ARCHBOLD MEDICAL CENTER, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

for the years ended September 30, 2018 and 2017

CONTENTS

Draffin & Tucker, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Member:
THE AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Archbold Medical Center, Inc. and Subsidiaries
Thomasville, Georgia

We have audited the accompanying consolidated financial statements of Archbold Medical Center, Inc. and Subsidiaries, which comprise the consolidated balance sheets as of September 30, 2018 and 2017, the related consolidated statements of revenue and support, expenses 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 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.

Continued

P.O. Box 71309
2617 Gillionville Road
Albany, GA 31708-1309
Tel. (229) 883-7878
Fax (229) 435-3152

Five Concourse Parkway
Suite 1250
Atlanta, GA 30328
Tel. (404) 220-8494
Fax (229) 435-3152

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 Medical Center'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 Medical Center'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 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 consolidated financial position of Archbold Medical Center, Inc. and Subsidiaries as of September 30, 2018 and 2017, and the results of its operations and changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Draffin & Tucker, LLP

Albany, Georgia
January 16, 2019

ARCHBOLD MEDICAL CENTER, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
as of September 30, 2018 and 2017

	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 76,941,971	$ 31,484,999
Assets limited as to use	5,532,586	5,211,659
Patient accounts receivable (net of allowance for doubtful accounts of $24,000,000 in 2018 and $37,000,000 in 2017)	59,001,494	59,504,934
Estimated third-party payor settlements	869,581	1,635,894
Supplies, at lower of cost and net realizable value	4,546,576	4,585,382
Other current assets	9,461,207	12,334,762
Total current assets	156,353,415	114,757,630
Assets limited as to use:		
By lease for capital acquisition	30,647,002	24,965,265
Under trust agreement for self-insurance claims	51,081,455	48,194,157
Archbold Foundation, Inc.	102,036,741	97,703,380
Permanently restricted by donors	1,973,758	4,335,125
Under bond indenture agreement	-	6,871
	185,738,956	175,204,798
Less amount required to meet current obligations	5,532,586	5,211,659
Noncurrent assets limited as to use	180,206,370	169,993,139
Property and equipment, net	228,074,434	241,522,034
Other assets:		
Long-term investments	230,370,984	206,874,018
Investments in unconsolidated companies	1,495,133	1,495,133
Other noncurrent assets	3,189,516	3,093,887
Total other assets	235,055,633	211,463,038
Total assets	$ 799,689,852	$ 737,735,841

Continued

	2018	2017
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt	$ 5,785,000	$ 2,010,000
Accounts payable	9,915,489	12,571,725
Estimated third-party payor settlements	8,762,900	5,737,814
Accrued expenses:		
Salaries and compensation	15,485,931	14,643,161
Employee benefits	10,918,234	10,108,143
Malpractice and general	5,532,586	5,211,659
Other	3,246,530	2,027,411
Total current liabilities	59,646,670	52,309,913
Accrued malpractice and general, net of current portion	12,898,556	14,505,021
Long-term debt, net of current installments:		
Revenue certificates payable	108,198,847	113,937,689
Total liabilities	180,744,073	180,752,623
Net assets:		
Unrestricted	616,972,021	552,648,093
Permanently restricted	1,973,758	4,335,125
Total net assets	618,945,779	556,983,218
Total liabilities and net assets	$ 799,689,852	$ 737,735,841

The independent auditor’s report and accompanying notes are integral parts of these financial statements.

ARCHBOLD MEDICAL CENTER, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF REVENUE AND SUPPORT, EXPENSES AND CHANGES IN NET ASSETS
for the years ended September 30, 2018 and 2017

	2018	2017
Unrestricted revenues, gains, and other support:		
Patient service revenue (net of contractual allowances and discounts)	$ 435,624,538	$ 426,530,929
Provision for bad debts	(65,840,586)	(58,929,428)
Net patient service revenue	369,783,952	367,601,501
Other operating revenue	8,068,715	3,103,402
Total revenues, gains and other support	377,852,667	370,704,903
Operating expenses:		
Salaries and wages	139,926,910	135,356,012
Employee health and welfare	30,616,605	33,176,431
Professional fees	42,194,783	44,082,406
Supplies and other	116,697,512	117,083,192
Depreciation	27,823,400	27,335,915
Interest and amortization	2,892,733	4,343,600
Total operating expenses	360,151,943	361,377,556
Operating income	17,700,724	9,327,347
Nonoperating income (loss):		
Investment income	8,047,816	8,119,244
Archbold Foundation, Inc.	1,988,613	7,562,377
Loss on disposal of assets and other	(941,186)	(101,151)
Loss on extinguishment of debt	-	(9,801,609)
Gain on sale of dialysis centers	28,337,995	-
Total nonoperating income	37,433,238	5,778,861

Continued

ARCHBOLD MEDICAL CENTER, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF REVENUE AND SUPPORT, EXPENSES AND CHANGES IN NET ASSETS, Continued
for the years ended September 30, 2018 and 2017

	2018	2017
Unrestricted net assets:		
Excess of revenues	$ 55,133,962	$ 15,106,208
Change in net unrealized gains (losses) on investments other than trading securities	4,016,559	(299,070)
Net assets released from restrictions	2,612,431	-
Grants and donations for purchase of property and equipment	2,560,976	2,365,804
Increase in unrestricted net assets	64,323,928	17,172,942
Permanently restricted net assets:		
Change in net realized and unrealized gains on investments	251,064	536,787
Net assets released from restrictions	(2,612,431)	-
Increase (decrease) in permanently restricted net assets	(2,361,367)	536,787
Increase in net assets	61,962,561	17,709,729
Net assets, beginning of year	556,983,218	539,273,489
Net assets, end of year	$ 618,945,779	$ 556,983,218

The independent auditor’s report and accompanying notes are integral parts of these financial statements.

ARCHBOLD MEDICAL CENTER, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
for the years ended September 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ 61,962,561	$ 17,709,729
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net unrealized gains and losses on investments other than trading securities	(4,016,559)	299,070
Grants and donations for purchase of property and equipment	(2,560,976)	(2,365,804)
Loss on disposal of assets and other	941,186	101,151
Gain on sale of dialysis centers	(28,337,995)	-
Net realized and unrealized gains and losses on permanently restricted investments	(251,064)	(536,787)
Depreciation	27,823,400	27,335,915
Amortization	46,158	-
Forgiveness of physician notes receivable	1,063,940	932,408
Provision for bad debts	65,840,586	58,929,428
Loss on extinguishment of debt	-	9,801,609
(Increase) decrease in:		
Accounts receivable	(65,337,146)	(55,653,589)
Inventory and other current assets	2,912,361	(5,985,829)
Pledges receivable	(1,427,778)	(1,095,579)
Other noncurrent assets	(1,159,569)	(887,380)
Increase (decrease) in:		
Accounts payable	(2,656,236)	1,856,024
Accrued liabilities	1,586,442	648,361
Estimated third-party payor settlements	3,791,399	(3,245,290)
Net cash provided by operating activities	60,220,710	47,843,437
Cash flows from investing activities:		
Capital expenditures	(15,559,587)	(18,940,674)
Proceeds from the sale of assets and dialysis centers, net	28,580,596	-
Proceeds from sales of investments	95,548,314	20,464,767
Purchases of investments	(123,884,037)	(58,206,619)
Net cash used by investing activities	(15,314,714)	(56,682,526)

Continued

CONSOLIDATED STATEMENTS OF CASH FLOWS, Continued
for the years ended September 30, 2018 and 2017

	2018	2017
Cash flows from financing activities:		
Issuance of long-term debt	$ -	$ 115,947,689
Payments on long-term debt	(2,010,000)	(125,966,935)
Proceeds from restricted contributions	2,560,976	2,365,804
Net cash provided (used) by financing activities	550,976	(7,653,442)
Net increase (decrease) in cash and cash equivalents	45,456,972	(16,492,531)
Cash and cash equivalents, beginning of year	31,484,999	47,977,530
Cash and cash equivalents, end of year	$ 76,941,971	$ 31,484,999
Interest paid, net of capitalized interest	$ 2,801,857	$ 6,375,122

The independent auditor's report and accompanying notes are integral parts of these financial statements.

1. Description of Organization and Summary of Significant Accounting Policies

Organization

Archbold Medical Center, Inc. (Medical Center) as the parent corporation has sole control over its nonprofit subsidiaries, John D. Archbold Memorial Hospital, Inc., Archbold Health Services, Inc., Archbold Foundation, Inc., Archbold Medical Group, Inc. and sole ownership of its for-profit subsidiary, Archbold Medical Enterprises, Inc. John D. Archbold Memorial Hospital, Inc. operates John D. Archbold Memorial Hospital, Grady General Hospital, Brooks County Hospital, and Mitchell County Hospital and Nursing Homes. Archbold Health Services, Inc. provides facilities and support for home health care and ambulatory health care services. Archbold Foundation, Inc. (Foundation) solicits contributions and manages funds for the benefit of John D. Archbold Memorial Hospital, Inc. and Archbold Health Services, Inc. Archbold Medical Group, Inc. employs physicians and other support personnel to provide comprehensive health care services essential to the prevention and treatment of disease for the benefit of all individuals in the service area.

The consolidated financial statements include the accounts of Archbold Medical Center, Inc. and its wholly controlled or owned subsidiaries for the years ended September 30, 2018 and 2017. Significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include certificates of deposit and investments in highly liquid debt instruments with original maturities of three months or less, excluding amounts whose use is limited by board designation or other arrangements under trust agreements or with third-party payors.

Continued

1. Description of Organization and Summary of Significant Accounting Policies, Continued

Allowance for Doubtful Accounts

Accounts receivable is reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Medical Center analyzes a variety of information for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, the Medical Center provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectibles, deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with non-contract and self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Medical Center records a provision for bad debts equal to the receivable in the period of service, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected, after all reasonable collection efforts have been exhausted, is charged off against the allowance for doubtful accounts.

The Medical Center's allowance for doubtful accounts for self-pay patients was approximately 95% of self-pay accounts receivable at September 30, 2018 and 2017. The Medical Center's provision for bad debts increased from approximately $58,929,000 for 2017 to approximately $65,841,000 for 2018. The increase in bad debt write-offs is a result of a change in the bad debt policy in which accounts are being written off sooner. The Medical Center does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write-offs from third-party payors.

Continued

1. Description of Organization and Summary of Significant Accounting Policies, Continued

Investments and Investment Income

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in excess of revenues unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from excess of revenues unless the investments are trading securities.

Investments in unconsolidated companies represent the Medical Center's participation in joint ventures and partnerships, which are accounted for on the equity method.

Assets Limited as to Use

Assets limited by a lease agreement for capital acquisition include cash and investments to be used for future capital improvements to Grady General Hospital.

Assets under trust agreement for liability claims include cash and investments for payment of malpractice and general liability claims incurred by the Medical Center.

The Foundation represents funds and pledges receivable which can be used, at the discretion of the Board of Trustees, to support the activities of the Hospitals and Archbold Health Services.

Permanently restricted assets include investments to be held in perpetuity, the income of which is expendable to support health care services. During fiscal year 2018, certain assets were released from restrictions from the donor due to the specified purposes no longer being applicable.

Assets under bond indenture agreement include unspent bond proceeds and debt service reserve fund requirements by the 2010 Revenue Anticipation Certificates.

Amounts required to meet certain liabilities of the Medical Center have been reclassified in the balance sheet at September 30, 2018 and 2017.

Continued

1. Description of Organization and Summary of Significant Accounting Policies, Continued

Property and Equipment

Property and equipment acquisitions are recorded at cost. Property and equipment donated for hospital operations are recorded at fair value as additions to the unrestricted net assets when the assets are placed in service.

Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligation is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation in the consolidated financial statements.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from excess of revenues, 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 stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Impairment of Long-Lived Assets

The Medical Center evaluates on an ongoing basis the recoverability of its assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is required to be recognized if the carrying value of the asset exceeds the undiscounted future net cash flows associated with that asset. The impairment loss to be recognized is the amount by which the carrying value of the long-lived asset exceeds the asset's fair value. In most instances, the fair value is determined by discounted estimated future cash flows using an appropriate interest rate. The Medical Center has not recorded any impairment charges in the accompanying consolidated statements of revenue and support, expenses and changes in net assets for the years ended September 30, 2018 and 2017.

Cost of Borrowing

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

Continued

1. Description of Organization and Summary of Significant Accounting Policies, Continued

Deferred Financing Cost

Costs related to the issuance of long-term debt were deferred and are being amortized using the effective interest method over the life of the related debt. These costs are reported on the consolidated balance sheets as a direct deduction from the carrying amount of the related debt liability.

Permanently Restricted Net Assets

Permanently restricted net assets have been restricted by donors to be maintained by the Medical Center in perpetuity. During fiscal year 2018, certain assets were released from restrictions from the donor due to the specified purposes no longer being applicable.

Excess of Revenues

The consolidated statements of revenue and support, expenses and changes in net assets include excess of revenues. Changes in unrestricted net assets which are excluded from excess of revenues, consistent with industry practice, include unrealized gains and losses on investments other than trading securities and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

Patient Service Revenue

Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. 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.

Charity Care

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

Continued

1. Description of Organization and Summary of Significant Accounting Policies, Continued

Endowments

Endowments are provided to the Medical Center on a voluntary basis by individuals and private organizations. Permanent endowments require that the principal or purchasing power of the endowment be retained in perpetuity. If a donor has not provided specific instructions, state law permits the Medical Center's Board of Trustees to authorize for expenditure the net appreciation of the investments of endowment funds.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Medical Center are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as 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 revenue and support, expenses and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

Estimated Malpractice and Other Self-Insurance Costs

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

Income Taxes

The Medical Center, with the exception of Archbold Medical Enterprises, Inc., is a not-for-profit corporation that has been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code.

The Medical Center applies accounting policies that prescribe when to recognize and how to measure the consolidated financial statement effects of income tax positions taken or expected to be taken on its income tax returns. These rules require management to evaluate the likelihood that, upon examination by the relevant taxing jurisdictions, those income tax

Continued

1. Description of Organization and Summary of Significant Accounting Policies, Continued

Income Taxes, Continued

positions would be sustained. Based on that evaluation, the Medical Center only recognizes the maximum benefit of each income tax position that is more than 50% likely of being sustained. To the extent that all or a portion of the benefits of an income tax position are not recognized, a liability would be recognized for the unrecognized benefits, along with any interest and penalties that would result from disallowance of the position. Should any such penalties and interest be incurred, they would be recognized as operating expenses.

Based on the results of management's evaluation, no liability is recognized in the accompanying consolidated balance sheets for unrecognized income tax positions. Further, no interest or penalties have been accrued or charged to expense as of September 30, 2018 and 2017 or for the years then ended. The Medical Center's tax returns are subject to possible examination by the taxing authorities. For federal income tax purposes, the tax returns essentially remain open for possible examination for a period of three years after the respective filing deadlines of those returns.

Fair Value Measurements

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

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

- *Level 1:* Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets and liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

- *Level 2:* Observable prices that are based on inputs not quoted on active markets but corroborated by market data.

- *Level 3:* Unobservable inputs when there is little or no market data available, thereby requiring an entity to develop its own assumptions. The fair value hierarchy gives the lowest priority to Level 3 inputs.

Continued

1. Description of Organization and Summary of Significant Accounting Policies, Continued

Accounting Pronouncement Not Yet Adopted

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This comprehensive standard provides guidance on net asset classification and required disclosures on liquidity and availability of resources, requires expanded disclosure about expense and investment returns, and eliminates the requirement to present or disclose the indirect method reconciliation if using the direct method when presenting cash flows. The standard is effective for annual periods beginning after December 15, 2017. The Medical Center expects to adopt the new guidance for the year ending September 30, 2019 and is continuing to evaluate the impact the guidance will have on the financial statements.

Prior Year Reclassifications

Certain reclassifications have been made to the fiscal year 2017 consolidated financial statements to conform to the fiscal year 2018 presentation. These reclassifications had no impact on the change in net assets in the accompanying consolidated financial statements.

Subsequent Event

In preparing these consolidated financial statements, the Medical Center has evaluated events and transactions for potential recognition or disclosure through January 16, 2019, the date the consolidated financial statements were available to be issued.

2. Patient Service Revenue

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. The Medical Center does not believe that there are any significant credit risks associated with receivables due from third-party payors. A summary of the payment arrangements with major third-party payors follows:

- Medicare

  Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries by John D. Archbold Memorial Hospital and Grady General Hospital are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient acute and nonacute care services and outpatient services rendered to Medicare program beneficiaries by Brooks County Hospital and Mitchell County Hospital are paid based on a cost reimbursement methodology.

Continued

2. Patient Service Revenue, Continued

- Medicare, Continued

Inpatient rehabilitation services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge.

Inpatient psychiatric services rendered to Medicare program beneficiaries are paid at prospectively determined per diems.

Nursing Home services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system called Resource Utilization Groups (RUGs).

The Medical Center is reimbursed for certain reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicare Administrative Contractor (MAC). The Medical Center's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Medical Center. All hospital Medicare cost reports have been audited by the MAC through September 30, 2014.

Revenue from the Medicare program accounted for approximately 35% and 34% of the Medical Center’s patient service revenue for the years ended 2018 and 2017. Laws and regulations governing the Medicare program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Estimated reimbursement amounts are adjusted in subsequent periods as cost reports are prepared and filed and as final settlements are determined.

The Medical Center believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. However, there has been an increase in regulatory initiatives at the federal level including the initiation of the Recovery Audit Contractor (RAC) program. The RAC program was created to review Medicare claims for medical necessity and coding appropriateness. The RAC’s have authority to pursue improper payments with a three year look back from the date the claim was paid. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties and exclusion from the Medicare program.

Continued

2. Patient Service Revenue, Continued

- Medicaid

  Inpatient acute care services rendered to Medicaid program beneficiaries are paid at a prospectively determined rate per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Outpatient services rendered to the Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology.

  The Medical Center is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicaid fiscal intermediary. All hospital Medicaid cost reports have been audited by the Medicaid fiscal intermediary through September 30, 2015.

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

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

  Revenue from the Medicaid program accounted for approximately 7% of the Medical Center’s patient service revenue for the years ended 2018 and 2017.

  Laws and regulations governing the Medicaid program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Estimated reimbursement amounts are adjusted in subsequent periods as cost reports are prepared and filed and as final settlements are determined.

  The hospitals within the Medical Center participate in the Georgia Indigent Care Trust Fund (ICTF) Program. The hospitals receive ICTF payments for treating a disproportionate number of Medicaid and other indigent patients. ICTF payments are based on the hospitals’ estimated uncompensated cost of services to Medicaid and uninsured patients. The amount of ICTF payments recognized in net patient service revenue was approximately $3,153,000 and $3,580,000 for the years ended September 30, 2018 and 2017, respectively.

Continued

2. Patient Service Revenue, Continued

- Medicaid, Continued

The Medicare, Medicaid and SCHIP Benefits Improvement and Protection Act of 2000 (BIPA) provides for payment adjustments to certain facilities based on the Medicaid Upper Payment Limit (UPL). The UPL payment adjustments are based on a measure of the difference between Medicaid payments and the amount that could be paid based on Medicare payment principles. The net amount of UPL payment adjustments recognized in net patient service revenue was approximately $4,601,000 and $3,258,000 for the years ended September 30, 2018 and 2017, respectively.

During 2010, the state of Georgia enacted legislation known as the Provider Payment Agreement Act (Act) whereby hospitals in the state of Georgia are assessed a "provider payment" in the amount of 1.45% of their net patient service revenue. The Act became effective July 1, 2010, the beginning of state fiscal year 2011. The provider payments are due on a quarterly basis to the Department of Community Health. The payments are to be used for the sole purpose of obtaining federal financial participation for medical assistance payments to providers on behalf of Medicaid recipients. The provider payment results in an increase in payments for Medicaid services to hospitals of approximately 11.88%. Approximately $4,883,000 and $4,638,000 of provider payments relating to the Act are included in supplies and other expenses in the accompanying consolidated statements of revenue and support, expenses and changes in net assets for the years ended September 30, 2018 and 2017, respectively.

The Medical Center believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. However, there has been an increase in regulatory initiatives at the state level including the initiation of the Medicaid Integrity Contractor (MIC) program. This program was created to review Medicaid claims for medical necessity and coding appropriateness. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties and exclusion from the Medicaid program.

- Other Arrangements

The Medical Center has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Medical Center under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Continued

2. Patient Service Revenue, Continued

- Uninsured Patients

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

The Medical Center recognizes patient service revenue associated with services provided to patients who have third-party coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Medical Center recognizes revenue on the basis of its agreed upon rates for services provided. On the basis of historical experience, a significant portion of the Medical Center's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Medical Center records a provision for bad debts equal to charges related to uninsured patients in the period the services are provided.

Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows:

	Patient Service Revenue (Net of Contractual Allowances and Discounts)				
	Medicare	Medicaid	Third-Party Payors	Self-Pay	Total All Payors
2018	$ 152,395,387	$ 30,728,773	$ 184,067,705	$ 68,432,673	$ 435,624,538
2017	$ 146,417,294	$ 27,743,599	$ 191,226,161	$ 61,143,875	$ 426,530,929

Continued

3. Concentrations of Credit Risk

The Medical Center grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors, net of contractual adjustments and estimated uncollectibles, at September 30, 2018 and 2017 was as follows:

	2018	2017
Medicare	39%	43%
Medicaid	19%	18%
Other third-party payors	42%	39%
Total	100%	100%

Concentrations of credit risk with respect to accounts receivable are limited due to the large number of patients comprising the receivables base.

The Medical Center maintains deposits/investments with financial institutions in excess of amounts insured. Management believes the credit risks related to these deposits/investments are minimal.

4. Investments

Assets Limited as to Use

The composition of assets limited as to use at September 30, 2018 and 2017 is set forth in the following table. Investments are stated at fair value.

	2018	2017
By lease for capital acquisition (other than trading):		
Cash and cash equivalents	$ 10,605,256	$ 14,206,700
Certificates of deposit	9,055,535	5,187,997
Mutual funds	3,752,045	1,481,314
U.S. corporate bonds	1,774,825	-
Municipal bonds	310,300	327,598
Federal agency bonds	3,040,772	3,506,920
U.S. Treasury securities	2,108,269	254,736
Total	30,647,002	24,965,265

Continued

4. Investments, Continued

Assets Limited as to Use, Continued

	2018	2017
Under trust agreement for liability claims (trading):		
Cash and cash equivalents	$ 1,739,535	$ 803,027
Mutual funds	25,711,756	25,393,537
U.S. corporate bonds	2,644,826	2,037,565
Federal agency bonds	627,053	3,139,869
U.S. Treasury securities	3,432,128	1,571,857
U.S. equity securities	16,926,157	15,248,302
Total	51,081,455	48,194,157
Archbold Foundation, Inc.:		
Investment portfolios (trading):		
Cash and cash equivalents	990,100	925,449
Mutual funds	71,545,921	69,579,251
U.S. Treasury securities	4,270,335	5,007,693
U.S. equity securities	4,896,679	4,293,439
Alternative investments	11,377,102	11,191,730
Limited partnership	3,913,170	3,524,727
	96,993,307	94,522,289
Cash and cash equivalents	1,696,018	1,261,453
Pledges receivable	3,347,416	1,919,638
Total	102,036,741	97,703,380
Permanently restricted by donors (other than trading):		
Cash and cash equivalents	54,867	277,146
Certificates of deposit	50,000	-
Mutual funds	284,484	437,486
U.S. equity securities	1,584,407	3,620,493
Total	1,973,758	4,335,125
Under bond indenture agreement (other than trading):		
Cash and cash equivalents	-	6,871
Total assets limited as to use	$ 185,738,956	$ 175,204,798

Continued

4. Investments, Continued

Long-Term Investments

Long-term investments, stated at fair value, at September 30, 2018 and 2017, include:

	2018	2017
Other than trading:		
Cash and cash equivalents	$ 216,728	$ 828,791
Certificates of deposit	19,402,926	14,182,056
Mutual funds	84,960,773	46,342,936
U.S. corporate bonds	29,932,826	8,928,897
Municipal bonds	1,635,793	3,629,958
Federal agency bonds	92,923,146	132,029,220
U.S. equity securities	1,298,792	932,160
Total long-term investments	$ 230,370,984	$ 206,874,018

Investment income and gains (losses) for cash equivalents, assets limited as to use, and long-term investments are comprised of the following for the years ended September 30, 2018 and 2017:

	2018	2017
Income:		
Interest and dividend income	$ 6,265,564	$ 5,505,970
Realized gains on sales of securities	2,937,380	1,492,629
Unrealized gains on trading securities	3,341,164	10,787,630
Total income	$ 12,544,108	$ 17,786,229
Other changes in unrestricted net assets:		
Unrealized gains (losses) on investments other than trading securities	$ 4,016,559	$(299,070)

Continued

4. Investments, Continued

Long-Term Investments, Continued

The following table provides a summary of the Medical Center's investments as of September 30, 2018 and 2017 for which the cost basis of securities exceeds fair value, aggregated by investment category and length of time individual securities have been in a continuous unrealized loss position:

	September 30, 2018					
	Less Than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Certificates of deposit	$ 20,468,471	$(149,529)	$ 3,389,784	$(35,216)	$ 23,858,255	$(184,745)
Mutual funds	8,609,109	(301,413)	1,729,753	(30,900)	10,338,862	(332,313)
Corporate bonds	24,640,199	(399,274)	7,056,151	(261,846)	31,696,350	(661,120)
Municipal bonds	1,635,793	(81,890)	208,814	(12,184)	1,844,607	(94,074)
Federal agency bonds	88,896,104	(4,090,614)	2,346,616	(109,463)	91,242,720	(4,200,077)
Marketable securities	237,762	(21,635)	75,818	(6,162)	313,580	(27,797)
Total	$ 144,487,438	$(5,044,355)	$ 14,806,936	$(455,771)	$ 159,294,374	$(5,500,126)

	September 30, 2017					
	Less Than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Certificates of deposit	$ 8,657,311	$(40,689)	$ 748,432	$(1,568)	$ 9,405,743	$(42,257)
Mutual funds	1,005,422	(10,478)	2,471,549	(28,451)	3,476,971	(38,929)
Corporate bonds	7,398,306	(21,311)	-	-	7,398,306	(21,311)
Municipal bonds	3,325,586	(72,360)	-	-	3,325,586	(72,360)
Federal agency bonds	84,534,545	(612,205)	37,845,559	(705,482)	122,380,104	(1,317,687)
Marketable securities	399,188	(36,219)	354,844	(65,288)	754,032	(101,507)
Total	$ 105,320,358	$(793,262)	$ 41,420,384	$(800,789)	$ 146,740,742	$(1,594,051)

Management evaluates securities for other-than temporary impairment at least on an annual basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Medical Center to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At September 30, 2018, the 252 debt securities with unrealized losses have depreciated 3.5% from the Medical Center's amortized cost basis. The majority of these securities are either guaranteed by the U. S. Government or other governments.

Continued

4. Investments, Continued

Long-Term Investments, Continued

Corporate Bonds, Municipal Bonds, Federal Agency Bonds: The unrealized losses on the Medical Center's investment in bonds relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities until maturity, or for the foreseeable future, no declines are deemed to be other-than-temporary.

Marketable Securities, Mutual Funds: The Medical Center's investments in marketable securities and mutual funds consist primarily of investments in common stock. Based on the Medical Center's evaluation of the common stock and their ability and intent to hold those investments for a reasonable period of time sufficient for a forecasted recovery of fair value, no declines are deemed to be other-than-temporary.

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

5. Property and Equipment

A summary of property and equipment at September 30, 2018 and 2017 follows:

	2018	2017
Land	$ 9,066,514	$ 8,995,319
Land improvements	6,164,018	6,164,248
Buildings	153,231,775	153,061,952
Fixed equipment	130,688,374	130,785,180
Major movable equipment	204,205,402	198,174,245
Leasehold improvements	23,310,177	23,003,033
	526,666,260	520,183,977
Less accumulated depreciation and amortization	301,707,256	279,762,947
	224,959,004	240,421,030
Construction-in-progress	3,115,430	1,101,004
Property and equipment, net	$ 228,074,434	$ 241,522,034

Continued

5. Property and Equipment, Continued

Depreciation expense for the years ended September 30, 2018 and 2017 amounted to approximately $27,823,000 and $27,336,000, respectively.

6. Long-Term Debt

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

	2018	2017
Revenue Certificates, Series 2017A maturing in installments of $545,000 to $2,175,000 each November 1 beginning in 2031 until 2040. The certificates are secured by gross revenue and bear a variable interest rate.	$ 17,985,000	$ 17,985,000
Revenue Certificates, Series 2017B maturing in installments of $2,065,000 to $2,475,000 each November 1 beginning in 2018 until 2024. The certificates are secured by gross revenue and bear a variable interest rate.	13,425,000	15,435,000
Revenue Certificates, Series 2017C maturing in installments of $3,720,000 to $7,270,000 each November 1 beginning in 2019 until 2033. The certificates are secured by gross revenue and bear a fixed interest rate of 3.01%.	82,750,000	82,750,000
	114,160,000	116,170,000
Less current installments	5,785,000	2,010,000
	108,375,000	114,160,000
Less unamortized bond issuance costs	176,153	222,311
Long-term debt, net of current installments	$ 108,198,847	$ 113,937,689

On July 12, 2017, the Medical Center issued $17,985,000 of Series 2017A Revenue Certificates for the purpose of refunding the outstanding 2013A Series, $15,435,000 of Series 2017B Revenue Certificates for the purpose of refunding the outstanding 2013B Series, and $82,750,000 of Series 2017C Revenue Certificates for the purpose of defeasing the outstanding 2010 Series. The Revenue Certificates are privately placed with BB&T Community Holdings Co. Under the terms of an escrow agreement, the 2017C Revenue Certificate amounts received have been deposited into an irrevocable escrow and invested in United States treasury notes in order to redeem the remaining 2010 Series Certificates on November 2, 2020.

Continued

6. Long-Term Debt, Continued

The difference between the reacquisition price and the net carrying amount, $9,801,609, was recognized as a loss on defeasance on the Medical Center's statements of revenue and support, expenses and changes in net assets as nonoperating income (loss) in 2017.

The terms of the 2017 revenue certificates place limits on the incurrence of additional borrowings and require that the Medical Center satisfy certain measures of financial performance as long as the notes are outstanding.

Scheduled principal repayments on long-term debt for the next five years are as follows:

Year Ending September 30th	Amount
2019	$ 5,785,000
2020	5,890,000
2021	5,990,000
2022	6,100,000
2023	6,210,000
Thereafter	84,185,000
Total	$ 114,160,000

7. Permanently Restricted Net Assets

Permanently restricted net assets at September 30, 2018 and 2017 are restricted to:

	2018	2017
Investments to be held in perpetuity, the income from which is expendable to support health care services	$ 1,973,758	$ 4,335,125

Endowment Fund

The Medical Center's donor-restricted endowment fund was established to support health care services. As required by generally accepted accounting principles, net assets associated with the endowment fund are classified and reported based on the existence or absence of donor-imposed restrictions.

Continued

7. Permanently Restricted Net Assets, Continued

Endowment Fund, Continued

The Board of Trustees of the Medical Center has interpreted the Georgia Uniform Prudent Management of Institutional Funds Act (GUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Medical Center classifies as permanently restricted net assets (a) the original value of its gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with GUPMIFA, the Medical Center considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Medical Center, and (7) the Medical Center’s investment policies.

The Medical Center has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets over the long term. Endowment assets include assets of donor-restricted funds that the Medical Center must hold in perpetuity. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce positive results while assuming a moderate level of investment risk. The Medical Center expects its endowment fund, over time, to provide an average rate of return of approximately 3.5% annually. Actual results in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund. Investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk. The Medical Center’s current spending policy is to reinvest the earnings into the existing endowment investments.

During fiscal year 2018, certain assets were released from restrictions from the donor due to the specified purposes no longer being applicable.

Continued

7. Permanently Restricted Net Assets, Continued

Endowment Fund, Continued

Changes in endowment net assets as of September 30, 2018 and 2017 are as follows:

	Permanently Restricted Endowment Assets	
	2018	2017
Endowment net assets, beginning of year	$ 4,335,125	$ 3,798,338
Net assets released from restrictions	(2,612,431)	-
Investment income	251,064	536,787
Endowment net assets, end of year	$ 1,973,758	$ 4,335,125

8. Uncompensated Services

The Medical Center was compensated for services at amounts less than its established rates. Charges for uncompensated services for 2018 and 2017 were approximately $650,389,000 and $689,170,000, respectively.

The following is a summary of uncompensated services and a reconciliation of gross patient charges to net patient service revenue for 2018 and 2017:

	2018	2017
Gross patient charges	$ 1,020,172,823	$ 1,056,771,799
Uncompensated services:		
Charity and indigent care	35,423,908	38,295,087
Medicare	420,901,503	452,166,017
Medicaid	88,749,867	99,248,019
Other	39,473,007	40,531,747
Bad debts	65,840,586	58,929,428
Total uncompensated care	650,388,871	689,170,298
Net patient service revenue	$ 369,783,952	$ 367,601,501

Continued

8. Uncompensated Services, Continued

Uncompensated care includes charity and indigent care services of approximately $35,424,000 and $38,295,000 in 2018 and 2017, respectively. The cost of charity and indigent care services provided during 2018 and 2017 was approximately $14,792,000 and $15,231,000, respectively, computed by applying a total cost factor to the charges foregone.

9. Functional Expenses

The Medical Center provides general health care services primarily to residents within its geographic location. Expenses related to providing these services are as follows:

	2018	2017
Health care services	$ 207,652,937	$ 220,731,604
Administrative and general	152,499,006	140,645,952
Total	$ 360,151,943	$ 361,377,556

10. Employee Thrift Savings Plan

The Medical Center has a defined contribution pension plan covering substantially all employees. Each year, participants may contribute up to 100% of pretax annual compensation as defined in the Plan, subject to Internal Revenue Code limitations. For participants who have completed one year of service, the Medical Center makes matching contributions on 50% of the first 4% of employee contributions. Matching contribution expenses for the Plan amounted to approximately $1,625,000 and $1,477,000 in 2018 and 2017, respectively. Discretionary contributions may be contributed at the option of the Medical Center's Board. Discretionary contribution expenses for the Plan amounted to approximately $1,764,000 and $2,168,000 in 2018 and 2017, respectively.

11. Self-Insurance – Employee Health Plan

The Medical Center has a self-insurance program for employee health claims, in which the Medical Center processes and pays claims. The Medical Center has purchased stop-loss insurance coverage for claims in excess of $225,000 for each individual employee. Total expenses relative to this plan were approximately $15,481,000 and $16,896,000 for 2018 and 2017, respectively.

Continued

12. Fair Values of Financial Instruments

The following methods and assumptions were used by the Medical Center in estimating the fair value of its financial instruments:

- *Cash and cash equivalents, accounts payable, accrued expenses, and estimated third-party payor settlements:* The carrying amount reported in the consolidated balance sheets approximates its fair value due to the short-term nature of these instruments.

- *Assets limited as to use and long-term investments:* Amounts reported in the consolidated balance sheets are at fair value.

- *Long-term debt:* The fair value of the Medical Center's fixed rate long-term debt is estimated using discounted cash flow analyses, based on current incremental borrowing rates. The remaining long-term debt carrying amount approximates its fair value. Based on inputs used in determining the estimated fair value, the Medical Center's long-term debt would be classified as Level 2 in the fair value hierarchy.

The carrying amounts and fair values of the Medical Center's long-term debt at September 30, 2018 and 2017 are as follows:

	2018		2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	$ 114,160,000	$ 110,226,512	$ 116,170,000	$ 116,170,000

Continued

12. Fair Values of Financial Instruments, Continued

Fair values of assets measured on a recurring basis at September 30, 2018 and 2017 are as follows:

		Fair Value Measurements at Reporting Date Using		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2018				
Assets:				
Cash and cash equivalents	$ 15,302,504	$ 15,302,504	$ -	$ -
Certificates of deposit	28,508,461	-	28,508,461	-
Mutual funds – fixed income	30,451,861	30,451,861	-	-
Mutual funds – equity	155,803,118	155,803,118	-	-
U.S. corporate bonds	34,352,477	-	34,352,477	-
Municipal bonds	1,946,093	1,946,093	-	-
Federal agency bonds	96,590,971	96,590,971	-	-
Fixed income securities – U.S. Treasuries	9,810,732	9,810,732	-	-
American depository receipts – consumer staples	298,924	298,924	-	-
American depository receipts – energy	300,432	300,432	-	-
American depository receipts – healthcare	322,178	322,178	-	-
American depository receipts – industrials	295,647	295,647	-	-
American depository receipts – information technology	565,915	565,915	-	-
Marketable securities – consumer discretionary	2,360,109	2,360,109	-	-

Continued

12. Fair Values of Financial Instruments, Continued

		Fair Value Measurements at Reporting Date Using		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2018				
Assets, continued:				
Marketable securities – consumer staples	$ 1,739,603	$ 1,739,603	$ -	$ -
Marketable securities – energy	1,342,531	1,342,531	-	-
Marketable securities – financials	4,014,074	4,014,074	-	-
Marketable securities – healthcare	3,346,799	3,346,799	-	-
Marketable securities – industrials	2,154,348	2,154,348	-	-
Marketable securities – information technology	4,444,515	4,444,515	-	-
Marketable securities – utilities	731,486	731,486	-	-
Marketable securities – other	2,538,149	2,538,149	-	-
REITS – financials	251,325	251,325	-	-
Total assets in the fair value hierarchy	397,472,252	$ 334,611,314	$ 62,860,938	$ -
Investments measured at net asset value	15,290,272			
Investments at fair value	$ 412,762,524			

Continued

12. Fair Values of Financial Instruments, Continued

		Fair Value Measurements at Reporting Date Using		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2017				
Assets:				
Cash and cash equivalents	$ 18,309,437	$ 18,309,437	$ -	$ -
Certificates of deposit	19,370,053	-	19,370,053	-
Mutual funds – fixed income	28,726,361	28,726,361	-	-
Mutual funds – equity	114,508,163	114,508,163	-	-
U.S. corporate bonds	10,966,462	-	10,966,462	-
Municipal bonds	3,957,556	3,957,556	-	-
Federal agency bonds	138,676,009	138,676,009	-	-
Fixed income securities – U.S. Treasuries	6,834,286	6,834,286	-	-
American depository receipts – consumer staples	273,153	273,153	-	-
American depository receipts – energy	117,425	117,425	-	-
American depository receipts – healthcare	92,378	92,378	-	-
American depository receipts – information technology	193,249	193,249	-	-
Marketable securities – consumer discretionary	2,141,744	2,141,744	-	-
Marketable securities – consumer staples	2,033,006	2,033,006	-	-
Marketable securities – energy	1,349,462	1,349,462	-	-

Continued

12. Fair Values of Financial Instruments, Continued

		Fair Value Measurements at Reporting Date Using		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2017				
Assets, continued:				
Marketable securities – financials	$ 3,962,789	$ 3,962,789	$ -	$ -
Marketable securities – healthcare	3,339,428	3,339,428	-	-
Marketable securities – industrials	2,804,546	2,804,546	-	-
Marketable securities – information technology	3,400,113	3,400,113	-	-
Marketable securities – utilities	848,799	848,799	-	-
Marketable securities – other	3,305,652	3,305,652	-	-
REITS – financials	232,650	232,650	-	-
Total assets in the fair value hierarchy	365,442,721	$ 335,106,206	$ 30,336,515	$ -
Investments measured at net asset value	14,716,457			
Investments at fair value	$ 380,159,178			

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

Continued

12. Fair Values of Financial Instruments, Continued

Certain corporate bonds are valued at the closing price reported in the active market in which the bond is traded. Other corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, the bond is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks.

Certificates of deposit are valued at amortized cost. Interest is accrued and recognized in income when earned.

Investments Measured Using the Net Asset Value Per Share Practical Expedient

The following table sets forth additional information for assets valued at net asset value (NAV) as a practical expedient as of September 30, 2018 and 2017, respectively.

	as of September 30, 2018			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge funds	$ 11,377,102	None	Monthly – Annually	30 – 90 Days
Limited partnerships	$ 3,913,170	None	None	None

	as of September 30, 2017			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge funds	$ 11,191,730	None	Monthly – Annually	30 – 90 Days
Limited partnerships	$ 3,524,727	None	None	None

- *Alternative investments in hedge funds:* Valued at the NAV of shares held at year end. These hedge funds, for the most part, are invested in marketable securities that trade in well-established and highly-liquid markets through multi-fund pools known as "fund of funds". Each underlying hedge fund in the portfolio has annually audited financial statements and is priced monthly by Bank of New York Mellon (BNYM). BNYM then computes investor valuations based on ownership share of each pool and provides this information to each investor's custodian.

Continued

12. Fair Values of Financial Instruments, Continued

- *Limited partnerships:* Valued at NAV which is determined by the underlying assets held by the limited partnerships. The limited partnerships invest in a variety of equity securities, some of which do not have readily available market prices. In the absence of readily available market prices, the fair values are estimated by the investment managers of those equity securities. Estimated values may differ from the values that would have been used if readily available market prices existed or if the equity securities were liquidated at the valuation date.

13. Commitments and Contingencies

Lease Commitments – Grady County Hospital Authority

Pursuant to a lease agreement with Grady County Hospital Authority (Grady Authority), John D. Archbold Memorial Hospital, Inc. (Archbold) leased substantially all property, plant and equipment known as Grady General Hospital (Grady) from the Authority under the terms of a 15 year lease which expired in July 2001. The terms of the lease shall automatically extend for four successive periods of 15 years each, effective on August 1, 2001.

Under the terms of the lease, Archbold shall pay rent consisting of reasonable costs incurred by the Grady Authority in performing its duties.

Pursuant to the terms of the lease, the current assets and current liabilities of the Grady Authority were transferred to Archbold effective November 1, 1985. During the term of the lease, the expenses of operating the leased premises as a hospital will be paid by Archbold, and all revenues, materials, property and service rendered or received from any and all other sources will be collected, received, and become the property of Archbold. Archbold agrees to make repairs to the leased premises as necessary and to maintain specified insurance coverage. Property made unusable by ordinary wear and deterioration is to be replaced from the net revenues of Grady, and any such replacement property will be owned by the Authority. Property brought onto the premises by Archbold, which is not replacement property and was not acquired from the net revenues of Grady, remains Archbold's property. Revenues in excess of costs will be reinvested in improvements of Grady and become the property of the Grady Authority. Archbold has agreed not to deny urgent or emergency care to any person based upon an inability to pay.

13. Commitments and Contingencies, Continued

Lease Commitments – Grady County Hospital Authority, Continued

Pursuant to the lease agreement, the Grady Authority transferred the net working capital of Grady to Archbold for use in the operation of Grady. In lieu thereof, Archbold agreed to deliver to the Grady Authority, should it cancel the lease during the original lease period or first extension thereof, a sum equal to one month's average operating expenses, for the twelve-month period prior to notification of intent to cancel or terminate the lease. Should Archbold renew the lease for the second renewal period and decide to cancel during or at the end of the second or subsequent renewal periods, it will pay to the Authority a sum equal to two months average operating expenses for the twelve-month period prior to notification of intent to cancel the lease. This requirement will be waived if the Grady Authority and Archbold negotiate a new lease at the end of the fourth renewal period.

Lease Commitments – Hospital Authority of Brooks County

On June 1, 1987, Archbold entered into a lease agreement with the Hospital Authority of Brooks County (Brooks Authority) to lease substantially all property, plant and equipment known as Brooks County Hospital (Brooks) from the Brooks Authority under the terms of a five year lease which expired December 31, 1992. The initial terms of the lease shall automatically extend for seven additional periods of five years each unless written notice of intent to terminate the lease is given to the Brooks Authority no less than 180 days prior to the end of the initial five-year lease period or any extension thereof.

Under the terms of the lease, Archbold shall pay semi-annual rental payments of $35,000 on January 1 and July 1 of each year beginning in 1988. The base rental for and during any renewal term hereof shall be $1 per year; provided, however, that Archbold will pay as additional rental, after the initial term hereof, up to $25,000 per year in indigent care services for the benefit of indigent citizens of Brooks County.

As additional rental, Archbold shall assume, obtain and retain all assets and liabilities of Brooks as of June 1, 1987, with the exception of the following assets and liabilities: the trust indenture as related to The Hospital Authority of Brooks County, Georgia Revenue Anticipation Refunding Certificates, Series 1976, dated as of April 1, 1976, including the aggregate amount of all unpaid principal and interest thereunder, which is not the responsibility of Archbold; any liabilities related to any claims, suits, causes of action and the like related to malpractice or other theories of liability which arose or are claimed to have arisen prior to July 1, 1986; all personal and real property of the Brooks Authority; and the restricted funds known as the Wilson Trust Fund and the Roundtree Trust Fund.

Continued

13. Commitments and Contingencies, Continued

Lease Commitments – Hospital Authority of Brooks County, Continued

Pursuant to the terms of the lease, the current assets and current liabilities of the Brooks Authority were transferred to Archbold effective June 1, 1987. During the term of the lease, the expenses of operating the leased premises as a hospital will be paid by Archbold, and all revenues, materials, property and services rendered or received from any and all other sources will be collected, received, and become the property of Archbold. Archbold agrees to make repairs to the leased premises as necessary and to maintain specified insurance coverage. Property made unusable by ordinary wear and deterioration is to be replaced from the revenues of Brooks and any such replacement property will be owned by the Brooks Authority. Property brought onto the premises by Archbold, which is not replacement property and was not acquired from the net revenues of Brooks, remains Archbold's property. Revenues in excess of costs will be reinvested in improvements to Brooks and become the property of the Brooks Authority. Archbold has agreed not to deny urgent or emergency care to any person based upon an inability to pay.

Lease Commitments – Hospital Authority of Mitchell County

Archbold entered into a lease agreement on October 1, 1990 with the Hospital Authority of Mitchell County (Mitchell Authority) to lease substantially all property, plant, and equipment of Mitchell County Hospital, Mitchell Convalescent Center, and Pelham Parkway Nursing Home (Mitchell facilities). The lease shall continue for a period of fifteen years with an automatic first renewal term of fifteen years followed by a second renewal term of ten years. The lease may be terminated by Archbold without cause by giving notice to the Mitchell Authority of its intent to terminate at least one hundred eighty days prior to the expiration of any term.

As consideration for this lease agreement, Archbold will timely make all payments required of the Mitchell Authority under the Revenue Anticipation Certificates, Series 1990, Revenue Certificates, Series 1980 and any other indebtedness of the Mitchell Authority incurred with respect to the Mitchell facilities with the approval of Archbold. There were no outstanding obligations as of September 30, 2018. The base rental after all Mitchell Authority obligations have been satisfied in full shall be $1 per year.

Continued

13. Commitments and Contingencies, Continued

Lease Commitments – Hospital Authority of Mitchell County, Continued

Pursuant to the terms of the lease, the current assets and current liabilities of the Mitchell Authority were transferred to Archbold effective September 30, 1990. During the term of the lease, the expenses of operating the leased premises as a hospital will be paid by Archbold, and all revenues, materials, property and service rendered or received from any and all other sources will be collected, received, and become the property of Archbold. Archbold agrees to make repairs to the leased premises as necessary and to maintain specified insurance coverage. Property made unusable by ordinary wear and deterioration is to be replaced from the revenues of the Mitchell facilities and any such replacement property will be owned by the Mitchell Authority. Property brought onto the premises by Archbold which is not replacement property and was not acquired from the net revenues of the Mitchell facilities, remains Archbold's property. Revenues in excess of costs will be reinvested in improvements to the Mitchell facilities and become the property of the Mitchell Authority. Archbold has agreed not to deny urgent or emergency care to any person based upon an inability to pay.

Compliance Plan

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

Health Care Reform

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

Continued

13. Commitments and Contingencies, Continued

Litigation

The Medical Center is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, administration is of the opinion that the professional and workers' compensation liability, if any, resulting therefrom will be covered by the Medical Center self-insurance fund.

Malpractice Self-Insurance

The Medical Center has a self-insurance program under which a trust fund was created to be used only for the limited purposes specified. These purposes include, but are not limited to, the payment of such sums as the Medical Center shall become legally obligated to pay any claim up to $8 million and $10 million in aggregate for damages resulting from operations.

Additionally, payment is restricted to expenses incurred in connection with an investigation, adjustment settlement, or defense of any claim or suit against the Medical Center, an officer, director, member or trustee of the Medical Center. The management of the trust fund is the responsibility of a bank, functioning as an independent fiduciary.

Malpractice claims in excess of the self-insurance retention limits are insured with commercial insurance carriers on a claims-made basis. The Medical Center's policy provides $30 million in excess limits above the self-insurance retention.

14. Gain on Sale of Dialysis Centers

On November 1, 2017, the Medical Center entered into an Asset Purchase Agreement with a third party for the sale of its five outpatient dialysis centers and its home dialysis program for a total consideration of $30 million. Five percent of the purchase price was placed in escrow pending certain indemnification provisions contained in the Agreement. In addition, the Medical Center entered into long-term real estate leases with the third-party buyer for the dialysis facilities. The sale did not have a major effect on the operations of the Medical Center. The gain on the sale of the dialysis centers is recorded in nonoperating income (loss) on the consolidated statements of revenue and support, expenses, and changes in net assets.

Continued

15. Rural Hospital Tax Credit

The State of Georgia (State) passed legislation which allows individuals or corporations to receive a State tax credit for making a contribution to certain qualified rural hospital organizations. The Medical Center submitted the necessary documentation and was approved by the State to participate in the rural hospital tax credit program for calendar year 2017 and 2018. It is the Medical Center's policy to use these funds to offset the costs of uncompensated care. Contributions received under the program approximated $4,324,000 during the Medical Center's fiscal year 2018 and are included in other operating revenue on the consolidated statements of revenue and support, expenses and changes in net assets.