



Consolidated Financial Statements (and Supplemental Schedules)

Northeast Georgia Health System, Inc. and Affiliates

Years Ended September 30, 2019 and 2018

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Consolidated Financial Statements (and Supplemental Schedules)

Years Ended September 30, 2019 and 2018

Independent Auditor’s Report.....1

Consolidated Financial Statements

Consolidated Balance Sheets3
Consolidated Statements of Operations and Changes in Net Assets5
Consolidated Statements of Cash Flows.....7
Notes to Consolidated Financial Statements.....9

Supplemental Schedules

Consolidating Balance Sheet41
Consolidating Statement of Operations43



PYA, P.C.
Resurgens Plaza, Suite 2100
945 East Paces Ferry Road, NE
Atlanta, GA 30326

p: (404) 266-9876 | f: (404) 266-2669
pyapc.com

INDEPENDENT AUDITOR'S REPORT

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

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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



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

Opinion

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

Emphasis of Matter

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

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental consolidating information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Atlanta, Georgia
January 20, 2020

DYA, P.C.

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Consolidated Balance Sheets

| | <i>September 30,</i> | |
|--|-------------------------|-------------------------|
| | <i>2019</i> | <i>2018</i> |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 17,333,818 | \$ 50,620,303 |
| Investments | 164,737,862 | 86,586,197 |
| Assets limited as to use, required for current obligations | 25,464,907 | 19,460,989 |
| Patient accounts receivable | 115,975,506 | 126,256,919 |
| Inventory of supplies | 11,373,449 | 10,047,907 |
| Other current assets | 9,954,633 | 8,562,286 |
| TOTAL CURRENT ASSETS | 344,840,175 | 301,534,601 |
| INVESTMENTS | 882,463,229 | 792,677,002 |
| ASSETS LIMITED AS TO USE | | |
| Under indenture agreements - held by trustees | 13,725,780 | 12,614,232 |
| Under self-insurance agreements | 42,283,288 | 39,972,028 |
| By Board for designated capital purposes | 86,225,206 | 83,133,927 |
| Other | 67,123,815 | 63,739,494 |
| | 209,358,089 | 199,459,681 |
| Less amounts required for current obligations | (25,464,907) | (19,460,989) |
| ASSETS LIMITED AS TO USE | 183,893,182 | 179,998,692 |
| PROPERTY, PLANT AND EQUIPMENT, net | 798,864,473 | 811,949,435 |
| OTHER ASSETS | | |
| Goodwill | 3,263,093 | 3,263,093 |
| Pension asset | - | 11,341,772 |
| Property held for future investment | 6,755,321 | 6,754,418 |
| Estimated fair value of interest rate swaps | 5,101,197 | 22,596,296 |
| Other | 3,437,401 | 4,060,126 |
| TOTAL OTHER ASSETS | 18,557,012 | 48,015,705 |
| TOTAL ASSETS | \$ 2,228,618,071 | \$ 2,134,175,435 |

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Consolidated Balance Sheets - Continued

| | <i>September 30,</i> | |
|--|-------------------------|-------------------------|
| | <i>2019</i> | <i>2018</i> |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Current portion of long-term debt | \$ 24,573,882 | \$ 21,706,172 |
| Accrued interest | 4,495,653 | 4,557,857 |
| Accounts payable and other accrued expenses | 83,665,892 | 69,180,975 |
| Accrued salaries, benefits, compensated absences and amounts withheld | 83,737,594 | 70,852,551 |
| Estimated third-party payer settlements | 7,805,376 | 10,574,158 |
| TOTAL CURRENT LIABILITIES | <u>204,278,397</u> | <u>176,871,713</u> |
| LONG-TERM DEBT, less current portion | 966,983,744 | 986,530,405 |
| ESTIMATED SELF-INSURANCE LIABILITIES | 41,932,387 | 35,729,842 |
| OTHER LONG-TERM LIABILITIES | | |
| Deferred compensation | 33,005,839 | 33,007,826 |
| Estimated fair value of interest rate swaps | 6,818,560 | 1,738,800 |
| Pension liability | 45,446,277 | - |
| TOTAL OTHER LONG-TERM LIABILITIES | <u>85,270,676</u> | <u>34,746,626</u> |
| TOTAL LIABILITIES | <u>1,298,465,204</u> | <u>1,233,878,586</u> |
| COMMITMENTS AND CONTINGENCIES - | | |
| Notes I and P | | |
| NET ASSETS | | |
| Without donor restrictions | 908,496,026 | 879,512,270 |
| With donor restrictions | 21,656,841 | 20,784,579 |
| TOTAL NET ASSETS | <u>930,152,867</u> | <u>900,296,849</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 2,228,618,071</u> | <u>\$ 2,134,175,435</u> |

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Consolidated Statements of Operations and Changes in Net Assets

| | <i>Year Ended September 30,</i> | |
|---|---------------------------------|------------------|
| | <i>2019</i> | <i>2018</i> |
| Changes in net assets without donor restrictions: | | |
| Patient service revenue | \$ 1,384,745,460 | \$ 1,266,568,540 |
| Other operating revenue | 31,549,851 | 25,745,627 |
| TOTAL OPERATING REVENUES | 1,416,295,311 | 1,292,314,167 |
| Expenses: | | |
| Salaries and wages | 625,975,118 | 574,555,844 |
| Employee benefits | 129,863,936 | 126,553,710 |
| Physicians' fees | 22,552,311 | 17,899,234 |
| Utilities | 14,143,273 | 14,342,637 |
| Supplies | 237,293,141 | 215,950,986 |
| Legal, consulting and professional fees | 11,668,381 | 12,154,743 |
| Contracted outside services | 67,181,567 | 59,732,002 |
| Insurance | 12,943,004 | 11,164,288 |
| Interest | 37,479,235 | 37,865,438 |
| Depreciation and amortization | 95,593,057 | 87,654,729 |
| Other operating expenses | 100,466,924 | 90,527,765 |
| TOTAL OPERATING EXPENSES | 1,355,159,947 | 1,248,401,376 |
| INCOME FROM OPERATIONS | 61,135,364 | 43,912,791 |
| Nonoperating gains (losses): | | |
| Gain from investments, net | 51,844,427 | 36,610,217 |
| Gain on sale of property, plant and equipment, net | 62,379 | 1,740,705 |
| Change in estimated fair value of interest rate swaps | (22,574,859) | 10,242,685 |
| Miscellaneous, net | (786,222) | (1,214,562) |
| NET NONOPERATING GAINS | 28,545,725 | 47,379,045 |
| EXCESS OF REVENUE AND GAINS OVER EXPENSES AND LOSSES | 89,681,089 | 91,291,836 |
| Other changes in net assets without donor restrictions: | | |
| Pension asset/liability adjustments | (62,588,117) | 33,387,810 |
| Net assets released for capital expenditures | 1,996,461 | 2,908,838 |
| Other changes | (105,677) | (72,352) |
| TOTAL OTHER CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS | (60,697,333) | 36,224,296 |
| INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS | 28,983,756 | 127,516,132 |
| NET ASSETS WITHOUT DONOR RESTRICTIONS, BEGINNING OF YEAR | 879,512,270 | 751,996,138 |
| NET ASSETS WITHOUT DONOR RESTRICTIONS, END OF YEAR | \$ 908,496,026 | \$ 879,512,270 |

See notes to consolidated financial statements.

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Consolidated Statements of Operations and Changes in Net Assets - Continued

| | <i>Year Ended September 30,</i> | |
|--|---------------------------------|-----------------------|
| | 2019 | 2018 |
| Changes in net assets with donor restrictions: | | |
| Contributions for equipment, education, indigent patients and community benefits | \$ 3,238,108 | \$ 4,000,666 |
| Partnership earnings and other changes | 98,281 | 165,503 |
| Change in expected losses and discounts on pledges | 201,359 | 643,177 |
| Net assets released from restrictions | (2,632,906) | (3,686,237) |
| Other changes, net | (32,580) | (103,930) |
| INCREASE IN NET ASSETS WITH DONOR RESTRICTIONS | 872,262 | 1,019,179 |
| NET ASSETS WITH DONOR RESTRICTIONS, BEGINNING OF YEAR | 20,784,579 | 19,765,400 |
| NET ASSETS WITH DONOR RESTRICTIONS, END OF YEAR | 21,656,841 | 20,784,579 |
| TOTAL INCREASE IN NET ASSETS | 29,856,018 | 128,535,311 |
| TOTAL NET ASSETS, BEGINNING OF YEAR | 900,296,849 | 771,761,538 |
| TOTAL NET ASSETS, END OF YEAR | \$ 930,152,867 | \$ 900,296,849 |

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Consolidated Statements of Cash Flows

| | <i>Year Ended September 30,</i> | |
|--|---------------------------------|----------------|
| | <i>2019</i> | <i>2018</i> |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Increase in net assets | \$ 29,856,018 | \$ 128,535,311 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 95,593,057 | 87,654,729 |
| Gain on sale of property, plant and equipment | (62,379) | (1,740,705) |
| (Gain) loss on sales of investments and assets limited as to use | 9,377,474 | (28,479,596) |
| Pension plan adjustments | 62,588,117 | (33,387,810) |
| Change in expected losses and discounts on pledges | (201,359) | (643,177) |
| Change in net unrealized gains/losses on investments and assets limited as to use | (26,135,324) | 22,590,257 |
| Restricted contributions | (3,238,108) | (4,000,666) |
| Change in estimated fair value of interest rate swaps | 22,574,859 | (10,242,685) |
| Changes in assets and liabilities: | | |
| Net patient accounts receivable | 10,281,413 | (3,903,907) |
| Inventory of supplies | (1,325,542) | (356,240) |
| Other current assets | (1,190,988) | 3,540,962 |
| Other long-term assets | 11,524,914 | (10,798,901) |
| Accrued interest | (62,204) | (6,076) |
| Accounts payable and other accrued expenses, and other long-term liabilities | (5,489,724) | 29,548,971 |
| Accrued salaries, benefits, compensated absences and amounts withheld | 12,885,043 | 7,301,791 |
| Estimated third-party payer settlements | (2,768,782) | 399,655 |
| Estimated self-insurance liabilities | 6,202,545 | 3,060,982 |
| Total adjustments | 190,553,012 | 60,537,584 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 220,409,030 | 189,072,895 |

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Consolidated Statements of Cash Flows - Continued

| | <i>Year Ended September 30,</i> | |
|--|---------------------------------|---------------|
| | <i>2019</i> | <i>2018</i> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of property, plant and equipment | (69,943,720) | (93,658,285) |
| Proceeds from sales of property, plant and equipment | 39,472 | 8,672,413 |
| Purchases of investments and assets limited as to use | (641,792,436) | (700,703,408) |
| Proceeds from maturities and sales of investments and assets limited as to use | 480,713,986 | 641,998,135 |
| NET CASH USED IN INVESTING ACTIVITIES | (230,982,698) | (143,691,145) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Principal payments on long-term debt | (25,950,925) | (22,286,638) |
| Restricted contributions received | 3,238,108 | 4,000,666 |
| NET CASH USED IN FINANCING ACTIVITIES | (22,712,817) | (18,285,972) |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (33,286,485) | 27,095,778 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 50,620,303 | 23,524,525 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | \$ 17,333,818 | \$ 50,620,303 |
| SUPPLEMENTAL INFORMATION: | | |
| Cash paid during the year for interest | \$ 37,541,439 | \$ 37,871,514 |
| SUPPLEMENTAL SCHEDULE OF NON-CASH ACTIVITIES: | | |
| Equipment purchases financed with capital leases | \$ 9,021,206 | \$ 7,200,211 |
| Property, plant and equipment received and accrued in payables | \$ 5,873,639 | \$ 3,042,825 |

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements

Years Ended September 30, 2019 and 2018

NOTE A--ORGANIZATION AND OPERATIONS

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

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

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

Effective March 19, 2018, NGHS executed an asset purchase agreement with Chestatee Regional Hospital, an emergency care hospital facility located in Dahlonega, Georgia. No debt was assumed by NGHS. A Georgia limited liability company was formed, with the System being the only member, and the hospital was renamed NGMC Lumpkin, LLC (NGMC-Lumpkin). The facility opened on July 16, 2019.

NGMC Barrow, LLC (NGMC-Barrow), a Georgia limited liability company, is a 56-bed hospital located in Winder, Georgia. NGHS is the only member of NGMC-Barrow.

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

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

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

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

NGHS, NGMC, the Foundation, and NGPG are organized as Georgia not-for-profit corporations and are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

The income for NGMC-Barrow, NGMC-Lumpkin and THC passes through to NGHS, which is tax exempt. NGHP is organized as a for-profit corporation.

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2019 and 2018

NOTE B--SIGNIFICANT ACCOUNTING POLICIES

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

Use of Estimates: The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Significant estimates include estimated explicit and implicit price concessions, amounts due to or from third-party payers, investment valuations, allocations of functional expenses, depreciable lives and impairment considerations of property, plant and equipment, goodwill, derivatives and professional and other insurance liabilities. Actual results could differ from those estimates.

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

Investments and Assets Limited as to Use: A portion of investments and assets limited as to use at September 30, 2019 and 2018 includes the System's percentage of ownership in a limited partnership investment fund (the Fund) whose primary objective is to generate a higher than average cash flow yield through investment in publicly traded equity securities. The System accounts for its investment in the Fund under the equity method of accounting with the System's share of the Fund's gains and losses, both realized and unrealized, recognized as nonoperating gains and losses.

All other investments and assets limited as to use which are not invested in the Fund are stated at fair value based on quoted market prices. The portion of investments related to financial instruments with remaining maturities of less than one year and the portion of assets limited as to use that is required to satisfy current obligations are classified as current assets.

Assets limited as to use include assets held by trustees under bond indenture agreements, assets held by trustees under professional liability and workers' compensation self-insurance trust arrangements, assets designated by the Board for specific purposes, and assets designated by donors for specific purposes and held by the Foundation.

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

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2019 and 2018

gains and losses. The cost of securities sold is determined on the specific identification method, with net realized gains and losses reported as nonoperating gains and losses.

Unrealized gains and losses on investments and assets limited as to use which are not invested in the Fund are recorded as gains or losses from investments.

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

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

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor restrictions about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

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

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

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

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2019 and 2018

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

Excess of Revenue and Gains Over Expenses and Losses: The Consolidated Statements of Operations and Changes in Net Assets include the *Excess of Revenue and Gains Over Expenses and Losses*. Changes in net assets without donor restrictions which are excluded from *Excess of Revenue and Gains Over Expenses and Losses*, consistent with industry practice, include certain assets limited as to use, transfers of assets to and from affiliates for other than goods or services, pension liability adjustments, and contributions of long-lived assets, including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets.

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

Charity Care: NGMC, NGMC-Barrow, NGMC-Lumpkin, NGPG and THC provide care to patients who meet certain criteria under their charity care policies without charge or at amounts less than its established rates. Generally, care provided for a patient whose household income is at or below 300 percent of the federal poverty guidelines is approved for charity care. Because NGMC, NGMC-Barrow, NGMC-Lumpkin, NGPG and THC do not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as revenue. Charges foregone, based on established rates, related to charity care were approximately \$297,385,000 and \$237,570,000 for the years ended September 30, 2019 and 2018, respectively, which are net of indigent care trust fund proceeds of approximately \$7,356,000 and \$8,752,000 in 2019 and 2018, respectively. Under an agreement with the Georgia Department of Community Health Division of Medical Assistance (Georgia Medicaid), the Hospital Authority of Hall County and the City of Gainesville through NGMC pays into an indigent care trust fund and is then eligible to receive indigent care trust fund payments.

The estimated cost of providing charity care totaled approximately \$73,870,000 and \$60,230,000 for the years ended September 30, 2019 and 2018, respectively. The estimated costs of providing charity care are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing charity care. The ratio of costs to charges is calculated based on the System's total expenses divided by patient service revenue.

In addition to the patient charity care services, the System provides a number of other services to benefit the indigent for which little or no payment is received. Medicare, Medicaid and State indigent programs do not cover the full cost of providing care to beneficiaries of those programs.

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2019 and 2018

The System also provides services to the community at large for which it receives little or no payment. Estimated contractual adjustments for the years ended September 30, 2019 and 2018 include approximately \$81,892,000 and \$75,490,000, respectively, related to discounts provided to self-pay patients in order to facilitate prompt payment.

Patient Service Revenue/Receivables: In May 2014, the Financial Accounting Standards Board (FASB) issued a new standard related to revenue recognition. The System adopted the new standard effective October 1, 2018, using the full retrospective method. The adoption of the new standard did not have an impact on the System's recognition of net revenue for any periods prior to adoption. The most significant impact of adopting the new standard is the presentation of the System's Consolidated Statements of Operations and Changes in Net Assets, where the System no longer presents the "provision for bad debts" as a separate line item and "patient service revenues" are presented net of estimated implicit price concessions. The System also has eliminated the related presentation of "allowances for uncollectible receivables" on the Consolidated Balance Sheets as a result of the adoption of the new standard.

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

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

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

The System determines the transaction price for patient service revenue based on standard charges for goods and services provided, reduced by explicit price concessions for contractual adjustments provided to third-party payers, discounts provided to uninsured patients in accordance with the

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2019 and 2018

System's financial assistance policy, and implicit price concessions provided to uninsured or under-insured patients. The System determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The System determines its estimate of implicit price concessions based on its historical collection experience.

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

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

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

Donor Gifts: Unconditional promises to give cash and other assets to the System are reported at estimated net realizable value at the date the promise is received. Conditional promises to give, and indications of intentions to give, are reported at net realizable value at the date the gift is received. Resources restricted by donors for specific operating purposes (or to specific time periods) are held as net assets with donor restrictions until expended for the intended purpose (or the time restriction expires), at which time they are reported as net assets released from restrictions used for operations. Resources restricted by donors for additions to property, plant and equipment (or payments on debt incurred for property additions) are held as net assets with donor restrictions until expended, at which time they are reported as net assets released from restrictions used for the purchase of property, plant and equipment.

Gifts, grants and bequests not restricted by donors are reported as net assets without donor restrictions. Unconditional promises to give that are expected to be received within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the estimated present value of their estimated future cash flows. The discounts on those amounts are computed using estimated rates applicable to the years in which the promises are received. An estimated allowance for uncollectible pledges is recorded based on management's evaluation of promises to give. The System's policies do not require collateral or other security for promises to give.

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2019 and 2018

Income Taxes: NGHS, NGMC, the Foundation, and NGPG are classified as organizations exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The income for NGMC-Barrow, NGMC-Lumpkin and THC passes through to NGHS, which is tax exempt. As such, no provision for income taxes has been made in the accompanying consolidated financial statements. NGHP is a taxable entity and accounts for income taxes in accordance with the FASB ASC 740, *Income Taxes* (ASC 740). At September 30, 2019, management does not believe the System holds any uncertain tax positions that would require financial statement recognition or disclosure under ASC 740. It is the System's policy to recognize interest and/or penalties related to income tax matters as an operating expense.

Goodwill: Goodwill represents the excess purchase price over the assigned fair value of identifiable tangible assets and separately identified intangible assets acquired in the acquisition of various entities. Management annually evaluates goodwill for impairment and records any reduction in goodwill in the period such impairment is determined. Management believes no such impairment exists at September 30, 2019.

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

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

In February 2016, the FASB issued ASU No. 2016-01, *Financial Instruments - Overall*, which, among other items, requires reporting the change in fair value of equity investments as a component of net income rather than as a change in net assets. ASU 2016-01 is effective for not-for-profit entities for fiscal years beginning after December 15, 2018 and can be early implemented only for fiscal years beginning after December 15, 2017. As provided in this standard, management has elected to eliminate the disclosure of the fair value of financial instruments measured at

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2019 and 2018

amortized cost. Other than changes in presentation and additional disclosures, adoption of this standard did not have a significant impact on the consolidated financial statements. ASU 2016-01 has been applied retrospectively to the year ended September 30, 2018.

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

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which requires balance sheet recognition of a liability and right-to-use asset for substantially all leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018 and requires a modified retrospective transition approach for leases existing at the date of adoption. Management adopted this ASU effective October 1, 2019.

In August 2016, the FASB issued ASU No. 2016-15 *Statement of Cash Flows (Topic 320)* (ASU 2016-15), which clarifies classification of certain cash receipts and payments within the statement of cash flows. ASU 2016-15 provides guidance on eight specific cash flow issues, including treatment of distributions received from equity method investees. ASU 2016-15 states that investors will make an accounting policy election to classify distributions received from equity method investees using either the "cumulative earnings approach" or the "nature of the distribution approach." These approaches determine the classification of distributions from equity method investees between operating and investing activities. In November 2016, the FASB issued ASU No. 2016-18 *Statement of Cash Flows (Topic 320) Restricted Cash* (ASU 2016-18), which clarifies classification and presentation of changes in cash whose use is restricted by donors. ASU 2016-15 and ASU 2016-18 are effective for fiscal years beginning after December 15, 2018, and early adoption is permitted. Management adopted these ASUs effective October 1, 2019.

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

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

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2019 and 2018

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

NOTE C--NET PATIENT SERVICE REVENUE/RECEIVABLES

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

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

Medicaid: Inpatient acute care services rendered to Medicaid program beneficiaries are paid based on prospectively determined rates per discharge using diagnosis related group assignments. Outpatient services are paid under a cost reimbursement methodology at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Georgia Department of Community Health.

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

Amounts recorded under certain of these contractual arrangements are subject to review and final determination by various program intermediaries. Settlements with third-party payers for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payer, correspondence from the payer and historical settlement activity, including an assessment to ensure that a significant reversal of revenue recognized will not occur. Estimated settlements are adjusted in future periods as adjustments become known or as years are settled or

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2019 and 2018

are no longer subject to such audits, reviews, and investigations. No significant amount of patient service revenue was recognized for the year ended September 30, 2019 as a result of changes in or adjustments to prior years' settlement estimates or final settlements of prior periods.

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

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

NGMC and NGMC-Barrow also participate in the Georgia Department of Community Health Upper Payment Limit (UPL) program. The UPL program allows for non-state local government hospitals and nursing homes to be paid 100 percent of the amount Medicare would pay for similar Medicaid services. During fiscal years 2019 and 2018, NGMC received approximately \$7,843,000 and \$13,730,000, respectively, from the UPL program. During fiscal years 2019 and 2018, NGMC-Barrow received approximately \$113,000 and \$269,000, respectively. These amounts are included in patient service revenue.

Effective July 1, 2010, the state of Georgia enacted legislation known as the Provider Payment Agreement Act (the Act) whereby certain hospitals, as defined in the Act, are assessed a "provider payment" in the amount of 1.45% of their net patient service revenue, as defined in the Act. The payments are to be used for the sole purpose of obtaining federal financial participation for medical assistance payments to providers on behalf of Medicaid recipients and are considered a community benefit by providers. Approximately \$12,416,000 and \$10,992,000 relating to the Act are included in other operating expenses in the accompanying Consolidated Statement of Operations and Changes in Net Assets for the years ended September 30, 2019 and 2018, respectively.

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2019 and 2018

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

| | <u>2019</u> | <u>2018</u> |
|-------------------------|-------------------------|-------------------------|
| Medicare | \$ 688,098,049 | \$ 622,172,358 |
| Medicaid | 153,571,646 | 142,788,126 |
| Commercial | 389,332,149 | 362,307,673 |
| Self-Pay | 110,679,365 | 95,876,818 |
| Other | 43,064,251 | 43,423,565 |
| Patient service revenue | <u>\$ 1,384,745,460</u> | <u>\$ 1,266,568,540</u> |

NOTE D--INVESTMENTS AND ASSETS LIMITED AS TO USE

The composition of assets limited as to use at September 30, 2019 and 2018, is as follows:

| | <u>2019</u> | <u>2018</u> |
|--|-------------------|-------------------|
| Indenture agreements - held by trustees: | | |
| Cash and money market funds | \$ 6,328,947 | \$ 749,611 |
| Corporate bonds | 7,366,786 | 11,769,321 |
| Accrued income | 30,047 | 95,300 |
| | <u>13,725,780</u> | <u>12,614,232</u> |
| Professional liability self-insurance agreement - held by trustee: | | |
| Cash and money market funds | 8,757,554 | 6,253,771 |
| Government bonds | - | 3,271,882 |
| Corporate bonds | 12,848,736 | 10,194,782 |
| Equity securities | 8,185,797 | 8,496,482 |
| Accrued income | 357,951 | 345,628 |
| | <u>30,150,038</u> | <u>28,562,545</u> |
| Workers' compensation self-insurance agreement - held by trustee: | | |
| Cash and money market funds | 4,427,612 | 3,350,511 |
| Government bonds | - | 1,909,036 |
| Corporate bonds | 7,524,642 | 5,976,130 |
| Accrued income | 180,996 | 173,806 |
| | <u>12,133,250</u> | <u>11,409,483</u> |

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2019 and 2018

| | <i>2019</i> | <i>2018</i> |
|--|-----------------------|-----------------------|
| Board designated for capital improvements: | | |
| Cash and money market funds | 10,775,503 | 4,719,339 |
| Equity securities | 75,449,703 | 78,414,588 |
| | <u>86,225,206</u> | <u>83,133,927</u> |
| Other | | |
| Cash and money market funds | 1,164,481 | 4,894,528 |
| Mutual funds | 30,938,148 | 30,030,404 |
| Corporate bonds | 4,224,855 | 100,486 |
| Government bonds | - | 48 |
| Equity securities | 1,767,771 | 1,001,461 |
| Limited partnership investments | 23,129,335 | 24,335,361 |
| Other | 5,874,642 | 3,377,206 |
| Accrued income | 24,583 | - |
| | <u>67,123,815</u> | <u>63,739,494</u> |
| | 209,358,089 | 199,459,681 |
| Less assets limited as to use that are required for current obligations | <u>(25,464,907)</u> | <u>(19,460,989)</u> |
| | <u>\$ 183,893,182</u> | <u>\$ 179,998,692</u> |

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

| | <i>2019</i> | <i>2018</i> |
|--------------------------------------|-----------------------|-----------------------|
| Cash and money market funds | \$ 164,737,862 | \$ 86,586,197 |
| U.S. Treasury and agency obligations | - | 34,310,799 |
| Corporate bonds | 199,568,548 | 174,800,221 |
| Equity securities | 681,462,857 | 582,202,959 |
| Accrued income | 1,431,824 | 1,363,023 |
| | <u>1,047,201,091</u> | <u>879,263,199</u> |
| Less current investments | <u>(164,737,862)</u> | <u>(86,586,197)</u> |
| | <u>\$ 882,463,229</u> | <u>\$ 792,677,002</u> |

Investment income on proceeds of borrowings that are held by trustees was \$393,674 and \$538,021, for the years ended September 30, 2019 and 2018, respectively, and is included as a part of other operating revenue in the accompanying Consolidated Statements of Operations and Changes in Net Assets. The net gain (loss) from all other investments and assets limited as to use

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2019 and 2018

without donor restrictions for the years ended September 30, 2019 and 2018, was comprised of the following:

| | <u>2019</u> | <u>2018</u> |
|---------------------------------------|----------------------|----------------------|
| Interest and dividend income | \$ 37,139,680 | \$ 32,070,740 |
| Limited partnership earnings | 710,036 | 1,082,595 |
| Net realized gains (losses) | (9,377,474) | 28,479,596 |
| Change in net unrealized gains/losses | 26,135,324 | (22,590,257) |
| Investment expense | (2,763,139) | (2,432,457) |
| Net investment gain | <u>\$ 51,844,427</u> | <u>\$ 36,610,217</u> |

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

NOTE E--PROPERTY, PLANT AND EQUIPMENT

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

| | <u>2019</u> | <u>2018</u> |
|--|-----------------------|-----------------------|
| Land | \$ 62,887,540 | \$ 60,077,392 |
| Land improvements | 16,575,654 | 15,506,664 |
| Building and building equipment | 865,887,299 | 845,787,902 |
| Equipment | 646,749,101 | 621,292,276 |
| Capital leases | 15,010,735 | 16,049,448 |
| Vehicles | 4,791,318 | 4,595,235 |
| | <u>1,611,901,647</u> | <u>1,563,308,917</u> |
| Less accumulated depreciation and amortization | (834,722,957) | (763,854,363) |
| | 777,178,690 | 799,454,554 |
| Construction in progress - Note P | 21,685,783 | 12,494,881 |
| | <u>\$ 798,864,473</u> | <u>\$ 811,949,435</u> |

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2019 and 2018

NOTE F--LONG-TERM DEBT

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

| | <u>2019</u> | <u>2018</u> |
|---|----------------|----------------|
| Revenue Anticipation Certificates, Series 2017A | | |
| Interest rates ranging from 4.00% to 5.00%; interest payments due semi-annually through February 2045 | \$ 170,025,000 | \$ 170,025,000 |
| Plus unamortized premium | 14,765,029 | 15,220,506 |
| Revenue Anticipation Certificates, Series 2017B | | |
| Interest rates ranging from 3.75% to 5.50%; interest payments due semi-annually through February 2045 | 140,540,000 | 140,540,000 |
| Plus unamortized premium | 18,211,741 | 18,773,543 |
| Revenue Anticipation Certificates, Series 2017C | | |
| Variable rate certificate; interest payments due monthly through February 2047 | 75,000,000 | 75,000,000 |
| Revenue Anticipation Certificates, Series 2017D | | |
| Variable rate certificate; interest payments due monthly through February 2044 | 68,205,000 | 71,650,000 |
| Revenue Anticipation Certificates, Series 2014A | | |
| Interest rates ranging from 4.00% to 5.50%; interest payments due semi-annually through August 2054 | 206,925,000 | 206,925,000 |
| Plus unamortized premium | 16,744,209 | 17,222,615 |
| Revenue Anticipation Certificates, Series 2014B | | |
| Variable rate certificates; interest payments due monthly through August 2035 | 135,500,000 | 135,500,000 |
| Less unamortized discount | (528,250) | (561,266) |
| Revenue Anticipation Certificates, Series 2011A | | |
| Variable rate certificates; interest payments due monthly through May 2026 | 30,925,000 | 34,550,000 |
| Revenue Anticipation Certificates, Series 2010A | | |
| Interest rates ranging from 4.00% to 5.50%; interest payments due semi-annually through February 2045 | 59,850,000 | 64,190,000 |
| Less unamortized discount | (2,250,156) | (2,338,687) |

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2019 and 2018

| | <u>2019</u> | <u>2018</u> |
|---|-----------------------|-----------------------|
| Revenue Anticipation Certificates, Series 2010B | | |
| Interest rates ranging from 4.00% to 5.50%; interest payments due semi-annually through February 2045 | 51,935,000 | 55,655,000 |
| Less unamortized discount | (584,562) | (607,562) |
| Other notes payable at rates ranging from 1.90% to 4.15% | 360,000 | 319,156 |
| Capitalized leases | 11,020,340 | 11,509,765 |
| | <u>996,643,351</u> | <u>1,013,573,070</u> |
| Less current portion | (24,573,882) | (21,706,172) |
| Less issuance cost | (5,085,725) | (5,336,493) |
| | <u>\$ 966,983,744</u> | <u>\$ 986,530,405</u> |

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

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

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

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2019 and 2018

The terms of the various indentures require the maintenance of certain financial ratios and compliance with other covenants. Management believes the Obligated Group was in compliance with all financial and other covenants as of September 30, 2019 and 2018.

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

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

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

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

The Series 2017D Certificate consists of a \$75,000,000 term certificate which matures February 15, 2044. The 2017D Certificate was modified in 2019 to bear interest at a variable rate of 79% of

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2019 and 2018

the one-month LIBOR plus a spread of 40 basis points. Prior to the modification, the 2017D Certificate bore interest at a variable rate of 67% of the one-month LIBOR plus a spread of 60 basis points. The spread of 40 basis points will be increased if the credit rating assigned to NGHS is downgraded. There has not been a downgrade of NGHS' credit rating as of September 30, 2019. The certificate is subject to mandatory sinking fund redemption payments which began February 15, 2018 and end February 15, 2044, which ranges from \$435,000 to \$11,565,000.

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

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

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

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

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

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2019 and 2018

to the modification, the 2011A Certificates bore interest at a variable rate of 67% of the one-month LIBOR plus a spread of 55 basis points. The spread of 40 basis points will be increased if the credit rating assigned to NGHS is downgraded. There has not been a downgrade of NGHS' credit rating as of September 30, 2019.

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

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

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

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

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

The 2010B Certificates maturing on February 15, 2030 and February 15, 2035 were redeemed during fiscal year 2015 using proceeds from the 2014A Certificates. Various certificates maturing

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2019 and 2018

on dates ranging from February 15, 2021 through February 15, 2045 were advance refunded during 2017 using proceeds from the 2017B Certificates. The remaining Series 2010B Certificates consist of \$1,745,000 term certificates maturing February 15, 2025 bearing interest at 5.0% and subject to mandatory sinking fund redemption payments beginning February 15, 2023; \$1,305,000 term certificates maturing February 15, 2025 bearing interest at 4.5% and subject to mandatory sinking fund redemption payments beginning February 15, 2023; \$3,315,000 term certificates maturing February 15, 2029 bearing interest at 5.5% and subject to mandatory sinking fund redemption payments beginning February 15, 2026; \$3,860,000 term certificates maturing February 15, 2030 bearing interest at 4.75% and subject to mandatory sinking fund redemption payments beginning February 15, 2026; \$6,955,000 term certificates maturing February 15, 2033 bearing interest at 5.0% and subject to mandatory sinking fund redemption payments beginning February 15, 2031; \$6,745,000 term certificates maturing February 15, 2037 bearing interest at 5.25% and subject to mandatory sinking fund redemption payments beginning February 15, 2035; \$9,965,000 term certificates maturing February 15, 2040 bearing interest at 5.125% and subject to mandatory sinking fund redemption payments beginning February 15, 2038; \$12,265,000 term certificates maturing February 15, 2045 bearing interest at 5.25% and subject to mandatory sinking fund redemption payments beginning February 15, 2041; and \$9,500,000 of serial certificates which are payable each February 15th and conclude February 15, 2022 bearing interest at rates ranging from 4.00% to 5.00% and having annual maturities ranging from \$915,000 to \$3,900,000.

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

The advance refunding of the 2010A and 2010B Certificates, previously described, was accomplished by placing funds in escrow accounts in order to satisfy remaining scheduled principal and interest payments of the outstanding debt. Management believes the amounts deposited in such escrow accounts have contractually relieved NGHS and NGMC of any future obligations with respect to this debt. Debt outstanding and not recognized in the Consolidated Balance Sheet at September 30, 2019, due to the advance refunding, totaled \$334,550,000.

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

Long-term debt at September 30, 2019 and 2018 also includes notes payable to financial institutions, as well as capital leases extending through fiscal 2023.

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

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2019 and 2018

| <u>Year Ending September 30,</u> | |
|----------------------------------|-----------------------|
| 2020 | \$ 24,411,473 |
| 2021 | 18,229,634 |
| 2022 | 17,543,741 |
| 2023 | 17,667,241 |
| 2024 | 17,990,000 |
| Thereafter | 854,443,251 |
| | <u>\$ 950,285,340</u> |

In connection with the issuance of the Series 2011A Certificates, which refunded the previously issued Series 2008A Certificates, NGHS entered into an interest rate swap agreement with a bank as counterparty. Under terms of the agreement, NGHS will pay the counterparty a fixed rate of 3.371% based upon a notional amount approximately equal to the principal amount of the Certificates and will receive an amount based on the same notional amount at a floating rate equal to 65% of the one-month LIBOR plus 19 basis points. The estimated fair market value of the swap was a liability of \$2,483,400 and \$1,738,800 at September 30, 2019 and 2018, respectively.

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

In anticipation of the Obligated Group issuing the 2017 Certificates, NGHS entered into two separate swap agreements in October 2016. One of the swap agreements had a notional amount of \$54,200,000 and requires NGHS to pay a fixed rate of 1.278% and receive a variable rate from the counterparty established at 70% of USD-LIBOR-BBA. The second swap agreement had a notional amount of \$81,300,000 and requires NGHS to pay a fixed rate of 1.283% and receive a variable rate from the counterparty established at 70% of USD-LIBOR-BBA. The estimated fair market value of these two swaps was a liability of \$1,523,986 and \$2,811,174 as of September 30, 2019 and an asset of \$6,367,878 and \$12,382,011 at September 30, 2018.

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

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2019 and 2018

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

NOTE G--PENSION PLAN

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

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

The plan formula changed effective January 1, 2006 so that the benefit is equal to a past service benefit plus a future service benefit. The past service benefit is equal to the benefit earned as of December 31, 2005 under the existing formula. The future service benefit is equal to 1% of earnings for each calendar year in which the participant works at least 1,000 hours.

Effective January 1, 2006, the defined benefit pension plan was closed to new employees. Additionally, the plan no longer provided disability benefits.

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

| | <i>Year Ended</i> <i>September 30,</i> | |
|--|---|-----------------------|
| | <i>2019</i> | <i>2018</i> |
| Change in benefit obligations | | |
| Benefit obligations, beginning of year | \$ 275,988,367 | \$ 284,727,516 |
| Service cost | 8,490,020 | 9,597,157 |
| Interest cost | 11,512,767 | 10,781,756 |
| Benefits paid | (9,615,663) | (8,878,027) |
| Actuarial (gain) loss | 50,937,842 | (20,240,035) |
| Benefit obligations, end of year | <u>\$ 337,313,333</u> | <u>\$ 275,988,367</u> |

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2019 and 2018

| | <i>Year Ended</i> | |
|--|------------------------|-----------------------|
| | <i>September 30,</i> | |
| | <u>2019</u> | <u>2018</u> |
| Change in plan assets | | |
| Fair value of plan assets, beginning of year | \$ 287,330,139 | \$ 261,299,378 |
| Actual return on plan assets | 4,152,580 | 24,908,788 |
| Contributions of plan sponsor | 10,000,000 | 10,000,000 |
| Benefits paid | (9,615,663) | (8,878,027) |
| Fair value of plan assets, end of year | <u>\$ 291,867,056</u> | <u>\$ 287,330,139</u> |
| Funded status of the plan at end of year | <u>\$ (45,446,277)</u> | <u>\$ 11,341,772</u> |

Employer contributions and benefits paid in the above table include only those amounts contributed directly to, or paid directly from, plan assets in fiscal years 2019 and 2018.

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

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

| | <i>September 30,</i> | |
|----------------------------------|------------------------|----------------------|
| | <u>2019</u> | <u>2018</u> |
| Noncurrent (liabilities) assets | \$ (45,446,277) | \$ 11,341,772 |
| Net (liability) asset recognized | <u>\$ (45,446,277)</u> | <u>\$ 11,341,772</u> |

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

| | <i>Year Ended</i> | |
|---------------------------------|-----------------------|----------------------|
| | <i>September 30,</i> | |
| | <u>2019</u> | <u>2018</u> |
| Unrecognized net actuarial loss | \$ 152,645,327 | \$ 90,057,210 |
| Unrecognized prior service cost | - | - |
| | <u>\$ 152,645,327</u> | <u>\$ 90,057,210</u> |

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2019 and 2018

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

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

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

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

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

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

The determination of the expected long-term rate of return on plan assets is based on assumptions that are developed by the plan's investment consultant for each investment category as to the rate

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2019 and 2018

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

The composition of plan assets at September 30, 2019 and 2018 is as follows:

| | <i>Carrying Value</i> | <i>Quoted Prices in Active Markets (Level 1)</i> | <i>Significant Other Observable Inputs (Level 2)</i> | <i>Significant Unobservable Inputs (Level 3)</i> |
|------------------------------------|-----------------------|--|--|--|
| <i>September 30, 2019</i> | | | | |
| Money market funds | \$ 14,776,687 | \$ 14,776,687 | \$ - | \$ - |
| Corporate bonds | 62,434,396 | - | 62,434,396 | - |
| Mutual funds and equity securities | 213,912,070 | 213,912,070 | - | - |
| Accrued income | 743,903 | 743,903 | - | - |
| | <u>\$ 291,867,056</u> | <u>\$ 229,432,660</u> | <u>\$ 62,434,396</u> | <u>\$ -</u> |
| <i>September 30, 2018</i> | | | | |
| Money market funds | \$ 11,467,518 | \$ 11,467,518 | \$ - | \$ - |
| Government bonds | 9,978,800 | - | 9,978,800 | - |
| Corporate bonds | 51,049,996 | - | 51,049,996 | - |
| Mutual funds and equity securities | 214,110,176 | 214,110,176 | - | - |
| Accrued income | 723,649 | 723,649 | - | - |
| | <u>\$ 287,330,139</u> | <u>\$ 226,301,343</u> | <u>\$ 61,028,796</u> | <u>\$ -</u> |

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

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

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2019 and 2018

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

NOTE H--OTHER RETIREMENT PLANS

During 2006, the System created the Northeast Georgia Health System, Inc. 401(k) Retirement Savings Plan for substantially all employees. The Plan provides for matching contributions by the System which are 100% of each employee's elective deferrals up to 1% of compensation and 50% of each employee's elective deferrals that exceed 1% of compensation but that do not exceed 6%. Expense under the 401(k) Retirement Savings Plan was \$14,916,099 and \$13,923,593 for the years ended September 30, 2019 and 2018, respectively.

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

NOTE I--ESTIMATED LIABILITIES FOR SELF-INSURANCE

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

Funding for professional liability is on a claims-made basis, while workers' compensation is determined on an occurrence basis. Funding of the trusts is based upon estimates of potential liability provided by annual independent actuarial valuations and includes provisions for claims reported and claims incurred but not reported in excess of insurance limits. The System is involved in litigation relating to medical malpractice and workers' compensation and other claims arising in the ordinary course of business. There are also known incidents occurring through September 30, 2019 that may result in the assertion of additional claims and other unreported claims may be asserted arising from services provided in the past. Estimated self-insurance liabilities in the accompanying Consolidated Balance Sheets at September 30, 2019 and 2018 consist of amounts

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2019 and 2018

accrued by the System related to these self-insurance programs and have not been discounted. Amounts accrued by NGHS were approximately \$41,932,000 and \$35,730,000 at September 30, 2019 and 2018. Operating expenses in the years ended September 30, 2019 and 2018 include \$9,428,796 and \$7,578,973, respectively, for professional liability and \$1,251,946 and \$1,476,375, respectively, for workers' compensation.

The System maintains a self-insurance program to provide medical and dental coverage for eligible employees and their dependents. Reinsurance above \$225,000 annually per individual with no aggregate limit is maintained through a commercial excess coverage policy. Operating expenses for the years ended September 30, 2019 and 2018 include \$59,245,507 and \$55,612,249, respectively, related to these benefits. Approximately \$14,200,000 and \$13,200,000, representing estimated incurred but unpaid medical and dental claims, are included in accounts payable and accrued expenses at September 30, 2019 and 2018, respectively.

NOTE J--CONCENTRATIONS OF CREDIT RISK

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

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

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

| | <u>2019</u> | <u>2018</u> |
|------------------------|-------------|-------------|
| Governmental programs: | | |
| Medicare | 50% | 51% |
| Medicaid | 10% | 10% |
| Commercial insurance | 28% | 28% |
| Self-pay and other | 12% | 11% |
| | <u>100%</u> | <u>100%</u> |

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2019 and 2018

NOTE K--OPERATING EXPENSE BY FUNCTIONAL CLASSIFICATION

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

| | <i>Healthcare Services</i> | <i>Support Services</i> | <i>Fundraising</i> | <i>Total</i> |
|---|--------------------------------|-----------------------------|---------------------|-------------------------|
| Salaries and benefits | \$ 687,475,300 | \$ 67,320,308 | \$ 1,043,446 | \$ 755,839,054 |
| Utilities | 12,791,591 | 1,349,088 | 2,594 | 14,143,273 |
| Physicians' fees | 20,233,357 | 2,318,954 | | 22,552,311 |
| Supplies | 217,442,241 | 19,740,346 | 110,554 | 237,293,141 |
| Legal, consulting and professional fees | 9,189,625 | 2,404,464 | 74,292 | 11,668,381 |
| Contracted outside services | 51,966,227 | 15,182,793 | 32,547 | 67,181,567 |
| Interest | 34,424,677 | 3,054,558 | - | 37,479,235 |
| Insurance | 10,565,170 | 2,377,834 | - | 12,943,004 |
| Other | 86,985,503 | 13,302,495 | 178,926 | 100,466,924 |
| Depreciation and amortization | 85,807,379 | 9,756,470 | 29,208 | 95,593,057 |
| | <u>\$ 1,216,881,070</u> | <u>\$ 136,807,310</u> | <u>\$ 1,471,567</u> | <u>\$ 1,355,159,947</u> |

NOTE L--AVAILABILITY AND LIQUIDITY

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

| | |
|---|-------------------------|
| Financial assets | \$ 1,389,868,504 |
| Less those unavailable for expenditures within one year, due to: | |
| Amounts restricted by donors | (21,656,841) |
| Amounts restricted under insurance agreements, bond agreements, board designation or other | <u>(209,358,089)</u> |
| Financial assets available to meet cash needs for general expenditures within one year | <u>\$ 1,158,853,574</u> |

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2019 and 2018

NOTE M--NET ASSETS RESTRICTED BY DONORS

Net assets restricted by donors are available for the purposes as detailed below:

| | <i>2019</i> | <i>2018</i> |
|--|----------------------|----------------------|
| Cardiology funds | \$ 421,598 | \$ 1,741,802 |
| Community benefits funds | 7,942,867 | 7,260,947 |
| Oncology funds | 1,929,973 | 1,756,474 |
| Children's initiatives funds | 1,015,623 | 855,486 |
| Education funds | 470,302 | 55,109 |
| Equipment funds | 2,964,146 | 2,498,785 |
| Grants | 571,433 | 278,628 |
| Indigent patient funds | 27,203 | 44,975 |
| Scholarship funds | 765,559 | 777,133 |
| Nephrology fund | 50,070 | 50,000 |
| Held in perpetuity: | | |
| Wilheit-Keys Peace Garden Maintenance | 155,100 | 155,100 |
| The Henry S Jennings Jr MD Visiting Lectureship | 100,000 | 100,000 |
| Nell's Prayer Garden Maintenance | 55,000 | 55,000 |
| David Pet Park Maintenance | 80,000 | 80,000 |
| Jack & Janice Frost Water Garden Maintenance | 100,000 | 100,000 |
| Braselton Flag Plaza Maintenance | 30,000 | 30,000 |
| Hospice fund | 50,629 | 50,629 |
| Nursing & Allied Health Continuing Education fund | 521,242 | 501,828 |
| Nursing & Allied Health Scholarships fund | 218,111 | 207,489 |
| Chaplain fund | 206,415 | 206,424 |
| MCF endowment fund | 2,868,665 | 2,868,665 |
| Honorary Gift - Woody Stewart & Nancy Colston fund | 474,238 | 474,238 |
| Pope Family Garden Maintenance | 100,000 | 100,000 |
| Evelyn Waugh scholarship fund | 53,246 | 52,446 |
| Ocie Pope scholarship fund | 25,822 | 25,822 |
| Destitute patient fund | 186,344 | 186,344 |
| Anne Thomas scholarship fund | 57,346 | 57,346 |
| John Ferguson scholarship fund | 215,909 | 213,909 |
| | <u>\$ 21,656,841</u> | <u>\$ 20,784,579</u> |

Net assets restricted by donors were released from donor restrictions when expenses were incurred to satisfy the restricted purposes, by the passage of time or by occurrence of events as specified by donors, for the years ended September 30, 2019 and 2018 are as follows:

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2019 and 2018

| | <u>2019</u> | <u>2018</u> |
|---|---------------------|---------------------|
| Restrictions accomplished: | | |
| Cardiology initiatives | \$ 1,544,666 | \$ 2,529,091 |
| Community benefits | 690,331 | 680,251 |
| Children's initiatives | 167,417 | 109,764 |
| Education | 8,497 | 13,616 |
| Equipment | 78,108 | 152,386 |
| Grants | 21,498 | 61,822 |
| Indigent patients | 25,238 | 25,464 |
| Oncology initiatives | 76,711 | 91,799 |
| Scholarships | 20,440 | 22,044 |
| Total net assets released from restrictions | <u>\$ 2,632,906</u> | <u>\$ 3,686,237</u> |

Other operating revenue in the accompanying Consolidated Statements of Operations and Changes in Net Assets includes \$636,445 and \$777,399 for the years ended September 30, 2019 and 2018, respectively, representing net assets with donor restrictions.

NOTE N--FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2019 and 2018

NOTE O--FAIR VALUE MEASUREMENTS

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

- *Level 1:* Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- *Level 2:* Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- *Level 3:* Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

| | <i>Carrying Value</i> | <i>Quoted Prices in Active Markets (Level 1)</i> | <i>Significant Other Observable Inputs (Level 2)</i> | <i>Significant Unobservable Inputs (Level 3)</i> |
|------------------------------------|-------------------------|--|--|--|
| September 30, 2019 | | | | |
| Assets measured at fair value | | | | |
| on a recurring basis: | | | | |
| Cash and money market funds | \$ 196,191,959 | \$ 196,191,959 | \$ - | \$ - |
| Mutual funds | 30,938,148 | 30,938,148 | - | - |
| Corporate bonds | 231,533,567 | - | 231,533,567 | - |
| Equity securities | 766,866,128 | 766,866,128 | - | - |
| Interest rate swap agreements | 5,101,197 | - | 5,101,197 | - |
| Other | 5,874,642 | 5,874,642 | - | - |
| Accrued income | 2,025,401 | 2,025,401 | - | - |
| Total assets | <u>\$ 1,238,531,042</u> | <u>\$ 1,001,896,278</u> | <u>\$ 236,634,764</u> | <u>\$ -</u> |
| Liabilities measured at fair value | | | | |
| on a recurring basis: | | | | |
| Interest rate swap agreements | \$ 6,818,560 | \$ - | \$ 6,818,560 | \$ - |

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2019 and 2018

| | <i>Carrying Value</i> | <i>Quoted Prices in Active Markets (Level 1)</i> | <i>Significant Other Observable Inputs (Level 2)</i> | <i>Significant Unobservable Inputs (Level 3)</i> |
|------------------------------------|-------------------------|--|--|--|
| September 30, 2018 | | | | |
| Assets measured at fair value | | | | |
| on a recurring basis: | | | | |
| Cash and money market funds | \$ 106,553,957 | \$ 106,553,957 | \$ - | \$ - |
| Mutual funds | 30,030,404 | 30,030,404 | - | - |
| Government bonds | 39,491,765 | 39,491,765 | - | - |
| Corporate bonds | 202,840,940 | - | 202,840,940 | - |
| Equity securities | 670,115,490 | 670,115,490 | - | - |
| Interest rate swap agreements | 22,596,296 | - | 22,596,296 | - |
| Other | 3,377,206 | 3,377,206 | - | - |
| Accrued income | 1,977,757 | 1,977,757 | - | - |
| Total assets | <u>\$ 1,076,983,815</u> | <u>\$ 851,546,579</u> | <u>\$ 225,437,236</u> | <u>\$ -</u> |
| Liabilities measured at fair value | | | | |
| on a recurring basis: | | | | |
| Interest rate swap agreements | \$ 1,738,800 | \$ - | \$ 1,738,800 | \$ - |

NOTE P--COMMITMENTS AND CONTINGENCIES

Construction in progress at September 30, 2019 relates primarily to ongoing projects, routine capital improvements at existing facilities, and scheduled projects related to a System Development Plan to be completed over the next several years. The estimated costs to complete current construction in progress at September 30, 2019 is approximately \$140,926,000 over that time frame. Costs to complete construction in progress under signed contracts at September 30, 2019 is approximately \$44,822,000.

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

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

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Notes to Consolidated Financial Statements - Continued

Years Ended September 30, 2019 and 2018

NOTE Q--OPTION TO PURCHASE AND ASSET PURCHASE AGREEMENTS

On November 21, 2019, NGHS disbursed the first installment payment of \$3,000,000 related to Option to Purchase and Asset Purchase Agreements (the Agreements). The Agreements grant NGHS the option to purchase the assets of the Habersham County Hospital Authority (HCHA) for a sum of \$15,000,000 in the form of annual installment payments of \$3,000,000 to be distributed over a five-year period. The Agreements specify a restriction to the use of funds distributed for capital purposes only.

The Agreements require HCHA to establish a debt service fund, which HCHA is required to deposit all funds in excess of twenty days cash on hand. The Option to Purchase Agreement includes three triggering events in which NGHS would be required to exercise its option to purchase. If NGHS fails to exercise one of its acquisition options by the final payment date, payments previously made are forfeited, and NGHS has no further obligation. The Option to Purchase Agreement also provides for early purchase if the parties mutually agree.

NOTE R--SUBSEQUENT EVENTS

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued. During this period, management did not note any material recognizable subsequent events that required recognition or disclosure in the September 30, 2019 consolidated financial statements except as discussed in Notes F and Q.

Supplemental Schedules

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Consolidating Balance Sheet

September 30, 2019

| | Corporate | Northeast Georgia Medical Center | NGMC Barrow | NGMG Lumpkin | Northeast Georgia Physicians Group | Northeast Georgia Health Partners | The Medical Center Foundation | The Heart Center | Eliminations | Consolidated |
|--|-----------------------|----------------------------------|----------------------|---------------------|------------------------------------|-----------------------------------|-------------------------------|---------------------|--------------------|-------------------------|
| ASSETS | | | | | | | | | | |
| CURRENT ASSETS | | | | | | | | | | |
| Cash and cash equivalents | \$ (406,960) | \$ 15,611,305 | \$ (3,496) | \$ 218 | \$ 720,443 | \$ (157,293) | \$ 1,568,085 | \$ 1,516 | \$ - | \$ 17,333,818 |
| Investments | - | 164,737,862 | - | - | - | - | - | - | - | 164,737,862 |
| Assets limited as to use, required for current obligations | 13,185,165 | 12,046,652 | - | - | - | - | 233,090 | - | - | 25,464,907 |
| Patient accounts receivable | - | 99,859,867 | 2,470,436 | (48,671) | 11,769,435 | - | - | 1,924,439 | - | 115,975,506 |
| Inventory of supplies | - | 10,451,690 | 414,743 | 228,744 | 278,272 | - | - | - | - | 11,373,449 |
| Other current assets | 335,919 | 7,495,176 | 57,316 | - | 119,139 | - | 1,947,083 | - | - | 9,954,633 |
| TOTAL CURRENT ASSETS | 13,114,124 | 310,202,552 | 2,938,999 | 180,291 | 12,887,289 | (157,293) | 3,748,258 | 1,925,955 | - | 344,840,175 |
| INVESTMENTS | - | 882,463,229 | - | - | - | - | - | - | - | 882,463,229 |
| ASSETS LIMITED AS TO USE | | | | | | | | | | |
| Under indenture agreements - held by trustees | - | 13,725,780 | - | - | - | - | - | - | - | 13,725,780 |
| Under self-insurance agreements | 42,283,288 | - | - | - | - | - | - | - | - | 42,283,288 |
| By Board for designated capital purposes | 86,225,206 | - | - | - | - | - | - | - | - | 86,225,206 |
| Other | 23,792,266 | 15,454,956 | - | - | - | - | 27,876,593 | - | - | 67,123,815 |
| | 152,300,760 | 29,180,736 | - | - | - | - | 27,876,593 | - | - | 209,358,089 |
| Less amounts required for current obligations | (13,185,165) | (12,046,652) | - | - | - | - | (233,090) | - | - | (25,464,907) |
| ASSETS LIMITED AS TO USE | 139,115,595 | 17,134,084 | - | - | - | - | 27,643,503 | - | - | 183,893,182 |
| PROPERTY, PLANT AND EQUIPMENT, net | 126,418,183 | 627,825,340 | 16,228,415 | 4,434,080 | 20,633,263 | 46,099 | 148,679 | 3,130,414 | - | 798,864,473 |
| DUE (TO) FROM AFFILIATES | - | 46,899 | - | - | - | - | (46,899) | - | - | - |
| OTHER ASSETS | | | | | | | | | | |
| Goodwill | - | - | - | - | - | - | - | 3,263,093 | - | 3,263,093 |
| Property held for future investment | 1,884,570 | 1,566,001 | - | - | - | - | 3,304,750 | - | - | 6,755,321 |
| Estimated fair value of interest rate swaps | - | 5,101,197 | - | - | - | - | - | - | - | 5,101,197 |
| Other | 1,465,891 | 1,649,868 | - | - | - | - | 108,586 | 293,056 | (80,000) | 3,437,401 |
| TOTAL OTHER ASSETS | 3,350,461 | 8,317,066 | - | - | - | - | 3,413,336 | 3,556,149 | (80,000) | 18,557,012 |
| TOTAL ASSETS | \$ 281,998,363 | \$ 1,845,989,170 | \$ 19,167,414 | \$ 4,614,371 | \$ 33,520,552 | \$ (111,194) | \$ 34,906,877 | \$ 8,612,518 | \$ (80,000) | \$ 2,228,618,071 |

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Consolidating Balance Sheet - Continued

September 30, 2019

| | Corporate | Northeast Georgia Medical Center | NGMC Barrow | NGMG Lumpkin | Northeast Georgia Physicians Group | Northeast Georgia Health Partners | The Medical Center Foundation | The Heart Center | Eliminations | Consolidated |
|---|-----------------------|--|----------------------|---------------------|---|--|-------------------------------------|------------------------|--------------------|-------------------------|
| LIABILITIES AND NET ASSETS | | | | | | | | | | |
| CURRENT LIABILITIES | | | | | | | | | | |
| Current portion of long-term debt | \$ - | \$ 24,406,485 | \$ 95,397 | \$ - | \$ 72,000 | \$ - | \$ - | \$ - | \$ - | \$ 24,573,882 |
| Accrued interest | - | 4,495,653 | - | - | - | - | - | - | - | 4,495,653 |
| Accounts payable and other accrued expenses | 1,631,362 | 81,986,806 | 38,755 | - | 7,949 | - | - | 1,020 | - | 83,665,892 |
| Accrued salaries, benefits, compensated absences and amounts withheld | 16,190,437 | 47,567,166 | 933,273 | 226,298 | 14,893,681 | 136,816 | 94,624 | 3,695,299 | - | 83,737,594 |
| Estimated third-party payer settlements | - | 7,918,491 | (113,115) | - | - | - | - | - | - | 7,805,376 |
| TOTAL CURRENT LIABILITIES | 17,821,799 | 166,374,601 | 954,310 | 226,298 | 14,973,630 | 136,816 | 94,624 | 3,696,319 | - | 204,278,397 |
| LONG-TERM DEBT, less current portion | - | 966,542,176 | 153,568 | - | 288,000 | - | - | - | - | 966,983,744 |
| ESTIMATED SELF-INSURANCE LIABILITIES | 41,932,387 | - | - | - | - | - | - | - | - | 41,932,387 |
| OTHER LONG-TERM LIABILITIES | | | | | | | | | | |
| Deferred compensation | 17,917,624 | 15,088,215 | - | - | - | - | - | - | - | 33,005,839 |
| Estimated fair value of interest rate swaps | - | 6,818,560 | - | - | - | - | - | - | - | 6,818,560 |
| Pension liability | 45,446,277 | - | - | - | - | - | - | - | - | 45,446,277 |
| TOTAL OTHER LONG-TERM LIABILITIES | 63,363,901 | 21,906,775 | - | - | - | - | - | - | - | 85,270,676 |
| TOTAL LIABILITIES | 123,118,087 | 1,154,823,552 | 1,107,878 | 226,298 | 15,261,630 | 136,816 | 94,624 | 3,696,319 | - | 1,298,465,204 |
| NET ASSETS | | | | | | | | | | |
| Without donor restrictions | 158,880,276 | 691,165,618 | 18,059,536 | 4,388,073 | 18,258,922 | (248,010) | 13,155,412 | 4,916,199 | (80,000) | 908,496,026 |
| With donor restrictions | - | - | - | - | - | - | 21,656,841 | - | - | 21,656,841 |
| TOTAL NET ASSETS | 158,880,276 | 691,165,618 | 18,059,536 | 4,388,073 | 18,258,922 | (248,010) | 34,812,253 | 4,916,199 | (80,000) | 930,152,867 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 281,998,363 | \$ 1,845,989,170 | \$ 19,167,414 | \$ 4,614,371 | \$ 33,520,552 | \$ (111,194) | \$ 34,906,877 | \$ 8,612,518 | \$ (80,000) | \$ 2,228,618,071 |

NORTHEAST GEORGIA HEALTH SYSTEM, INC. AND AFFILIATES

Consolidating Statement of Operations

Year Ended September 30, 2019

| | Corporate | Northeast Georgia Medical Center | NGMC Barrow | NGMG Lumpkin | Northeast Georgia Physicians Group | Northeast Georgia Health Partners | The Medical Center Foundation | The Heart Center | Eliminations | Consolidated |
|--|----------------------|--|-----------------------|-----------------------|---|--|-------------------------------------|------------------------|----------------------|----------------------|
| Changes in net assets without donor restrictions: | | | | | | | | | | |
| Patient service revenue | \$ - | \$ 1,160,664,596 | \$ 32,950,882 | \$ - | \$ 162,673,788 | \$ - | \$ - | \$ 28,456,194 | \$ - | \$ 1,384,745,460 |
| Other operating revenue | 127,045,334 | 28,481,139 | 344,657 | - | 27,634,958 | 545,623 | 636,446 | 608,466 | (153,746,772) | 31,549,851 |
| TOTAL OPERATING REVENUES | 127,045,334 | 1,189,145,735 | 33,295,539 | - | 190,308,746 | 545,623 | 636,446 | 29,064,660 | (153,746,772) | 1,416,295,311 |
| Expenses: | | | | | | | | | | |
| Salaries and wages | 47,646,555 | 367,950,610 | 14,172,469 | 1,928,291 | 156,084,290 | 1,463,601 | 933,623 | 35,795,679 | - | 625,975,118 |
| Employee benefits | 9,789,894 | 85,602,236 | 3,094,019 | 360,362 | 25,499,898 | 259,645 | 213,273 | 5,044,609 | - | 129,863,936 |
| Physicians' fees | 309,816 | 42,123,430 | 3,441,523 | 414,446 | 2,446,009 | - | - | 3,615 | (26,186,528) | 22,552,311 |
| Utilities | 806,967 | 10,632,256 | 565,879 | 284,760 | 1,553,922 | 7,313 | 2,851 | 289,325 | - | 14,143,273 |
| Supplies | 1,159,159 | 217,713,264 | 5,489,829 | 667,564 | 11,442,962 | 32,607 | 121,515 | 666,241 | - | 237,293,141 |
| Legal, consulting and professional fees | 7,598,048 | 2,711,632 | 21,727 | 296,528 | 88,781 | 66,603 | 81,657 | 803,405 | - | 11,668,381 |
| Contracted outside services | 16,250,825 | 34,731,968 | 1,539,436 | 275,649 | 8,708,363 | 11,157,099 | 35,774 | 562,647 | (6,080,194) | 67,181,567 |
| Insurance | 8,060,238 | - | - | - | 349,802 | - | - | 258,932 | 4,274,032 | 12,943,004 |
| Interest | - | 37,479,235 | - | - | - | - | - | - | - | 37,479,235 |
| Management Fees | - | 112,901,199 | 4,238,845 | 349,180 | - | 1,912,061 | - | 6,351,864 | (125,753,149) | - |
| Depreciation and amortization | 8,403,223 | 78,109,016 | 1,934,345 | 2,515,229 | 3,628,161 | 22,935 | 32,104 | 948,044 | - | 95,593,057 |
| Other operating expenses | 25,486,653 | 57,153,383 | 4,789,244 | 707,606 | 13,772,703 | 76,682 | 196,665 | 6,991,530 | (8,707,542) | 100,466,924 |
| TOTAL OPERATING EXPENSES | 125,511,378 | 1,047,108,229 | 39,287,316 | 7,799,615 | 223,574,891 | 14,998,546 | 1,617,462 | 57,715,891 | (162,453,381) | 1,355,159,947 |
| INCOME (LOSS) FROM OPERATIONS | 1,533,956 | 142,037,506 | (5,991,777) | (7,799,615) | (33,266,145) | (14,452,923) | (981,016) | (28,651,231) | 8,706,609 | 61,135,364 |
| Nonoperating gains (losses): | | | | | | | | | | |
| Donations from affiliates | - | 747,436 | - | - | - | - | (747,436) | - | - | - |
| Gain from investments, net | 6,095,260 | 44,872,789 | 34,342 | - | - | - | 842,036 | - | - | 51,844,427 |
| Gain on sale of property, plant and equipment, net | 21,020 | 41,359 | - | - | - | - | - | - | - | 62,379 |
| Change in estimated fair value of interest rate swaps | - | (22,574,859) | - | - | - | - | - | - | - | (22,574,859) |
| Miscellaneous, net | 6,328,578 | 77,402 | 281,315 | 2,995 | 1,116,285 | (5) | 111,025 | 2,792 | (8,706,609) | (786,222) |
| NET NONOPERATING GAINS (LOSSES) | 12,444,858 | 23,164,127 | 315,657 | 2,995 | 1,116,285 | (5) | 205,625 | 2,792 | (8,706,609) | 28,545,725 |
| EXCESS (DEFICIENCY) OF REVENUE AND GAINS OVER EXPENSES AND LOSSES | \$ 13,978,814 | \$ 165,201,633 | \$ (5,676,120) | \$ (7,796,620) | \$ (32,149,860) | \$ (14,452,928) | \$ (775,391) | \$ (28,648,439) | \$ - | \$ 89,681,089 |