CRISP REGIONAL HEALTH SERVICES, INC.
CORDELE, GEORGIA

COMBINED FINANCIAL STATEMENTS

for the years ended June 30, 2018 and 2017

C O N T E N T S

Draffin & Tucker, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Member:
THE AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Crisp Regional Health Services, Inc.
Cordele, Georgia

We have audited the accompanying combined financial statements of Crisp Regional Health Services, Inc., which comprise the combined balance sheets as of June 30, 2018 and 2017, the related combined statements of operations and changes in unrestricted net assets, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined 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 combined financial statements are free from material misstatement.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we express no such opinion. An audit 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of Crisp Regional Health Services, Inc. as of June 30, 2018 and 2017, and the results of its operations and changes in net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

DRAFFIN + TUCKER, LLP

Albany, Georgia
October 30, 2018

CRISP REGIONAL HEALTH SERVICES, INC.

COMBINED BALANCE SHEETS
June 30, 2018 and 2017

	2018	2017
ASSETS		
Current assets:		
Cash	$ 4,570,000	$ 5,460,000
Assets limited as to use	1,262,000	1,236,000
Patient accounts receivable, net of allowance for doubtful accounts and contractual adjustments of $35,201,000 in 2018 and $37,489,000 in 2017	17,435,000	16,992,000
Estimated third-party payor settlements	1,571,000	1,772,000
Supplies, at lower of cost (first-in, first-out) and net realizable value	2,419,000	2,055,000
Current portion of notes receivable	404,000	371,000
Other current assets	2,897,000	1,371,000
Total current assets	30,558,000	29,257,000
Assets limited as to use:		
Internally designated for capital improvements	46,332,000	45,933,000
Held by trustee	1,262,000	1,236,000
	47,594,000	47,169,000
Less amount required to meet current obligations	1,262,000	1,236,000
Noncurrent assets limited as to use	46,332,000	45,933,000
Property and equipment, net	38,732,000	36,615,000
Other assets:		
Notes receivable, net of current portion	371,000	285,000
Goodwill and intangibles, net	3,547,000	3,547,000
Investment in affiliated companies	431,000	431,000
Total other assets	4,349,000	4,263,000
Total assets	$ 119,971,000	$ 116,068,000

	2018	2017
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt	$ 810,000	$ 780,000
Accounts payable	2,589,000	2,287,000
Accrued expenses	4,803,000	4,373,000
Estimated third-party payor settlements	221,000	112,000
Total current liabilities	8,423,000	7,552,000
Long-term debt, net of current portion	24,472,000	25,234,000
Total liabilities	32,895,000	32,786,000
Net assets, unrestricted	87,076,000	83,282,000
Total liabilities and net assets	$ 119,971,000	$ 116,068,000

See accompanying notes and auditor's report.

CRISP REGIONAL HEALTH SERVICES, INC.

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

	2018	2017
Unrestricted revenues, gains and other support:		
Patient service revenue (net of contractual allowances and discounts)	$ 115,388,000	$ 110,411,000
Provision for bad debts	(23,355,000)	(23,577,000)
Net patient service revenue	92,033,000	86,834,000
Other revenue	1,933,000	2,790,000
Total revenues, gains and other support	93,966,000	89,624,000
Expenses:		
Professional care of patients	60,486,000	55,866,000
Dietary services	2,244,000	2,268,000
General services	4,140,000	4,068,000
Administrative services	11,210,000	11,447,000
Employee health and welfare	9,443,000	8,615,000
Depreciation and amortization	3,829,000	3,738,000
Interest	939,000	978,000
Total expenses	92,291,000	86,980,000
Operating income	1,675,000	2,644,000
Other income:		
Unrestricted gifts and bequests	1,060,000	153,000
Investment income	850,000	1,513,000
Gain (loss) on sale or disposal of fixed assets	(11,000)	204,000
Total other income	1,899,000	1,870,000
Excess revenues	3,574,000	4,514,000

Continued

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

	2018	2017
Change in unrealized gains (losses) on other than trading securities	$ 2,000	$(1,000)
Capital contributions	218,000	69,000
Increase in unrestricted net assets	3,794,000	4,582,000
Unrestricted net assets, beginning of year	83,282,000	78,700,000
Unrestricted net assets, end of year	$ 87,076,000	$ 83,282,000

See accompanying notes and auditor's report.

CRISP REGIONAL HEALTH SERVICES, INC.

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

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ 3,794,000	$ 4,582,000
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,829,000	3,738,000
Amortization of debt issuance costs	48,000	49,000
Change in net unrealized (gains) losses on investments, trading securities	423,000	(461,000)
Change in net unrealized (gains) losses on investments, other than trading	(2,000)	1,000
Realized (gains) losses on sales of securities	(271,000)	(99,000)
(Increase) decrease in:		
Patient accounts receivable	(443,000)	(883,000)
Supplies	(364,000)	(454,000)
Other current assets	(1,526,000)	540,000
Estimated third-party payor settlements	310,000	(341,000)
Notes receivable	(119,000)	(92,000)
Increase (decrease) in:		
Accounts payable	218,000	199,000
Accrued expenses	430,000	(884,000)
Net cash provided by operating activities	6,327,000	5,895,000
Cash flows from investing activities:		
Purchase of property and equipment	(5,862,000)	(4,851,000)
Purchase of investments	(45,614,000)	(36,095,000)
Proceeds from sale of investments	45,039,000	36,274,000
Net cash used by investing activities	(6,437,000)	(4,672,000)

Continued

CRISP REGIONAL HEALTH SERVICES, INC.

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

	2018	2017
Cash flows from financing activities:		
Payments on debt	$(780,000)	$(755,000)
Increase (decrease) in cash	(890,000)	468,000
Cash at beginning of year	5,460,000	4,992,000
Cash at end of year	$ 4,570,000	$ 5,460,000
Interest paid during the year	$ 901,000	$ 920,000

Supplemental disclosures of cash flow information:

- Property and equipment in accounts payable as of June 30, 2018 and 2017 was approximately $84,000 and $-0-, respectively.

See accompanying notes and auditor's report.

1. Description of Organization and Summary of Significant Accounting Policies

Organization

The Hospital Authority of Crisp County (Authority) reorganized and established Crisp Regional Health Services, Inc. as the controlling company of Crisp Regional Hospital, Inc., Crisp Regional Development Foundation, Inc., and Crisp Medical Services, Inc.

Crisp Regional Hospital, Inc. and Crisp Regional Development Foundation, Inc. are not-for-profit corporations. Crisp Regional Hospital, Inc. operates Crisp Regional Hospital (acute care hospital), Crisp Regional Nursing and Rehabilitation Center (skilled nursing facility), CareSouth of Crisp Regional Hospital (home health agency), Blackshear Retirement Villa (a retirement facility), and Cordele Health and Rehabilitation Center, Inc. (skilled nursing facility). In addition, Crisp Regional Hospital, Inc. operates various health clinics and physician practices.

Crisp Medical Services, Inc. is a dormant for-profit corporation organized to conduct taxable activities.

All material interfacility transactions have been eliminated.

Reorganization

The Authority implemented a reorganization plan whereby all the assets, management and governance of the Hospital were transferred to Crisp Regional Hospital, Inc., a not-for-profit corporation (Corporation), qualified as an organization described in Section 501(c)(3) of the Internal Revenue Code. The transfer was made pursuant to a Lease and Transfer Agreement between the Hospital Authority and the Corporation. The lease was subsequently amended and became effective July 1, 1996. The lease term is for forty years.

Use of Estimates

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

Continued

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

Allowance for Doubtful Accounts

Accounts receivable are reduced by an allowance for doubtful accounts for receivables associated with self-pay patients with or without insurance. In evaluating the collectability of accounts receivable, the Corporation analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Corporation analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Corporation records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged to deductions from revenue and bad debt expense.

Allowance for doubtful accounts for self-pay patients remained above 90% at June 30, 2018 and 2017.

The Corporation has not changed its charity care and uninsured discount policies during 2018 or 2017. The Corporation does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write-offs from third-party payors.

Continued

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

Investments

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

Assets Limited as to Use

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

Property and Equipment

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

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

Continued

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

Impairment of Long-Lived Assets

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

Goodwill and Intangible Assets

Goodwill and intangible assets with indefinite lives are tested for impairment annually and more frequently in the event of an impairment indicator. Intangible assets with definite lives are amortized over their respective estimated useful lives, and reviewed whenever events or circumstances indicate impairment may exist.

The Corporation assesses qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, the Corporation determines it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is required. If the two-step impairment test is determined to be necessary, and in step two the carrying value of a reporting unit's goodwill exceeds its implied fair value, an impairment loss equal to the difference will be recorded.

As of June 30, 2018 and 2017, the Corporation had goodwill and intangible assets of approximately $3,547,000. The Corporation has elected June 30th as its annual impairment assessment date. The Corporation completed its annual impairment assessment and concluded that no goodwill or indefinite lived intangible asset impairment charge was required.

Costs of Borrowing

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

Continued

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

Debt Issuance

Debt issuance costs are amortized over the period the obligation is outstanding using the straight-line method which approximates the effective interest method over the life of the related debt. Debt issuance costs related to a recognized debt liability are presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability.

Excess Revenues

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

Net Patient Service Revenue

The Corporation has agreements with third-party payors that provide for payments to the Corporation at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realized amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Indigent and Charity Care

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

Estimated Malpractice and Other Self-Insurance Costs

The provisions for estimated medical malpractice claims and other claims under self-insurance plans include estimates of the ultimate costs for both reported claims and claims incurred but not reported (see Notes 11 and 12).

Continued

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

Income Taxes

Crisp Regional Health Services, Inc., Crisp Regional Hospital, Inc. and Crisp Regional Development Foundation, Inc. are not-for-profit corporations that have been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code.

The Corporations apply accounting policies that prescribe when to recognize and how to measure the financial statement effects of income tax positions taken or expected to be taken on its income tax returns. These rules require management to evaluate the likelihood that, upon examination by the relevant taxing jurisdictions, those income tax positions would be sustained. Based on that evaluation, they only recognize the maximum benefit of each income tax position that is more than 50% likely of being sustained. To the extent that all or a portion of the benefits of an income tax position are not recognized, a liability would be recognized for the unrecognized benefits, along with any interest and penalties that would result from disallowance of the position. Should any such penalties and interest be incurred, they would be recognized as operating expenses.

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

Fair Value Measurements

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

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

Continued

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

Fair Value Measurements, Continued

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

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

Recently Adopted Accounting Pronouncement

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

Accounting Pronouncements Not Yet Adopted

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

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

Continued

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

Prior Year Reclassifications

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

Subsequent Event

In preparing these financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through October 30, 2018, the date the financial statements were issued.

2. Net Patient Service Revenue

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

The Corporation recognizes patient service revenue associated with services provided to patients who have third-party coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for indigent care, the Corporation recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the Corporation's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Corporation records a significant provision for bad debts related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows:

	Patient Service Revenue (Net of Contractual Allowances and Discounts)	
	2018	2017
Medicare	$ 36,050,000	$ 32,761,000
Medicaid	16,107,000	15,788,000
Third-party payors	38,124,000	38,750,000
Self-pay	25,107,000	23,112,000
Total	$ 115,388,000	$ 110,411,000

Continued

2. Net Patient Service Revenue, Continued

Revenue from the Medicare and Medicaid programs accounted for approximately 39% and 18%, respectively, of the Corporation's net patient service revenue for the year ended 2018 and 38% and 18%, respectively, of the Corporation's net patient service revenue for the year ended 2017. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Cost report estimated reimbursement amounts are adjusted in subsequent periods as final settlements are determined.

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

A summary of the payment arrangements with major third-party payors follows:

- Medicare

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

  Nursing Home services rendered to Medicare program beneficiaries are reimbursed at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors.

  The Corporation is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Corporation and audits thereof by the Medicare Administrative Contractor (MAC). The Corporation's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Corporation. The Corporation's Medicare cost reports have been audited by the MAC through June 30, 2011.

Continued

2. Net Patient Service Revenue, Continued

- Medicaid

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

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

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

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

The Hospital participates in the Georgia Indigent Care Trust Fund (ICTF) Program. The Hospital receives ICTF payments for treating a disproportionate number of Medicaid and uninsured patients. ICTF payments are based on the Hospital's estimated uncompensated cost of services to Medicaid and uninsured patients. The amount of ICTF payments recognized in net patient service revenue was approximately $1,031,000 and $818,000 for the years ended June 30, 2018 and 2017, respectively.

The Medicare, Medicaid and SCHIP Benefits Improvement and Protection Act of 2000 (BIPA) provides for payment adjustments to certain facilities based on the Medicaid Upper Payment Limit (UPL). The UPL payment adjustments are based on a measure of the difference between Medicaid payments and the amount that could be paid based on Medicare payment principles. The Hospital and Nursing Homes participate in this program. The net amount of UPL payment adjustments recognized in net patient service revenue was approximately $3,246,000 and $2,235,000 for the years ended June 30, 2018 and 2017, respectively.

Continued

2. Net Patient Service Revenue, Continued

- Medicaid, Continued

During 2010, the state of Georgia enacted legislation known as the Provider Payment Agreement Act (Act) whereby hospitals in the state of Georgia are assessed a "provider payment" in the amount of 1.45% of their net patient revenue. The Act became effective July 1, 2010, the beginning of state fiscal year 2011. The provider payments are due on a quarterly basis to the Department of Community Health. The payments are to be used for the sole purpose of obtaining federal financial participation for medical assistance payments to providers on behalf of Medicaid recipients. The provider payment will result in an increase in hospital payments on Medicaid services of approximately 11.88%. Approximately $714,000 and $617,000 relating to the Act is included in administrative services in the accompanying combined statements of operations and changes in unrestricted net assets for the years ended June 30, 2018 and 2017, respectively.

- Other Arrangements

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

- Uninsured Patients

In December 2015, the Corporation updated its Financial Assistance Policy (FAP) in accordance with Internal Revenue Code Section 501(r). Based on the FAP, following a determination of financial assistance eligibility, an individual will not be charged more than the Amounts Generally Billed (AGB) for emergency or other medical care provided to individuals with insurance covering that care. AGB is calculated by reviewing claims that have been paid in full (including deductibles and coinsurance paid by the patient) to the Corporation for medically necessary care by Medicare and private health insurers during a 12-month look-back period. The Corporation recognized discounts from established charges to uninsured patients of approximately $106,000 and $614,000 in 2018 and 2017, respectively.

3. Uncompensated Services

The Corporation was compensated for services at amounts less than its established rates. Charges for uncompensated services for 2018 and 2017 were approximately $161,613,000 and $148,215,000, respectively.

Continued

3. Uncompensated Services, Continued

Uncompensated care includes indigent and charity care services of approximately $1,610,000 and $1,935,000 in 2018 and 2017, respectively. The cost of indigent and charity care services provided during 2018 and 2017 was approximately $567,000 and $691,000, respectively computed by applying a total cost factor to the charges foregone.

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

	2018	2017
Gross patient charges	$ 253,646,000	$ 235,049,000
Uncompensated services:		
Indigent and charity care	1,610,000	1,935,000
Medicare	84,971,000	75,023,000
Medicaid	27,172,000	28,486,000
Other allowances	24,505,000	19,194,000
Bad debts	23,355,000	23,577,000
Total uncompensated care	161,613,000	148,215,000
Net patient service revenue	$ 92,033,000	$ 86,834,000

4. Concentrations of Credit Risk

The Corporation grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2018 and 2017, was as follows:

	2018	2017
Medicare	31%	32%
Medicaid	12%	13%
Blue Cross and other third-party payors	25%	24%
Patients	32%	31%
Total	100%	100%

Continued

4. Concentrations of Credit Risk, Continued

At June 30, 2018, the Corporation had deposits at major financial institutions which exceeded the $250,000 Federal Deposit Insurance Corporation limit. Management believes the credit risks related to these deposits is minimal.

5. Investments

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

Assets Limited as to Use

	2018	2017
Internally designated for capital improvements:		
Trading securities:		
Cash and cash equivalents	$ 5,918,000	$ 6,151,000
Government and agency securities	4,394,000	6,267,000
Mutual funds – income and growth	615,000	8,358,000
U.S. Corporate bonds	7,941,000	10,223,000
Exchange traded funds	8,135,000	-
Asset and mortgage backed securities	360,000	1,324,000
Common stock	16,898,000	12,180,000
Real estate investment trusts	2,049,000	1,407,000
Other than trading securities:		
Common stock	22,000	23,000
Total	46,332,000	45,933,000
Held by trustee under indenture:		
Cash and cash equivalents	1,262,000	1,236,000
Total assets limited as to use	$ 47,594,000	$ 47,169,000

Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less. These amounts are reported at cost plus accrued interest.

Continued

5. Investments, Continued

During 2015, the Corporation changed its investment policy whereas all investments purchased subsequent to the policy change are classified as trading securities.

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

	2018	2017
Income (loss):		
Interest and dividends	$ 1,295,000	$ 1,235,000
Realized gains on sales of securities	271,000	99,000
Unrealized gains (losses) on trading securities	(423,000)	461,000
Investment expenses	(293,000)	(282,000)
Total	$ 850,000	$ 1,513,000
Other changes in unrestricted net assets:		
Unrealized gains (losses) on other than trading securities	$ 2,000	$(1,000)

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

Continued

5. Investments, Continued

The following table outlines fair value and gross unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2018 and 2017.

	June 30, 2018					
	Less Than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Governmental and agency securities	$ 1,805,000	$(29,000)	$ 1,819,000	$(86,000)	$ 3,624,000	$(115,000)
Mutual funds – income and growth	615,000	(12,000)	-	-	615,000	(12,000)
U.S. corporate bonds	3,413,000	(84,000)	3,264,000	(240,000)	6,677,000	(324,000)
Exchange traded funds	5,402,000	(100,000)	-	-	5,402,000	(100,000)
Asset and mortgage backed securities	13,000	(1,000)	152,000	(31,000)	165,000	(32,000)
Common stock	5,602,000	(491,000)	621,000	(150,000)	6,223,000	(641,000)
Real estate investment trusts	827,000	(54,000)	152,000	(9,000)	979,000	(63,000)
Total	$ 17,677,000	$(771,000)	$ 6,008,000	$(516,000)	$ 23,685,000	$(1,287,000)

	June 30, 2017					
	Less Than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Governmental and agency securities	$ 4,932,000	$(66,000)	$ 8,000	$(1,000)	$ 4,940,000	$(67,000)
Mutual funds – income and growth	3,477,000	(34,000)	891,000	(34,000)	4,368,000	(68,000)
U.S. corporate bonds	3,469,000	(41,000)	2,171,000	(161,000)	5,640,000	(202,000)
Asset and mortgage backed securities	156,000	(5,000)	863,000	(57,000)	1,019,000	(62,000)
Common stock	3,389,000	(300,000)	477,000	(122,000)	3,866,000	(422,000)
Real estate investment trusts	489,000	(31,000)	215,000	(14,000)	704,000	(45,000)
Total	$ 15,912,000	$(477,000)	$ 4,625,000	$(389,000)	$ 20,537,000	$(866,000)

Continued

5. Investments, Continued

Management evaluates securities for other-than-temporary impairment at least on an annual basis, and more frequently when economic or market concerns warrant such evaluation. In analyzing an issuer's financial condition, management considers whether the investments are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition.

Management has considered the nature of investments in an unrealized loss position, the cause of their impairment, the severity and duration of their impairment, the current global economic conditions, the Corporation's intentions to sell or ability to hold the investments, and other relevant information available to management in determining if investments are other than temporarily impaired. Based on an evaluation of these factors, the Corporation has concluded that the declines in fair values of the Corporation's investments reported in the above table are temporary.

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

		Fair Value Measurements at Reporting Date Using		
June 30, 2018	Fair Value	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Government and agency securities	$ 4,394,000	$ 4,394,000	$ -	$ -
Mutual funds – income and growth	615,000	615,000	-	-
U.S. corporate bonds	7,941,000	7,941,000	-	-
Exchange traded funds	8,135,000	8,135,000		
Asset and mortgage backed securities	360,000	360,000	-	-
Common stock	16,920,000	16,920,000	-	-
Real estate investment trusts	2,049,000	2,049,000	-	-
Total assets	$ 40,414,000	$ 40,414,000	$ -	$ -

Continued

5. Investments, Continued

		Fair Value Measurements at Reporting Date Using		
	Fair Value	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2017				
Assets:				
Government and agency securities	$ 6,267,000	$ 6,267,000	$ -	$ -
Mutual funds – income and growth	8,358,000	8,358,000	-	-
U.S. corporate bonds	10,223,000	10,223,000	-	-
Asset and mortgage backed securities	1,324,000	1,324,000	-	-
Common stock	12,203,000	12,203,000	-	-
Real estate investment trusts	1,407,000	1,407,000	-	-
Total assets	$ 39,782,000	$ 39,782,000	$ -	$ -

Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Valuation techniques utilized to determine fair value are consistently applied.

All assets have been valued using a market approach.

Continued

6. Property and Equipment

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

	2018	2017
Land	$ 3,722,000	$ 1,950,000
Land improvements	1,156,000	1,101,000
Buildings and improvements	48,548,000	47,548,000
Fixed equipment	13,353,000	12,699,000
Movable equipment	30,211,000	28,456,000
	96,990,000	91,754,000
Less accumulated depreciation	(58,920,000)	(55,353,000)
	38,070,000	36,401,000
Construction in progress	662,000	214,000
Property and equipment, net	$ 38,732,000	$ 36,615,000

Depreciation expense for the years ended June 30, 2018 and 2017 amounted to approximately $3,829,000 and $3,738,000, respectively. At June 30, 2018, the Corporation has entered into a contract for a new computer system with a total capital commitment of approximately $3,789,000 and a remaining commitment of approximately $3,541,000. Subsequent to year end, the Corporation purchased a building with a total purchase price of $900,000.

7. Notes Receivable

Notes receivable consist primarily of loans to physicians and medical school students for tuition and related educational expenses, which are secured by promissory notes. In general, the receivables are being forgiven over a period of time in which the physician practices medicine in Cordele, Georgia. If the physician discontinues medical practice in Cordele or the student is no longer enrolled in medical school, the outstanding principal and accrued interest becomes due immediately. The amounts forgiven and charged to expense during 2018 and 2017 were approximately $115,000 and $160,000, respectively.

Notes receivable also consist of educational loans to employees. In general, the educational loans are forgiven over a period of time in which the employee works for the Corporation.

Continued

8. Long-Term Debt

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

	2018	2017
2013 Revenue Certificates, with principal payments due on July 1st each year from 2029 through 2043, varying rates of interest from 3.50% to 4.15%, collateralized by a pledge of the Authority's gross receipts. Net of unamortized issue costs of $710,000 and $741,000 at June 30, 2018 and 2017, respectively.	$ 15,790,000	$ 15,759,000
2015 Revenue Certificates, with principal payments due on July 1st each year from 2017 through 2028, interest at 2.47%, collateralized by a pledge of the Authority's gross receipts. Net of unamortized issue costs of $158,000 and $175,000 at June 30, 2018 and 2017, respectively.	9,492,000	10,255,000
Total long-term debt	25,282,000	26,014,000
Less current installments of long-term debt	810,000	780,000
Total long-term debt excluding current installments	$ 24,472,000	$ 25,234,000

The Series 2008A, 2008B, 2013 and 2015 Certificates were issued pursuant to a trust indenture between the Authority and U.S. Bank National Association, as Trustee.

On May 1, 2008, the Authority issued $10,000,000 of the Hospital Authority of Crisp County, Georgia Revenue Anticipation Certificates (Crisp Regional Hospital Project) Series 2008A for the purpose of (i) refunding the Authority's outstanding revenue notes (Crisp Regional Hospital Project), Series 2007, (ii) financing, in whole or in part, the cost of the acquisition, construction, and equipping of capital improvements (ICU addition) to the healthcare facilities of the Authority located in Crisp County, Georgia (Project), (iii) paying the premium for a municipal bond insurance policy relating to the Series 2008A Certificates, and (iv) paying all or a portion of the costs of issuing the Series 2008A Certificates.

Continued

8. Long-Term Debt, Continued

On May 28, 2008, the Authority issued $3,000,000 of the Hospital Authority of Crisp County, Georgia Revenue Anticipation Certificates (Crisp Regional Hospital Project), Series 2008B for the purpose of (i) financing in whole or in part, the costs of the acquisition, construction and equipping of capital improvements (ICU addition) to the healthcare facilities of the Authority located in Crisp County, Georgia (Project), (ii) paying the premium for a municipal bond insurance policy relating to the Series 2008B Certificates, and (iii) paying a portion of the costs of issuing the Series 2008B Certificates.

On June 1, 2013, the Authority issued $16,500,000 of the Hospital Authority of Crisp County, Georgia Revenue Anticipation Certificates (Crisp Regional Hospital Project), Series 2013 for the purpose of (i) expansions and renovations to the emergency department, (ii) acquisition, expansions and renovations to skilled nursing facilities, (iii) acquisition and installation of information technology equipment and software, (iv) routine capital equipment, and (v) acquisition and installation of certain radiology and fluorography equipment.

On April 1, 2015, the Authority issued $11,185,000 of the Hospital Authority of Crisp County, Georgia Revenue Anticipation Certificates (Crisp Regional Hospital Project), Series 2015 for the purpose of defeasing the Series 2008A Certificates maturing in the years 2016 and after and the Series 2008B Certificates maturing in the years 2017 and after.

The Series 2013 Certificates are subject to optional redemption prior to maturity, either in whole or in part, at any time not earlier than July 1, 2020, from any monies deposited with the Trustee and available for such purposes, at a redemption price equal to 100% of the principal amount to be redeemed plus accrued interest to the date fixed for redemption.

The Series 2013 Certificates maturing on July 1, 2036, 2038, and 2042, are subject to mandatory sinking fund redemption at a redemption price equal to 100% of the principal amount of each Series 2013 Certificate (or portion thereof) to be redeemed plus accrued interest to the date fixed for redemption. Redemption price of these certificates will range from $1,080,000 to $1,430,000 during the redemption period.

The Series 2015 Certificates are subject to optional redemption prior to maturity, either in whole or in part, at any time, at a redemption price equal to 100% of the principal amount to be redeemed plus accrued interest to the redemption date.

The Series 2015 Certificates maturing on July 1, 2016 through July 1, 2027 are subject to mandatory sinking fund redemption at a redemption price equal to 100% of the principal amount of each Series 2015 Certificate (or portion thereof) to be redeemed, plus accrued interest to the redemption date. Redemption price for these Certificates will range from $755,000 to $1,145,000.

Continued

8. Long-Term Debt, Continued

In accordance with the Trust Agreement with U. S. Bank National Association, the Corporation is required to establish sinking funds to accumulate specific principal and interest payments due on January 1 and July 1 each year. In addition, the Corporation is required to meet certain debt service restrictions. As of June 30, 2018, management believes the requirements of the Agreement were met.

Scheduled principal repayments on long-term debt are as follows:

Year	Long-Term Debt
2019	$ 810,000
2020	840,000
2021	870,000
2022	905,000
2023	935,000
Thereafter	21,790,000
	26,150,000
Less debt issue costs	868,000
Total	$ 25,282,000

9. Goodwill and Intangibles, Net

A summary of goodwill at June 30, 2018 and 2017 follows:

	2018	2017
Certificate of Need – Cordele Health and Rehabilitation Center, Inc.	$ 1,800,000	$ 1,800,000
Other intangible assets	26,000	26,000
Accumulated amortization	(26,000)	(26,000)
Intangible assets, net	1,800,000	1,800,000
Goodwill	1,747,000	1,747,000
Total goodwill and intangible assets, net	$ 3,547,000	$ 3,547,000

The goodwill is related to the Hospital's purchase of Cordele Health and Rehabilitation Center, Inc., Crisp Regional Nursing and Rehabilitation Center and various physician practices. Goodwill is evaluated annually for impairment.

Continued

9. Goodwill and Intangibles, Net, Continued

The changes in the carrying amount of goodwill for the year ended June 30, 2018 and 2017 are as follows:

	2018	2017
Balance at beginning of the year:		
Goodwill	$ 1,747,000	$ 1,747,000
Accumulated impairment losses	-	-
Net beginning goodwill	1,747,000	1,747,000
Goodwill acquired during the year	-	-
Impairment losses	-	-
	-	-
Balance at end of the year:		
Goodwill	1,747,000	1,747,000
Accumulated impairment losses	-	-
Net ending goodwill	$ 1,747,000	$ 1,747,000

10. Retirement Plan

The Corporation has a defined contribution plan for all full-time employees. The Hospital funds tax-sheltered annuities for employees under the defined contribution plan. Amounts to be funded are based on an employee's years of employment. Funding ranges from 3% to 5% of an employee's base salary.

Retirement benefits included in the June 30, 2018 and 2017 financial statements are approximately $618,000 and $660,000, respectively.

11. Malpractice Insurance

The Corporation is covered by a claims-made general and professional liability insurance policy with a specified deductible per incident and excess coverage on a claims-made basis. Self-insured retention related to this policy in 2018 and 2017 is $250,000 per occurrence. The specific loss, other coverage aggregate and health care professional liability aggregate limits are $10,000,000.

Continued

11. Malpractice Insurance, Continued

The Corporation uses a third-party administrator to review and analyze incidents that may result in a claim against the Corporation. In conjunction with the third-party administrator, incidents are assigned reserve amounts for the ultimate liability that may result from an asserted claim.

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

12. Employee Health Insurance

The Corporation is under a self-insurance program for the purpose of providing group health insurance for Corporation employees and their covered dependents. This program was created to minimize the total cost of annual medical insurance to the Corporation. The Corporation has purchased stop-loss insurance coverage for claims in excess of $100,000 for each individual employee.

Under this self-insurance program, the Corporation paid or accrued approximately $5,543,000 and $4,786,000 in 2018 and 2017, respectively. These amounts are included in the combined statements of operations and changes in unrestricted net assets as employee health and welfare expense.

13. Functional Expenses

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

	2018	2017
Patient care services	$ 71,864,000	$ 66,491,000
General and administrative	20,427,000	20,489,000
Total	$ 92,291,000	$ 86,980,000

Continued

14. Contingencies

Regulatory Compliance

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

Health Care Reform

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

Litigation

The Corporation has been named as a defendant in certain lawsuits arising in the ordinary course of business. Management does not expect these matters to have a material adverse effect on the financial position and results of operations of the Hospital.

15. Fair Values of Financial Instruments

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

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

Continued

15. Fair Values of Financial Instruments, Continued

- *Assets limited as to use:* Amounts reported in the balance sheet are at fair value. See Note 5 for fair value measurement disclosures.

- *Long-term debt:* The fair value of the Corporation's long-term debt is based on the quoted market value for same or similar debt instruments. Based on inputs used in determining the estimated fair value, the Corporation's long-term debt would be classified as Level 2 in the fair value hierarchy.

The following table summarizes the carrying amounts and fair value for long-term debt:

	2018		2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	$ 26,150,000	$ 26,274,000	$ 26,930,000	$ 27,325,000

16. Electronic Health Records Incentive Payments

The Health Information Technology for Economic and Clinical Health Act (HITECH Act) was enacted into law on February 17, 2009, as part of the American Recovery and Reinvestment Act of 2009 (ARRA). The HITECH Act includes provisions designed to increase the use of Electronic Health Records (EHR) by both physicians and hospitals. Beginning with federal fiscal year 2011 and extending through federal fiscal year 2016, eligible hospitals participating in the Medicare and Medicaid programs are eligible for reimbursement incentives based on successfully demonstrating meaningful use of its certified EHR technology. Conversely, those hospitals that do not successfully demonstrate meaningful use of EHR technology are subject to reductions in Medicare reimbursements beginning in FY 2015. On July 13, 2010, the Department of Health and Human Services (DHHS) released final meaningful use regulations. Meaningful use criteria are divided into three distinct stages: I, II and III. The final rules specify the initial criteria for physicians and eligible hospitals necessary to qualify for incentive payments; calculation of the incentive payment amounts; payment adjustments under Medicare for covered professional services and inpatient hospital services; eligible hospitals failing to demonstrate meaningful use of certified EHR technology; and other program participation requirements.

The final rule set the earliest interim payment date for the incentive payment at May 2011. The first year of the Medicare portion of the program is defined as the federal government fiscal year October 1, 2010 to September 30, 2011.

Continued

16. Electronic Health Records Incentive Payments, Continued

The Medicaid portion of the program will be administered by the Georgia Department of Community Health based upon the criteria in the final rules. In the first year of the Medicaid EHR incentive program, eligible hospitals must attest to having adopted, implemented, upgraded or demonstrated meaningful use of certified EHR technology. In the second and subsequent years, the hospitals will be subject to additional meaningful use criteria in order to continue receiving payments. The Medicaid EHR incentive will be paid over three years.

Attestation of meaningful use requirements for the first year (October 1, 2010 - September 30, 2011) began on March 1, 2011. The Hospital registered for the program with the Centers for Medicare and Medicaid Services (CMS) and successfully attested compliance with Stage I of the Medicare EHR incentive program for federal fiscal years 2013 and 2014.

The following table summarizes the Hospital's Medicare incentive payments by program year:

		Medicare		
Program Year	EHR Stage	Hospital Fiscal Year	Incentive Payment	Cost Report Year
2013	1	2014	$ 1,383,000	2014
2014	1	2015	$ 914,000	2015
2015	2	2016	$ 639,000	2016
2016	2	2017	$ 311,000	2017

The initial federal fiscal year 2013, 2014, 2015 and 2016 Medicare EHR incentive payments were calculated based on information included in the Hospital's June 30, 2012, 2013, 2015 and 2016 Medicare cost reports, respectively. The final federal fiscal year 2013, 2014, 2015 and 2016 Medicare EHR incentive payments will be based on information included in the Hospital's June 30, 2014, 2015, 2016, and 2017 Medicare cost reports, respectively. As such, the final payment calculation factors could change from the initial factors for the 2013, 2014, 2015, and 2016 federal fiscal year payments. These funds are recorded in other revenue on the combined statements of operations and changes in unrestricted net assets.

The Hospital recognizes income related to Medicare and Medicaid incentive payments using a gain contingency model based upon when it has determined that it is reasonably assured that the Hospital will be meaningfully using EHR technology for the applicable period and the cost report information is available.

In February of 2012 the Hospital registered for the Georgia Medicaid program with the Department of Community Health and successfully attested to compliance with requirements for the initial payment from the state.

Continued

16. Electronic Health Records Incentive Payments, Continued

The following table summarizes the Hospital's Medicaid incentive payments by program year:

Medicaid		
Program Year	Hospital Fiscal Year	Incentive Payment
2011	2012	$ 465,000
2013	2014	$ 465,000
2014	2015	$ 232,000

These funds are recorded in other revenue on the combined statements of operations and changes in unrestricted net assets.

As of June 30, 2017, the Hospital had received all Medicare and Medicaid incentive payments available.

The Hospital's attestations to the demonstration of meaningful use and other requirements under the Medicare and Medicaid EHR programs are subject to audit. If the Hospital is selected for an audit, there is a possibility the incentive payments could be reduced or recouped based on the audit results.

Eligible professionals (EPs) may participate in either the Medicare or Medicaid incentive program but not both. EPs are allowed to switch programs one time after their first incentive payment is initiated. Most EPs will maximize their incentive payments by participating in the Medicaid incentive program, but Medicaid or needy individual patient volume thresholds must be met to qualify. Over the life of the program, the maximum Medicare EP payment is $44,000 per professional, and the maximum Medicaid EP payment is $63,750 per professional. The Corporation received $-0- from the Medicaid incentive program in 2018 and 2017 and approximately $-0- and $8,000 from the Medicare incentive program for EPs working in practices owned and operated by the Corporation in 2018 and 2017, respectively.

17. Rural Hospital Tax Credit Contributions

The State of Georgia (State) passed legislation which will allow individuals or corporations to receive a State tax credit for making a contribution to certain qualified rural hospital organizations during calendar years 2017 through 2021. The Corporation submitted the necessary documentation and was approved by the State to participate in the rural hospital tax credit program for calendar years 2017 and 2018. Contributions received or accrued under the program approximated $936,000 during 2018, and are reported as unrestricted gifts and bequests on the combined statements of operations and changes in unrestricted net assets. The Corporation will have to be approved by the State to participate in the program in each subsequent year.