PYA

Certified Public Accountants

Financial Statements

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

Years Ended September 30, 2019 and 2018

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

Financial Statements

Years Ended September 30, 2019 and 2018

PYA, P.C.
Resurgens Plaza, Suite 2100
945 East Paces Ferry Road, NE
Atlanta, GA 30326
p: (404) 266-9876 | f: (404) 266-2669
pyapc.com

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Northeast Georgia Medical Center, Inc. (NGMC) which comprise the balance sheets as of September 30, 2019 and 2018, and the related statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northeast Georgia Medical Center, Inc. as of September 30, 2019 and 2018, and the results of its operations, changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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

As discussed in Note B to the financial statements, in 2019, NGMC adopted new accounting guidance required by Accounting Standards Updates No. 2016-01, No. 2014-09 and No. 2016-14. Our opinion is not modified with respect to this matter.

PYA, P.C.

Atlanta, Georgia
January 20, 2020

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

Balance Sheets

	September 30, 2019	September 30, 2018
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 15,611,305**	$ 46,212,655
Investments	**164,737,862**	86,586,197
Assets limited as to use, required for current obligations	**12,046,652**	7,356,291
Patient accounts receivable	**99,859,867**	111,881,298
Inventory of supplies	**10,451,690**	9,627,190
Other current assets	**7,495,176**	4,178,141
TOTAL CURRENT ASSETS	**310,202,552**	265,841,772
INVESTMENTS	**882,463,229**	792,677,002
ASSETS LIMITED AS TO USE		
Under indenture agreements - held by trustees	**13,725,780**	12,614,232
Other	**15,454,956**	17,191,581
	29,180,736	29,805,813
Less amounts required for current obligations	**(12,046,652)**	(7,356,291)
ASSETS LIMITED AS TO USE	**17,134,084**	22,449,522
PROPERTY, PLANT AND EQUIPMENT, net	**627,825,340**	650,459,622
DUE FROM AFFILIATES, net - Note L	**46,899**	2,937,180
OTHER ASSETS		
Property held for future investment	**1,566,001**	1,566,001
Estimated fair value of interest rate swaps	**5,101,197**	22,596,296
Other	**1,649,868**	1,631,021
TOTAL OTHER ASSETS	**8,317,066**	25,793,318
TOTAL ASSETS	**$ 1,845,989,170**	$ 1,760,158,416

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

Balance Sheets - Continued

	September 30,	
	2019	***2018***
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of long-term debt	**$ 24,406,485**	$ 21,543,812
Accrued interest	**4,495,653**	4,557,857
Accounts payable and other accrued expenses	**81,986,806**	69,115,425
Accrued salaries, benefits, compensated absences and amounts withheld	**47,567,166**	43,131,230
Estimated third-party payer settlements	**7,918,491**	10,804,138
TOTAL CURRENT LIABILITIES	**166,374,601**	149,152,462
LONG-TERM DEBT, less current portion	**966,542,176**	986,081,340
OTHER LONG-TERM LIABILITIES		
Deferred compensation	**15,088,215**	16,773,393
Estimated fair value of interest rate swaps	**6,818,560**	1,738,800
TOTAL OTHER LONG-TERM LIABILITIES	**21,906,775**	18,512,193
TOTAL LIABILITIES	**1,154,823,552**	1,153,745,995
COMMITMENTS AND CONTINGENCIES - Notes I and P		
NET ASSETS		
Without donor restrictions	**691,165,618**	606,412,421
TOTAL NET ASSETS	**691,165,618**	606,412,421
TOTAL LIABILITIES AND NET ASSETS	**$ 1,845,989,170**	$ 1,760,158,416

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

Statements of Operations and Changes in Net Assets

	Year Ended September 30, 2019	2018
Changes in net assets without donor restrictions:		
Patient service revenue	**$ 1,160,664,596**	$ 1,070,705,115
Other operating revenue	**28,481,139**	22,112,630
TOTAL OPERATING REVENUES	**1,189,145,735**	1,092,817,745
Expenses:		
Salaries and wages	**367,950,610**	341,464,789
Employee benefits	**85,602,236**	86,108,687
Physicians' fees	**42,123,430**	14,322,381
Utilities	**10,632,256**	10,346,955
Supplies	**217,713,264**	199,946,062
Legal, consulting and professional fees	**2,711,632**	3,193,161
Contracted outside services	**34,731,968**	40,427,300
Interest	**37,479,235**	37,865,438
Management fees	**112,901,199**	105,714,398
Depreciation and amortization	**78,109,016**	74,073,081
Other operating expenses	**57,153,383**	44,452,557
TOTAL OPERATING EXPENSES	**1,047,108,229**	957,914,809
INCOME FROM OPERATIONS	**142,037,506**	134,902,936
Nonoperating gains (losses):		
Donations from affiliates	**747,436**	868,386
Gain from investments, net	**44,872,789**	29,580,951
Gain (loss) on sale of property, plant and equipment, net	**41,359**	292,794
Change in estimated fair value of interest rate swaps	**(22,574,859)**	10,242,685
Miscellaneous, net	**77,402**	(88,305)
NET NONOPERATING GAINS	**23,164,127**	40,896,511
EXCESS OF REVENUE AND GAINS OVER EXPENSES AND LOSSES	**165,201,633**	175,799,447

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

Statements of Operations and Changes in Net Assets - Continued

	Year Ended September 30,	
	2019	***2018***
Other changes in unrestricted net assets:		
Transfers of equity to affiliates, net	**(80,448,436)**	(97,912,687)
TOTAL OTHER CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS	**(80,448,436)**	(97,912,687)
INCREASE IN NET ASSETS	**84,753,197**	77,886,760
NET ASSETS WITHOUT DONOR RESTRICTIONS, BEGINNING OF YEAR	**606,412,421**	528,525,661
NET ASSETS WITHOUT DONOR RESTRICTIONS, END OF YEAR	**$ 691,165,618**	$ 606,412,421

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

Statements of Cash Flows

	Year Ended September 30, 2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	**$ 84,753,197**	$ 77,886,760
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	**78,109,016**	74,073,081
Gain on sale of property, plant and equipment	**(41,359)**	(292,794)
(Gain) loss on sale of investments and assets limited as to use	**8,974,763**	(24,385,434)
Change in net unrealized gains/losses on investments and assets limited as to use	**(23,615,901)**	19,625,845
Change in estimated fair value of interest rate swaps	**22,574,859**	(10,242,685)
Transfers of equity to affiliates, net	**80,448,436**	97,912,687
Changes in assets and liabilities:		
Patient accounts receivable	**12,021,431**	(5,651,304)
Inventory of supplies	**(824,500)**	(494,183)
Other current assets	**(3,317,035)**	1,238,496
Other long-term assets	**(18,847)**	73,401
Accrued interest	**(62,204)**	(6,076)
Accounts payable and other accrued expenses and other long-term liabilities	**10,514,189**	17,931,104
Accrued salaries, benefits, compensated absences and amounts withheld	**4,435,936**	11,596,978
Estimated third-party payer settlements	**(2,885,647)**	629,635
Total adjustments	**186,313,137**	182,008,751
NET CASH PROVIDED BY OPERATING ACTIVITIES	**271,066,334**	259,895,511
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	**(45,499,759)**	(62,557,995)
Proceeds from sales of property, plant and equipment	**10,372**	3,210
Purchases of investments and assets limited as to use	**(569,409,342)**	(593,906,014)
Proceeds from maturities and sales of investments and assets limited as to use	**416,737,665**	540,428,819
Advances to affiliates	**(77,558,155)**	(97,215,874)
NET CASH USED IN INVESTING ACTIVITIES	**(275,719,219)**	(213,247,854)

See notes to financial statements.

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

Statements of Cash Flows - Continued

	Year Ended September 30, 2019	2018
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term obligations	**(25,948,465)**	(22,214,638)
NET CASH USED IN FINANCING ACTIVITIES	**(25,948,465)**	(22,214,638)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(30,601,350)**	24,433,019
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**46,212,655**	21,779,636
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 15,611,305**	$ 46,212,655
SUPPLEMENTAL INFORMATION:		
Cash paid during the year for interest	**$ 37,541,439**	$ 37,871,514
SUPPLEMENTAL SCHEDULE OF NON-CASH ACTIVITIES:		
Equipment purchases financed with capital leases	**$ 9,021,206**	$ 6,876,786
Property, plant and equipment received and accrued in payables	**$ 3,371,699**	$ 2,699,685

NOTE A--ORGANIZATION AND OPERATIONS

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

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

NOTE B--SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

Unrealized gains and losses on investments and assets limited as to use are recorded as nonoperating gains or losses.

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

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

NGMC periodically reviews property, plant and equipment for indicators of potential impairment of long-lived assets and, if such review indicates carrying amounts may not be recoverable, adjusts the carrying value and recognizes a loss. Management does not believe that any unrecognized impairment exists at September 30, 2019.

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

Derivative Financial Instruments: NGMC is a party to various interest rate swaps as discussed in Note F. These financial instruments are not designated as hedges and have been presented at estimated fair market value in the accompanying Balance Sheets. The estimated fair value is based on amounts NGMC would receive or pay to enter into similar agreements at the Balance Sheet dates. Changes in estimated fair value are included as nonoperating gains and losses in the accompanying Statements of Operations and Changes in Net Assets. Even though not designated as hedges, the purpose of the interest rate swaps is to reduce the volatility of market rates associated with outstanding debt.

Excess of Revenue and Gains Over Expenses and Losses: The Statements of Operations and Changes in Net Assets include *Excess of Revenue and Gains Over Expenses and Losses*.

Changes in net assets without donor restrictions which are excluded from *Excess of Revenue and Gains Over Expenses and Losses*, consistent with industry practice, include transfers of assets to and from affiliates for other than goods or services, and contributions of long-lived assets, including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets.

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

Charity Care: NGMC provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Generally, care provided for a patient whose household income is at or below 300 percent of the federal poverty guidelines is approved for charity care. Because NGMC does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as revenue. Charges foregone, based on established rates, related to charity care were approximately $261,620,000 and $211,552,000 in 2019 and 2018, respectively, which are net of indigent care trust fund proceeds of $7,356,000 and $8,752,000 in 2019 and 2018, 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 $55,950,000 and $46,220,000 for the years ended September 30, 2019 and 2018, respectively. The estimated costs of providing charity care are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing charity care. The ratio of costs to charges is calculated based on NGMC's total expenses divided by gross patient service revenue.

In addition to the patient charity care services, NGMC provides a number of other services to benefit the impoverished for which little or no payment is received. Medicare, Medicaid and State indigent programs do not cover the full cost of providing care to beneficiaries of those programs. NGMC also provides services to the community at large for which it receives little or no payment. Estimated contractual adjustments for the years ended September 30, 2019 and 2018 include approximately $72,445,000 and $66,978,000, respectively, related to discounts provided to self-insured patients in order to facilitate prompt payment.

Patient Service Revenue/Receivables: In May 2014, the Financial Accounting Standards Board (FASB) issued a new standard related to revenue recognition. NGMC adopted the new standard effective October 1, 2018, using the full retrospective method. The adoption of the new standard did not have an impact on NGMC's recognition of net revenue for any periods prior to adoption. The most significant impact of adopting the new standard is the presentation of NGMC's

Statements of Operations and Changes in Net Assets, where NGMC no longer presents the "provision for bad debts" as a separate line item and "patient service revenues" are presented net of estimated implicit price concessions. NGMC also has eliminated the related presentation of "allowances for uncollectible receivables" on the Balance Sheets as a result of the adoption of the new standard.

Patient service revenue is reported on the accrual basis and reflects the amount that NGMC expects to receive in exchange for services provided during the period including estimated retroactive adjustments under reimbursement agreements with third-party payers. Revenue is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided and may have a term of several days or longer. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected charges.

Generally, NGMC performance obligations satisfied over time relate to patients receiving inpatient acute cares services. NGMC measures the performance obligation from admission into one of NGMC's facilities, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services.

All of NGMC's performance obligations relate to contracts with a duration of less than one year; therefore, NGMC has elected to apply the optional exemptions provided in FASB Accounting Standards Codification (ASC) 606-10-50-14(a) and as a result is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

NGMC determines the transaction price for patient service revenue based on standard charges for goods and services provided, reduced by explicit price concessions for contractual adjustments provided to third-party payers, discounts provided to uninsured patients in accordance with NGMC's financial assistance policy, and implicit price concessions provided to uninsured or under-insured patients. NGMC determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. NGMC determines its estimate of implicit price concessions based on its historical collection experience.

Retroactive adjustments for third-party payers are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined or additional information is obtained.

Patient accounts receivable are reported net of both an estimated allowance for contractual adjustments and an allowance for implicit price concessions. NGMC's policy does not require collateral or other security for patient accounts receivable. NGMC routinely accepts assignment of, or is otherwise entitled to receive, patient benefits payable under health insurance programs, plans or policies.

NGMC has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payers for the effects of a significant financing component due to NGMC's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payer pays for that service will be one year or less. NGMC does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. However, in these cases, the financing component is not deemed to be significant to the contracts.

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

Income Taxes: NGMC is classified as an organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. As such, no provision for income taxes has been made in the accompanying financial statements. At September 30, 2019, management does not believe NGMC holds any uncertain tax positions that would require financial statement recognition or disclosure under generally accepted accounting principles. It is NGMC's policy to recognize interest and/or penalties related to income tax matters as an operating expense where applicable.

Recently Adopted Accounting Principles: During the year ended September 30, 2019, NGMC adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14), which requires not-for-profit entities to present two classes of net assets in the financial statements, rather than the three classes previously required, and adds enhanced disclosures. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and temporarily or permanently restricted net assets are now reported as net assets with donor restrictions. Other than changes in presentation and additional disclosures, adoption of ASU 2016-14 did not have a significant impact on the financial statements. ASU 2016-14 has been applied retrospectively to the year ended September 30, 2018.

During the year ended September 30, 2019, NGMC adopted ASU No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09) which supersedes previous revenue recognition guidance under accounting principles generally accepted in the United States (GAAP). ASU 2014-09 requires the recognition of revenue when services are performed at an amount equal to what the entity expects to receive for those services. This update also requires expanded disclosure related to revenue recognition policies. Other than changes in presentation and additional disclosures, adoption of this standard did not have a significant impact on the financial statements. ASU 2014-09 has been applied retrospectively to the year ended September 30, 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. Other than changes in presentation and additional disclosures, adoption of this standard did not have a significant impact on the financial statements. ASU 2016-01 has been applied retrospectively to the year ended September 30, 2018.

Recently Issued Accounting Principles: The following upcoming changes to accounting standards may impact NGMC's financial statements when they become effective.

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 adopted this ASU effective October 1, 2019.

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 adopted these ASUs effective October 1, 2019.

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 currently evaluating the impact of this standard on the financial statements.

In June 2018, the FASB issued ASU No. 2018-08, *Not for Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08), which provides clarity in distinguishing grants or similar contracts between exchange transactions or contributions and guidance on classifying whether or not a transaction is conditional. ASU 2018-08 is effective for contributions received during fiscal years beginning after December 15, 2018, and early adoption is permitted. Management adopted this ASU effective October 1, 2019.

Reclassifications: Certain reclassifications have been made to the 2018 amounts to conform to the 2019 presentation. These reclassifications had no impact on the increase in net assets or total net assets.

NOTE C--NET PATIENT SERVICE REVENUE/RECEIVABLES

NGMC has agreements with various third-party payers that provide for payments at amounts different from established rates. A summary of the payment arrangements with significant third-party payers follows:

> *Medicare:* Acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates based upon diagnostic related group assignments, which are determined by the patient's clinical diagnosis and medical procedures utilized. NGMC receives additional payments from Medicare based on the provision of services to a disproportionate share of Medicaid and other low-income patients. The Medicare program reimburses for outpatient services under a prospective method utilizing an ambulatory payment classification system which classifies outpatient services based upon medical procedures and diagnosis codes. Certain nonacute services and defined capital costs are paid based on a cost reimbursement methodology. NGMC is paid at a tentative rate with final settlement determined after submission of their annual cost reports and audits thereof by the Medicare fiscal intermediary.

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.

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

Amounts recorded under certain of these contractual arrangements are subject to review and final determination by various program intermediaries. Settlements with third-party payers for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payer, correspondence from the payer and historical settlement activity, including an assessment to ensure that a significant reversal of revenue recognized will not occur. Estimated settlements are adjusted in future periods as adjustments become known or as years are settled or are no longer subject to such audits, reviews, and investigations. No significant amount of patient service revenue was recognized for the year ended September 30, 2019 as a result of changes in or adjustments to prior years' settlement estimates or final settlements of prior periods.

Generally, patients who are covered by third-party payers are responsible for related deductibles and coinsurance, which vary in amount. NGMC also provides services to uninsured and underinsured patients that do not qualify for financial assistance. Based on historical experience, a significant portion of uninsured and underinsured patients are unable or unwilling to pay for their responsible amounts for services provided and a significant discount for this implicit price concession is recorded in the period services are provided.

Using a portfolio approach, NGMC estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. In addition, for uninsured patients, NGMC reduces charges from current rates based on average discounts provided to certain third-party payers. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are recorded as adjustments to patient service revenue in the period of the change. Adjustments for such changes in the estimated transaction price were not significant for the year ended September 30, 2019. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. No significant amount of bad debt expense was reported for the year ended September 30, 2019.

NGMC also participates in the Georgia Department of Community Health Upper Payment Limit (UPL) program. The UPL program allows for non-state local government hospitals and nursing homes to be paid 100 percent of the amount Medicare would pay for similar Medicaid services. During fiscal years 2019 and 2018, NGMC received approximately $7,843,000 and $13,730,000, respectively, from the UPL program. These amounts are included in patient service revenue.

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 service 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 $12,149,000 and $10,645,000 relating to the Act are included in other operating expenses in the accompanying Statement of Operations and Changes in Net Assets for the years ended September 30, 2019 and 2018, respectively.

Patient service revenue, net of contractual adjustments, discounts and implicit price concessions, based on the type of service, is composed of the following for the year ended September 30:

	2019	*2018*
Medicare	$ 579,900,368	$ 528,436,931
Medicaid	129,257,736	121,257,426
Commercial	319,473,478	300,036,629
Self-Pay	94,637,347	82,787,507
Other	37,395,667	38,186,622
Patient service revenue	$ 1,160,664,596	$ 1,070,705,115

NOTE D--INVESTMENTS AND ASSETS LIMITED AS TO USE

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

	2019	*2018*
Indenture agreements - held by trustees:		
Cash and money market funds	$ 6,328,947	$ 749,611
Corporate bonds	7,366,785	11,769,321
Accrued income	30,048	95,300
	13,725,780	12,614,232
Other:		
Cash and money market funds	704,195	2,166,904
Certificate of deposit	227,196	227,196
Mutual funds	13,020,524	13,795,972
Government bonds	-	48
Equity securities	-	1,001,461
Other	1,503,041	-
	15,454,956	17,191,581
	29,180,736	29,805,813
Less assets limited as to use that are required for current obligations	(12,046,652)	(7,356,291)
	$ 17,134,084	$ 22,449,522

The composition of NGMC investments at September 30, 2019 and 2018 is as follows:

	2019	*2018*
Cash and money market funds	$ 164,737,862	$ 86,586,185
Government bonds	-	34,310,799
Corporate bonds	199,568,549	174,800,221
Equity securities	681,462,857	582,202,971
Accrued income	1,431,823	1,363,023
	1,047,201,091	879,263,199
Less current investments	(164,737,862)	(86,586,197)
	$ 882,463,229	$ 792,677,002

Investment income on proceeds of borrowings that are held by trustees was $393,674 and $538,021 and for the years ended September 30, 2019 and 2018, respectively, and is included as a part of other operating revenue in the accompanying Statements of Operations and Changes in

Net Assets. The net gain (loss) from all other investments and assets limited as to use for the years ended September 30, 2019 and 2018, was comprised of the following:

	2019	*2018*
Interest and dividend income	$ 32,657,963	$ 26,944,124
Net realized gains (losses)	(8,974,763)	24,385,434
Change in net unrealized gains/losses	23,615,901	(19,625,845)
Investment expense	(2,426,312)	(2,122,762)
Net investment gain	$ 44,872,789	$ 29,580,951

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

NOTE E--PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at September 30, 2019 and 2018 are as follows:

	2019	*2018*
Land	$ 7,604,005	$ 7,604,005
Land improvements	13,132,271	12,063,281
Building and building equipment	633,689,976	621,849,193
Fixed equipment	92,100,552	92,096,594
Departmental equipment	577,114,576	555,968,465
Capital leases	14,224,179	15,243,322
Vehicles	3,324,420	3,029,235
	1,341,189,979	1,307,854,095
Less accumulated depreciation	(725,038,688)	(668,568,405)
	616,151,291	639,285,690
Construction in progress - Note P	11,674,049	11,173,932
	$ 627,825,340	$ 650,459,622

NOTE F--LONG-TERM DEBT

A summary of long-term debt at September 30, 2019 and 2018 is as follows:

	2019	*2018*
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	14,765,029	15,220,506
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	18,211,741	18,773,543
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	68,205,000	71,650,000
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	16,744,209	17,222,615
Revenue Anticipation Certificates, Series 2014B		
Variable rate certificates; interest payments due monthly through August 2035	135,500,000	135,500,000
Less unamortized discount	(528,250)	(561,266)
Revenue Anticipation Certificates, Series 2011A		
Variable rate certificates; interest payments due monthly through May 2026	30,925,000	34,550,000
Revenue Anticipation Certificates, Series 2010A		
Interest rates ranging from 4.00% to 5.50%; interest payments due semi-annually through February 2045	59,850,000	64,190,000
Less unamortized discount	(2,250,156)	(2,338,687)

	2019	*2018*
Revenue Anticipation Certificates, Series 2010B		
Interest rates ranging from 4.00% to 5.50%; interest payments due semi-annually through February 2045	51,935,000	55,655,000
Less unamortized discount	(584,562)	(607,562)
Other notes payable at rates ranging from 1.90% to 4.15%	-	31,156
Capitalized leases	10,771,375	11,186,340
	996,034,386	1,012,961,645
Less current portion	(24,406,485)	(21,543,812)
Less issuance cost	(5,085,725)	(5,336,493)
	$ 966,542,176	$ 986,081,340

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

In connection with the formation of NGHS, the Authority entered into a lease agreement dated October 1, 1986 with NGMC whereby the Authority leased all of its assets (including the main hospital campus) to NGMC. In return, NGMC assumed all of the debt and other obligations of the Authority. The lease includes ongoing covenants including a duty to provide indigent care. The lease had an initial term of forty years and has since been extended to September 1, 2054. Management believes that NGMC was in compliance with all of its lease obligations as of September 30, 2019.

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, 2019 and 2018.

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.

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

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

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

The Series 2017D Certificate consists of a $75,000,000 term certificate which matures February 15, 2044. The 2017D Certificate was modified in 2019 to bear interest at a variable rate of 79% of the one-month LIBOR plus a spread of 40 basis points. Prior to modification, the 2017D Certificate bore interest at a variable rate of 67% of the one-month LIBOR plus a spread of 60 basis points. The spread of 40 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, 2019. The certificate is subject to mandatory sinking fund redemption payments which began February 15, 2018 and end February 15, 2044, which range from $435,000 to $11,565,000.

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

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

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

The Series 2014B Certificates consist of $135,500,000 term certificates maturing August 15, 2035, initially bearing interest at a variable rate, and subject to mandatory sinking fund redemption payments beginning August 15, 2020, which range from $3,040,000 to $22,800,000. The Authority issued the Series 2014B Certificates in Floating Rate Note (FRN) mode. During this initial FRN Period, the Certificates shall bear interest at the USD Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index plus a spread of 95 basis points. The initial FRN Period ends on February 17, 2020. All 2014B Certificates are subject to mandatory tender for purchase on February 18, 2020. NGHS is obligated to provide funds to purchase the Certificates on that date. NGHS may then retire the Certificates, or reissue the Certificates for a new FRN Period, or convert the Certificates to a different mode. NGHS may call the Certificates for redemption at par on or after August 22, 2019. Subsequent to September 30, 2019, management is in the process of finalizing a plan to refinance the Series 2014B Certificates. As the System has the intent and ability to refinance the 2014B Certificates, the outstanding balance in excess of current sinking fund requirements will not be treated as current as of September 30, 2019.

In August 2011, the Authority issued Revenue Anticipation Certificates Series 2011A in the aggregate principal amount of $46,625,000. The 2011A Certificates were modified in 2019 to bear interest at a variable rate of 79% of the one-month LIBOR plus a spread of 40 basis points. Prior to modification, the 2011A Certificates bore interest at a variable rate of 67% of the one-month LIBOR plus a spread of 55 basis points. The spread of 40 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, 2019.

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

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

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

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

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

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

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

The advance refunding of the 2010A and 2010B Certificates, previously described, was accomplished by placing funds in escrow accounts in order to satisfy remaining scheduled principal and interest payments of the outstanding debt. Management believes the amounts deposited in such escrow accounts have contractually relieved NGHS and NGMC of any future obligations with respect to this debt. Debt outstanding and not recognized in the Balance Sheet at September 30, 2019, 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, 2019 and 2018 also includes notes payable to financial institutions, as well as capital leases extending through fiscal 2023.

Scheduled maturities of long-term debt, excluding net unamortized original issue discount and premium, and capital lease obligations, excluding interest, for each of the next five years and in the aggregate at September 30, 2019 are as follows:

Year Ending September 30,	
2020	$ 24,244,076
2021	18,062,237
2022	17,413,570
2023	17,595,241
2024	17,918,000
Thereafter	854,443,251
	$ 949,676,375

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 $2,483,400 and $1,738,800 at September 30, 2019 and 2018, respectively.

During 2011, NGHS also entered into a fixed spread basis swap agreement with a bank as counterparty in order to reduce its fixed rate debt service costs through a swap structure that takes on basis risk. The swap has a notional value of $100,000,000. NGHS pays an amount equal to the SIFMA Municipal Swap Index and receives 67% of the three-month LIBOR plus 62 basis points until December 1, 2030, when the agreement terminates. The estimated fair market value of the swap was an asset of $5,101,197 and $3,846,407 at September 30, 2019 and 2018, respectively.

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 a liability of $1,523,986 and $2,811,174 as of September 30, 2019 and an asset of $6,367,878 and $12,382,011 at September 30, 2018.

Pursuant to the agreement(s) and depending on the movement of the applicable rates, both NGHS and the counterparty are subject to the requirement of posting collateral in order to secure its respective obligations under the agreements. No collateral was required to be posted by NGHS or the counterparty as of September 30, 2019 or 2018.

The swap agreements have not been designated as hedges and are reflected at estimated fair market value. An asset of $5,101,197 and a liability of $6,818,560 have been recognized in the accompanying Balance Sheet as of September 30, 2019. An asset of $22,596,296 and a liability of $1,738,800 have been recognized in the accompanying Balance Sheet as of September 30, 2018.

NOTE G--PENSION PLAN

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

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

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

The following table sets forth the plan's changes in projected benefit obligations, changes in the plan's assets and funded status of the plan as determined by management with assistance from the plan's independent consulting actuary at September 30, 2019 and 2018:

	Year Ended September 30, 2019	2018
Change in benefit obligations		
Benefit obligations, beginning of year	$ 275,988,367	$ 284,727,516
Service cost	8,490,020	9,597,157
Interest cost	11,512,767	10,781,756
Benefits paid	(9,615,663)	(8,878,027)
Actuarial (gain) loss	50,937,842	(20,240,035)
Benefit obligations, end of year	$ 337,313,333	$ 275,988,367
Change in plan assets		
Fair value of plan assets, beginning of year	$ 287,330,139	$ 261,299,378
Actual return on plan assets	4,152,580	24,908,788
Contributions of plan sponsor	10,000,000	10,000,000
Benefits paid	(9,615,663)	(8,878,027)
Fair value of plan assets, end of year	$ 291,867,056	$ 287,330,139
Funded status of the plan at end of year	$ (45,446,277)	$ 11,341,772

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 2019 and 2018.

The accumulated benefit obligation (ABO) of the plan was $325,411,496 and $272,702,738 at September 30, 2019 and 2018, respectively. In accordance with generally accepted accounting principles, NGHS recognizes the funded status of the plan as an asset or liability and the gains or losses and prior service costs or credits not yet recognized as pension expense as a change in net assets without donor restrictions.

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

	September 30, 2019	2018
Noncurrent (liabilities) assets	$ (45,446,277)	$ 11,341,772
Net liability recognized	$ (45,446,277)	$ 11,341,772

Amounts recognized in net assets without donor restrictions of NGHS consist of the following:

	Year Ended September 30, 2019	2018
Unrecognized net actuarial loss	$ 152,645,327	$ 90,057,210
Unrecognized prior service cost	-	-
	$ 152,645,327	$ 90,057,210

Net periodic pension cost and other amounts recognized in net assets without donor restrictions of NGHS consist of the following:

	Year Ended September 30, 2019	2018
Net periodic pension cost		
Service cost with interest to year-end	$ 8,490,020	$ 9,597,157
Interest cost on the projected benefit obligation	11,512,767	10,781,756
Expected return on plan assets	(22,918,151)	(21,547,988)
Amortization of prior service cost	-	-
Amortization of net actuarial loss	7,115,296	9,786,975
Net periodic pension cost	$ 4,199,932	$ 8,617,900
Other changes in net assets without donor restrictions		
Net (gain) loss	$ 69,703,413	$ (23,600,835)
Amortization of prior service cost	-	-
Amortization of net actuarial loss	(7,115,296)	(9,786,975)
Total recognized in net assets without donor restrictions	$ 62,588,117	$ (33,387,810)
Total recognized in net periodic pension cost and net assets without donor restrictions	$ 66,788,049	$ (24,769,910)

Management estimates that a net loss in the amount of $12,681,000 will be amortized from the net assets without donor restrictions of NGHS into net periodic pension cost over the next fiscal year.

The actuarial assumptions used for the plan as of September 30, 2019 and 2018 are as follows:

	September 30, 2019	2018
Discount rates	3.20%	4.25%
Rates of increase in future compensation levels	varies by age	varies by age
Expected long-term rate of return on plan assets	7.99%	7.99%
Rates of increase in maximum benefit and compensation limits	3.00%	3.00%

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

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

The composition of plan assets at September 30, 2019 and 2018 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, 2019				
Money market funds	$ 14,776,687	$ 14,776,687	$ -	$ -
Corporate bonds	62,434,396	-	62,434,396	-
Mutual funds and equity securities	213,912,070	213,912,070	-	-
Accrued income	743,903	743,903	-	-
	$ 291,867,056	$ 229,432,660	$ 62,434,396	$ -
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	$ -

NGHS' investment policy requires the pension fund to reflect the requirements of ERISA and to be managed within the following diversification parameters: large and mid-cap multi-national equities of 25-40%; dividend-oriented equities representing a defensive equity strategy with loss mitigation provided by covered call options of 25-40%; and investment grade fixed income securities with an emphasis on intermediate maturities of 20-25%. Management expects to contribute approximately $10,000,000 to this plan during fiscal year 2020.

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

Year Ending September 30,		
2020	$	10,267,286
2021		11,001,560
2022		11,793,154
2023		12,585,152
2024		13,418,681
2025-2029		79,336,267

NOTE H--OTHER RETIREMENT PLANS

During 2006, NGHS created the Northeast Georgia Health System, Inc. 401(k) Retirement Savings Plan for substantially all employees. The Plan provides for matching contributions by NGHS which are 100% of each employee's elective deferrals up to 1% of compensation and 50% of each employee's elective deferrals that exceed 1% of compensation but that do not exceed 6%. Expense for NGMC under the 401(k) Retirement Savings Plan was $9,261,685 and $8,798,516 for the years ended September 30, 2019 and 2018, respectively.

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

NOTE I--ESTIMATED LIABILITY FOR SELF-INSURANCE CLAIMS

NGHS has established trust funds for the purpose of funding professional liability and self-insured workers' compensation, which covers NGMC, up to specified retention levels, generally $5,000,000 per occurrence and $10,000,000 in the aggregate (annually) for professional liability and $400,000 per occurrence for worker's compensation with no annual aggregate. Losses exceeding aggregate annual limits up to maximum limits are covered by insurance purchased from commercial carriers and management intends to maintain such insurance coverage in the future. As of September 30, 2019, management is not aware of any claims that will ultimately settle above the specified retention levels and, accordingly, has not recognized any insurance recovery receivables.

Funding for professional liability is on a claims-made basis, while workers' compensation is determined on an occurrence basis. Funding of the trusts is based upon estimates of potential liability provided by annual independent actuarial valuations and includes provisions for claims reported and claims incurred but not reported in excess of insurance limits. NGMC is involved in litigation relating to medical malpractice and workers' compensation and other claims arising in the ordinary course of business. There are also known incidents occurring through September 30, 2019 that may result in the assertion of additional claims and other unreported claims may be asserted arising from services provided in the past. Estimated self-insurance liabilities in the Consolidated Balance Sheets of NGHS and affiliates consist of amounts accrued by NGHS related to these self-insurance programs and have not been discounted. Amounts accrued by NGHS were approximately $41,932,000 and $35,730,000 at September 30, 2019 and 2018.

NGMC was charged by NGHS for participation and coverage in these programs. Such amounts are not recognized in insurance expense but are recognized in other operating expenses. The charges for workers' compensation by NGHS for the years ended September 30, 2019 and 2018 were $1,587,861 and $891,874, respectively.

NGHS maintains a self-insurance program to provide medical and dental coverage for eligible employees and their dependents. Reinsurance above $225,000 annually per individual with no aggregate limit is maintained through a commercial excess coverage policy. Operating expenses in the accompanying Statements of Operations and Changes in Net Assets for the years ended September 30, 2019 and 2018 include $41,199,548 and $41,805,644, respectively, related to these benefits. Approximately $14,200,000 and $13,200,000, representing estimated incurred but unpaid medical and dental claims, are included in accounts payable and accrued expenses at September 30, 2019 and 2018, respectively.

NOTE J--CONCENTRATIONS OF CREDIT RISK

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

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

NGMC grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payer agreements. The estimated mix of patient service revenue from patients and major third-party payers for the years ended September 30, 2019 and 2018 is as follows:

	2019	*2018*
Governmental programs		
Medicare	50%	51%
Medicaid	11%	10%
Commercial insurance	28%	28%
Self-pay and other	11%	11%
	100%	100%

NOTE K--OPERATING EXPENSE BY FUNCTIONAL CLASSIFICATION

NGMC provides healthcare services to residents within its geographical location. Expenses are allocated by function based on estimates of employees' time incurred, usage of resources, and other methods. Expenses based on functional classification related to providing these services during the year ended September 30, 2019 are as follows:

	Healthcare Services	*Support Services*	*Total*
Salaries and benefits	$ 416,588,289	$ 36,964,557	$ 453,552,846
Utilities	9,765,727	866,529	10,632,256
Physician's fees	38,690,370	3,433,060	42,123,430
Supplies	199,969,633	17,743,631	217,713,264
Legal, consulting and professional fees	2,490,634	220,998	2,711,632
Contracted outside services	31,901,313	2,830,655	34,731,968
Interest	34,424,677	3,054,558	37,479,235
Management fees	103,699,751	9,201,448	112,901,199
Other	52,495,382	4,658,001	57,153,383
Depreciation and amortization	71,743,131	6,365,885	78,109,016
	$ 961,768,907	$ 85,339,322	$ 1,047,108,229

NOTE L--AVAILABILITY AND LIQUIDITY

NGMC manages its cash and investments through a formalized investment process which includes evaluating cash needs for routine and nonroutine activities and adjusting the amount of cash held and the maturity of investments. NGMC's financial assets reduced by amounts not available for general use are as follow at September 30, 2019:

Financial assets	$ 1,191,852,999
Less those unavailable for expenditures within one year, due to:	
Amounts restricted under insurance agreements, bond agreements, board designation or other	(29,180,736)
Financial assets available to meet cash needs for general expenditures within one year	$ 1,162,672,263

NOTE M--RELATED PARTY TRANSACTIONS

NGMC routinely engages in transactions with NGHS and other controlled affiliates of NGHS, including Northeast Georgia Physician Group, Inc. (NGPG), NGMC-Barrow, LLC (NGMC-Barrow), NGMC-Lumpkin, LLC (NGMC-Lumpkin), The Heart Center, LLC (THC), Northeast Georgia Health Partners, LLC (NGHP), and The Medical Center Foundation (the Foundation). Amounts due from affiliates bear no interest and represent capital and other expenditures paid on behalf of affiliates at September 30, 2019 and 2018, respectively.

In 2019 and 2018, NGMC purchased capital assets for NGHS in the amounts of $18,203,369 and $11,211,488, respectively, for NGPG in the amounts of $2,397,685 and $1,417,647, respectively, for THC in the amounts of $488,506 and $2,558,307, respectively, and for NGMC-Barrow in the amount of $1,300,375 and $4,618,410, respectively, and for NGMC-Lumpkin in the amount of $1,260,479 in 2019.

During 2019 and 2018, donations in the amounts of $636,446 and $777,399, respectively, were received from the Foundation.

In 2019 and 2018, NGHS charged NGMC with allocated management fees in the amounts of $112,901,199 and $105,714,398, respectively. Based on NGHS overhead cost allocations certain salary, insurance, information technology costs and other operating expenses are recognized in other operating expenses rather than natural classification. Administrative overhead allocated from NGMC was $17,614,162 and $17,601,730 for the years ended September 30, 2019 and 2018, respectively.

During 2019 and 2018, amounts due to/from NGHS, NGMC-Barrow, NGMC-Lumpkin, NGPG, THC, and NGHP were transferred from/to those entities through a non-cash transfer of net assets as reflected in the accompanying Statements of Operations and Changes in Net Assets. Accrued salaries include $9,826,576 and $8,241,879 as of September 30, 2019 and 2018, respectively, related to affiliated entities that was included in the non-cash transfers of net assets. The transfer of net assets, including the amounts due to/from these related parties, consisted of the following for the years ended September 30, 2019 and 2018:

	2019	2018
NGHS	$ (4,362,263)	$ (5,043,255)
NGMC-Barrow	5,258,009	15,894,959
NGPG	28,120,461	56,057,710
NGHP	14,333,396	1,976,994
THC	26,958,374	29,959,054
NGMC-Lumpkin	12,175,053	-
	$ 82,483,030	$ 98,845,462

Other transfers of equity to/from affiliates includes approximately $1,952,000 and $1,976,000 in 2019 and 2018, respectively, related to routine operating support for the Foundation, and approximately $3,987,000 and $2,909,000 in 2019 and 2018, respectively, representing net assets released from restrictions at the Foundation for capital expenditures.

NOTE N--FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

NOTE O--FAIR VALUE MEASUREMENTS

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

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

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

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

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

	Carrying Value	*Quoted Prices in Active Markets (Level 1)*	*Significant Other Observable Inputs (Level 2)*	*Significant Unobservable Inputs (Level 3)*
September 30, 2019				
Assets measured at fair value on a recurring basis:				
Cash and money market funds	$ 171,998,200	$ 171,998,200	$ -	$ -
Mutual funds	13,020,524	13,020,524	-	-
Corporate bonds	206,935,334	-	206,935,334	-
Equity securities	681,462,857	681,462,857	-	-
Interest rate swap agreements	5,101,197	-	5,101,197	-
Other	1,503,041	1,503,041	-	-
Accrued income	1,461,871	1,461,871	-	-
Total assets	$ 1,081,483,024	$ 869,446,493	$ 212,036,531	$ -
Liabilities measured at fair value on a recurring basis:				
Interest rate swap agreements	$ 6,818,560	$ -	$ 6,818,560	$ -

	Carrying Value	*Quoted Prices in Active Markets (Level 1)*	*Significant Other Observable Inputs (Level 2)*	*Significant Unobservable Inputs (Level 3)*
September 30, 2018				
Assets measured at fair value on a recurring basis:				
Cash and money market funds	$ 89,729,896	$ 89,729,896	$ -	$ -
Mutual funds	13,795,972	13,795,972	-	-
Government bonds	34,310,847	34,310,847	-	-
Corporate bonds	186,569,542	-	186,569,542	-
Equity securities	583,204,432	583,204,432	-	-
Interest rate swap agreements	22,596,296	-	22,596,296	-
Accrued income	1,458,323	1,458,323	-	-
Total assets	$ 931,665,308	$ 722,499,470	$ 209,165,838	$ -
Liabilities measured at fair value on a recurring basis:				
Interest rate swap agreements	$ 1,738,800	$ -	$ 1,738,800	$ -

NOTE P--COMMITMENTS AND CONTINGENCIES

NGHS construction in progress at September 30, 2019 relates primarily to ongoing projects, routine capital improvements at existing facilities, and scheduled projects related to an NGHS Development Plan to be completed over the next several years. The estimated cost to complete current construction in progress at September 30, 2019 is approximately $67,793,000, over that time frame. Cost to complete construction in progress under signed contracts at September 30, 2019 is approximately $20,723,000.

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

Healthcare Industry: The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, Medicare fraud and abuse and under provisions of the Health Insurance Portability and Accountability Act of 1996, patient records privacy and security. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

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, 2019 financial statements, except as discussed in Note F.