CRISP REGIONAL HEALTH SERVICES, INC.
CORDELE, GEORGIA

COMBINED FINANCIAL STATEMENTS

for the years ended June 30, 2019 and 2018

C O N T E N T S

Draffin Tucker

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. (Corporation), which comprise the combined balance sheets as of June 30, 2019 and 2018, the related combined statements of operations and changes in 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.

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.

Continued

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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, 2019 and 2018, 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.

Changes in Accounting Principle

As discussed in Note 1 to the combined financial statements, the Corporation adopted new accounting guidance, Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606).* Our opinion is not modified with respect to that matter.

As discussed in Note 1 to the combined financial statements, the Corporation adopted new accounting guidance, FASB ASC ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* Our opinion is not modified with respect to that matter.

DRAFFIN & TUCKER, LLP

Albany, Georgia
October 30, 2019

CRISP REGIONAL HEALTH SERVICES, INC.

COMBINED BALANCE SHEETS
June 30, 2019 and 2018

	2019	2018
ASSETS		
Current assets:		
Cash	$ 2,114,000	$ 4,570,000
Assets limited as to use	1,294,000	1,262,000
Patient accounts receivable, net	19,967,000	17,435,000
Estimated third-party payor settlements	1,204,000	1,571,000
Supplies, at lower of cost (first-in, first-out) and net realizable value	2,335,000	2,419,000
Current portion of notes receivable	492,000	404,000
Other current assets	4,354,000	2,897,000
Total current assets	31,760,000	30,558,000
Assets limited as to use:		
Internally designated for capital improvements	47,911,000	46,332,000
Held by trustee	1,294,000	1,262,000
	49,205,000	47,594,000
Less amount required to meet current obligations	1,294,000	1,262,000
Noncurrent assets limited as to use	47,911,000	46,332,000
Property and equipment, net	42,313,000	38,732,000
Other assets:		
Notes receivable, net of current portion	359,000	371,000
Goodwill and intangibles, net	3,547,000	3,547,000
Investment in affiliated companies	431,000	431,000
Total other assets	4,337,000	4,349,000
Total assets	$ 126,321,000	$ 119,971,000

	2019	2018
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt	$ 840,000	$ 810,000
Accounts payable	5,771,000	2,589,000
Accrued expenses	5,183,000	4,803,000
Estimated third-party payor settlements	182,000	221,000
Total current liabilities	11,976,000	8,423,000
Long-term debt, net of current portion	23,681,000	24,472,000
Total liabilities	35,657,000	32,895,000
Net assets without donor restrictions	90,664,000	87,076,000
Total liabilities and net assets	$ 126,321,000	$ 119,971,000

See accompanying notes and auditor’s report.

CRISP REGIONAL HEALTH SERVICES, INC.

COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
for the years ended June 30, 2019 and 2018

	2019	2018
Revenues, gains and other support:		
Net patient service revenue	$ 95,739,000	$ 92,033,000
Other revenue	2,472,000	1,933,000
Total revenues, gains and other support	98,211,000	93,966,000
Expenses:		
Professional care of patients	65,149,000	60,486,000
Dietary services	2,342,000	2,244,000
General services	4,627,000	4,140,000
Administrative services	12,200,000	11,210,000
Employee health and welfare	9,747,000	9,443,000
Depreciation and amortization	3,621,000	3,829,000
Interest	919,000	939,000
Total expenses	98,605,000	92,291,000
Operating income (loss)	(394,000)	1,675,000
Other income:		
Undesignated gifts and bequests	1,077,000	1,060,000
Investment income	2,766,000	850,000
Loss on sale or disposal of fixed assets	(5,000)	(11,000)
Total other income	3,838,000	1,899,000
Excess revenues	3,444,000	3,574,000
Change in unrealized gains on other than trading securities	-	2,000
Capital contributions	144,000	218,000
Increase in net assets without donor restrictions	3,588,000	3,794,000
Net assets without donor restrictions, beginning of year	87,076,000	83,282,000
Net assets without donor restrictions, end of year	$ 90,664,000	$ 87,076,000

See accompanying notes and auditor’s report.

CRISP REGIONAL HEALTH SERVICES, INC.

COMBINED STATEMENTS OF CASH FLOWS
for the years ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Increase in net assets	$ 3,588,000	$ 3,794,000
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,621,000	3,829,000
Amortization of debt issuance costs	49,000	48,000
Change in net unrealized (gains) losses on investments, trading securities	(1,138,000)	423,000
Change in net unrealized gains on investments, other than trading	-	(2,000)
Realized gains on sales of securities	(501,000)	(271,000)
(Increase) decrease in:		
Patient accounts receivable	(2,532,000)	(443,000)
Supplies	84,000	(364,000)
Other current assets	(1,457,000)	(1,526,000)
Estimated third-party payor settlements	328,000	310,000
Notes receivable	(76,000)	(119,000)
Increase (decrease) in:		
Accounts payable	2,071,000	218,000
Accrued expenses	380,000	430,000
Net cash provided by operating activities	4,417,000	6,327,000
Cash flows from investing activities:		
Purchase of property and equipment	(6,091,000)	(5,862,000)
Purchase of investments	(23,133,000)	(45,614,000)
Proceeds from sale of investments	23,161,000	45,039,000
Net cash used by investing activities	(6,063,000)	(6,437,000)
Cash flows from financing activities:		
Payments on debt	(810,000)	(780,000)
Decrease in cash	(2,456,000)	(890,000)
Cash at beginning of year	4,570,000	5,460,000
Cash at end of year	$ 2,114,000	$ 4,570,000
Interest paid during the year	$ 865,000	$ 901,000

Supplemental disclosures of cash flow information:

- Property and equipment in accounts payable as of June 30, 2019 and 2018 was approximately $1,195,000 and $84,000, 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. (Corporation) 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 (CRNRC) (skilled nursing facility), CareSouth of Crisp Regional Hospital (home health agency), Blackshear Retirement Villa (a retirement facility), and Cordele Health and Rehabilitation Center, Inc. (COR) (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, 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.

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.

Continued

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

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, 2019 and 2018.

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 increases in net assets without donor restrictions, 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 increases in net assets with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Impairment of Long-Lived Assets

The 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 net assets for the years ended June 30, 2019 and 2018.

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.

Continued

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

Goodwill and Intangible Assets, Continued

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, 2019 and 2018, 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.

Debt Issuance Costs

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.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions – net assets available for use in general operations and not subject to donor imposed restrictions. The Board of Directors has discretionary control over these resources. Designated amounts represent those net assets that the Board has set aside for a particular purpose. All revenue not restricted by donors and donor restricted contributions whose restrictions are met in the same period in which they are received are accounted for in net assets without donor restrictions.

Continued

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

Net Assets, Continued

Net assets with donor restrictions – net assets subject to donor imposed restrictions. Some donor imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. All revenues restricted by donors as to either timing or purpose of the related expenditures or required to be maintained in perpetuity as a source of investment income are accounted for in net assets with donor restrictions. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Excess Revenues

The statement of operations includes excess revenues. Changes in net assets without donor restrictions 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 amount that reflects the consideration to which the Corporation expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors, and others and includes variable consideration for retroactive revenue adjustments under reimbursement arrangements with third-party payors. Retroactive adjustments are included in the determination of the estimated transaction price and adjusted in future periods as 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, 2019 and 2018 or for the years then ended. The Corporations' 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.

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

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

Continued

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

Recently Adopted Accounting Pronouncements

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 core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Corporation adopted ASU No. 2014-09 on July 1, 2018 using the full retrospective method of transition with practical expedients in FASB ASC 606-10-65-1(f) with no significant impact. The Corporation performed an analysis of revenue streams and transactions under ASU No. 2014-09. In particular, for net patient service revenue, the Corporation performed an analysis into the application of the portfolio approach as a practical expedient to group patient contracts with similar characteristics, such that revenue for a given portfolio would not be materially different than if it were evaluated on a contract-by-contract basis. Upon adoption, the majority of what was previously classified as provision for bad debts (representing approximately $23,355,000) for the year ended June 30, 2018 and presented as a reduction to net patient service revenue on the combined statements of operations and changes in net assets is now treated as a price concession that reduces the transaction price, which is reported as net patient service revenue. Changes in credit issues not assessed at the date of service, are recognized as bad debt expense and included as a component of operating expenses on the statement of operations and changes in net assets. The new standard also requires enhanced disclosures related to the disaggregation of revenue and significant judgments made in measurement and recognition. The adoption of this guidance did not materially impact total operating revenues, excess revenues, or net assets.

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 has adjusted the presentation of these combined financial statements for all periods presented, except for the disclosures around liquidity and availability of resources and analysis of expenses by nature and function. Those disclosures have been presented for 2019 only, as allowed by ASU No. 2016-14.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958) Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* The update assists entities in determining when a transaction should be accounted for as a contribution or as an exchange transaction and provides additional guidance about how to determine whether a contribution is conditional. The adoption of this guidance did not materially impact total revenues, excess revenues, or net assets.

Continued

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

Accounting Pronouncements Not Yet Adopted

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The new guidance requires equity investments (except those accounted for under the equity method or those that result in consolidation) to be measured at fair value, with changes in fair value recognized in net income; simplifies the impairment assessment of equity investments without readily determinable fair values; and amends certain disclosure requirements associated with the fair value of financial instruments. The standard is effective for annual periods beginning after December 15, 2018. The Corporation expects to adopt the new guidance for the year ending June 30, 2020 and is continuing to evaluate the impact the guidance will have on the combined financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which is a new comprehensive lease accounting model. The new standard clarifies the definition of a lease and requires lessees to recognize right-of-use assets and related lease liabilities for all leases with terms greater than twelve months. The new guidance, including subsequent amendments, is effective for the Corporation as of July 1, 2019. The Corporation is continuing to evaluate the impact the guidance will have on the combined financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows – Restricted Cash,* which requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The provisions of ASU 2016-18 are effective for annual periods beginning after December 15, 2018. The Corporation expects to adopt the new guidance for the year ending June 30, 2020 and is continuing to evaluate the impact the guidance will have on the combined financial statements.

Subsequent Event

In preparing these financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through October 30, 2019, the date the financial statements were issued.

2. Net Patient Service Revenue

Net patient service revenue is reported at the amount that reflects the consideration to which the Corporation expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Corporation bills the patients and third-party payors several days after the services are performed and/or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Continued

2. Net Patient Service Revenue, Continued

Performance obligations are determined based on the nature of the services provided by the Corporation. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Corporation believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving inpatient acute care services. The Corporation measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. These services are considered to be a single performance obligation and have a duration of less than one year. Revenue for performance obligations satisfied at a point in time is recognized when services are provided and the Corporation does not believe it is required to provide additional services to the patient.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Corporation has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a) and, therefore, 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 Corporation is utilizing the portfolio approach practical expedient in ASC 606 for contracts related to net patient service revenue. The Corporation accounts for the contracts within each portfolio as a collective group, rather than individual contracts, based on the payment pattern expected in each portfolio category and the similar nature and characteristics of the patients within each portfolio. As a result, the Corporation has concluded that revenue for a given portfolio would not be materially different than if accounting for revenue on a contract by contract basis.

The Corporation has arrangements with third-party payors that provide for payments to the Corporation at amounts different from its established rates. For uninsured patients that do not qualify for indigent and charity care, the Corporation recognizes revenue on the basis of its standard rates, subject to certain discounts and implicit price concessions as determined by the Corporation. The Corporation determines the transaction price based on standard charges for services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Corporation's policy, and implicit price concessions provided to uninsured patients. Implicit price concessions represent the difference between amounts billed and the estimated consideration the Corporation expects to receive from patients, which are determined based on historical collection experience, current market conditions, and other factors. The Corporation determines its estimates of contractual adjustments and discounts based on contractual agreements, discount policies, and historical experience.

Continued

2. Net Patient Service Revenue, Continued

Agreements with third-party payors typically provide for payments at amounts less than established charges. 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, 2015.

- 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 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, 2016.

  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.

Continued

2. Net Patient Service Revenue, Continued

- Medicaid, Continued

  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 $1,091,000 and $1,031,000 for the years ended June 30, 2019 and 2018, 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 $1,926,000 and $3,246,000 for the years ended June 30, 2019 and 2018, respectively.

  During 2010, the state of Georgia enacted legislation known as the Provider Payment Agreement Act (Act) whereby hospitals in the state of Georgia are assessed a "provider payment" in the amount of 1.45% of their net patient 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 $721,000 and $714,000 relating to the Act is included in administrative services in the accompanying combined statements of operations and changes in net assets for the years ended June 30, 2019 and 2018, 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.

Continued

2. Net Patient Service Revenue, Continued

- Uninsured Patients

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

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Corporation's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Corporation. In addition, the contracts the Corporation has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors 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 payor, correspondence from the payor and the Corporation's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in the transaction price, were not significant in 2019 or 2018.

Generally patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Corporation also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The Corporation estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. 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 generally recorded as adjustments to patient service revenue in the period of the change.

Continued

2. Net Patient Service Revenue, Continued

Adjustments arising from a change in the transaction price were not significant for the year ending June 30, 2019 and 2018. 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. Bad debt expense for the years ended June 30, 2019 and 2018 was not significant.

Consistent with the Corporation's mission, care is provided to patients regardless of their ability to pay. Therefore, the Corporation has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles).

Patients who meet the Corporation's criteria for indigent and charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as indigent and charity care are not reported as revenue.

Net patient service revenue by major payor source for the years ended June 30, 2019 and 2018 is as follows:

	2019	2018
Medicare	$ 37,439,000	$ 36,050,000
Medicaid	15,842,000	16,218,000
Other third-party payors	40,675,000	38,125,000
Self-pay	1,783,000	1,640,000
Total	$ 95,739,000	$ 92,033,000

Net patient service revenue by facility, line of business, and timing of revenue recognition for the years ended June 30, 2019 and 2018 are as follows:

	2019	2018
Hospital	$ 81,478,000	$ 77,177,000
Skilled nursing facility – COR	6,032,000	6,229,000
Skilled nursing facility – CRNRC	5,780,000	6,165,000
Home health agency	2,047,000	2,119,000
Retirement facility	402,000	343,000
Timing of revenue recognition:		
Services transferred over time	$ 95,739,000	$ 92,033,000

Continued

2. Net Patient Service Revenue, Continued

Hospital net patient service revenue includes a variety of services mainly covering inpatient acute care services requiring overnight stays, outpatient procedures that require anesthesia or use of the Corporation's diagnostic and surgical equipment, and emergency care services. Performance obligations for the hospital, skilled nursing facilities, home health agency, and the retirement facility patient services are satisfied over time as the patient simultaneously receives and consumes the benefits the Corporation performs. Requirements to recognize revenue for hospital inpatient services are generally satisfied over periods that average approximately four days and for outpatient services are generally satisfied over a period of less than one day. Retail pharmacy, cafeteria, and gift shop revenue, recorded in other revenue on the combined statements of operations and changes in net assets, performance obligations are satisfied at a point in time when the goods are provided.

The Corporation 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 payors for the effects of a significant financing component due to the Corporation'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 payor pays for that service will be one year or less. However, the Corporation does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

The Corporation has applied the practical expedient provided by FASB ASC 340-40-25-4 and all incremental customer contract acquisition costs are expensed as they are incurred as the amortization period of the asset that the Corporation otherwise would have recognized is one year or less in duration.

3. Uncompensated Services

The Corporation was compensated for services at amounts less than its established rates. Charges for uncompensated services for 2019 and 2018 were approximately $178,531,000 and $161,613,000, respectively.

Uncompensated care includes indigent and charity care services of approximately $2,316,000 and $1,610,000 in 2019 and 2018, respectively. The cost of indigent and charity care services provided during 2019 and 2018 was approximately $806,000 and $567,000, respectively computed by applying a total cost factor to the charges foregone.

Continued

3. Uncompensated Services, Continued

The following is a summary of uncompensated services and a reconciliation of gross patient charges to net patient service revenue for 2019 and 2018.

	2019	2018
Gross patient charges	$ 274,270,000	$ 253,646,000
Uncompensated services:		
Indigent and charity care	2,316,000	1,610,000
Medicare	88,228,000	84,971,000
Medicaid	29,822,000	27,172,000
Other third-party payors	33,925,000	24,505,000
Price concessions	24,240,000	23,355,000
Total uncompensated care	178,531,000	161,613,000
Net patient service revenue	$ 95,739,000	$ 92,033,000

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, 2019 and 2018, was as follows:

	2019	2018
Medicare	22%	18%
Medicaid	17%	19%
Other third-party payors	52%	47%
Patients	9%	16%
Total	100%	100%

At June 30, 2019, 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.

Continued

5. Investments

The composition of assets limited as to use at June 30, 2019 and 2018 is set forth in the following table. Investments other than cash and cash equivalents are stated at fair value.

Assets Limited as to Use

	2019	2018
Internally designated for capital improvements:		
Trading securities:		
Cash and cash equivalents	$ 4,669,000	$ 5,918,000
Government and agency securities	5,467,000	4,394,000
Mutual funds – income and growth	344,000	615,000
U.S. Corporate bonds	7,938,000	7,941,000
Exchange traded funds	9,068,000	8,135,000
Asset and mortgage backed securities	424,000	360,000
Common stock	18,072,000	16,898,000
Real estate investment trusts	1,916,000	2,049,000
Other than trading securities:		
Common stock	13,000	22,000
Total	47,911,000	46,332,000
Held by trustee under indenture:		
Cash and cash equivalents	1,294,000	1,262,000
Total assets limited as to use	$ 49,205,000	$ 47,594,000

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.

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

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, 2019 and 2018.

	June 30, 2019					
	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	$ -	$ -	$ 345,000	$(6,000)	$ 345,000	$(6,000)
U.S corporate bonds	56,000	(5,000)	1,461,000	(41,000)	1,517,000	(46,000)
Exchange traded funds	-	-	1,641,000	(27,000)	1,641,000	(27,000)
Asset and mortgage backed securities	-	-	77,000	(8,000)	77,000	(8,000)
Common stock	2,981,000	(260,000)	2,964,000	(634,000)	5,945,000	(894,000)
Real estate investment trusts	376,000	(42,000)	266,000	(21,000)	642,000	(63,000)
Total	$ 3,413,000	$(307,000)	$ 6,754,000	$(737,000)	$ 10,167,000	$(1,044,000)

	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)

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, 2019 and 2018 are as follows:

		Fair Value Measurements at Reporting Date Using		
June 30, 2019	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	$ 5,467,000	$ 5,467,000	$ -	$ -
Mutual funds – income and growth	344,000	344,000	-	-
U.S. corporate bonds	7,938,000	7,938,000	-	-
Exchange traded funds	9,068,000	9,068,000	-	-
Asset and mortgage backed securities	424,000	424,000	-	-
Common stock	18,085,000	18,085,000	-	-
Real estate investment trusts	1,916,000	1,916,000	-	-
Total assets	$ 43,242,000	$ 43,242,000	$ -	$ -

Continued

5. Investments, Continued

		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	$ -	$ -

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, 2019 and 2018 follows:

	2019	2018
Land	$ 3,771,000	$ 3,722,000
Land improvements	1,236,000	1,156,000
Buildings and improvements	49,596,000	48,548,000
Fixed equipment	13,627,000	13,353,000
Movable equipment	32,387,000	30,211,000
	100,617,000	96,990,000
Less accumulated depreciation	(62,424,000)	(58,920,000)
	38,193,000	38,070,000
Construction in progress	4,120,000	662,000
Property and equipment, net	$ 42,313,000	$ 38,732,000

Depreciation expense for the years ended June 30, 2019 and 2018 amounted to approximately $3,621,000 and $3,829,000, respectively. At June 30, 2019, 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 $2,708,000.

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 2019 and 2018 were approximately $110,000 and $115,000, 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, 2019 and 2018 follows:

	2019	2018
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 $679,000 and $710,000 at June 30, 2019 and 2018, respectively.	$ 15,821,000	$ 15,790,000
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 $140,000 and $158,000 at June 30, 2019 and 2018, respectively.	8,700,000	9,492,000
Total long-term debt	24,521,000	25,282,000
Less current installments of long-term debt	840,000	810,000
Total long-term debt excluding current installments	$ 23,681,000	$ 24,472,000

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.

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.

Continued

8. Long-Term Debt, Continued

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.

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, 2019, management believes the requirements of the Agreement were met.

Continued

8. Long-Term Debt, Continued

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

Year	Long-Term Debt
2020	$ 840,000
2021	870,000
2022	905,000
2023	935,000
2024	975,000
Thereafter	20,815,000
	25,340,000
Less debt issue costs	819,000
Total	$ 24,521,000

9. Goodwill and Intangibles, Net

A summary of goodwill at June 30, 2019 and 2018 follows:

	2019	2018
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, 2019 and 2018 are as follows:

	2019	2018
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, 2019 and 2018 financial statements are approximately $825,000 and $618,000, respectively.

11. Malpractice Insurance

The Corporation is covered by a per occurrence 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 2019 and 2018 is $250,000 per occurrence. The specific loss, other coverage aggregate and health care professional liability aggregate limits are $10,000,000.

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.

Continued

11. Malpractice Insurance, Continued

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 $175,000 for each individual employee.

Under this self-insurance program, the Corporation paid or accrued approximately $5,505,000 and $5,543,000 in 2019 and 2018, respectively. These amounts are included in the combined statements of operations and changes in 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:

	Patient Care Services	General and Administrative	Total
Salaries	$ 34,095,000	$ 6,120,000	$ 40,215,000
Employee benefits	8,343,000	1,497,000	9,840,000
Supplies and drugs	15,891,000	1,512,000	17,403,000
Purchased services and professional fees	12,454,000	5,988,000	18,442,000
Other	2,709,000	5,456,000	8,165,000
Depreciation and amortization	2,617,000	1,004,000	3,621,000
Interest	664,000	255,000	919,000
Total	$ 76,773,000	$ 21,832,000	$ 98,605,000

For 2018, the Corporation had $71,864,000 of health care services and $20,427,000 in general and administrative expenses.

The combined financial statements report certain expense categories that are attributable to more than one health care service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation and amortization, interest expense, and other occupancy costs, are allocated to a function based on a square footage basis. Benefit expense is allocated consistent with salaries.

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.

- *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.

Continued

15. Fair Values of Financial Instruments, Continued

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

	2019		2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	$ 25,340,000	$ 25,542,000	$ 26,150,000	$ 26,274,000

16. 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 2018 and 2019. Contributions received or accrued under the program in 2019 and 2018 approximated $999,000 and $936,000, respectively, and are reported as undesignated gifts and bequests on the combined statements of operations and changes in net assets. The Corporation will have to be approved by the State to participate in the program in each subsequent year.

17. Liquidity and Availability

As of June 30, 2019, the Corporation has a working capital of approximately $19,784,000 and average days (based on normal expenditures) cash on hand of eight days.

Financial assets available for general expenditure within one year of the balance sheet date, consists of the following at June 30, 2019:

Cash	$ 2,114,000
Patient accounts receivable, net	19,967,000
Estimated third-party payor settlements	1,204,000
Assets limited as to use:	
Internally designated for capital improvements	47,911,000
Other current assets	2,646,000
Total financial assets available	$ 73,842,000

None of the financial assets available are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. The Corporation estimates that 100% of the Board designated funds for capital acquisitions are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the quantitative information above. The Corporation has other assets whose use is limited for debt service. These assets whose use is limited are not available for general expenditure within the next year and are not reflected in the amounts above. The Corporation has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.