

FLOYD HEALTHCARE MANAGEMENT, INC.
ROME, GEORGIA

CONSOLIDATED FINANCIAL STATEMENTS

for the years ended June 30, 2018 and 2017

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Floyd Healthcare Management, Inc.
Rome, Georgia

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Floyd Healthcare Management, Inc., which comprise the consolidated balance sheets as of June 30, 2018 and 2017, the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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.

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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 Corporation'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 Corporation's internal control. Accordingly, we express no such opinion. An audit includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Floyd Healthcare Management, Inc. as of June 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.

Driffin & Tucker, LLP

Albany, Georgia
October 22, 2018

FLOYD HEALTHCARE MANAGEMENT, INC.

CONSOLIDATED BALANCE SHEETS, June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 55,850,678	\$ 60,618,716
Assets limited as to use, current	6,669,804	6,610,990
Patient accounts receivable, net of estimated uncollectibles of \$237,200,000 in 2018 and \$191,100,000 in 2017	70,599,612	61,014,044
Inventories	9,804,907	8,997,435
Other current assets	<u>13,288,949</u>	<u>9,932,266</u>
Total current assets	<u>156,213,950</u>	<u>147,173,451</u>
Assets limited as to use:		
By board for capital improvements	125,967,383	110,534,511
Under indenture agreement - held by trustee	28,411,752	28,306,468
457 F Plan – held by trustee	<u>1,150,404</u>	<u>-</u>
Total assets limited as to use	155,529,539	138,840,979
Less amount required to meet current obligations	<u>6,669,804</u>	<u>6,610,990</u>
Noncurrent assets limited as to use	<u>148,859,735</u>	<u>132,229,989</u>
Property, plant and equipment, net	<u>184,742,293</u>	<u>196,406,428</u>
Other assets:		
Other	<u>4,114,043</u>	<u>3,363,793</u>
Total assets	<u>\$ 493,930,021</u>	<u>\$ 479,173,661</u>

	<u>2018</u>	<u>2017</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt	\$ 3,841,697	\$ 3,778,782
Accounts payable	16,342,275	17,888,631
Estimated third-party payor settlements	3,300,333	1,794,740
Accrued expenses:		
Salaries and compensation	6,307,184	6,141,318
Employee benefits	15,103,984	11,745,196
Other	<u>12,261,507</u>	<u>8,773,512</u>
Total current liabilities	57,156,980	50,122,179
Long-term debt, net of current portion	190,026,683	194,696,635
Noncurrent post-retirement liability	25,874,197	30,779,640
Due to the Hospital Authority of Floyd County	<u>9,211,994</u>	<u>10,055,532</u>
Total liabilities	282,269,854	285,653,986
Net assets – unrestricted	<u>211,660,167</u>	<u>193,519,675</u>
Total liabilities and net assets	<u>\$ 493,930,021</u>	<u>\$ 479,173,661</u>

See auditor's report and notes to financial statements.

FLOYD HEALTHCARE MANAGEMENT, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND
CHANGES IN NET ASSETS
for the years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Unrestricted revenues, gains and other support:		
Patient service revenue (net of contractual allowances and discounts)	\$ 558,603,409	\$ 489,200,193
Provision for bad debts	<u>(129,255,210)</u>	<u>(75,340,604)</u>
Net patient service revenue	429,348,199	413,859,589
Other operating revenue	<u>4,068,282</u>	<u>2,720,685</u>
Total revenues, gains and other support	<u>433,416,481</u>	<u>416,580,274</u>
Expenses:		
Operating expenses	396,147,502	374,949,441
Depreciation	24,505,509	24,301,524
Interest	<u>7,201,936</u>	<u>6,524,279</u>
Total expenses	<u>427,854,947</u>	<u>405,775,244</u>
Operating income	<u>5,561,534</u>	<u>10,805,030</u>
Nonoperating income (expenses):		
Investment income	6,867,833	6,348,127
Pension expense	<u>(2,313,135)</u>	<u>(34,929)</u>
Total nonoperating income	<u>4,554,698</u>	<u>6,313,198</u>

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND
 CHANGES IN NET ASSETS, Continued
 for the years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Excess of revenues over expenses	\$ 10,116,232	\$ 17,118,228
Contributions for capital improvement and expansion	-	339,827
Defined benefit pension plan:		
Current year actuarial gain	6,575,712	7,405,851
Amortization of actuarial loss	685,410	858,105
Equity transfer to fund Hospital Authority of Floyd County Pension Plan	<u>763,138</u>	<u>(1,242,533)</u>
Increase in net assets – unrestricted	18,140,492	24,479,478
Net assets – unrestricted, beginning of year	<u>193,519,675</u>	<u>169,040,197</u>
Net assets – unrestricted, end of year	<u>\$ 211,660,167</u>	<u>\$ 193,519,675</u>

See auditor's report and notes to financial statements.

FLOYD HEALTHCARE MANAGEMENT, INC.

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

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ 18,140,492	\$ 24,479,478
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Proceeds from contributions for capital improvements and expansion	-	(339,827)
Depreciation	24,505,509	24,301,524
Amortization	(860,066)	(1,180,847)
Provision for bad debts	129,255,210	75,340,604
Pension deferrals	(7,261,122)	(8,263,956)
Pension expense	2,313,135	34,929
Pension contributions	(1,107,860)	-
Realized and unrealized (gain) loss on investments	(3,408,113)	(3,956,764)
Changes in:		
Patient accounts receivable	(138,840,778)	(78,670,429)
Inventories and other assets	(4,914,405)	1,416,065
Accounts payable, accrued expenses, and other current liabilities	5,057,046	192,109
Estimated third-party payor settlements	1,505,593	(3,993,017)
Due to the Hospital Authority of Floyd County	(843,538)	1,230,033
Net cash provided by operating activities	<u>23,541,103</u>	<u>30,589,902</u>
Cash flows from investing activities:		
Purchase of property and equipment	(12,841,374)	(28,856,745)
Proceeds from sale of investments	42,823,666	48,026,406
Purchase of investments	(54,953,709)	(60,186,195)
Cash received on lease	<u>409,247</u>	<u>-</u>
Net cash used by investing activities	<u>(24,562,170)</u>	<u>(41,016,534)</u>

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

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

	<u>2018</u>	<u>2017</u>
Cash flows from financing activities:		
Payment on long-term debt	\$(3,746,971)	\$(4,318,106)
Proceeds from issuance of long-term debt	-	1,466,572
Proceeds from contributions for capital improvements and expansion	-	339,827
Payment for issuance of long-term debt	<u>-</u>	<u>(1,000,000)</u>
Net cash used by financing activities	<u>(3,746,971)</u>	<u>(3,511,707)</u>
Net increase (decrease) in cash and cash equivalents	<u>(4,768,038)</u>	<u>(13,938,339)</u>
Cash and cash equivalents, beginning of year	<u>60,618,716</u>	<u>74,557,055</u>
Cash and cash equivalents, end of year	<u>\$ 55,850,678</u>	<u>\$ 60,618,716</u>

Supplemental disclosures of cash flow information:

- Cash paid for interest in 2018 and 2017 was \$8,000,000 and \$6,300,000, respectively.

Pursuant to the Lease Agreement described in Note 1, the non-cash liabilities transferred under the lease agreement are as follows:

Accrued vacation liability	\$ 302,879
Utilities liability	49,882
Equipment lease	<u>56,486</u>
Total non-cash items received	<u>\$ 409,247</u>

See auditor's report and notes to financial statements.

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018 and 2017

1. Summary of Significant Accounting Policies

Organization

Floyd Healthcare Management, Inc. (Corporation), a Georgia not-for-profit corporation, provided management services to the Hospital Authority of Floyd County through December 31, 1997 pursuant to a management agreement. The following entities comprised the Hospital Authority of Floyd County (Authority) prior to a lease of the facilities as described below: Floyd Medical Center, an acute care hospital providing inpatient, outpatient, and primary care services; Floyd Behavioral Health Center, a long-term care psychiatric facility; Heyman HospiceCare at Floyd; and Floyd Home Health Agency.

Pursuant to the Lease, Transfer and Reversion Agreement between Hospital Authority of Floyd County and Floyd Healthcare Management, Inc. (Lease) the Authority leased the above described operations and substantially all of its net assets to Floyd Healthcare Management, Inc., effective January 1, 1998. The Corporation sold the home healthcare services in 2007. The above-mentioned management agreement was replaced and superseded by the Lease. The consideration to be paid by the Corporation consists primarily of: payment of principal and interest on the Hospital Authority of Floyd County Revenue Anticipation Certificates; payment equal to the contribution which the Authority is required to make to satisfy minimum funding obligations under the Authority's Pension Plan with respect to benefits which had accrued under such plan prior to the Lease; and the provision of healthcare services to indigent, charity and other needy patients equal but not limited to a minimum dollar amount annually as set forth in the Lease.

In 2012, the Authority entered into a lease agreement with Cedartown-Polk County Hospital Authority (Cedartown-Polk Authority) to lease all of the assets associated with Polk Medical Center, a Critical Access Hospital (CAH) providing inpatient and outpatient services. The lease had an effective date of April 1, 2012, at which time the assets and operations of Polk Medical Center transferred to the Authority. Upon signing the lease, the Corporation created a Georgia nonprofit corporation called Polk Medical Center, Inc. (PMCI) to manage the day to day operations of Polk Medical Center through a management agreement. The Corporation is the sole member of PMCI. Pursuant to the lease and related agreements, PMCI applied for and was granted a Certificate of Need to build a new hospital to be owned by Cedartown-Polk Authority to replace the current facilities at Polk Medical Center at no cost to Cedartown-Polk Authority. Construction of the new hospital was completed in November 2014. On November 6, 2014, the new facility opened, at which time, the Authority's lease with Cedartown-Polk Authority ended and a new lease agreement became effective between PMCI and Cedartown-Polk Authority. When the Authority's lease with

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FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2018 and 2017

1. Summary of Significant Accounting Policies, Continued

Organization, Continued

Cedartown-Polk Authority ended, the assets, liabilities and operations of Polk Medical Center transferred to Cedartown-Polk Authority. The new lease between PMCI and Cedartown-Polk Authority had a 35-year term and an effective date of November 6, 2014, at which time the assets and operations of Polk Medical Center transferred to PMCI.

Floyd Cherokee Medical Center, LLC (FCMC) is an Alabama limited liability corporation that was created on April 10, 2018. Floyd Healthcare Management, Inc. (Corporation) is the sole member of FCMC. FCMC entered into a lease with an effective date of June 1, 2018 with the Cherokee County Health Care Authority, an Alabama public corporation organized under the laws of the State of Alabama, to transfer control of Cherokee Medical Center to FCMC. Cherokee Medical Center is a 60-bed acute care hospital located in Centre, Alabama.

The consolidated financial statements include the accounts of the Corporation and its affiliates, Floyd Medical Center (FMC), Floyd Behavioral Health Center, Floyd Primary Care, Heyman HospiceCare at Floyd, Floyd Emergency Physicians, Floyd Emergency Medical Services, Accountable Care Organization of Floyd Medical Center, LLC, Floyd Neonatology Physicians, LLC, Polk Medical Center, Inc., and Floyd Cherokee Medical Center, LLC. Significant intercompany transactions have been eliminated.

Use of Estimates

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

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FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2018 and 2017

1. Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents

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

The Corporation routinely invests its surplus operating funds in money market mutual funds. These funds generally invest in highly liquid U. S. government and agency obligations.

Allowance for Doubtful Accounts

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Corporation analyzes its past history and identifies trends 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 Corporation analyzes contractually due amounts, service dates, and service type and provides an allowance for doubtful accounts and a provision for bad debts, if necessary, based on the anticipated reimbursement. Management also reviews subsequent collection activity to assess the accuracy of the allowance estimated. For receivables associated with 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 Corporation records a significant provision for bad debts in the period of service on the basis of prior payments, service date, service type, and its past experience, 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 and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

FMC, FCMC, and PMCI's combined allowance for doubtful accounts for self-pay patients was 99% and 98% of self-pay accounts receivable at June 30, 2018 and 2017, respectively. In addition, FMC, FCMC, and PMCI's combined self-pay write offs, including write offs for charity and indigent patients, decreased approximately \$3,000,000 from \$168,000,000 for fiscal year 2017 to \$165,000,000 for fiscal year 2018. FMC and PMCI did not change their charity care and uninsured discount policies during 2018 and 2017, with the exception of updating the federal poverty guidelines used in determining financial assistance.

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FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2018 and 2017

1. Summary of Significant Accounting Policies, Continued

Inventory

Inventories are valued at lower of cost and net realizable value, using the first-in, first-out method.

Assets Limited As To Use

Assets limited as to use include assets set aside by the Board for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes, assets held by trustees under indenture agreements, and assets held by trustee for the 457 F Plan. Amounts required to meet current liabilities of the Corporation have been reclassified in the balance sheet at June 30, 2018 and 2017.

Assets limited as to use invested in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheet. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of revenues over expenses unless the investments are trading securities.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the consolidated financial statements.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from the excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as 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.

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2018 and 2017

1. Summary of Significant Accounting Policies, Continued

Impairment of Long-Lived Assets

The Corporation 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 Corporation has not recorded any impairment charges in the accompanying consolidated statements of operations and changes in net assets for the years ended June 30, 2018 and 2017.

Costs of Borrowing

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

Deferred Financing Cost

Costs related to the issuance of the 2012A, 2012B, FMC 2016, and PMCI 2016 Revenue Certificates were deferred and are being amortized using the effective interest method over the life of the related debt. Debt issuance costs related to a recognized debt liability are presented in the balance sheets as a direct deduction from the carrying amount of the related debt liability.

Pension Plan

The Corporation sponsors a defined benefit pension plan. The Corporation recognizes the overfunded and underfunded status of the defined benefit pension plan in its consolidated balance sheets. Changes in the funded status are recorded in the year in which the changes occurred in the consolidated statements of operations. Components of the net periodic pension cost are reported in nonoperating income (expenses). See Note 8 for additional information.

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2018 and 2017

1. Summary of Significant Accounting Policies, Continued

Excess of Revenues Over Expenses

The consolidated statement of operations and changes in net assets includes excess of revenues over expenses as a performance indicator. Changes in unrestricted net assets which are excluded from the performance indicator, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods and services, defined benefit actuarial gains and losses and the resulting amortization associated with those gains and losses, defined benefit prior service costs and credits and the resulting amortization associated with those costs and credits, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

Net Patient Service Revenue

The Corporation has agreements with third-party payors that provide for payments to the Corporation at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement arrangements 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 Corporation 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 Corporation does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2018 and 2017

1. Summary of Significant Accounting Policies, Continued

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Corporation 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 statement of operations 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.

Risk Management

The Corporation is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters. The Corporation is self-insured for employee health and accident benefits as well as medical malpractice claims and judgments, as discussed in Note 9. The provisions for estimated claims under self-insurance plans include estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Income Taxes

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

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FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2018 and 2017

1. Summary of Significant Accounting Policies, Continued

Income Taxes, Continued

Based on the results of management's evaluation, no liability is recognized in the accompanying balance sheet for unrecognized income tax positions. Further, no interest or penalties have been accrued or charged to expense as of June 30, 2018 and 2017 or for the years then ended. The Corporation'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.

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FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2018 and 2017

1. Summary of Significant Accounting Policies, Continued

Recently Adopted Accounting Pronouncement

In 2018, the Corporation prospectively adopted the provisions of Financial Accounting Standards Board ASU 2015-11, *Simplifying the Measurement of Inventory*. This ASU changes the measurement principle for certain inventory methods from the lower of cost or market to the lower of cost and net realizable value. The Corporation's adoption of this guidance did not have a material effect on the consolidated financial statements.

Accounting Pronouncements Not Yet Adopted

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which is a new comprehensive revenue recognition standard. The new guidance, including subsequent amendments, is effective for the Corporation as of July 1, 2018. The Corporation is continuing to evaluate the impact the guidance will have on the financial statements.

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 Corporation expects to adopt the new guidance for the year ending June 30, 2019 and is continuing to evaluate the impact the guidance will have on the financial statements.

Prior Year Reclassification

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 Corporation has evaluated events and transactions for potential recognition or disclosure through October 22, 2018, the date the consolidated financial statements were issued.

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2018 and 2017

2. Net Patient Service Revenue

The Corporation has arrangements with third-party payors that provide for payments to the Corporation at amounts different from its established rates. The Corporation does not believe that there are any significant credit risks associated with receivables due from third-party payors.

The Corporation recognizes patient service revenue associated with services provided to patients who have third-party coverage on the basis of anticipated collections and dates of service for services rendered. For uninsured patients that do not qualify for charity care, the Corporation recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the Corporation's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Corporation records a significant provision for bad debts 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), from these major payor sources as of June 30, is as follows:

	Patient Service Revenue (Net of Contractual Allowances and Discounts)	
	<u>2018</u>	<u>2017</u>
Medicare	\$ 139,596,973	\$ 151,677,727
Medicaid	74,958,771	75,449,496
Third-party payors	254,692,435	200,900,827
Self-pay	<u>89,355,230</u>	<u>61,172,143</u>
Net patient service revenue before provision for bad debts	558,603,409	489,200,193
Less provision for bad debts	<u>(129,255,210)</u>	<u>(75,340,604)</u>
Net patient service revenue	\$ <u>429,348,199</u>	\$ <u>413,859,589</u>

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2018 and 2017

2. Net Patient Service Revenue, Continued

Revenue from the Medicare and Medicaid programs accounted for approximately 32% and 17%, respectively, of the Corporation's net patient revenue for the year ended June 30, 2018, and 37% and 18%, respectively, of the Corporation's net patient revenue for the year ended June 30, 2017. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is a possibility that recorded estimates will change by a material amount in the near term. Cost report estimated reimbursement amounts are adjusted in subsequent periods as final settlements are determined.

The Corporation 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 and federal levels including the initiation of the Recovery Audit Contractor (RAC) program and the Medicaid Integrity Contractor (MIC) program. These programs were created to review Medicare and Medicaid 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 and Medicaid programs.

A summary of FMC's payment arrangements with major third-party payors follows:

- Medicare

Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient psychiatric services rendered to Medicare program beneficiaries are paid at prospectively determined per diems. Inpatient rehabilitation services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge.

FMC is reimbursed for certain reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by FMC and audits thereof by the Medicare Administrative Contractor (MAC). FMC'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 FMC. All Medicare cost reports have been audited by the MAC through June 30, 2013.

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2018 and 2017

2. Net 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. FMC is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by FMC and audits thereof by the Medicaid fiscal intermediary. Medicaid cost reports have been audited by the Medicaid fiscal intermediary through June 30, 2015.

FMC 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.

FMC participates in the Georgia Indigent Care Trust Fund (ICTF) Program. FMC receives ICTF payments for treating a disproportionate number of Medicaid and other indigent patients. ICTF payments are based on FMC's estimated uncompensated cost of services to Medicaid and uninsured patients. The amount of ICTF payments recognized in net patient service revenue in the consolidated financial statements include payment adjustments for the years ended June 30, 2018 and 2017 of approximately \$4,400,000 and \$4,800,000, respectively.

The Medicare, Medicaid, and SCHIP Benefits Improvement and Protection Act of 2000 (BIPA) provides for enhanced payments to Medicaid providers under the Upper Payment Limit (UPL) methodology. Subsequent to the implementation of the UPL methodology, federal budget concerns have led to reconsideration of the BIPA legislation with possible elimination of enhanced Medicaid payments. The financial statements include enhanced payments of approximately \$2,400,000 and \$1,300,000 to FMC for the years ended June 30, 2018 and 2017, respectively.

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2018 and 2017

2. Net Patient Service Revenue, Continued

• Medicaid, Continued

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 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 will result in an increase in hospital payments on Medicaid services of approximately 11.88%. FMC recorded approximately \$4,200,000 and \$3,800,000 relating to the Act in operating expenses in the accompanying statement of operations for the years ended 2018 and 2017, respectively.

• Other Arrangements

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

• Uninsured Patients

FMC has adopted 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 based on federal poverty guidelines that are periodically updated, 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 FMC for medically necessary care by Medicare and private health insurers during a 12-month look-back period.

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2018 and 2017

2. Net Patient Service Revenue, Continued

A summary of PMCI's payment arrangements with major third-party payors follows:

- Medicare

Polk Medical Center was granted CAH designation by the Medicare program. The CAH designation places certain restrictions on daily acute care inpatient census and an annual, average length of stay of acute care inpatients. Inpatient acute care and outpatient services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology.

PMCI is reimbursed for certain reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by PMCI and audits thereof by the Medicare Administrative Contractor (MAC). PMCI'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 PMCI. PMCI's Medicare cost reports have been audited by the MAC through June 30, 2016.

- Medicaid

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

PMCI is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by PMCI and audits thereof by the Medicaid fiscal intermediary. PMCI's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through June 30, 2015.

PMCI 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.

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2018 and 2017

2. Net Patient Service Revenue, Continued

• Medicaid, Continued

PMCI participates in the Georgia Indigent Care Trust Fund (ICTF) Program. PMCI receives ICTF payments for treating a disproportionate number of Medicaid and other indigent patients. ICTF payments are based on PMCI's estimated uncompensated cost of services to Medicaid and uninsured patients. The amount of ICTF payments recognized in net patient service revenue was approximately \$1,600,000 and \$1,900,000 for the years ended June 30, 2018 and 2017, respectively.

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 by PMCI in net patient service revenue was approximately \$130,000 and \$143,000 for the years ended June 30, 2018 and 2017, respectively.

• Other Arrangements

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

• Uninsured Patients

PMCI has adopted 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 based on federal poverty guidelines that are periodically updated, 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 PMCI for medically necessary care by Medicare and private health insurers during a 12-month look-back period.

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2018 and 2017

2. Net Patient Service Revenue, Continued

A summary of FCMC's payment arrangements with major third-party payors follows:

- Medicare

Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

FCMC is reimbursed for certain reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by FCMC and audits thereof by the Medicare Administrative Contractor (MAC). FCMC'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 FCMC.

- Medicaid

Inpatient services rendered to Medicaid program beneficiaries are reimbursed at an all-inclusive per diem rate on date of adjudication in a given state fiscal year plus an access payment. Outpatient services are paid based on a fee schedule. Annually a copy of the Medicare cost report is submitted to the Medicaid agency to assist the agency in monitoring the program.

Private hospitals are assessed a tax, to be paid in quarterly installments, equivalent to 5.5% of the net patient revenue in fiscal year 2014 for state fiscal year 2018. FCMC anticipates that the total amounts received for Medicaid patients under the new plan will more than offset the amount of the assessment tax. Private hospitals could be paid three payments for inpatient care; per diem for claims submitted, lump sum DSH and quarterly access payments based upon the Upper Payment Limit (UPL) calculation; and two payments for outpatient care; encounter payments and outpatient UPL.

FCMC was paid for DSH amounts and access payments based on upper payment limits in excess of provider tax payments during 2018 due to timing differences. These excess payments are reflected as deferred revenue in current liabilities.

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2018 and 2017

2. Net Patient Service Revenue, Continued

• Other Arrangements

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

• Uninsured Patients

FCCM has adopted 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 based on federal poverty guidelines that are periodically updated, 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 FCCM for medically necessary care by Medicare and private health insurers during a 12-month look-back period.

3. Uncompensated Charges

The Corporation was compensated for services at amounts less than its established rates. Charges foregone related to contractual agreements and provision for bad debts for 2018 and 2017 were approximately \$1,239,900,000 and \$1,182,600,000, respectively.

Uncompensated charges include charity and indigent care services of approximately \$63,700,000 and \$89,000,000 in 2018 and 2017, respectively. Charity and indigent care services provided to Floyd County residents in 2018 and 2017 were approximately \$31,300,000 and \$46,100,000, respectively. Charity and indigent care services provided to Polk County residents in 2018 and 2017 were approximately \$13,900,000 and \$17,300,000, respectively. The cost of charity and indigent care services provided during 2018 and 2017 was approximately \$16,300,000 and \$22,600,000, respectively computed by applying a total cost factor to the charges foregone.

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2018 and 2017

3. Uncompensated Charges, Continued

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

	<u>2018</u>	<u>2017</u>
Gross patient charges	\$ <u>1,669,261,416</u>	\$ <u>1,596,418,381</u>
Uncompensated charges:		
Charity and indigent care	63,748,457	88,958,549
Medicare	523,626,762	467,739,198
Medicaid	240,306,838	237,681,679
Other allowances	282,975,950	312,838,762
Bad debts	<u>129,255,210</u>	<u>75,340,604</u>
Total uncompensated charges	<u>1,239,913,217</u>	<u>1,182,558,792</u>
Net patient service revenue	\$ <u>429,348,199</u>	\$ <u>413,859,589</u>

4. Concentrations of Credit Risk

The Corporation located in Northwest Georgia and Northeast Alabama, grants credit without collateral to its patients substantially all of whom are local residents of Northwest Georgia and Northeast Alabama and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	<u>2018</u>	<u>2017</u>
Medicare	25%	23%
Medicaid	8%	9%
Other	<u>67%</u>	<u>68%</u>
Total	<u>100%</u>	<u>100%</u>

Management considers the concentrations of credit risk with respect to accounts receivable to be limited due to the large number of patients comprising the receivables base.

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2018 and 2017

4. Concentrations of Credit Risk, Continued

The Corporation maintains deposits with financial institutions which exceed the Federal Depository insurance limits. At June 30, 2018, management believes the credit risk associated with these deposits is minimal.

5. Assets Limited as to Use

All assets limited as to use are classified as trading securities.

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

	<u>2018</u>	<u>2017</u>
Assets limited as to use:		
By board for capital improvements:		
Cash and cash equivalents	\$ 734,997	\$ 1,464,751
CMO and asset backed securities	1,391,081	965,106
Mutual funds – equity	48,224,533	39,858,742
Mutual funds – corporate bonds	10,502,216	12,785,071
Mutual funds – fixed income	8,697,344	6,572,830
Mutual funds – international	3,279,039	1,669,162
Mutual funds – real estate	913,561	-
Corporate bonds	16,365,656	15,235,810
Mortgage backed securities	8,697,990	10,332,390
Federal agency bonds	1,159,737	1,221,608
U.S. Treasury obligations	8,249,095	7,875,283
Investment in Babson Partnership	3,274,214	2,263,820
Investment in TCW Partnership	1,763,757	2,084,528
Equities – common stock	10,547,930	8,205,410
U.S. government index fund	<u>2,166,233</u>	<u>-</u>
	<u>125,967,383</u>	<u>110,534,511</u>
Under indenture agreement – held by trustee:		
Cash and cash equivalents	<u>28,411,752</u>	<u>28,306,468</u>

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2018 and 2017

5. Assets Limited as to Use, Continued

	<u>2018</u>	<u>2017</u>
457 F Plan – held by trustee:		
Cash and cash equivalents	\$ 110,330	\$ -
Mutual funds – equity	945,864	-
Mutual funds – international	13,098	-
Corporate bonds	<u>81,112</u>	<u>-</u>
	<u>1,150,404</u>	<u>-</u>
Total assets limited as to use	\$ <u>155,529,539</u>	\$ <u>138,840,979</u>

Interest income, losses, and gains for assets limited as to use, cash equivalents, and other investments are comprised of the following for the years ending June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Income:		
Interest and dividend income	\$ 3,459,720	\$ 2,391,363
Realized gain/(loss) on trading securities	88,332	587,208
Unrealized gain/(loss) on trading securities	<u>3,319,781</u>	<u>3,369,556</u>
Total	\$ <u>6,867,833</u>	\$ <u>6,348,127</u>

The Corporation's assets limited as to use 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 changes could materially affect the amounts reported in the accompanying consolidated financial statements.

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2018 and 2017

6. Property, Plant and Equipment

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

	<u>2018</u>	<u>2017</u>
Land	\$ 15,014,733	\$ 14,417,009
Land improvements	4,767,304	4,861,971
Buildings	167,216,158	157,712,204
Fixed equipment	53,479,895	59,893,032
Major movable equipment	163,625,360	151,873,905
Leasehold improvements	11,093,330	10,875,756
Building under capital lease	<u>6,982,586</u>	<u>6,982,586</u>
	422,179,366	406,616,463
Less accumulated depreciation	<u>240,720,924</u>	<u>232,470,489</u>
	181,458,442	174,145,974
Construction in progress	<u>3,283,851</u>	<u>22,260,454</u>
Property, plant and equipment, net	\$ <u>184,742,293</u>	\$ <u>196,406,428</u>

Depreciation expense for the years ended June 30, 2018 and 2017 amounted to approximately \$24,500,000 and \$23,500,000, respectively. Accumulated amortization for buildings under capital lease obligations was \$3,200,000 and \$2,800,000 at June 30, 2018 and 2017, respectively. There are no construction contracts at year end.

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2018 and 2017

7. Long-Term Debt

Long-term debt and capital lease obligations for the years ended June 30, 2018 and 2017 follows:

	<u>2018</u>	<u>2017</u>
Revenue Certificates, Series 2012A payable in installments ranging from \$450,000 to \$585,000 each July 1, until 2026 with a final payment of \$13,380,000 on July 1, 2042. The certificates are guaranteed by the gross revenues of the Obligated Group. The certificates bear interest rates per annum ranging from 2.00% to 5.00%.	\$ 18,015,000	\$ 18,445,000
Revenue Certificates, Series 2012B payable in installments ranging from \$1,225,000 to \$3,725,000 each July 1, until 2027 with a final payment of \$10,915,000 on July 1, 2032. The certificates are guaranteed by the gross revenues of the Obligated Group. The certificates bear interest rates per annum ranging from 4.00% to 5.00%.	26,275,000	27,460,000
Revenue Certificates, FMC Series 2016 payable in installments ranging from \$1,400,000 to \$6,220,000 each July 1, until 2043. The certificates are guaranteed by the gross revenues of the Obligated Group. The certificates bear interest rates per annum ranging from 3.125% to 5.00%.	82,000,000	83,330,000

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2018 and 2017

7. Long-Term Debt, Continued

	<u>2018</u>	<u>2017</u>
Revenue Certificates, PMCI Series 2016 payable in installments ranging from \$35,000 to \$5,515,000 each July 1, until 2039. The certificates are guaranteed by the gross revenues of the Obligated Group. The certificates bear interest rates per annum ranging from 3.125% to 5.00%.	\$ 30,325,000	\$ 30,415,000
Notes payable with monthly payments ranging from \$9,266 to \$30,358, guaranteed by the gross revenues of Floyd Healthcare Management, Inc.	5,403,487	5,770,734
Capital lease obligations, collateralized by buildings, with interest rates from 5.25% to 5.37% and monthly payments ranging from \$16,100 to \$42,488.	5,128,862	5,473,586
Revolving line of credit guaranteed by the gross revenues of Floyd Healthcare Management, Inc. and the Authority, interest rates vary on a weekly basis. Interest is paid monthly.	<u>15,000,000</u>	<u>15,000,000</u>
Total long-term debt	182,147,349	185,894,320
Unamortized bond premium	14,497,587	15,531,467
Less unamortized bond issuance costs	(2,776,556)	(2,950,370)
Less current maturities of long-term debt	<u>(3,841,697)</u>	<u>(3,778,782)</u>
Long-term debt, net of current maturities	\$ <u>190,026,683</u>	\$ <u>194,696,635</u>

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2018 and 2017

7. Long-Term Debt, Continued

Scheduled principal repayments on long-term debt and payments on capital lease obligations for the next five years are as follows:

	<u>Long-Term Debt</u>	<u>Capital Lease Obligation</u>
2019	\$ 3,463,561	\$ 639,676
2020	18,606,582	656,486
2021	3,749,928	671,632
2022	3,913,614	687,139
2023	4,087,653	703,019
Thereafter	143,197,149	3,301,159
Less amount representing interest under capital lease obligation	<u>-</u>	<u>1,530,249</u>
Total	<u>\$ 177,018,487</u>	<u>\$ 5,128,862</u>

The revolving lines of credit of \$15,000,000 were refinanced after June 30, 2018. These lines of credit were refinanced into a term loan, payable in monthly payments of \$125,000 plus interest based on a 4.02% per annum interest rate with the remaining balance due September 1, 2023.

Revenue Anticipation Certificates, FMC Series 2016 were issued to (i) finance the cost of acquisition, construction, equipping and installation of certain additions, extensions and improvements to healthcare facilities and equipment operated by Floyd Healthcare Management, Inc.; (ii) pay all or a portion of the costs of issuance of the FMC Series 2016 Certificates; (iii) refund all of the Series 2003 Certificates; and (iv) advance refund all of the Series 2009 Certificates. Under the terms of an escrow agreement, a portion of the proceeds for the FMC Series 2016 Certificates was deposited into an escrow fund in order to redeem the remaining Series 2009 Certificates on July 1, 2019. The defeasance resulted in a loss of approximately \$5,603,000.

Revenue Anticipation Certificates, PMCI Series 2016 were issued to (i) refund the \$34 million due under a Bridge Loan Agreement; (ii) finance certain renovation projects; and (iii) pay costs of issuance of the PMCI Series 2016 Certificates.

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2018 and 2017

7. Long-Term Debt, Continued

Revenue Anticipation Certificates, Series 2012A were issued to (i) finance or refinance, in whole or in part, the costs of the acquisition, construction, renovation, expansion, installation and equipping of new or existing medical and healthcare facilities and equipment of the Corporation; (ii) fund a debt service reserve fund; and (iii) pay all or a portion of the costs of issuance of the Series 2012A Certificates.

Revenue Anticipation Certificates, Series 2012B were issued to (i) refund the \$35,000,000 Series 2002 Certificates; (ii) fund a debt service reserve fund; and (iii) pay all or a portion of the costs of issuance of the Series 2012B Certificates. The provision for payment of the Series 2002 Certificates constitutes a defeasance of the bonds and the lien on the related bond indentures. The defeasance resulted in a loss of approximately \$687,000.

The Corporation, PMCI, and the Authority are members of the Obligated Group of the Revenue Anticipation Certificates FMC Series 2016, PMCI Series 2016, Series 2012A, and Series 2012B. Additionally, if the Authority and the Corporation cannot meet their obligation under the FMC Series 2016, Series 2012A, and Series 2012B Certificates, Floyd County has agreed to make payments to the Certificate Trustee sufficient to guarantee the payment of the principal and interest on these certificates pursuant to Georgia law and the constitutional power of the County.

At its option, to be exercised on or before the 45th day preceding any sinking fund redemption date, the Corporation may (a) deliver to the Certificate Trustee for cancellation FMC Series 2016, PMCI Series 2016, Series 2012A, or Series 2012B Certificates of the appropriate maturity in any aggregate principal amount desired or (b) receive a credit in respect of its sinking fund redemption obligation for any FMC Series 2016, PMCI Series 2016, Series 2012A, or Series 2012B Certificates of the appropriate maturity which prior to said date have been redeemed (otherwise than through the operation of the mandatory sinking fund obligation) and cancelled by the Certificate Trustee and not theretofore applied as a credit against any prior mandatory sinking fund redemption obligation. Each FMC Series 2016, PMCI Series 2016, Series 2012A, or Series 2012B Certificate so delivered or previously redeemed shall be credited by the Certificate Trustee at 100% of the principal amount thereof on the obligation of the Corporation on such sinking fund redemption date and any excess shall be credited on future sinking fund redemption obligations in such order as may be specified by the Corporation. The principal amount of such FMC Series 2016, PMCI Series 2016, Series 2012A, or Series 2012B Certificates to be redeemed by operation of the sinking fund shall be accordingly reduced.

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2018 and 2017

7. Long-Term Debt, Continued

Under the terms of the FMC Series 2016, PMCI Series 2016, Series 2012A, and 2012B indentures, the Corporation is required to maintain certain deposits with a trustee. Such deposits are included with assets limited as to use. The indentures also place limits on the incurrence of additional borrowings and require that the Corporation satisfy certain measures of financial performance as long as the Certificates are outstanding. In the opinion of management, all measures of financial performance have been satisfied.

In 2014, the Corporation obtained a note for \$5,000,000 for the construction of the Polk Medical Center medical office building. The note has a stated interest rate of 3.99%. The monthly payments on the note are \$30,358 for twenty years.

Capital Lease Obligation

In 2011, the Corporation entered into a capital lease agreement under which the Corporation leases an office suite devoted to long-term acute care. The lease payments end in January 2031.

In 2011, the Corporation entered into a capital lease agreement under which the Corporation leases premises located within the Rome Cancer Center. The lease payments end in April 2026.

Line of Credit

In 2013, the Corporation signed promissory notes for revolving lines of credit totaling \$25,000,000. The loans have a stated interest rate of LIBOR plus 1.3%. Subsequent to June 30, 2018, the revolving lines of credit were refinanced so that the \$15,000,000 portion already drawn on the line of credit was converted to a term loan and the undrawn portion remained open for future draws. The refinanced line of credit carries an interest rate of LIBOR plus 0.7%. At June 30, 2018, approximately \$10,000,000 of unused borrowing remains on the lines of credit.

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2018 and 2017

8. Employee Benefit Plans

At January 1, 1998, the Corporation implemented a defined benefit pension plan (Plan) covering substantially all of its employees. The benefits are based on 1.75% of earnings for each year after January 1, 1998, with the total benefit subject to thirty-five years of benefit service maximum. The Corporation's funding policy is to contribute annually an amount intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. Benefit accruals for active participants within the Corporation's retirement plan were effectively frozen on March 31, 2014.

An actuarial valuation of the Plan was performed with a measurement date of June 30, 2018 and a measurement period of July 1, 2017 to June 30, 2018.

The following table sets forth the Plan's funded status, the related changes in the defined benefit plan, and amounts recognized in the financial statements at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Plan assets at fair value	\$ 72,253,348	\$ 81,978,665
Projected benefit obligation	(96,977,141)	(112,758,305)
Funded status	\$(<u>24,723,793</u>)	\$(<u>30,779,640</u>)
Amounts recognized in the balance sheet consist of:		
Pension liability	\$(24,723,793)	\$(30,779,640)
457 F plan liability	(<u>1,150,404</u>)	<u>-</u>
Noncurrent post-retirement liability	\$(<u>25,874,197</u>)	\$(<u>30,779,640</u>)
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 112,758,305	\$ 120,343,324
Interest cost	3,918,177	3,950,521
Actuarial gain	(8,456,730)	(4,153,410)
Benefits paid	(13,769,082)	(7,382,130)
Liability loss due to curtailment	<u>2,526,471</u>	<u>-</u>
Benefit obligation at end of year	\$ <u>96,977,141</u>	\$ <u>112,758,305</u>

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2018 and 2017

8. Employee Benefit Plans, Continued

	<u>2018</u>	<u>2017</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 81,978,665	\$ 81,334,657
Benefits paid	(13,769,082)	(7,382,130)
Return on plan assets	2,935,905	8,026,138
Employer contributions	<u>1,107,860</u>	<u>-</u>
Fair value of plan assets at end of year	\$ <u>72,253,348</u>	\$ <u>81,978,665</u>
Cumulative amounts recognized in unrestricted net assets consist of:		
Net actuarial loss	\$ <u>25,118,485</u>	\$ <u>32,379,607</u>
Asset	\$ <u>394,692</u>	\$ <u>1,599,967</u>

The accumulated benefit obligation for the defined benefit pension plan was approximately \$97,000,000 and \$112,800,000 at June 30, 2018 and 2017, respectively.

	<u>2018</u>	<u>2017</u>
Components of net periodic benefit cost:		
Interest cost	\$ 3,918,177	\$ 3,950,521
Expected return on plan assets	(4,816,923)	(4,773,697)
Amortization of unrecognized net loss	685,410	858,105
Curtailment expense	<u>2,526,471</u>	<u>-</u>
Net periodic benefit cost	<u>2,313,135</u>	<u>34,929</u>
Other changes in plan assets and benefit obligations recognized in the statement of operations and changes in net assets:		
Current year actuarial (gain)/loss	(6,575,712)	(7,405,851)
Amortization of actuarial gain/(loss)	<u>(685,410)</u>	<u>(858,105)</u>
Total other changes	<u>(7,261,122)</u>	<u>(8,263,956)</u>
Total recognized in statement of operations and changes in net assets	\$ <u>(4,947,987)</u>	\$ <u>(8,229,027)</u>

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2018 and 2017

8. Employee Benefit Plans, Continued

	<u>2018</u>	<u>2017</u>
Assumptions:		
Weighted-average assumptions used to determine benefit obligations at June 30:		
Discount rate	4.36 %	4.04 %
Rate of compensation increase	N/A	N/A
Expected long-term rate of return	6.00 %	6.00 %
Weighted-average assumptions used to determine net periodic benefit cost for years ended June 30:		
Discount rate	4.04 %	4.01 %
Expected long-term return on plan assets	6.00 %	6.50 %
Rate of compensation increase	N/A	N/A

The discount rate for pension cost purposes is the rate at which the pension obligations could be effectively settled. This rate is developed from yields on available high-quality bonds and reflects the plan's expected cash flows.

The liabilities of the Plan were calculated based on the January 1, 2018 census data projected to June 30, 2018 using reasonable actuarial assumptions and methodology. Liabilities have been calculated using the June 30, 2018 Aon Hewitt AA Above Median Yield Curve with a 4.36% effective discount rate. These rates were selected by Floyd Medical Center as the rates for reporting as of June 30, 2018.

Mortality assumptions are based on RP-2006 Mortality Tables for Employees and Healthy Annuitants with a fully generational projection using Scale MP-2017.

Assumptions used to determine statutory contribution limits must be reasonable taking into account the experience of the plan and reasonable expectations. However, certain assumptions (such as interest and mortality) are either prescribed by the IRS or are subject to IRS approval. The interest rates used to determine the funding target and target normal cost are based on high-quality corporate bond yield curve.

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2018 and 2017

8. Employee Benefit Plans, Continued

The net transition asset/obligation, net actuarial gain/loss, and prior service cost/credit amount expected to be recognized in net periodic benefit cost for the 12 months beginning July 1, 2018 are as follows:

Net transition (assets)/obligation	\$	-
Actuarial loss		527,206
Prior service cost		-
		<u>-</u>
Total	\$	<u>527,206</u>

Plan Assets

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

	<u>2018</u>	<u>2017</u>
Money market funds	\$ 1,117,388	\$ 728,294
Mutual funds – corporate bonds	93,145	92,848
AHGT common collective trust funds:		
ACWI-EX US PASS	3,788,208	4,891,419
GBL Real Estate	3,874,739	4,518,912
Global Equity	6,964,023	8,150,077
High Yield Bond	7,558,269	8,781,979
Mid LOC	21,265,418	14,766,586
Non-US Active	6,364,664	7,502,845
US LC Active	3,987,799	4,351,479
US LG FI ACT CR	9,435,027	20,762,430
US Passive Eqty	3,956,281	4,399,900
US SMC Active	2,349,188	3,031,896
US LG GOV BD	<u>1,499,199</u>	<u>-</u>
Total	\$ <u>72,253,348</u>	\$ <u>81,978,665</u>

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2018 and 2017

8. Employee Benefit Plans, Continued

The asset allocation at the end of 2018 and 2017, by asset category:

<u>Asset Category</u>	<u>Actual Allocation, End of Year</u>	
	<u>2018</u>	<u>2017</u>
AHGT ACWI-EX US PASS	5.2%	6.0%
AHGT GBL Real Estate	5.4%	5.5%
AHGT Global Equity	9.6%	9.9%
AHGT High Yield Bond	10.5%	10.7%
AHGT Mid LOC	29.4%	18.0%
AHGT Non-US Active	8.8%	9.2%
AHGT US LC Active	5.5%	5.3%
AHGT US LG FI ACT CR	13.1%	25.3%
AHGT US Passive Eqty	5.5%	5.4%
AHGT US SMC Active	3.3%	3.7%
AHGT US LG GOV BD	2.1%	0.0%
Other	<u>1.6%</u>	<u>1.0%</u>
Total	<u>100.0%</u>	<u>100.0%</u>

The Corporation's investment strategy with respect to pension plan assets is to provide a secure source of retirement income to Plan beneficiaries. The Corporation's basis used to determine expected return on assets assumption is determined from a strategic asset allocation study undertaken by an investment consultant to identify an appropriate asset mixture likely to produce a moderate growth of total asset value while managing risk through suitable diversification. The study included an analysis of various asset classes, their correlation to one another, and assumptions as to each asset class' risk and return characteristics.

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2018 and 2017

8. Employee Benefit Plans, Continued

The Corporation has approved the use of the following classes of marketable securities for asset allocation and investment purposes for the Plan:

- Domestic common stocks
- International (non-U.S.) common stocks
- Domestic and foreign government, mortgage-backed and corporate bonds
- Cash equivalents
- AHGT common collective trust funds
- Other asset classes that the Committee may from time to time deem prudent

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2018 and 2017.

- *Mutual funds:* Valued at the daily closing price as reported by the fund. Mutual funds held by the Plan are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Plan are deemed to be actively traded.
- *Money market funds:* Valued at amortized cost, which approximates fair value.
- *Common collective trust funds and pooled investment funds:* Valued daily using the NAV. The NAVs are based on the fair value of each fund's underlying investments. The NAV is used as a practical expedient to estimate fair value. This practical expedient would not be used if it is determined to be probable that the fund will sell the investment for an amount different from the reported NAV.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2018 and 2017

8. Employee Benefit Plans, Continued

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of June 30, 2018 and 2017:

	<u>Assets at Fair Value as of June 30, 2018</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 93,145	\$ -	\$ -	\$ 93,145
Money market funds	<u>-</u>	<u>1,117,388</u>	<u>-</u>	<u>1,117,388</u>
Total assets in the FV hierarchy	\$ <u>93,145</u>	\$ <u>1,117,388</u>	\$ <u>-</u>	1,210,533
Investments measured at NAV				<u>71,042,815</u>
Investments at fair value				\$ <u>72,253,348</u>

	<u>Assets at Fair Value as of June 30, 2017</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 92,848	\$ -	\$ -	\$ 92,848
Money market funds	<u>-</u>	<u>728,294</u>	<u>-</u>	<u>728,294</u>
Total assets in the FV hierarchy	\$ <u>92,848</u>	\$ <u>728,294</u>	\$ <u>-</u>	821,142
Investments measured at NAV				<u>81,157,523</u>
Investments at fair value				\$ <u>81,978,665</u>

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2018 and 2017

8. Employee Benefit Plans, Continued

The following table summarizes investments measured at fair value using the NAV per share as a practical expedient.

<u>Investment Type</u>	As of June 30, 2018			
	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
AHGT funds:				
ACWI-EX US PASS	\$ 3,788,208	\$ -	Daily	None
GBL Real Estate	3,874,739	-	Daily	None
Global equity	6,964,023	-	Daily	None
High Yield Bond	7,558,269	-	Daily	None
Mid LOC	21,265,418	-	Daily	None
Non-US Active	6,364,664	-	Daily	None
US LC Active	3,987,799	-	Daily	None
US LG FI ACT CR	9,435,027	-	Daily	None
US Passive Eqty	3,956,281	-	Daily	None
US SMC Active	2,349,188	-	Daily	None
US LG GOV BD	<u>1,499,199</u>	<u>-</u>	Daily	None
Total AHGT funds	\$ <u>71,042,815</u>	\$ <u>-</u>		

<u>Investment Type</u>	As of June 30, 2017			
	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
AHGT funds:				
ACWI-EX US PASS	\$ 4,891,419	\$ -	Daily	None
GBL Real Estate	4,518,912	-	Daily	None
Global equity	8,150,077	-	Daily	None
High Yield Bond	8,781,979	-	Daily	None
Mid LOC	14,766,586	-	Daily	None
Non-US Active	7,502,845	-	Daily	None
US LC Active	4,351,479	-	Daily	None
US LG FI ACT CR	20,762,430	-	Daily	None
US Passive Eqty	4,399,900	-	Daily	None
US SMC Active	<u>3,031,896</u>	<u>-</u>	Daily	None
Total AHGT funds	\$ <u>81,157,523</u>	\$ <u>-</u>		

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2018 and 2017

8. Employee Benefit Plans, Continued

Contributions

The Corporation expects to make approximately \$2,982,000 in contributions in 2019.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid.

<u>Year Ended</u>	<u>Pension Benefits</u>
2019	\$ 4,520,885
2020	\$ 4,716,759
2021	\$ 4,860,326
2022	\$ 4,997,417
2023	\$ 5,142,337
Years 2024 and beyond	\$ 27,462,222

Effective December 31, 2005, the Corporation froze future accruals for active participants electing to join the plan.

Defined Contribution Plan

Floyd Healthcare Management, Inc. established a 401(k) retirement plan effective January 1, 2006. The plan is a defined contribution 401(k) profit sharing plan covering full-time employees over the age of eighteen who are not participating in the defined benefit pension plan. Employees may immediately contribute between 1% and 25% of their salary, subject to the maximum dollar limit allowed by the IRS. The Corporation will match 100% of the employee's contributions up to 3% of their salary plus 50% of the next 2% of the employee's contributions for all participating employees with at least one year of service and over 1,000 hours worked in a calendar year. The employer contributions during the fiscal years ending June 30, 2018 and 2017 were approximately \$4,300,000 and \$4,000,000, respectively.

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2018 and 2017

9. Self-Insurance

Malpractice

Losses from asserted and unasserted claims are accrued by the Corporation based on claims reported and estimated claims incurred but not reported as derived from the Authority's or the Corporation's risk management program. Also, the Corporation has employed outside consultants to estimate the annual contribution to the fund.

The professional liability self-insurance retention limits are \$2 million per occurrence and \$4 million in aggregate. Malpractice claims in excess of the self-insurance retention limits are insured with commercial insurance carriers on a claims-made basis. The policy covers malpractice claims up to \$20 million in aggregate.

PMCI and FCMC are covered by a claims-made general and professional liability insurance policy with a specified deductible of \$50,000 per incident and excess coverage on a claims-made basis. Liability limits related to this policy in 2018 are \$1 million per occurrence and \$3 million in aggregate. In addition, PMCI and FCMC are covered by the Corporation's umbrella policy that covers malpractice claims up to \$20 million in aggregate. PMCI and FCMC use a third-party administrator to review and analyze incidents that may result in a claim against PMCI and FCMC. In conjunction with the third-party administrator, incidents are assigned reserve amounts for ultimate liability that may result from an asserted claim.

Various claims and assertions have been made against the Corporation in its normal course of providing services. In addition, other claims may be asserted arising from services provided to patients in the past. In the opinion of management, adequate provision has been made for losses which may occur from such asserted and unasserted claims that are not covered by liability insurance.

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2018 and 2017

9. Self-Insurance, Continued

Employee Hospitalization

The Corporation has a self-insurance program for employee health insurance under which a third-party administrator processes and pays claims. The Corporation reimburses the third-party administrator monthly for claims incurred and paid to other providers. The charges, less any deductibles and coinsurance for covered services provided to employees by the Corporation, are written off against gross patient service revenue. In addition, the Corporation has entered into a loss financing agreement with ten Georgia hospitals through a program developed by Georgia ADS, LLC. The program is designed to provide for the financing and payment of covered claims between \$150 thousand and \$500 thousand. The program also buys a reinsurance policy to cover claims reaching \$1 million. Further, the Corporation purchased additional insurance to cover claims up to \$2 million. Payments received from the program must be repaid over a specified period of time with interest. Under this self-insurance program, the Corporation paid or accrued and expensed approximately \$15,500,000 and \$14,600,000 during the years ended June 30, 2018 and 2017, respectively. The Corporation wrote off services to employees net of deductible and coinsurance of approximately \$19,200,000 and \$18,300,000 during the years ended June 30, 2018 and 2017, respectively.

10. Functional Expenses

The Corporation provides general health care services to residents in Northwest Georgia and Northeast Alabama. Expenses related to providing these services, at June 30, 2018 and 2017, are as follows:

	<u>2018</u>	<u>2017</u>
Health care services	\$ 327,812,563	\$ 315,361,851
General and administrative services	<u>100,042,384</u>	<u>90,413,393</u>
Total	\$ <u>427,854,947</u>	\$ <u>405,775,244</u>

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2018 and 2017

11. Fair Value of Financial Instruments

The following methods and assumptions were used by the Corporation 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 balance sheet approximates its fair value due to the short-term nature of these instruments.
- *Assets limited as to use and cash surrender value of life insurance policy:* Amounts reported in the balance sheet are at fair value. See Note 12 for fair value measurement disclosures.
- *Long-term debt:* The fair value of the Corporation's long-term debt is estimated based on the quoted market value for same or similar debt instruments. The carrying amounts for the lines of credit approximate its fair value. Based on inputs used in determining the estimated fair value, the Corporation's long-term debt would be classified as Level 2 in the fair value hierarchy.

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

	2018		2017	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Long-term debt	\$ <u>191,516,074</u>	\$ <u>181,854,468</u>	\$ <u>195,952,201</u>	\$ <u>188,103,221</u>

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2018 and 2017

12. Fair Value Measurement

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

	<u>Fair Value</u>	<u>Fair Value Measurements at Reporting Date Using</u>		
		<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
	<u>June 30, 2018</u>			
Assets:				
Capital improvements:				
Cash and cash equivalents	\$ 734,997	\$ 734,997	\$ -	\$ -
CMO and asset backed securities	1,391,081	-	1,391,081	-
Mutual funds – equity	48,224,533	48,224,533	-	-
Mutual funds – corporate bonds	10,502,216	10,502,216	-	-
Mutual funds – fixed income	8,697,344	8,697,344	-	-
Mutual funds – international	3,279,039	3,279,039	-	-
Mutual funds – real estate	913,561	913,561	-	-
Corporate bonds	16,365,656	-	16,365,656	-
Mortgage backed securities	8,697,990	-	8,697,990	-
Federal agency bonds	1,159,737	1,159,737	-	-
U.S. Treasury obligations	8,249,095	8,249,095	-	-
Equities – common stock	10,547,930	10,547,930	-	-
U.S. government index fund	2,166,233	2,166,233	-	-
Under indenture agreement:				
Cash and cash equivalents	28,411,752	28,411,752	-	-
457 F plan – held by trustee:				
Cash and cash equivalents	110,330	110,330	-	-
Mutual funds – equity	945,864	945,864	-	-
Mutual funds – international	13,098	13,098	-	-
Corporate bonds	81,112	81,112	-	-
Cash surrender value of life insurance policy	<u>2,117,687</u>	<u>-</u>	<u>2,117,687</u>	<u>-</u>
Total assets in the fair value hierarchy	152,609,255	\$ <u>124,036,841</u>	\$ <u>28,572,414</u>	\$ <u>-</u>
Investments measured at NAV	<u>5,037,971</u>			
Total investments at fair value	\$ <u>157,647,226</u>			

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2018 and 2017

12. Fair Value Measurement, Continued

	<u>Fair Value</u>	<u>Fair Value Measurements at Reporting Date Using</u>		
		<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<u>June 30, 2017</u>				
Assets:				
Capital improvements:				
Cash and cash equivalents	\$ 1,464,751	\$ 1,464,751	\$ -	\$ -
CMO and asset backed securities	965,106	-	965,106	-
Mutual funds – equity	39,858,742	39,858,742	-	-
Mutual funds – corporate bonds	12,785,071	12,785,071	-	-
Mutual funds – fixed income	6,572,830	6,572,830	-	-
Mutual funds – international	1,669,162	1,669,162	-	-
Corporate bonds	15,235,810	-	15,235,810	-
Mortgage backed securities	10,332,390	-	10,332,390	-
Federal agency bonds	1,221,608	1,221,608	-	-
U.S. Treasury obligations	7,875,283	7,875,283	-	-
Equities – common stock	8,205,410	8,205,410	-	-
Under indenture agreement:				
Cash and cash equivalents	28,306,468	28,306,468	-	-
Cash surrender value of life insurance policy	<u>1,903,034</u>	<u>-</u>	<u>1,903,034</u>	<u>-</u>
Total assets in the fair value hierarchy	136,395,665	\$ <u>107,959,325</u>	\$ <u>28,436,340</u>	\$ <u>-</u>
Investments measured at NAV	<u>4,348,348</u>			
Total investments at fair value	\$ <u>140,744,013</u>			

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2018 and 2017

12. Fair Value Measurement, Continued

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.

Securities or other assets for which market quotations are not broad, representative or readily available will be valued at fair value in accordance with procedures established by and under the general supervision and responsibility of the investment manager or its designee. Such procedures may include the use of independent pricing services (which use prices based upon yields or prices of securities of comparable quality, type, coupon and maturity) and/or indications as to value from dealers and exchanges; provided that prices obtained from independent pricing sources, including dealers and exchanges, may be adjusted by the investment manager or its designee if, in the reasonable belief of the investment manager or its designee, a more accurate value may be obtained by reference to recent trading activity or by incorporating other relevant information (including considerations of general market conditions) that may not be reflected in pricing obtained from independent pricing sources.

Unlisted securities will be valued at the average of the quoted bid and asked prices in the over-the-counter market. The value of each such security for which readily available market quotations exist is based on a decision as to the broadest and most representative market for such security.

The cash surrender value of life insurance policy represents the fair market value less surrender charges for life insurance policies held by the Corporation.

The mortgage backed securities are primarily invested in Ginnie Mae loan mortgages and Fannie Mae papers.

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2018 and 2017

12. Fair Value Measurement, Continued

The following investments are measured at fair value using the NAV per share as a practical expedient.

- The Babson Limited Partnership invests in senior secured loans, other high yield loans, high yield bonds, non-investment grade fixed income or debt securities and other debt instruments as decided by the partnership's investment management. The Babson Partnership values the underlying investments each month and updates the partnership's net assets accordingly. The majority of the partnership's investments are senior secured loans and utilize private secondary markets to value the investment. There is no penalty or fee for a partner to redeem their share of the partnership. There are no unfunded commitments. Any distributions can be accessed monthly. The fair value of the Corporation's investment in the Babson Limited Partnership for the years ended June 30, 2018 and 2017 was approximately \$3,274,000 and \$2,264,000, respectively.
- TCW Direct Lending, LLC (TCW) invests in highly-customized senior secured loans to middle market companies. TCW engages a third-party valuation firm to assist in the valuation of the investment, which includes using market data on syndicated loans, analyzing the strength of covenants, collateral, and management, as well as the outlook on the borrowing company and its industry. TCW values the underlying investments each quarter and updates the Corporation's investment in TCW accordingly. As of June 30, 2018, the Corporation had committed \$3,000,000 to TCW, with approximately \$2,390,000 that has been drawn down by TCW. The Corporation has an unfunded commitment of \$760,000 which includes \$150,000 of recallable distributions. Any capital distributions from TCW can be accessed monthly. The Corporation is committed to the investment for a three-year investment period and a three year unwind period with two one-year extensions; however, the investment could be sold on a secondary market. The fair value of the Corporation's investment in TCW for the years ended June 30, 2018 and 2017 was approximately \$1,764,000 and \$2,085,000, respectively.

13. Commitments and Contingencies

Operating Leases: The Corporation leases various equipment and facilities under operating leases. Total rental expense in 2018 and 2017 for all operating leases was \$4,200,000 and \$4,400,000, respectively.

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2018 and 2017

13. Commitments and Contingencies, Continued

The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2018, that have initial or remaining lease terms in excess of one year.

<u>Year Ending</u>	<u>Amount at June 30</u>
2019	\$ 564,724
2020	237,526
2021	237,526
2022	<u>125,387</u>
Total	<u>\$ 1,165,163</u>

Litigation: The Corporation is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Corporation's future financial position or results from operations.

Regulatory Compliance: 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 Corporation has implemented a compliance plan focusing on such issues. There can be no assurance that the Corporation will not be subjected to future investigations with accompanying monetary damages.

Hospital Authority of Floyd County Pension Plan: Pursuant to the Lease described in Note 1, the Corporation agreed to make an annual payment equal to the contribution which the Authority is required to make to satisfy minimum funding obligations under the Authority's Pension Plan with respect to benefits which had accrued under such plan, prior to the Lease. The pension liability as actuarially determined was approximately \$9,100,000 and \$10,000,000 at June 30, 2018 and 2017, respectively. The liability is included in due to the Hospital Authority of Floyd County.

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2018 and 2017

14. 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 Corporation.

15. Lease on Cherokee Medical Center

On June 1, 2018, FCMC leased Cherokee Medical Center from the Cherokee County Healthcare Authority. Accordingly, the results of operations for Cherokee Medical Center have been included in the accompanying consolidated financial statements from that date forward. The lease was made for the purpose of strengthening the Corporation's competitive position in the Northeast Alabama service area.

As a part of the lease agreement with the Cherokee County Health Care Authority, FCMC received for operating use all land, building, equipment and supplies that were a part of Cherokee Medical Center as of the effective date of the lease. FCMC accounted for this transaction under business combination accounting. As such, FCMC recorded the assets acquired on the lease's effective date at fair market value as determined by a valuation study performed by a valuation expert. The valuation study primarily relied on the income approach and market approach in determining the fair market value. Under this methodology, the valuation study determined the value of the overall acquisition was de minimis. As such, the Cherokee Medical Center's land, building, equipment and supplies acquired under the lease are recorded at their fair market value which is zero. The major factors impacting the de minimis value were past and projected future operational losses and a limited population of potential buyers. As FCMC did not transfer any consideration for this transaction, there was no gain or goodwill recorded under business combination accounting.

Continued

FLOYD HEALTHCARE MANAGEMENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued
June 30, 2018 and 2017

15. Lease on Cherokee Medical Center, Continued

The following assets and liabilities were recognized from the lease (at fair value):

Cash	\$ 409,247
Accrued vacation liability	(302,879)
Utilities liability	(49,882)
Equipment lease	(<u>56,486</u>)
Total identifiable assets and liabilities	\$ <u> -</u>

INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTAL INFORMATION

Board of Directors
Floyd Healthcare Management, Inc.
Rome, Georgia

We have audited the consolidated financial statements of Floyd Healthcare Management, Inc. as of and for the years ended June 30, 2018 and 2017, and our report thereon dated October 22, 2018, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The information included in this report on pages 55 to 70, inclusive, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the consolidated financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

Draffin & Tucker, LLP
Albany, Georgia
October 22, 2018



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FLOYD HEALTHCARE MANAGEMENT, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS, Continued
Fiscal Year Ended June 30, 2018

Summary of Financial Condition and Results of Operations

The financial results for Floyd Healthcare Management, Inc. for fiscal year ended June 30, 2018 includes several events in the operations of Floyd Medical Center, Polk Medical Center, and as of June 1, 2018, Cherokee Medical Center. Floyd Medical Center is an acute care hospital in Rome, Georgia. Willowbrooke at Floyd, is a behavioral health facility also in Rome. Together, Floyd Medical Center and Willowbrooke at Floyd have 304 beds. Polk Medical Center is a 25-bed critical access hospital in Cedartown, Georgia, and Cherokee Medical Center is a 60-bed acute care hospital facility in Centre, Alabama. These facilities helped produce excess of revenues over expenses in the amount of \$10.1 million on total revenues, gains and other support of \$433 million. Management's Discussion and Analysis of Financial Condition and Results of Operations will review the financial results for fiscal year 2018, the significant events impacting financial performance and management's outlook.

Floyd Healthcare Management, Inc. recorded gross patient revenues during fiscal year 2018 of \$1,669 million up 4.6% over the previous year. Revenue deductions (including contractual adjustments for Medicare, Medicaid and managed care plus provisions for indigent and charity care) and bad debt expenses for the fiscal year totaled \$1,240 million, an increase of 4.9% or 74.3% of gross patient revenues. Operating expenses for the fiscal year were \$396.1 million, an increase of 5.7% over the previous year, a result of increased payroll and surgical supplies. Operating expenses as a percent of total revenues, gains and other support increased from 90.0% to 91.4% in fiscal year 2018.

The operating gain on earnings before interest, depreciation and amortization (EBIDA) decreased to \$37.3 million in fiscal year 2018 from \$41.6 million in the prior year. The EBIDA margin for fiscal year 2018 was 8.6% compared to 10.0% in the previous year. Capital expenses, including depreciation, amortization and interest were down 2.9% to \$31.7 million. Total expenses for fiscal year 2018 were \$427.9 million, an increase of 5.4% over fiscal year 2017. Non-operating income and expenses were \$4.6 million.

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FLOYD HEALTHCARE MANAGEMENT, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS, Continued
Fiscal Year Ended June 30, 2018

Summary of Financial Condition and Results of Operations, Continued

The financial performance during the fiscal year continued to be strongly influenced by uncontrollable external and internal issues. Unreasonably low Medicare payments for inpatient and outpatient services continued to impact Floyd Healthcare Management, Inc. during fiscal year 2018. Additionally, the State of Georgia's managed care program continued to reimburse Floyd at below cost. Medicare and Medicaid patients make up approximately 59% of Floyd Healthcare Management, Inc.'s patient base.

Floyd Healthcare Management, Inc.'s surgical cases decreased 2.3% in fiscal year 2018 to 10,588 cases from 10,841. Floyd continued to see its commercial insurance remain at 30% of gross revenue in fiscal year 2018. Floyd Healthcare Management, Inc.'s positive financial performance for fiscal year 2018 is the result of continued process improvements and market share increase.

Floyd Healthcare Management, Inc. has been and will continue to be a vital health care resource for Rome, northwest Georgia and northeast Alabama. Management remains optimistic that the programs completed, in progress and planned will ensure the long-term growth and viability of the health care system.

The following sections of Management's Discussion and Analysis of Financial Condition and results of Operations will provide expanded information on the financial results and significant events.

Patient Volume, Gross Revenue and Net Revenue

During fiscal year 2018, Floyd Healthcare Management, Inc. recorded total inpatient admissions of approximately 18,676, an increase of 1,332 admissions over the previous year. Total patient days for fiscal year 2018 decreased 1,710 days or -1.7% to 97,990. Overall outpatient volumes of 445,576 for the System increased from the prior year total of 416,082. In fiscal year 2018, the emergency center areas saw an additional 101,940 visits, not included in outpatient volumes shown above. This remained constant to prior year emergency center activity.

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FLOYD HEALTHCARE MANAGEMENT, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS, Continued
Fiscal Year Ended June 30, 2018

Gross patient revenues by major payer sources included Medicare, commercial insurance and Medicaid representing 40%, 30% and 19% respectively, for fiscal year 2018. Medicare and Medicaid revenues, combined for 59% of gross patient revenue, were unchanged from the prior year. Revenue deductions and bad debt expense combined to account for over \$1,240 million in reductions from gross patient revenues during fiscal year 2018 compared to approximately \$1,183 million in fiscal year 2017. Expressed as a percent of gross patient revenue, total revenue deductions and bad debt expense for fiscal year 2018 consumed 74.3% of each gross patient revenue dollar, up from 74.1% in the prior year. Net patient service revenue increased 3.7% to approximately \$429.3 million.

Expenses

Operating expense increased 5.7% to \$396.1 million in fiscal year 2018 from \$374.9 million in the prior year. The ratio of operating expense to total operating revenue increased to 91.4% during fiscal 2018 from 90.0% in the prior year. Staffing expense, including salary, wages and employee benefit programs, increased 3.7% to approximately \$239.1 million. Staffing expenses represent 45.5% of the operating expenses, down from 51.2% in the prior year. Staffing expense continues to reflect sustained or growing service needs for patient care; growing pressures on the availability and costs of selected technical personnel; and overall upward market pressures on wages and employee benefit levels. Operating expenses less staffing expenses for fiscal year 2018 account for approximately \$286.3 million. Total capital expenses for fiscal year 2018 were approximately \$31.7 million, up 2.9% from the prior year. The ratio of capital expense to total revenue decreased to 7.3% down from 7.4% in the prior year.

Liquidity, Investment and Debt

Unrestricted cash resources consisted of approximately \$126.0 million in short and intermediate term investments and approximately \$55.9 million in operating cash for a total of \$181.8 million. For fiscal year 2018, Floyd Healthcare Management, Inc. recognized investment income in the amount of approximately \$6.9 million. The number of days cash on hand, measuring the equivalent days of operating expenses contained in Floyd Healthcare Management, Inc.'s unrestricted cash resources, including cash, cash equivalents, and funded depreciation were 164.5 days as of June 30, 2018 compared to 163.8 days as of June 30, 2017.

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FLOYD HEALTHCARE MANAGEMENT, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
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Fiscal Year Ended June 30, 2018

The cumulative investment in property, plant and equipment, based on acquisition cost, was \$425.5 million at June 30, 2018. Accumulated depreciation for these assets at the end of fiscal year 2018 is \$240.7 million, yielding net property, plant and equipment of \$184.7 million. The average age of plant, an accounting measurement of overall plant and equipment age remained unchanged at 9.83 years. As of June 30, 2018, Floyd Healthcare Management, Inc. was responsible for \$182.1 million in long-term debt, which includes approximately \$44.3 million for the 2012 revenue certificates, and \$112.3 for the 2016 revenue certificates. FHMI's debt service coverage ratio for fiscal year 2018 was 2.18 which was calculated using the future maximum annual debt service payment methodology.

Mission

Since July 4, 1942, Floyd Medical Center has provided high quality, cost-effective healthcare to the citizens of northwest Georgia. In fiscal year 2018, Floyd's mission continued by providing the communities we serve with a comprehensive and technologically advanced health care system committed to the delivery of care that is characterized by continually improving quality, accessibility, affordability, and personal dignity.

Community Initiatives

During 2018, Floyd continued its support of several initiatives aimed at improving the health care status of low-income patients and to address the growing burden and cost of uncompensated care.

Floyd County Clinic and We Care Program

The Floyd County Clinic, which Floyd Medical Center operates through the Family Medicine Residency program, had 1,676 outpatient visits in FY2018. The Clinic provides assistance to financially and medically indigent patients in an effort to reduce their need for emergency and inpatient hospital care. In addition, during FY2018 there were 195 outpatient visits recorded through Floyd's We Care Program, which helps low-income patients without health insurance or governmental benefits control and improve chronic conditions with preventive care.

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FLOYD HEALTHCARE MANAGEMENT, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
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Fiscal Year Ended June 30, 2018

Indigent Outpatient Pharmacy Program

Floyd provides maintenance prescription pharmaceuticals to low income uninsured outpatients at no cost to the patient through its hospital pharmacy. Any qualified, low-income patient under the care of the Family Medicine residency program or being discharged from Floyd Medical Center may be eligible to receive the prescribed medications. In FY2018, Floyd provided 17,032 prescriptions to 815 low-income, uninsured patients at a cost of \$421,627 and Polk provided \$1,874 in prescription pharmaceuticals to low income, uninsured patients.

Financial Counseling

Financial Counselors at Floyd and Polk Medical Centers assisted 637 low-income patients seeking eligibility for Medicaid programs including presumptive eligibility in fiscal year 2018. 19,412 individual Medicaid patients were treated at Floyd Medical Center for a total of 40,285 encounters. 5,432 individual Medicaid patients were treated at Polk Medical Center for a total of 11,311 encounters. 364 individual Medicaid patients were treated at Willowbrooke at Floyd for a total of 505 encounters.

Faith and Deeds Clinic of Rome

Floyd helped to create, contributed supplies to and provided seed money to fund the Faith and Deeds Clinic of Rome, a local organization that provides free primary medical care to low income, uninsured patients in our community. The clinic traces its roots to a volunteer mission effort to provide basic medical care services to Floyd County's homeless community. Now housed in its own facility, patients schedule appointments with volunteer physicians, dentists and nurses and receive free lab tests and assistance with prescription medications. During FY2018, physicians from the Floyd Family Medicine Residency program provided 53 hours of volunteer care to 130 Faith and Deeds Clinic patients at a cost to the organization of \$1,738.

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FLOYD HEALTHCARE MANAGEMENT, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
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Mobile Mammography

Floyd's Mobile Mammography Coach is equipped with state-of-the-art, digital mammography equipment and is used to reach out to the mostly rural and underserved areas around Rome. The coach provided 2,854 mammograms to women in our service area in FY2018. Of those, 812 patients were past due for a mammogram, 159 women had never had a mammogram before, and 225 screenings revealed an abnormality that required further testing. Fifteen women were diagnosed with cancer as a result of their visit to the mobile mammography coach. The goal of this program is to reach women who have never had a mammogram, in hope of reducing the breast cancer mortality rate in our region, which is among the highest in the nation. The coach traveled 9,226 miles in FY2018 to women in seven Georgia counties and one Alabama county to make mammography and clinical breast exams convenient for them. This program seeks to provide services and education to these women with the goal of reducing that mortality rate and improving the lives of these women and their families.

Community Benefit

The Floyd health care system, which, for the purposes of community benefit, includes Floyd Medical Center, Polk Medical Center, Willowbrooke at Floyd, Floyd Primary Care, Floyd Urgent Care, Floyd Outpatient Surgery Center, Floyd Physical Therapy and Rehab, Heyman HospiceCare, and numerous ancillary services, is vital to the three-county primary service area of Chattooga, Floyd and Polk counties, as well as the additional three counties that make up Floyd's secondary service area: Bartow and Gordon counties in Georgia and Cherokee County, Alabama.

The Georgia Hospital Association estimates that Floyd generates more than \$705.5 million in economic activity in the state, including a \$141.9 million annual payroll and benefits, as well as purchases and other business relationships. The organization also is Floyd County's largest employer, with approximately 3,300 employees.

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FLOYD HEALTHCARE MANAGEMENT, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
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Services

Floyd's health care system provides a complete continuum of medical care to serve the healthcare needs of individuals in northwest Georgia and northeast Alabama. Our Primary Care network includes 49 physicians and 26 advanced practice providers at 26 Primary Care and Urgent Care locations. Floyd also provides inpatient and outpatient diagnostic, hospice, behavioral health and hospital services. Floyd Medical Center, a 304-bed, full-service acute care hospital provides Joint Commission-certified specialty programs in advanced palliative care, heart failure, inpatient diabetes, stroke care, hip replacement surgery, knee replacement surgery and spine surgery. In addition, Floyd Medical Center is a certified Chest Pain Center, a designated Bariatric Surgery Center of Excellence and The Breast Center at Floyd is a Breast Imaging Center of Excellence and a Quality Breast Center of Excellence. Floyd also is home to a state-designated level II Trauma Center, a level III Neonatal Intensive Care Unit and has specialty centers for Pediatrics and Wound Care and Hyperbarics. In 2012 Polk Medical Center, a 25-bed critical access hospital in Cedartown, Ga., became part of the Floyd family under a management agreement. And, in June 2018, Floyd Healthcare Management, Inc. entered into an agreement to manage Cherokee Medical Center in Centre, Alabama. Floyd also operates Willowbrooke at Floyd, a behavioral health center in a partnership with Tanner Health System. Through these locations Floyd is uniquely positioned to provide the full circle of care, including the following medical specialties:

- Alcohol and Chemical Dependency Services
- Bariatric Medicine, Surgery and Aftercare
- Behavioral Health
- Cardiac Catheterization
- Cardiology
- Cardiac Rehabilitation
- Diabetes Care
- Diagnostic Radiology
- Echocardiography
- Emergency Care
- Family Medicine
- Family Medicine Residency Program
- Gynecology

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FLOYD HEALTHCARE MANAGEMENT, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
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- Hospice
- Hospitalist Care
- Hyperbarics and Wound Care
- Intensive Care
- Interventional Cardiology
- IV Therapy
- Laboratory Services
- Level III Neonatal Intensive Care Unit
- Level II Trauma Care
- Maternity Services
- Neurology
- Neuropsychology
- Neurosurgery
- Neonatal care, intermediate and intensive
- Occupational Medicine
- Oncology
- Orthopedics
- Palliative Care
- Pediatrics
- Pediatric Intermediate Care
- Pharmacy, Inpatient and Outpatient
- Radiology
- Inpatient Rehabilitation Services
- Outpatient Rehabilitation Services
- Senior Enrichment Program
- Sleep Disorders
- Sub-Acute Rehabilitation
- Surgery, Inpatient and Outpatient
- Urgent Care
- Vascular Surgery

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FLOYD HEALTHCARE MANAGEMENT, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
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Accountable Care Organization

In the summer of 2015, Floyd Medical Center made the decision to apply for participation in the CMS Medicare Share Savings Program (MSSP), an incentive-based program that shares savings with providers who make quality and cost improvements. Floyd established an Accountable Care Organization (ACO), which is a requirement to become a participant in the MSSP. Floyd's ACO application was approved in December of 2015 with an effective date of January 1, 2016. In order to support this initiative, Floyd expanded its Population Health department to provide care management services to high risk beneficiaries as well as data management and reporting, education and development of initiatives, such as community paramedicine, advanced illness management and similar programs aimed at providing outreach and educational services to our population.

Recognized Industry Leader

Floyd is a recognized state and national leader in customer engagement, and our comprehensive health care services have earned Floyd regional, state and national accolades and certifications. Over the past fiscal year, Floyd Medical Center and its affiliates received state, national and international recognition.

In 2018, CareChex, an information service of Quantros, Inc., honored Floyd Medical Center for being a Top 100 hospital in the nation in the following Medical Excellence categories:

- Overall Hospital Care
- Overall Surgical Care
- Gastrointestinal Care
- General Surgery
- Heart Attack Treatment
- Major Bowel Procedures
- Spinal Fusion
- Spinal Surgery

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FLOYD HEALTHCARE MANAGEMENT, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
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Fiscal Year Ended June 30, 2018

In 2017, CareChex, an information service of Quantros, Inc., also recognized Floyd Medical Center for being a Top 100 hospital in the nation in the following Patient Safety categories:

- Overall Surgical Care
- Cancer Care
- Major Bowel Procedures

In 2017, CareChex, an information service of Quantros, Inc., honored Floyd Medical Center for being a Top 100 hospital in the nation in the following Medical Excellence categories:

- Overall Surgical Care
- Cancer Care
- Major Bowel Procedures
- Gastrointestinal Care
- Major Orthopedic Surgery

In 2017, CareChex, an information service of Quantros, Inc., also honored Floyd Medical Center for being in the top 10% in the nation in the following Medical Excellence categories:

- Overall Hospital Care
- Cancer Care
- Cardiac Care
- Heart Attack Treatment
- Heart Failure Treatment
- Joint Replacement
- Pneumonia Care
- Pulmonary Care

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FLOYD HEALTHCARE MANAGEMENT, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
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Fiscal Year Ended June 30, 2018

In 2017, Healthgrades recognized Floyd Medical Center with the following awards:

- Patient Safety Excellence Award
- Pulmonary Care Excellence Award
- Diabetes Emergencies, 5-Star Clinical Quality Recognition
- Chronic Obstructive Pulmonary Disease
- Pneumonia
- Spinal Fusion
- Carotid Surgery

In 2017, Floyd also held the following certifications and accreditation from The Joint Commission:

- Hospital accreditation
- Laboratory accreditation
- Advanced Palliative Care certification
- Heart Failure certification
- Inpatient Diabetes certification
- Primary Stroke Center certification
- Joint Replacement – Hip certification
- Joint Replacement – Knee certification
- Spine Surgery certification

In 2017, Floyd also held the following quality designations from other organizations:

- Metabolic and Bariatric Surgery Accreditation and Quality Improvement Program
- National Quality Measures for Breast Centers Certified Quality Breast Center of Excellence
- Hospice Honors Elite award for Heyman HospiceCare
- American Heart Association Get With The Guidelines Gold Plus Award for Heart Failure Care
- Press Ganey Guardian of Excellence Award for The Breast Center at Floyd

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FLOYD HEALTHCARE MANAGEMENT, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
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Community Service

Individually and corporately, Floyd continues to be actively involved in the communities where we have a presence, lending leadership, time and other valuable resources to efforts to improve the quality of life for families in Northwest Georgia and Northeast Alabama.

In FY2018, the organization's outreach into the community, along with the provision of trauma and neonatal intensive care services resulted in more than 151,000 lives touched through educational programs and screenings, physical examinations for athletes, childbirth classes, support groups and publications. Floyd co-workers and volunteers contributed 145,354 hours to community endeavors at an expense of \$2,133,506.

- Floyd offers 8-week, weekend and online childbirth classes to help expectant parents be better prepared for labor, delivery and caring for their baby. Some insurances and government health coverage programs pay for childbirth education. Expectant parents who do not have coverage for these classes are not denied participation. In FY2018, 116 individuals learned about childbirth, breastfeeding and newborn care through these childbirth education classes at a cost to the organization of \$4,907.
- Cardiopulmonary resuscitation and First Aid educators provide CPR and First Aid training to Floyd employees, employees of other companies and to members of the public. In addition, Floyd's Chest Pain program provides hands-only CPR training in the community. In FY2018, 749 individuals received CPR and/or First Aid training from Floyd staff members at a cost to the organization of \$7,063.
- Diabetes educators meet with patients in the hospital to help them manage their disease, but they also provide education about prediabetes, diabetes management and other related topics to individuals in the communities we serve. In FY2018, 1,220 individuals received free diabetes education from Floyd educators at a cost to the organization of \$7,555.

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FLOYD HEALTHCARE MANAGEMENT, INC.
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- One of the largest non-billed services expenses at Floyd lies in our efforts to support schools and colleges in training nurses, doctors, nurse practitioners, physician assistants and other health professionals with real-life training opportunities while shadowing or being mentored by Floyd employees in their respective fields. In FY2018, working with 426 nursing students, Floyd staff members provided 56,480 hours of clinical education at a cost of \$364,918 to the organization. Many of these students eventually accept jobs in our service area, providing much-needed medical expertise in our primary and secondary service areas. In addition, 422 allied health students received 44,628 hours of training from Floyd staff members at a cost to the organization of \$287,804. And, 58 medical students studying to become physicians trained at Floyd. Floyd staff members provided 7,603 hours of clinical education to medical students not in our residency program at a cost of \$49,104.
- Recognizing that a significant number of individuals do not have family physicians or routinely go for annual physical examinations, Floyd provides screenings and information at health fairs throughout the area. In FY2018, 1,630 individuals received health information at health fairs at a cost to the organization of \$2,125.
- Floyd Emergency Medical Services, supplemented by other Floyd departments, is a fixture at community events throughout the year, providing onsite ambulance back up, First Aid stations and medical support when it is needed. In FY2018, 120,020 people benefitted from medical care and support at community events at a cost of \$134,418 to the organization.
- Floyd is heavily invested in local schools. In addition to the 24,000 students who are covered by the 27 school nurses provided in every Floyd County, Rome City and Polk County schools, Floyd provides health and safety training programs and career day speakers to students throughout the area. In FY2018, 9,264 students benefitted from school-based education programs presented by Floyd departments at a cost of \$25,232. In addition, Floyd supplies Certified Athletic Trainers at every high school in the three-county area. Providing Athletic trainers to schools cost the organization \$1.24 million in the past fiscal year. These trainers, working with family medicine residency physicians, also provide free physical examinations to student athletes throughout the three-county area. In FY2018, 425 student athletes received free sports physicals at an additional cost to the organization of \$1,151.

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FLOYD HEALTHCARE MANAGEMENT, INC.
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- Floyd often provides speakers on various health-related topics to community groups. In FY2018, Floyd speakers spoke to 781 individuals at a cost to the organization of \$10,983.

Outreach

As a community hospital, Floyd is continuously looking for opportunities to reach farther into our community to meet the needs of the full spectrum of individuals who seek medical care in Northwest Georgia. We currently have several outreach programs aimed at improving access to health care in our community.

Members of the Floyd team are committed to the community in many ways. In FY2018, Floyd co-workers loaned their talents and leadership skills to school, civic and professional organizations. A partial list of the leadership roles Floyd employees held during this time includes:

- President Elect, Seven Hills Rotary Club
- Member, Georgia Society of Volunteer and Retail Professionals Board of Directors
- Member, Floyd Against Drugs Program Committee
- Secretary, Model High School Band Boosters
- Promotions Committee Chair, Rome Downtown Development Association Board of Directors
- Member, Greater Rome Convention and Visitors Bureau
- Member, Coosa River Basin Initiative Board of Directors
- Vice Chairman, Polk County College and Career Academy
- Treasurer, College of Pastoral Supervision and Psychotherapy, Lovejoy Chapter
- Member, Georgia Society of Healthcare Chaplains Board of Directors
- Chair, Georgia Chapter of American Academy of Pediatrics, Early Career Physicians Section
- Associate Professor, Medical College of Georgia, Pediatrics
- Member, George Faile Foundation Board of Directors
- Coordinator, Pediatric Brain Tumor Foundation's Tumor Trooper Run
- Member, Georgia Society of Health Care Engineers Board of Directors
- President, Haven Health Care Board of Managers
- Mentor, Berry Center for Integrity In Leadership
- Vice President of Finance, Woodland Band Booster Association
- Staff Parrish Relations Committee, Sam Jones Memorial United Methodist Church

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FLOYD HEALTHCARE MANAGEMENT, INC.
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- Member, Georgia Hospital Association Center for Rural Health Board of Directors
- Member, Healthcare Financial Management Association Board of Directors
- Member, Seven Hills Rotary Club
- Member Floyd Felines Board of Directors
- Member, St. Mary's School Advisory Board
- Member, Georgia Society for Healthcare Marketing and Public Relations Board of Directors
- Member, Free Clinic of Rome Board of Directors
- Member, HIS Financial Services Board of Directors
- Member, First Baptist Church of Rome Budget Committee
- Member, Change Healthcare Revenue Cycle Management Customer Service Council
- Member, Healthcare Financial Management Association Mentor Committee
- Member and Web Chair, Georgia Access Management Association Board of Directors
- Sunday School Teacher, Second Avenue United Methodist Church
- Team Captain, Coosa Valley Tennis Association
- Member and Co-Chair of Annual Conference Committee, Healthcare Information and Management Systems Society Board of Directors
- President, Georgia Access Management Association
- President-Elect, Georgia Organization of Nurse Leaders
- Adjunct Faculty, Georgia Highlands College RN to BSN program
- Member, Georgia Society of Certified Public Accountant
- Member, American Institute of Certified Public Accountants
- Member, Healthcare Roundtable for Chief Financial Officers
- Member, Exchange Club of Rome
- Member, Rotary Club of Rome
- Member, Georgia Society for Healthcare Human Resources Administration Board of Directors
- Chairman, Distribute Cooperative Inc. Board of Directors
- Member, American Physical Therapy Association
- Member, Physical Therapy Association of Georgia
- Member, Berry College Campbell School of Business Executive Roundtable
- Elder, First Presbyterian Church
- Elder, HBC Rome
- Member, Healthcare Roundtable for Managed Care Executives

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FLOYD HEALTHCARE MANAGEMENT, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
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Fiscal Year Ended June 30, 2018

- Member, Georgia Association of Healthcare Executives
- Member, Medical Group Management Association
- Member, American Health Lawyers Association
- Member, Health Care Compliance Association
- Member, Georgia Academy of Healthcare Attorneys

Indigent Care

Perhaps most significant is the continuing commitment of Floyd to provide comprehensive health care services to all individuals regardless of ability to pay. In fiscal year 2018, \$83.92 million in unreimbursed care was delivered to individuals in the form of traditional charity care and through public programs and services. The value of all community benefit activities combined totaled \$87.92 million.

While these statistics represent our best efforts to quantify the myriad of services Floyd and its employees provide, the numbers in this report cannot tell the full story of Floyd and its community service. Floyd's commitment to our role as an excellent community hospital may be best illustrated by the extraordinary acts of kindness and compassion that permeate our culture. On a daily basis, the employees of Floyd realize that each encounter is an opportunity to put our mission into action. Fiscal year 2019 begins with Floyd's continued commitment to provide the highest standards of patient care and employee satisfaction; a commitment that enables a culture of high performance and high expectations.

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