BEGINNING OF YEAR	**771,761,538**	726,320,015
NET ASSETS, END OF YEAR	**$ 900,296,849**	$ 771,761,538

Consolidated Statements of Cash Flows

	Year Ended September 30, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	**$ 128,535,311**	$ 45,441,523
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	**87,654,729**	79,738,102
(Gain) loss on sale of property, plant and equipment	**(1,740,705)**	201,196
(Gain) loss on sales of investments and assets limited as to use	**(28,479,596)**	(990,555)
Loss on advanced refunding of long-term debt	**-**	45,413,740
Pension plan adjustments	**(33,387,810)**	(14,980,573)
Change in estimated allowance for bad debts and discounts on pledges	**(643,177)**	(8,928)
Change in net unrealized gains/losses on investments and assets limited as to use	**22,590,257**	(20,356,408)
Restricted contributions	**(4,000,666)**	(3,314,673)
Change in estimated fair value of interest rate swaps	**(10,242,685)**	(10,460,952)
Changes in assets and liabilities:		
Net patient accounts receivable	**(3,903,907)**	(11,477,310)
Inventory of supplies	**(356,240)**	(1,707,932)
Other current assets	**3,540,962**	(3,334,254)
Other long-term assets	**(10,798,901)**	(634,906)
Accrued interest	**(6,076)**	(467,274)
Accounts payable and other accrued expenses, and other long-term liabilities	**29,548,971**	139,160
Accrued salaries, benefits, compensated absences and amounts withheld	**7,301,791**	3,334,121
Estimated third-party payer settlements	**399,655**	36,782
Estimated self-insurance liabilities	**3,060,982**	(30,626)
Total adjustments	**60,537,584**	61,098,710
NET CASH PROVIDED BY OPERATING ACTIVITIES	**189,072,895**	106,540,233

Consolidated Statements of Cash Flows - Continued

	Year Ended September 30, 2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	**(93,658,285)**	(138,793,618)
Proceeds from sales of property, plant and equipment	**8,672,413**	42,484
Purchases of investments and assets limited as to use	**(700,703,408)**	(455,286,256)
Proceeds from maturities and sales of investments and assets limited as to use	**641,998,135**	391,044,241
NET CASH USED IN INVESTING ACTIVITIES	**(143,691,145)**	(202,993,149)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable and long-term debt, net of issuance costs and discount	**-**	492,425,831
Payments to escrow to relieve long-term debt	**-**	(370,943,122)
Principal payments on long-term debt	**(22,286,638)**	(16,844,483)
Restricted contributions received	**4,000,666**	3,314,673
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	**(18,285,972)**	107,952,899
NET INCREASE IN CASH AND CASH EQUIVALENTS	**27,095,778**	11,499,983
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**23,524,525**	12,024,542
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 50,620,303**	$ 23,524,525
SUPPLEMENTAL INFORMATION:		
Cash paid during the year for interest	**$ 37,871,514**	$ 38,869,806
SUPPLEMENTAL SCHEDULE OF NON-CASH ACTIVITIES:		
Equipment purchases financed with capital leases	**$ 7,200,211**	$ 2,682,262
Property, plant and equipment received and accrued in payables	**$ 3,042,825**	$ 12,675,487

NOTE A--ORGANIZATION AND OPERATIONS

Northeast Georgia Health System, Inc. and its affiliates (the System) were organized to provide healthcare services to the residents of counties in northeastern Georgia.

Northeast Georgia Health System, Inc. (NGHS) serves as the parent company for its controlled affiliates described below. NGHS provides for the method of electing the Trustees and Directors for these controlled affiliates and engages in corporate planning and management, corporate financial management, corporate marketing, resource allocation to the controlled affiliates and health education programs for the general population in Northeast Georgia. All controlled affiliates are located in or near Hall County, Georgia.

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.

Effective January 1, 2017, NGHS executed an asset purchase agreement with Barrow Regional Medical Center, a 56-bed hospital located in Winder, Georgia. No debt was assumed by NGHS. A Georgia limited liability company was formed, with the System being the only member, and the hospital was renamed NGMC Barrow, LLC (NGMC-Barrow).

The Medical Center Foundation (the Foundation) manages fundraising and development activities on behalf of the System.

Northeast Georgia Physicians Group, Inc. (NGPG) was formed to improve access to healthcare services throughout the service region. NGPG employs primary care and specialty physicians.

Northeast Georgia Health Partners, LLC (NGHP) was formed as a subsidiary of NGHS to operate a preferred provider organization.

The Heart Center, LLC (THC), a Georgia limited liability company, is a cardiology physician practice. NGHS is the only member of THC.

NGHS, NGMC, the Foundation, and NGPG are organized as Georgia not-for-profit corporations and are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The income for NGMC-Barrow and THC passes through to NGHS, which is tax exempt. NGHP is organized as a for-profit corporation.

NOTE B--SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of NGHS and its controlled affiliates. All significant intercompany accounts and transactions have been eliminated in the accompanying consolidated financial statements.

Use of Estimates: The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Significant estimates include allowances for contractual adjustments and bad debts, amounts due to or from third-party payers, investment valuations, depreciable lives and impairment considerations of property, plant and equipment, goodwill, derivatives and professional and other insurance liabilities. 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: A portion of investments and assets limited as to use at September 30, 2018 and 2017 includes the System's percentage of ownership in a limited partnership investment fund (the Fund) whose primary objective is to generate a higher than average cash flow yield through investment in publicly traded equity securities. The System accounts for its investment in the Fund under the equity method of accounting with the System's share of the Fund's gains and losses, both realized and unrealized, recognized as nonoperating gains and losses.

All other investments and assets limited as to use which are not invested in the Fund 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 held by trustees under professional liability and workers' compensation self-insurance trust arrangements, assets designated by the Board for specific purposes, and assets designated by donors for specific purposes and held by the Foundation.

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.

With the exception of any identified "other-than-temporary" investment losses, unrealized gains and losses on investments and assets limited as to use which are not invested in the Fund are recorded as other changes in 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 on the basis of cost or, if donated, fair value at the date of donation. 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.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, 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 restricted support. Absent explicit donor restrictions 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.

The System 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 the System'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: The System 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 Consolidated Balance Sheets. The estimated fair value is based on amounts the System would receive or pay to enter into similar agreements at the Consolidated Balance Sheet dates. Changes in estimated fair vale are included as nonoperating gains and losses in the accompanying Consolidated 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.

Estimated Professional Liability Self-Insurance and Other Long-Term Liabilities: Self-insurance liabilities include estimated reserves for reported and unreported professional liability claims and are recorded at the estimated net present value of such claims. Other long-term liabilities include obligations under deferred compensation arrangements, a defined benefit pension plan, a post-retirement employee benefit plan, as well as other liabilities which management estimates are not payable within one year.

Excess of Revenue and Gains Over Expenses and Losses: The Consolidated Statements of Operations and Changes in Net Assets include the *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 and certain assets limited as to use, transfers of assets to and from affiliates for other than goods or services, pension liability adjustments, 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 the System are reported as operating revenues and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses.

Charity Care: NGMC, NGMC-Barrow, NGPG and THC provide care to patients who meet certain criteria under their charity care policies 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, NGMC-Barrow, NGPG and THC do 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. The System 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. The System's policy does not require collateral or other security for patient accounts receivable. The System 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 patient service revenue.

Donor Restricted Gifts: All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Unconditional promises to give are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. Unconditional promises to give are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the Consolidated Statements of Operations and Changes in Net Assets as net assets released from restrictions.

Temporarily and Permanently Restricted Net Assets: Temporarily restricted net assets are those whose use by the System has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the System in perpetuity.

Income Taxes: NGHS, NGMC, the Foundation, and NGPG are classified as organizations exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The income for NGMC-Barrow and THC passes through to NGHS, which is tax exempt. As such, no provision for income taxes has been made in the accompanying consolidated financial statements. NGHP is a taxable entity and accounts for income taxes in accordance with the Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) 740, *Income Taxes* (ASC 740). At September 30, 2018, management does not believe the System holds any uncertain tax positions that would require financial statement recognition or disclosure under ASC 740. It is the System's policy to recognize interest and/or penalties related to income tax matters as an operating expense.

Goodwill: Goodwill represents the excess purchase price over the assigned fair value of identifiable tangible assets and separately identified intangible assets acquired in the acquisition of various entities. Management annually evaluates goodwill for impairment and records any reduction in goodwill in the period such impairment is determined. Management believes no such impairment exists at September 30, 2018.

Recently Issued Accounting Principles: In May 2014, the 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 Consolidated 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	$ 4,701,721,060	$ 4,003,458,413
Less estimated contractual adjustments and discounts	(3,304,530,118)	(2,759,762,858)
Less estimated provision for bad debts	(130,622,402)	(90,974,495)
Net patient service revenue	$ 1,266,568,540	$ 1,152,721,060

Patient service revenue, net of contractual adjustments and discounts (but before the provision for bad debts), is based on a calculation which applies a ratio of total payments and actual bad debt write-offs to total patient service revenue as recorded in the Consolidated Statements of Operations and Changes in Net Assets. Patient service revenue, net of contractual adjustments 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	$ 1,302,271,652	$ 1,132,005,714
Self-pay patients	94,919,290	111,689,841
	$ 1,397,190,942	$ 1,243,695,555

Patient accounts receivable are reduced by an estimated allowance for uncollectible accounts. In evaluating the collectability of accounts receivable, NGHS 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 estimated allowance for uncollectible accounts.

The System's estimated allowance for uncollectible accounts decreased from approximately 22% of gross patient accounts receivable at September 30, 2017 to approximately 19% of gross patient accounts receivable at September 30, 2018. The System's bad debt write-offs were approximately $146,654,000 and $116,183,000 for the years ended September 30, 2018 and 2017, respectively. Amounts of charges related to charity care were approximately $237,570,000 and $179,030,000 for the years ended September 30, 2018 and 2017, respectively, which are net of indigent care trust fund proceeds of approximately $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 $60,230,000 and $50,050,000 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 the System's total expenses divided by gross patient service revenue.

In addition to the patient charity care services, the System provides a number of other services to benefit the indigent 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. The System 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 $75,490,000 and $91,464,000, respectively, related to discounts provided to self-pay patients in order to facilitate prompt payment.

NOTE D--THIRD-PARTY PAYER AGREEMENTS

The System 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 and reviews 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 the System 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. The System 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. Medicare cost reports have been audited by the Medicare fiscal intermediary through 2013 for NGMC and through 2014 for NGMC-Barrow. 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 and audits thereof by the Georgia Department of Community Health. Medicaid cost reports have been audited through 2015 for NGMC and through 2016 for NGMC-Barrow. 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, NGMC-Barrow, NGPG and THC have 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 and NGMC-Barrow also participate 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. During fiscal year 2018, NGMC-Barrow received approximately \$269,000. These amounts are included in net patient service revenue.

Net patient accounts receivable from the Medicare and the Medicaid programs were approximately 33% and 13%, respectively, of total net patient accounts receivable at September 30, 2018, and approximately 26% and 12%, respectively, of total net patient accounts receivable at September 30, 2017.

Both the federal government and the state of Georgia have established separate multi-year, multi-stage Electronic Health Record (EHR) Incentives Programs to provide incentive payments for the meaningful use of certified EHR technology by eligible providers. The federal program is administered by the Centers for Medicare and Medicaid Services (CMS) and the state program is administered by the Georgia Department of Community Health. The System has attested to meeting requirements, as defined by CMS. The System received approximately $4,000 and $211,000 during fiscal year 2018 and 2017, respectively, from CMS related to physicians attesting to achieving meaningful use of EHRs. The System has recognized those receipts as other operating revenue in the accompanying Consolidated Statement of Operations and Changes in Net Assets for the years ended September 30, 2018 and 2017. Compliance with meaningful use criteria is subject to audit by the federal government, or its designee, and incentive payments are subject to adjustment in a future period.

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 $10,992,000 and $9,644,000 relating to the Act are included in other operating expenses in the accompanying Consolidated Statement 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

The composition of assets limited as to use at September 30, 2018 and 2017, 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
Professional liability self-insurance agreement - held by trustee:		
Cash and money market funds	6,253,771	4,148,533
Government bonds	3,271,882	4,024,133
Corporate bonds	10,194,782	11,388,427
Equity securities	8,496,482	8,294,327
Accrued income	345,628	286,781
	28,562,545	28,142,201
Workers' compensation self-insurance agreement - held by trustee:		
Cash and money market funds	3,350,511	2,265,886
Government bonds	1,909,036	2,348,110
Corporate bonds	5,976,130	6,672,432
Accrued income	173,806	139,471
	11,409,483	11,425,899
Board designated for capital improvements:		
Cash and money market funds	4,719,339	2,446,001
Equity securities	78,414,588	76,548,893
	83,133,927	78,994,894
Other		
Cash and money market funds	4,894,528	2,393,297
Mutual funds	30,030,404	27,587,228
Corporate bonds	100,486	-
Government bonds	48	97
Equity securities	1,001,461	1,013,863
Limited partnership investments	24,335,361	25,739,553
Other	3,377,206	4,242,308
	63,739,494	60,976,346
	199,459,681	224,256,808

	2018	*2017*
Less assets limited as to use that are required for current obligations	(19,460,989)	(15,492,004)
	$ 179,998,692	$ 208,764,804

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

	2018	*2017*
Cash and money market funds	$ 86,586,197	$ 42,098,966
U.S. Treasury and agency obligations	34,310,799	18,300,552
Corporate bonds	174,800,221	153,204,785
Equity securities	582,202,959	575,148,548
Accrued income	1,363,023	1,118,609
	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 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 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 loss of approximately

($1,788,000) and a net unrealized gain of approximately $20,802,000 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 Consolidated 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 the System 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 the System 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 System 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 Consolidated Statements of Operations and Changes in Net Assets. The net unrestricted gain (loss) from all other investments and assets limited as to use for the years ended September 30, 2018 and 2017, was comprised of the following:

	2018	*2017*
Interest and dividend income	$ 32,070,740	$ 29,713,564
Limited partnership earnings	1,082,595	1,560,849
Net realized gains (losses)	28,479,465	990,564
Investment expense	(2,432,326)	(2,375,644)
Net investment gain	$ 59,200,474	$ 29,889,333

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 consolidated financial statements.

NOTE F--PROPERTY, PLANT AND EQUIPMENT

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

	2018	*2017*
Land	$ 60,077,392	$ 59,414,814
Land improvements	15,506,664	15,389,145
Building and building equipment	845,787,902	804,076,427
Equipment	621,292,276	548,647,257
Capital leases	16,049,448	15,683,943
Vehicles	4,595,235	4,310,544
	1,563,308,917	1,447,522,130
Less accumulated depreciation and amortization	(763,854,363)	(729,332,838)
	799,454,554	718,189,292
Construction in progress - Note P	12,494,881	93,984,865
	$ 811,949,435	$ 812,174,157

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.

Through a related entity, NGHS purchased Chestatee Regional Hospital in Lumpkin County, Georgia, in July 2018 for $4,700,000. Shortly thereafter, NGHS sold the real property to the Board of Regents of the University System of Georgia and leased the property back for a period of two years.

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
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)

	2018	2017
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)
Other notes payable at rates ranging from 1.90% to 4.15%	319,156	432,095
Capitalized leases	11,509,765	10,622,114
	1,013,573,070	1,028,659,496
Less current portion	(21,706,172)	(20,787,049)
Less issuance cost	(5,336,493)	(5,522,234)
	$ 986,530,405	$ 1,002,350,213

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 Consolidated 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, the System 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) 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, 2018. 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 at par 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 5.00% 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 Consolidated 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 unamortized original issue discounts and premiums, 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	$ 20,540,777
2020	20,683,689
2021	17,620,656
2022	16,953,799
2023	17,410,000
Thereafter	872,655,000
	$ 965,863,921

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 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 the System 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 and 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 Consolidated 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 Consolidated Balance Sheet as of September 30, 2017.

NOTE H--PENSION PLAN

The System 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, the System makes 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 latter 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 to 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, the System 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 consist of the following:

	September 30, 2018	2017
Noncurrent assets (liabilities)	$ 11,341,772	$ (23,428,138)
Net asset (liability) recognized	$ 11,341,772	$ (23,428,138)

Amounts recognized in unrestricted net assets 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 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 approximately $7,115,000 will be amortized from unrestricted net assets 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 the System. 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	$ -

The System's 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%. Management 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, the System created the Northeast Georgia Health System, Inc. 401(k) Retirement Savings Plan for substantially all employees. The Plan provides for matching contributions by the System 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 under the 401(k) Retirement Savings Plan was $13,923,593 and $12,500,965 for the years ended September 30, 2018 and 2017, respectively.

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

NOTE J--ESTIMATED LIABILITIES FOR SELF-INSURANCE

The System has established trust funds for the purpose of funding professional liability and self-insured workers' compensation 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 workers' 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. The System 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 accompanying Consolidated Balance Sheets at September 30, 2018 and 2017 consist of amounts accrued by the System related to these self-insurance programs and have not been discounted. Amounts accrued by NGHS were approximately $35,730,000 and $32,669,000 at September 30, 2018 and 2017. Operating expenses in the years ended September 30, 2018 and 2017 include $7,578,973 and $8,439,989, respectively, for professional liability and $1,476,375 and $1,492,693, respectively, for workers' compensation.

The System 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 for the years ended September 30, 2018 and 2017 include $55,612,249 and $58,719,427, 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 the System 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.

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

The System grants credit without collateral to their 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%	30%
Self-pay and other	11%	12%
	100%	100%

NOTE L--FUNCTIONAL EXPENSES

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

NOTE M--TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily and permanently restricted net assets are available for the purposes as detailed below. Permanently restricted net assets are restricted to investment in perpetuity.

	2018		*2017*	
	Temporarily Restricted	*Permanently Restricted*	*Temporarily Restricted*	*Permanently Restricted*
Cardiology funds	$ 1,741,802	$ -	$ 3,250,692	$ -
Community benefits funds	7,260,947	-	6,754,572	-
Oncology funds	1,756,474	-	1,412,014	-
Children's initiatives funds	855,486	-	657,453	-
Education funds	55,109	-	73,744	-
Equipment funds	2,498,785	-	1,240,003	-
Grants	278,628	-	245,802	-
Indigent patient funds	44,975	-	31,892	-
Scholarship funds	777,133	-	769,953	-
Nephrology fund	50,000	-	50,000	-
Wilheit-Keys Peace Garden Maintenance	-	155,100	-	155,100
The Henry S Jennings Jr MD Visiting Lectureship	-	100,000	-	-
Nell's Prayer Garden Maintenance	-	55,000	-	55,000
David Pet Park Maintenance	-	80,000	-	80,000
Jack & Janice Frost Water Garden Maintenance	-	100,000	-	100,000
Braselton Flag Plaza Maintenance	-	30,000	-	30,000
Hospice fund	-	50,629	-	50,629
Nursing & Allied Health Continuing Education fund	-	501,828	-	467,273
Nursing & Allied Health Scholarships fund	-	207,489	-	195,743
Chaplain fund	-	206,424	-	204,449
MCF endowment fund	-	2,868,665	-	2,868,665
Honorary Gift - Woody Stewart & Nancy Colston fund	-	474,238	-	441,450
Pope Family Garden Maintenance	-	100,000	-	100,000
Evelyn Waugh scholarship fund	-	52,446	-	50,546
Ocie Pope scholarship fund	-	25,822	-	25,822
Destitute patient fund	-	186,344	-	186,344
Anne Thomas scholarship fund	-	57,346	-	57,346
John Ferguson scholarship fund	-	213,909	-	210,908
	$ 15,319,339	$ 5,465,240	$ 14,486,125	$ 5,279,275

Temporarily restricted net assets which were released from donor restrictions when expenses were incurred to satisfy the restricted purposes, by the passage of time or by occurrence of events as specified by donors, for the years ended September 30, 2018 and 2017 are as follows:

	2018	*2017*
Restrictions accomplished:		
Cardiology initiatives	$ 2,529,091	$ 1,037,441
Community benefits	680,251	460,446
Children's initiatives	109,764	77,022

	2018	2017
Education	13,616	9,796
Equipment	152,386	275,761
Grants	61,822	166,065
Indigent patients	25,464	37,647
Oncology initiatives	91,799	190,626
Scholarships	22,044	23,849
Total net assets released from restrictions	$ 3,686,237	$ 2,278,653

Other operating revenue in the accompanying Consolidated Statements of Operations and Changes in Net Assets includes $777,399 and $976,379 for the years ended September 30, 2018 and 2017, respectively, representing temporarily restricted net assets released for operations.

NOTE N--FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

Investments: Fair value of issues traded on public exchanges are 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 are 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	$ 106,553,957	$ 106,553,957	$ -	$ -
Mutual funds	30,030,404	30,030,404	-	-
Government bonds	39,491,765	39,491,765	-	-
Corporate bonds	202,840,940	-	202,840,940	-
Equity securities	670,115,490	670,115,490	-	-
Interest rate swap agreements	22,596,296	-	22,596,296	-
Other	3,377,206	3,377,206	-	-
Accrued income	1,977,757	1,977,757	-	-
Total assets	$ 1,076,983,815	$ 851,546,579	$ 225,437,236	$ -
Liabilities measured at fair value on a recurring basis:				
Interest rate swap agreements	$ 1,738,800	$ -	$ 1,738,800	$ -

	Carrying Value	*Quoted Prices in Active Markets (Level 1)*	*Significant Other Observable Inputs (Level 2)*	*Significant Unobservable Inputs (Level 3)*
September 30, 2017				
Assets measured at fair value on a recurring basis:				
Cash and money market funds	$ 65,225,438	$ 65,225,438	$ -	$ -
Mutual funds	27,587,228	27,587,228	-	-
Government bonds	24,672,892	24,672,892	-	-
Corporate bonds	203,802,707	-	203,802,707	-
Equity securities	661,005,631	661,005,631	-	-
Interest rate swap agreements	13,938,655	-	13,938,655	-
Other	4,242,308	4,242,308	-	-
Accrued income	1,852,511	1,852,511	-	-
Total assets	$ 1,002,327,370	$ 784,586,008	$ 217,741,362	$ -
Liabilities measured at fair value on a recurring basis:				
Interest rate swap agreements	$ 3,323,844	$ -	$ 3,323,844	$ -

NOTE P--COMMITMENTS AND CONTINGENCIES

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

The System 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 consolidated financial statements.