DeKalb Regional Health System, Inc. and Subsidiaries

Consolidated Financial Statements

Years Ended June 30, 2018 and 2017

DIXON HUGHES GOODMAN LLP

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DIXON HUGHES GOODMAN LLP

Independent Auditors' Report

Board of Directors
DeKalb Regional Health System, Inc. and Subsidiaries
Decatur, Georgia

We have audited the accompanying consolidated financial statements of DeKalb Regional Health System, Inc. and Subsidiaries (the "System"), which comprise the consolidated balance sheets as of June 30, 2018 and 2017, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of DeKalb Regional Health System, Inc. and Subsidiaries as of June 30, 2018 and 2017, and the results of their operations and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter
As explained in Note 1 to the consolidated financial statements, the System executed a member substitution agreement and became a controlled affiliate of Emory Healthcare, Inc. effective September 1, 2018. Our opinion is not modified with respect to this matter.

Report on Supplementary Information
Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplementary consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and changes in net assets of the individual entities, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Dixon Hughes Goodman LLP

Atlanta, Georgia
March 15, 2019

Dekalb Regional Health System, Inc. and Subsidiaries
Consolidated Balance Sheets
June 30, 2018 and 2017
(in thousands)

	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 11,521	$ 3,602
Investments	6,022	7,659
Patient accounts receivable, net of allowance for uncollectible accounts of approximately $64,383 in 2018 and $81,224 in 2017	77,559	81,461
Estimated third-party payor settlements	1,609	3,864
Other current assets	20,978	19,217
Assets limited as to use, current portion	7,221	7,126
Total current assets	124,910	122,929
Assets limited as to use, less current portion	109,432	137,873
Property and equipment, net	112,724	118,341
Other assets	3,449	2,503
Total assets	$ 350,515	$ 381,646
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt	$ 168,935	$ 3,545
Accounts payable and accrued expenses	59,543	49,324
Estimated third-party payor settlements	1,632	2,373
Other current liabilities	4,560	4,587
Total current liabilities	234,670	59,829
Long-term debt, less current portion	-	168,650
Self-insurance reserves	31,847	24,582
Accrued pension cost	-	3,926
Asset retirement obligation	9,379	8,988
Fair value of interest rate swaps, net	105	535
Total liabilities	276,001	266,510
Net assets:		
Unrestricted	72,393	111,207
Temporarily restricted	2,121	3,929
Total net assets	74,514	115,136
Total liabilities and net assets	$ 350,515	$ 381,646

See accompanying notes.

Dekalb Regional Health System, Inc. and Subsidiaries
Consolidated Statements of Operations
Years Ended June 30, 2018 and 2017
(in thousands)

	2018	2017
Unrestricted revenues, gains, and other support:		
Net patient service, net of provision for uncollectible accounts accounts of approximately $67,513 in 2018 and $81,224 in 2017	**$ 465,458**	$ 473,382
Net assets released from restrictions for operating purposes	**2,506**	1,023
Other income	**14,885**	13,054
Total net revenues	**482,849**	487,459
Expenses:		
Salaries and benefits	**311,264**	291,242
Supplies and other expenses	**196,180**	189,233
Depreciation and amortization	**16,042**	17,938
Interest	**10,771**	11,125
Total expenses	**534,257**	509,538
Operating loss	**(51,408)**	(22,079)
Investment income	**2,885**	2,788
Net realized (losses) gains on sales of investments	**(631)**	4,119
Net change in unrealized gains on investments	**1,949**	2,444
Change in fair value of interest rate swaps	**431**	(134)
Unrealized loss on non-service components of net periodic pension cost	**(2,370)**	(3,613)
Other nonoperating gains (losses), net	**324**	(3)
Revenues, gains, and other support less than expenses and losses	**(48,820)**	(16,478)
Contribution for capital purposes	**2,073**	132
Pension accounting adjustments, net	**7,933**	10,430
Change in unrestricted net assets	**$ (38,814)**	$ (5,916)

See accompanying notes.

Dekalb Regional Health System, Inc. and Subsidiaries
Consolidated Statements of Changes in Net Assets
Years Ended June 30, 2018 and 2017
(in thousands)

	2018	2017
Unrestricted net assets:		
Revenues, gains, and other support less than expenses and losses	**$ (48,820)**	$ (16,478)
Contribution for capital purposes	**2,073**	132
Pension accounting adjustments, net	**7,933**	10,430
Change in unrestricted net assets	**(38,814)**	(5,916)
Temporarily restricted net assets:		
Contributions	**1,328**	694
Investment gains (losses), net	**(630)**	91
Net assets released from restrictions for operating purposes	**(2,506)**	(1,023)
Change in temporarily restricted net assets	**(1,808)**	(238)
Change in net assets	**(40,622)**	(6,154)
Net assets at beginning of year	**115,136**	121,290
Net assets at end of year	**$ 74,514**	$ 115,136

See accompanying notes.

Dekalb Regional Health System, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended June 30, 2018 and 2017
(in thousands)

	2018	2017
Cash flows from operating activities:		
Change in net assets	**$ (40,622)**	$ (6,154)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	**16,042**	17,938
Loss from equity – method investees	**790**	168
Change in fair value of interest rate swaps	**(431)**	134
Net realized and unrealized (gains) losses on investments	**(1,318)**	6,563
Changes in operating assets and liabilities:		
Patient accounts receivable	**3,902**	(15,144)
Estimated third-party payor settlements	**1,514**	2,494
Other current assets	**(1,761)**	(2,220)
Accrued pension cost	**(3,926)**	(6,818)
Other assets	**(1,736)**	387
Accounts payable and accrued expenses	**10,219**	(13,185)
Other current liabilities	**(27)**	(120)
Asset retirement obligation	**391**	388
Self insurance reserves	**7,265**	2,945
Net cash used in operating activities	**(9,698)**	(12,624)
Cash flows from investing activities:		
Purchase of property and equipment	**(10,256)**	(8,858)
Net change in investments and assets limited as to use	**31,301**	25,411
Net cash provided by investing activities	**21,045**	16,553
Cash flows from financing activities:		
Principal payments on long-term debt obligations	**(3,428)**	(4,709)
Net cash used in financing activities	**(3,428)**	(4,709)
Net change in cash and cash equivalents	**7,919**	(780)
Cash and cash equivalents at beginning of year	**3,602**	4,382
Cash and cash equivalents at end of year	**$ 11,521**	$ 3,602
Supplemental disclosure of cash flow information:		
Cash paid for interest	**$ 10,412**	$ 10,778
Capital lease obligation for equipment	**$ -**	$ 748

See accompanying notes.

1. Organization

The consolidated financial statements of DeKalb Regional Health System, Inc. ("DRHS" or the "System") include the accounts of DeKalb Medical Center, Inc. ("DMC"), Decatur Health Resources, Inc. ("Resources"), DeKalb Medical Center Foundation, Inc. (the "Foundation"), and DRHS Ventures, Inc. ("Ventures"). DRHS is the sole corporate member of DMC, Resources, and Ventures, and appoints the board of trustees of the Foundation.

DMC operates DeKalb Medical at North Decatur ("North Decatur"), a 451 bed general acute care hospital with a freestanding surgery center, and DeKalb Medical at Hillandale ("Hillandale"), a 100 bed general acute care hospital. DMC is a Georgia not-for-profit corporation and is the sole corporate member of certain limited liability corporations that do business as DeKalb Medical Physician Network (the "Physician Network"). The Physician Network owns and operates a network of primary care, occupational, and specialty physician practices.

Resources operates DeKalb Medical at Downtown Decatur ("Downtown Decatur"), a 76 bed long-term acute care hospital.

The Foundation was formed for the purpose of supporting DMC and related organizations through fundraising and similar support activities.

Ventures was formed for the purpose of participation in certain healthcare joint ventures and does not have material activity.

In April 1992, the DeKalb County Hospital Authority (the "Authority"), an instrumentality of DeKalb County, Georgia, entered into a lease and transfer agreement (the "Lease") with DMC, under which DMC leased from the Authority the healthcare facilities at North Decatur and certain other real property for a period of 40 years. Under the terms of the Lease, DMC assumed substantially all liabilities and obligations of the Authority, and agreed to provide emergency services, inpatient and outpatient hospital services, physician services, and indigent care to the community operating the leased facilities as a not-for-profit organization.

The Lease has periodically been amended to incorporate both changes in the System's capital and operating structure, and updates to the constitution of the "obligated group" responsible for repayment of long-term debt. In June 2009, the Lease term was extended through June 2049. The Lease was most recently amended in May 2010.

Pursuant to the Lease, the System makes $1 annual lease payments to the Authority and is responsible for all debt service payments and reserve funding requirements in connection with conduit debt issued by the Authority on behalf of the System. Upon expiration of the Lease, the System will transfer to the Authority all leased and related assets and operations, subject to related debts and liabilities. The Lease may be terminated at any time by mutual consent of the Authority and DMC or by reason of default, as defined in the Lease.

DRHS and Emory Strategic Partnership

Effective September 1, 2018, DRHS entered into a member substitution agreement with Emory Healthcare, Inc. ("Emory") whereby Emory became the sole member and parent of the System. In accordance with the terms of the agreement, Emory committed to $239,000,000 in future capital improvements at DRHS over the next seven years. Emory also guaranteed and committed to maintain and operate the North Decatur and Hillandale acute care hospitals for a period of seven years and to refinance the outstanding indebtedness of DRHS (see Note 7). Also, in September 2018, DRHS began doing business as Emory Decatur Hospital.

2. Summary of Significant Accounting Policies

A summary of the significant accounting and reporting policies applied by the System in the preparation of its consolidated financial statements is presented below.

Principles of Consolidation

All significant intercompany transactions and accounts have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires that management make estimates and assumptions affecting the reported amounts of assets, liabilities, revenues, and expenses, as well as disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Significant items subject to such estimates and assumptions include the determination of the allowances for uncollectible accounts and contractual adjustments, reserves for general and professional liability claims, reserves for workers' compensation claims, reserves for employee healthcare claims, estimated third-party payor settlements, asset retirement obligation, valuation of alternative investments, and the actuarially determined amounts related to the System's defined benefit pension plan. In addition, 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 related to these programs will change by a material amount in the near term.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, deposits with banks, and investments in money market funds with original maturities of three months or less, excluding assets limited as to use. The System invests cash not required for immediate operating needs principally with major financial institutions with strong credit ratings. By policy, the amount of credit exposure to any one institution is limited, and such investments are generally not collateralized.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. The System considers all of its investments to be trading securities. As a matter of policy, the System maintains in current investments an amount equal to approximately 5% of the prior fiscal year total of investment funds, including assets limited as to use.

Investment income (including interest and dividends) and realized and unrealized gains and losses on investments are included in revenues, gains, and other support less than expenses and losses unless the income or loss is restricted by donor or law.

The System holds certain investments in hedge funds through funds of funds structures generally organized as limited partnerships. These alternative investments are recorded using net asset value ("NAV") as a practical expedient for fair value. The NAV of the funds is equal to gross assets less gross liabilities, at fair value, as of any valuation or redemption date. The change in the carrying amount is reported as investment income or loss in the accompanying consolidated statements of operations.

These alternative investments may have less liquidity, a stale quoted price, or varying prices from independent sources. For these alternative investments, the System receives account statements directly from independent administrators or the underlying hedge fund managers responsible for the pricing of these funds. Before reliance on these valuations, the System evaluates the investee fund's fair value estimates for underlying investments, the investee fund's use of independent third-party valuation experts, and the professional reputation of the investee fund's auditor. Fair value determinations for these investments require the use of estimates. Accordingly, such values may differ from the values that would have been used had a ready market for these investments existed.

Pledges Receivable and Donor Restricted Gifts

Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. These pledges receivable are discounted to their present value, and are reported as temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restriction.

Donor-restricted contributions for which restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated statements of operations. To the extent that restricted resources from multiple donors are available for the same purpose, the System expends such gifts on a "first-in, first-out" basis.

Inventories

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories consist primarily of pharmaceuticals and medical supplies and are recorded within other current assets in the accompanying consolidated balance sheets. Inventories totaled approximately $7,945,000 and $7,564,000 as of June 30, 2018 and 2017, respectively.

Assets Limited as to Use

Assets limited as to use include cash and investments that are externally restricted under debt agreements and by donors, as well as assets that are internally designated by the board of directors for replacement or expansion of facilities, purchases of property and equipment, payment of future debt service requirements, professional liability self-insurance funding, and future pension funding. Amounts required to meet current obligations have been classified as current assets.

Property and Equipment

Property and equipment acquisitions are recorded at cost, with the exception of donated items, which are recorded at fair value at the date of donation. Expenditures for renewals and improvements are capitalized. For properties sold or retired, the cost and related accumulated depreciation are removed. Any resulting gains or losses are included in other revenue. Replacements, maintenance, and repairs that do not improve or extend the life of the respective assets are charged to operations. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method. The estimated useful lives are 40 years for land improvements, 20 – 40 years for buildings, and 3 – 10 years for equipment and fixtures. Capitalized interest is calculated on qualifying projects with a completion time frame of greater than 90 days. The implied interest rate is calculated based on the rates applicable to long-term debt outstanding during the respective period.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support and are excluded from revenues, gains, and other support less than expenses and losses 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.

Impairment of Long-lived Assets

Long-lived assets, such as property and equipment and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized to the extent that the carrying amount of the asset exceeds its fair value.

Other Assets

Other assets include the System's interests in the following related parties that provide services in part to the System:

Distribution Cooperative, Inc.

The System holds a 20% equity interest in Distribution Cooperative, Inc. ("DCI"), a centralized supply purchasing and distribution business owned by eight Georgia health systems. The System's investment in DCI is recorded using the equity method of accounting and totaled approximately $1,493,000 and $2,341,000 as of June 30, 2018 and 2017, respectively.

DeKalb Surgical Alliance, LLC

DeKalb Surgical Alliance, LLC ("DSA"), a Georgia limited liability company, manages the outpatient surgical program at DMC. Ventures owns 44% of DSA. The System's investment in DSA is recorded using the equity method of accounting and totaled approximately $14,000 and $28,000 as of June 30, 2018 and 2017, respectively.

Temporarily Restricted Net Assets

Temporarily restricted net assets are those whose use by the System is restricted by the donor for a specific time period or purpose.

The System applies relevant authoritative accounting guidance for not-for-profit organizations related to the net asset classification of donor-restricted endowment funds that are subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006. In addition, as a matter of policy, the System's board of directors has interpreted Georgia's State Prudent Management of Institutional Funds Act as requiring the preservation of the fair value of an original donor-restricted endowment gift as of the gift date, absent explicit donor stipulations to the contrary. To the extent that income from any donor-restricted endowment funds is itself restricted to specific donor-directed purposes, such income is accounted for within temporarily restricted net assets until appropriated for expenditure in accordance with the donor's wishes. The System would oversee any individual donor-restricted endowment funds to ensure that the fair value of the original gift is preserved and would invest any donor-restricted endowment funds within the framework of the System's overall investment management program, as described elsewhere in the consolidated financial statements.

The System has not received any donor-restricted endowment funds and does not maintain any Board-designated endowments at either June 30, 2018 or 2017.

Revenues, Gains, and Other Support Less than Expenses and Losses

The consolidated statements of operations include revenues, gains, and other support less than expenses and losses. Changes in unrestricted net assets that are excluded from revenues, gains, and other support less than expenses and losses, consistent with relevant accounting literature and industry practice, include permanent transfers of assets to and from affiliates and related parties for items other than goods and services, contributions of long-lived assets (including assets acquired using contributions that, by donor restriction, were to be used for the purpose of acquiring such assets), effects of changes in accounting policies, and certain pension accounting items.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including an estimated provision for uncollectible accounts and revenue adjustments under reimbursement agreements with third-party payors. Estimates related to third-party payor settlements are recorded in the period the related services are rendered and are adjusted in future periods as settlements become known and as cost reporting periods are no longer subject to such audits, reviews, and investigations.

Charity Care

Consistent with the System's mission, services are provided to all patients without regard for ability to pay. The System provides services to patients who qualify for charity services pursuant to established policies of the System.

Charity services are defined as those for which patients have the obligation and willingness to pay but do not have the ability to do so. Charges related to charity services are written off as charity care in accordance with established policies and are not recognized as net patient service revenue. The estimated cost to provide charity care totaled approximately $25,126,000 and $24,423,000 for the years ended June 30, 2018 and 2017, respectively. The System estimates the cost of charity based on a ratio of cost to charges, which is applied to the uncompensated charges for charity services.

Estimated General and Professional Liability Costs

The provision for estimated general and professional liability claims, which is reported in supplies and other expenses in the accompanying consolidated statements of operations, includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Costs of Borrowing

Debt issuance costs and any premiums or discounts are amortized over the term of the related debt and included as a direct reduction to long-term debt. Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets, after reduction for investment earnings on any associated trusted funds restricted to financing such construction.

Income Taxes

The System, DMC, DHR, and the Foundation are exempt from federal income taxes pursuant to Section 501(a) as organizations described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. Ventures is a taxable entity and annually files a corporate tax return. With respect to its for-profit entity, as well as any unrelated business income generated in the tax-exempt entities, the System records income taxes using the asset and liability method under which deferred tax assets and liabilities are determined based on the differences between the financial accounting and tax bases of assets and liabilities. Deferred tax assets or liabilities at the end of each period are determined using the currently enacted tax rate expected to apply to taxable income in the period that the deferred tax asset or liability is expected to be realized or to be settled.

The System has evaluated its tax positions and has determined that it does not have any material unrecognized tax benefits or obligations as of June 30, 2018 and 2017, nor is income tax accounting otherwise significant with respect to the System's taxable subsidiaries.

Asset Retirement Obligation

The System recognizes the fair value of its liability for legal obligations associated with asset retirements in the period incurred, if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, the System capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the recorded liability is recognized as a gain or loss in the consolidated statement of operations.

Pension Accounting

The System applies authoritative accounting guidance related to the recognition and disclosure of retirement benefits, which requires the recognition of the funded or unfunded status of its defined benefit pension plan in the consolidated balance sheets. The System measures plan assets and benefit obligations as of the end of the fiscal year.

Subsequent Events

Management has evaluated subsequent events from the consolidated balance sheet date through March 15, 2019, the date at which the consolidated financial statements were available to be issued. A number of events have occurred subsequent to June 30, 2018 associated with the execution of the member substitution agreement with Emory. All such events requiring recognition have been incorporated in the consolidated financial statements and related footnote disclosures.

3. Net Patient Service Revenue and Patient Accounts Receivable

The System recognizes revenue associated with services provided to patients with third-party payor coverage based on contractual rates for the services rendered. For uninsured patients who do not qualify for charity care, the System recognizes revenue based on standard or discounted rates for the services provided.

For receivables associated with self-pay patients, which includes both uninsured patients and balances related to deductibles and copayments for patients who have third-party insurance coverage, management records a provision for uncollectible accounts in the period of service on the basis of 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 standard or discounted rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged against the allowance for uncollectible accounts.

Management routinely assesses, in the normal course of business, the adequacy of the allowance for uncollectible accounts based upon its assessment of factors such as historical collection rates, expected future collection rates considering business and economic conditions, trends in healthcare insurance coverages, and other collection indicators by payor category, and adjusts the allowance and related provision accordingly. For receivables associated with services provided to patients who have third-party insurance coverage, management analyzes contractually due amounts and provides an allowance for uncollectible accounts and a related provision if realization of such amounts due is considered unlikely.

Notes to Consolidated Financial Statements (all tabular amounts in thousands)

A summary of net patient service revenue for the years ended June 30 follows:

	2018		
	Third-party payor	Self-pay	Total
Patient service charges	$ 1,482,052	$ 159,976	$ 1,642,028
Less:			
Provision for uncollectible accounts	24,385	42,273	66,658
Contractual adjustments and other deductions	992,488	117,354	1,109,842
Net patient service revenue	$ 465,179	$ 349	$ 465,528

	2017		
	Third-party payor	Self-pay	Total
Patient service charges	$ 1,433,092	$ 148,228	$ 1,581,320
Less:			
Provision for uncollectible accounts	29,714	51,510	81,224
Contractual adjustments and other deductions	935,004	91,710	1,026,714
Net patient service revenue	$ 468,374	$ 5,008	$ 473,382

The System has agreements with third-party payors that provide for payments to the System at amounts different from its established rates. A summary of payment arrangements with major third-party payors follows:

Medicare and Medicaid

The System provides care to patients covered by the Medicare and Medicaid programs. Most inpatient and outpatient hospital services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

Inpatient services rendered to Medicaid program beneficiaries are reimbursed under a prospective payment reimbursement methodology. Outpatient services are reimbursed under a cost-based methodology. The System is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the System and audits thereof by the Medicaid fiscal intermediary.

Services rendered under these programs are recorded at established rates and reduced to the estimated amount due from the third-party payors through recording of contractual adjustments and other discounts. Because the System cannot pursue collections for contractual and similar discounts, they are not reported as net patient service revenue.

Net patient service revenue from the Medicare and Medicaid programs accounted for approximately 50% and 46% of the System's net patient service revenue for the years ended June 30, 2018 and 2017, respectively.

Estimated third-party payor settlements represent management's best estimate of anticipated settlements related to audit adjustments and other related matters for open cost report years. Medicare cost report years 2015 and prior and Medicaid cost report years 2015 and prior have been final settled as of June 30, 2018. The System provides estimated settlement reserves and receivables in recognition of the complexity of relevant reimbursement regulations and the contingent nature of related settlement processes. Third-party payor settlement estimates may differ from actual experience by material amounts. During fiscal 2018 and 2017, net patient service revenue (decreased) increased by approximately ($736,000) and $189,000, respectively, due to changes in estimates related to prior cost reporting periods.

The System participates in the Indigent Care Trust Fund ("ICTF") program. Under the provisions of the ICTF program, Medicaid disproportionate share ("DSH") hospitals contribute funds to be used by the Georgia Department of Community Health in the Medicaid program, and those funds are supplemented by federal funds. The combined funds are returned to the DSH hospitals in the form of additional reimbursement. The System recorded net patient service revenue from the ICTF program for fiscal 2018 and 2017 of approximately $5,649,000 and $5,274,000 respectively, in the accompanying consolidated statements of operations.

The System participates in the Medicaid Upper Payment Limit ("UPL") program and recorded net patient service revenue of approximately $4,568,000 and $1,976,000 from the program during fiscal 2018 and 2017, respectively, in the accompanying consolidated statements of operations.

There is no assurance that the System will continue to qualify for future participation in the ICTF and UPL programs or that the programs will continue without material modifications. Any reduction in the funds provided by the programs would have a direct corresponding effect on the System's operating results.

Managed Care and Other Payors

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

Notes to Consolidated Financial Statements (all tabular amounts in thousands)

4. Investments and Assets Limited as to Use

Assets Limited as to Use

The composition of assets limited as to use as of June 30 is set forth in the following table:

	2018	2017
Internally designated for specific purposes:		
Cash and cash equivalents	$ 14,249	$ 2,729
U.S. Treasury and agency obligations and bond funds	-	5,893
Foreign government bonds and bond funds	-	18,331
Domestic corporate bonds and bond funds	77,239	36,308
Asset and mortgage-backed securities	-	15,056
Foreign corporate bonds and bond funds	-	3,143
Domestic equity securities	-	19,363
Foreign equity securities	-	8,261
Hedge funds	76	4,739
Domestic exchange-traded funds	-	3,507
	91,564	117,330
Held by trustee under indenture agreement:		
Cash and cash equivalents	7,351	7,743
U.S. agency obligations	9,685	9,744
Domestic corporate bonds	4,693	4,593
	21,729	22,080
Foundation held funds, both donor restricted and otherwise limited as to use:		
Cash and cash equivalents	1,135	986
U.S. Treasury and agency obligations	-	278
Domestic corporate bonds	-	417
Domestic equity and asset-backed securities	847	1,688
Foreign corporate bonds	-	50
Domestic exchange-traded funds	1,378	2,170
	3,360	5,589
	116,653	144,999
Less amounts classified as current	7,221	7,126
	$ 109,432	$ 137,873

Amounts held by trustee under indenture agreement are maintained in accordance with the trust indentures for the revenue bonds described in Note 7. Current amounts include trustee-held cash and cash equivalents restricted for debt service requirements.

During the 2018 fiscal year, management of DRHS made certain modifications to investment portfolio construction in anticipation of the strategic partnership with Emory,

Notes to Consolidated Financial Statements (all tabular amounts in thousands)

Investments

The composition of investments as of June 30 is set forth in the following table:

	2018	2017
Cash and cash equivalents	$ 937	$ 178
U.S. Treasury obligations	-	385
U.S. agency obligations	-	-
Foreign government agency bond and bond funds	-	1,197
Domestic corporate bonds and bond funds	5,080	2,370
Asset and mortgage-backed securities	-	983
Foreign corporate bonds and bond funds	-	205
Domestic equity securities and equity funds	-	1,264
Foreign equity securities	-	539
Hedge funds	5	309
Domestic exchange-traded funds	-	229
	$ 6,022	$ 7,659

5. Property and Equipment

A summary of property and equipment as of June 30 follows:

	2018	2017
Land and land improvements	$ 7,312	$ 7,312
Buildings and fixtures	341,123	336,102
Equipment and information systems	283,289	275,848
	631,724	619,262
Less accumulated depreciation	520,924	505,067
	110,800	114,195
Construction in progress	1,924	4,146
Property and equipment, net	$ 112,724	$ 118,341

Depreciation expense for fiscal 2018 and 2017 totaled approximately $15,873,000 and $17,757,000, respectively.

Construction in progress at June 30, 2018 principally relates to certain technology upgrades and renovations at existing facilities. There are no significant commitments associated with the expected completion of such projects as of June 30, 2018.

Notes to Consolidated Financial Statements (all tabular amounts in thousands)

6. Asset Retirement Obligation

The System has determined that a conditional legal obligation exists for certain of its facilities related to the abatement of asbestos materials. The following table presents the activity for the System's asset retirement obligation during fiscal 2018 and 2017:

	2018	2017
Asset retirement obligation:		
Balance at beginning of year	$ 8,989	$ 8,600
Accretion expense	390	388
Balance at end of year	$ 9,379	$ 8,988
Capitalized cost:		
Additional cost basis	$ 6,314	$ 6,313
Accumulated depreciation	(3,529)	(3,392)
	$ 2,785	$ 2,921

7. Long-term Debt

Long-term debt as of June 30 are as follows:

	2018	2017
Revenue Anticipation Certificates Series 2010 of the Authority, less unamortized discount of approximately $1,507,000 and $1,623,000 at June 30, 2018 and 2017, respectively; issued in May 2010, with interest ranging from 4.0% to 6.125%; interest payments due semiannually on March 1 and September 1; principal payments due annually through 2040; secured by gross revenues	$ 170,903	$ 174,332
Less current portion	168,935	3,545
Less unamortized bond issuance costs	1,968	2,137
	$ -	$ 168,650

For the year ended June 30, 2018, DeKalb was below the minimum debt service coverage ratio calculation required under the master trust indenture ("MTI"). However, subsequent to year-end, the debt was refunded in September 2018 as part of the transition plan under the member substitution with Emory described in Note 1. In conformity with current financial reporting standards, the debt is reported as a current liability in the accompanying consolidated balance sheets.

On September 1, 1993, DMC originally entered into an MTI on September 1, 1993, with a commercial bank as the trustee. Obligations issued from time to time under the terms of the MTI took the form of tax-exempt issuances of the Authority, and the proceeds of which were loaned to the System as conduit obligations under related loan agreements. Such conduit debt obligations issued under the MTI were secured by a lien on the gross revenues of the members of the obligated group which had joint and several liability for such obligations. The obligated group was composed of DRHS, DMC and the Physician Network entities, and the MTI and related loan agreements subjected the obligated group to certain financial and nonfinancial covenants. Resources, Ventures, and the Foundation were considered restricted affiliates under the MTI but were not members of the obligated group.

In May 2010, the Authority issued $183,105,000 of Series 2010 Revenue Anticipation Certificates (the "Series 2010 Certificates"), and in turn, the Authority entered into a loan agreement with the System under which the Authority loaned the proceeds of the Series 2010 Certificates to the System to refund the previously issued Series 1999B Certificates, Series 2003B Certificates and Series 2005 Certificates, and to finance the cost of certain capital improvements to System facilities. The Series 2010 Certificates had outstanding sinking fund redemptions and maturities ranging from $3,240,000 to $13,305,000 through fiscal year 2041.

8. Interest Rate Swaps

Effective June 2009, the System entered into a forward-starting interest rate swap whereby the System exchanges payments based on the SIFMA Municipal Swap Index with a counterparty for payments equal to 67% of LIBOR plus 0.40% on a monthly basis, as calculated by reference to an agreed notional principal amount of approximately $33,255,000 at June 30, 2018. The fair value of the interest rate swap was an asset of approximately $206,000 and $99,000 at June 30, 2018 and June 30, 2017, respectively.

The System entered into another forward-starting interest rate swap agreement as of June 9, 2008 related to the Series 2005 Certificates with an effective date of June 1, 2009. Under the interest rate swap agreement, the System exchanges the SIFMA Municipal Swap Index with a counterparty for 75.06% of LIBOR, on a monthly basis, as calculated by reference to an agreed notional principal amount. At June 30, 2018, the notional principal amount was approximately $33,255,000. The fair value of the interest rate swap was a liability of approximately $310,000 and $635,000 at June 30, 2018 and 2017, respectively.

These interest rate swaps were scheduled to expire on September 1, 2035. The System has not elected hedge accounting for any of its interest rate swap agreements and, therefore, the increase (decrease) in fair value of the liability of approximately $431,000 and ($134,000) during fiscal 2018 and 2017, respectively, is reported in the accompanying consolidated statements of operations. The change in fair value of the interest rate swaps has no effect on the System's cash flows. The System posted collateral in an escrow deposit related to the swaps of approximately $350,000 and $969,000 at June 30, 2018 and 2017, respectively.

During October 2018, the swap agreements were terminated in conjunction with executing the strategic partnership with Emory. There was no significant difference in the actual exit price and the fair value recorded at June 30, 2018.

Notes to Consolidated Financial Statements (all tabular amounts in thousands)

9. Temporarily Restricted Net Assets

The composition of temporarily restricted net assets follows at June 30:

	2018	2017
Donor-restricted investments held by the Foundation	$ 1,243	$ 3,082
Other	878	847
Temporarily restricted net assets	$ 2,121	$ 3,929

10. Employee Benefits

The System has a trusteed noncontributory defined benefit pension plan (the "Plan") covering substantially all of its employees. The Plan's benefits calculation is based on a combination of years of service and employee compensation levels. The System's funding policy is to contribute annually to the Plan an amount sufficient to meet minimum funding policies or to otherwise maintain the Plan on a sound actuarial basis, as certified by an enrolled actuary. Effective December 31, 2008, the System's Board of Directors approved the permanent freeze of the Plan.

Net periodic pension cost of the Plan is composed of the following for the years ended June 30:

	2018	2017
Interest cost	$ 6,561	$ 6,575
Expected return on plan assets	(7,633)	(7,704)
Amortization of net loss	3,442	4,742
Net periodic pension cost	$ 2,370	$ 3,613

The components of net periodic postretirement benefit cost other than the service cost component are included in the line item unrealized loss on non-service components of net period pension cost in the accompanying consolidated statements of operations as a non-operating loss.

The amounts accumulated in unrestricted net assets as of June 30 follow:

	2018	2017
Accumulated unrealized loss on plan	$ 35,701	$ 43,633
Gain recognized in unrestricted net assets	$ 7,933	$ 10,430

Approximately $2,055,000 of the net loss is expected to be amortized in fiscal 2019.

Notes to Consolidated Financial Statements (all tabular amounts in thousands)

Weighted average assumptions used to determine the net periodic pension cost for fiscal 2018 and 2017 follow:

	2018	2017
Discount rate	3.95%	3.81%
Expected long-term rate of return on plan assets	4.81%	4.95%

The following table presents a reconciliation of the beginning and ending balances of the Plan's projected benefit obligation, the fair value of Plan assets, funded status of the Plan, and the accumulated benefit obligation at June 30:

	2018	2017
Change in benefit obligations:		
Benefit obligation at beginning of year	$ 169,922	$ 176,216
Interest cost	6,561	6,575
Benefits paid	(7,636)	(7,372)
Actuarial loss	(7,713)	(5,498)
Benefit obligation at end of year	161,134	169,921
Change in Plan assets:		
Fair value of plan assets at beginning of year	$ 165,994	165,472
Actual return on Plan assets	4,412	7,895
Benefits paid	(7,636)	(7,372)
Fair value of plan assets at end of year	162,770	165,995
Funded status of the Plan	1,636	(3,926)
Accrued pension cost at end of year	$ 1,636	(3,926)

Weighted average assumptions used to determine benefit obligations in the accompanying consolidated balance sheets for fiscal 2018 and 2017 follow:

	2018	2017
Discount rate	4.30%	3.95%

The increase in the discount rate decreased the benefit obligation by approximately $7,500,000 at June 30, 2018 compared to June 30, 2017. The changes in mortality table which were updated to use the MP-2017 projection scale decreased the benefit obligation by $1,400,000 for 2018. The Plan's assets earned a return of $4,400,000, which was $3,200,000 less than the expected return in 2018. The changes in census data increased the benefit obligation by approximately $100,000 at June 30, 2018 compared to June 30, 2017.

Notes to Consolidated Financial Statements (all tabular amounts in thousands)

Estimated future benefits expected to be paid follow:

Year ending June 30:

2019	$	8,068
2020		8,338
2021		8,578
2022		8,870
2023		9,181
2024-2028		49,530

The System does not expect to contribute to the Plan during fiscal year 2018.

The current target allocations for the Plan's assets follow:

	Minimum	Target	Maximum
Equity securities	15%	26%	35%
Fixed income	55%	70%	85%
Alternatives	- %	4%	10%
Cash	- %	- %	5%

To develop the estimate for the expected long-term rate of return for the actuarial measurement, the System considered the historical returns and the future expectations of returns for each asset class, as well as the target asset allocation of the pension portfolio.

The investment strategy of the Plan is to ensure, over the long-term life of the Plan, an adequate pool of assets along with contributions by the System to support the benefit obligations to participants, retirees, and beneficiaries. The System desires to achieve market returns consistent with a prudent level of diversification. All investments are made solely in the interest of the Plan's participants and beneficiaries for the exclusive purposes of providing benefits to such participants and their beneficiaries and defraying the expenses related to administering the Plan.

The target allocation of all assets is designed to reflect proper diversification in order to reduce the potential of a single security or single sector of securities having a disproportionate impact on the portfolio. The System utilizes an outside investment consultant and various publicly traded mutual funds to implement its investment strategy. Investment performance of plan assets is reviewed quarterly and the investment policy statement is reviewed annually to determine continued applicability.

11. Concentrations of Credit Risk

The System grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of gross receivables from patients and third-party payors as of June 30 follow:

	2018	2017
Medicare	30%	29%
Medicaid	11%	13%
Other third-party payor	42%	35%
Patients	17%	23%
	100%	100%

Notes to Consolidated Financial Statements (all tabular amounts in thousands)

12. Commitments and Contingencies

General and Professional Liability Insurance

The System is covered by a claims-made program with self-insured retention of $6,000,000 per occurrence and $35,000,000 aggregate annual limit. Commercial insurance has been obtained to provide for excess coverage.

Self-insurance reserves related to general and professional liability claims totaled approximately $26,176,000 and $20,098,000 at June 30, 2018 and 2017, respectively. Such amounts include estimates of the ultimate costs for both reported claims and claims incurred but not reported through June 30, 2018, as applicable to the general and professional liability self-insurance plans for the System. Independent actuarial consultants are retained to assist the System in determining both its financial reporting reserves and the amounts to be deposited into the trust fund. Accrued losses were recorded at a 50% confidence level and discounted at 2.0% at June 30, 2018 and 2017.

Other Self-Insurance Reserves

The System self-insures a portion of its workers' compensation liability exposure up to $450,000 per claim. Reserves for the self-insurance program are established to provide for estimated exposure to loss arising from both reported and unreported workers' compensation claims and related legal expenses through June 30, 2018. Such reserves totaled approximately $2,619,000 and $1,880,000 at June 30, 2018 and 2017, respectively. Commercial insurance has been obtained on a claims-incurred basis to provide for excess coverage.

The System is self-insured for employee health benefits. At June 30, 2018 and 2017, related reserves totaled approximately $2,620,000 and $2,446,000, respectively, which includes estimates of the ultimate costs for claims incurred but not reported through June 30, 2018.

Operating Leases

The System leases various equipment and facilities under operating lease agreements that expire at various dates beyond fiscal 2021. Total rent expense in fiscal years 2018 and 2017 for all operating leases was approximately $6,437,000 and $6,470,000, respectively.

Future minimum lease payments under operating leases that have initial lease terms in excess of one year are as follows:

Year ending June 30:	
2019	$ 4,182
2020	3,403
2021	2,268
2022	2,020
2023	1,634
Thereafter	2,854
	$ 16,361

Litigation and Compliance

The System is involved in litigation arising in the ordinary course of business. Management believes that, based on the available information and consultation with legal counsel, recorded reserves are adequate to address the risk of loss related to resolution of these uncertainties. However, it is reasonably possible that the ultimate resolution of these matters could differ from management's estimates and have a significant impact on the financial position and results of operations of the System.

The Medicare and State Medicaid reimbursement programs represent a substantial portion of the System's revenues, and the System's operations are subject to a variety of other federal, state and local regulatory requirements. Failure to maintain required regulatory approvals and licenses and/or changes in such regulatory requirements could have a significant adverse effect on the system.

Changes in federal and state reimbursement funding mechanisms and related government budgetary constraints could have a significant adverse effect on the System. The healthcare industry is subject to numerous laws and regulation from federal, state and local governments, and the government has increased enforcement of Medicare and Medicaid anti-fraud and abuse laws, as well as physician self-referral laws (STARK law and regulation). The System's compliance with these laws and regulations is subject to ongoing internal monitoring as well as periodic governmental review and inquiries, and the System has responded appropriately to any such compliance matters. The System is aware of certain asserted and unasserted compliance matters, and from time to time, the System may agree to resolve certain compliance mattes with the government. The System will continue to monitor its compliance and all related government inquiries and respond appropriately. 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. As a result, there is at least a reasonable possibility that the recorded estimates will change by a material amount in the near term.

As a result of pending federal healthcare reform legislation, substantial changes may occur in the healthcare system. Such legislation potentially includes numerous provisions affecting the delivery of healthcare services, the financing of healthcare costs, reimbursement to healthcare providers and the legal obligations of health insurers, providers and employers.

13. Functional Expenses

The System does not present expense information by functional classification because its resources and activities are primarily related to providing healthcare services. Further, since the System receives substantially all of its resources from providing healthcare services in a manner similar to a business enterprise, other indicators contained in these consolidated financial statements are considered relevant in evaluating how well management has discharged its stewardship responsibilities.

14. Fair Value of Financial Information

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The System has categorized its financial instruments into a three-level fair value hierarchy based on the priority of inputs used in related valuation techniques. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within multiple levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

The System did not hold any Level 3 securities as of June 30, 2018 and 2017. The System's accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no transfers into or out of Level 1 or Level 2 for the years ended June 30, 2018 and 2017.

When available, the System uses quoted market prices to determine fair value, and classifies such items as Level 1. The System's Level 2 securities include bonds whose fair values are determined by independent vendors. The vendors compile prices from various sources and may apply matrix pricing for similar bonds or loans where no price is observable in an actively traded market. If available, the vendor may also use quoted prices for recent trading activity of assets with similar characteristics to the bond being valued. The System's Level 2 securities also include nontraded funds whose underlying securities are known and would otherwise be considered Level 1.

The System's alternative investments are measured at net asset value as a practical expedient for fair value and are accordingly excluded from the fair value hierarchy. These investments are funds of funds investments. The fund invests in investee funds at fair value which is determined in good faith by the investment manager in accordance with U.S. GAAP. The fund managers employ a variety of investment strategies and hedging techniques to achieve long-term capital growth, while seeking to reduce volatility. These funds achieve diversification by allocating investment funds across various money managers or market groups, using different trading methods, and focusing on different markets worldwide. The recorded market price for the multi-strategy hedge fund investment is based on the net asset value of the System's investment in the limited liability company. Underlying assets of these investment funds include collective funds, hedge funds, and other types of private investments with underlying investment holdings.

Notes to Consolidated Financial Statements (all tabular amounts in thousands)

The System's alternative investments are measured at net asset value as a practical expedient for fair value and are accordingly excluded from the fair value hierarchy. The table below sets forth a summary of the alternative investments including a description of the investments and any unfunded commitments or restrictions associated with the investments.

	Fair Value at 6/30/2018	Fair Value at 6/30/2017	Unfunded Commitments	Other Redemption Restrictions	Redemption Notice Period (ii)
Included in assets limited as to use:					
Archstone Offshore Fund, LTD (i)	$ 76	$ 4,739	None	Initial 1 year lock-up; period has lapsed for 97% of fund	90 days' notice prior to last day of each 4 quarter period
Included in investments:					
Archstone Offshore Fund, LTD (i)	$ 5	$ 309	None	Initial 1 year lock-up; period has lapsed for 97% of fund	90 days' notice prior to last day of each 4 quarter period
Included in pension plan assets:					
Archstone Offshore Fund, LTD (i)	$ 45	$ 2,774	None	Initial 1 year lock-up; period has lapsed for 97% of fund	90 days' notice prior to last day of each 4 quarter period

(i) The Archstone Offshore Fund consists of 16 underlying funds. The fund's investment objective is to achieve long-term growth of capital with reduced volatility by allocating its capital among various money managers that, as a group, employ a variety of investment techniques and strategies. The fund will not attempt to gain control over any portfolio fund and will generally limit its investments so that it will hold no more than 10% of the outstanding interests of any one portfolio fund. In addition, the fund will generally invest no more than 25% of its assets in any one portfolio fund.

(ii) If the aggregate amount requested by investors to be redeemed on any redemption date is greater than 25% of the net asset value of the total fund, management of the fund may reduce the amount of shares to be redeemed pro rata among investors so that the aggregate amount to be withdrawn equals 25% of the net asset value of the fund.

Notes to Consolidated Financial Statements (all tabular amounts in thousands)

Assets Limited as to Use

The fair value hierarchy of assets limited as to use at June 30 follows:

	2018		
	Level 1	**Level 2**	**Total**
Internally designated for specific purposes:			
Cash and cash equivalents	$ 14,249	$ -	$ 14,249
Domestic corporate bond funds	77,239	-	77,239
Total assets in the fair value hierarchy	91,488	-	91,488
Investments measured at net asset value (a)			76
			91,564
Held by trustee under indenture agreement:			
Cash and cash equivalents	864	6,487	7,351
U.S. agency obligations	-	9,685	9,685
Domestic corporate bonds	-	4,693	4,693
	864	20,865	21,729
Foundation held funds, both donor restricted and otherwise limited as to use:			
Cash and cash equivalents	1,135	-	1,135
Domestic corporate bonds	-	847	847
Domestic exchange-traded funds	1,378	-	1,378
	$ 2,513	$ 847	3,360
			$ 116,653

(a) In accordance with applicable reporting standards, certain investments that were measured at NAV per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the accompanying consolidated balance sheets.

Notes to Consolidated Financial Statements (all tabular amounts in thousands)

	2017		
	Level 1	Level 2	Total
Internally designated for specific purposes:			
Cash and cash equivalents	$ 2,729	$ -	$ 2,729
U.S. Treasury and agency obligations	-	5,893	5,893
Foreign government bonds and bond funds	18,255	76	18,331
Domestic corporate bonds	-	11,405	11,405
Domestic corporate bond funds	24,903	-	24,903
Asset and mortgage-backed securities	-	15,056	15,056
Foreign corporate bonds and bond funds	564	2,579	3,143
Domestic equity securities	19,363	-	19,363
Foreign equity securities	8,261	-	8,261
Domestic exchange-traded funds	3,507	-	3,507
Total assets in the fair value hierarchy	77,582	35,009	112,591
Investments measured at net asset value (a)			4,739
			117,330
Held by trustee under indenture agreement:			
Cash and cash equivalents	1,308	6,435	7,743
U.S. agency obligations	-	9,744	9,744
Domestic corporate bonds	-	4,593	4,593
	1,308	20,772	22,080
Foundation held funds, both donor restricted and otherwise limited as to use:			
Cash and cash equivalents	986	-	986
U.S. Treasury and agency obligations	-	278	278
Domestic equity and asset-backed securities	1,282	406	1,688
Domestic corporate bonds	-	417	417
Foreign corporate bonds	-	50	50
Domestic exchange-traded funds	2,170	-	2,170
	$ 4,438	$ 1,151	5,589
			$ 144,999

(a) In accordance with applicable financial reporting standards, certain investments that were measured at NAV per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the accompanying consolidated balance sheets.

Notes to Consolidated Financial Statements (all tabular amounts in thousands)

Investments

The fair value hierarchy of investments at June 30 follows:

	2018		
	Level 1	**Level 2**	**Total**
Investments:			
Cash and cash equivalents	$ 937	$ -	$ 937
Domestic corporate bonds and bond funds	5,080	-	5,080
Total assets in the fair value hierarchy	$ 6,017	$ -	6,017
Investments measured at net asset value (a)			5
			$ 6,022

	2017		
	Level 1	**Level 2**	**Total**
Investments:			
Cash and cash equivalents	$ 178	$ -	$ 178
U.S. Treasury obligations	-	385	385
Foreign government bonds and bond funds	1,192	5	1,197
Domestic corporate bonds and bond funds	1,626	744	2,370
Asset and mortgage-backed securities	-	983	983
Foreign corporate bonds and bond funds	37	168	205
Domestic equity securities and equity funds	1,264	-	1,264
Foreign equity securities	539	-	539
Domestic exchange-traded funds	229	-	229
Total assets in the fair value hierarchy	$ 5,065	$ 2,285	7,350
Investments measured at net asset value (a)			309
			$ 7,659

(a) In accordance with applicable financial reporting standards, certain investments that were measured at NAV per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the accompanying consolidated balance sheets.

Notes to Consolidated Financial Statements (all tabular amounts in thousands)

Pension Plan Assets

The fair value hierarchy of Plan assets at June 30 follows:

	2018		
	Level 1	Level 2	Total
Cash and cash equivalents	$ 4,413	$ -	$ 4,413
U.S. Treasury and agency obligations	-	38,334	38,334
U.S. government and municipal bond funds	4,085	-	4,085
Domestic corporate bonds and bond funds	349	55,283	55,632
Foreign corporate bonds and bond funds	-	5,744	5,744
Asset-backed securities and fixed income funds	1,385	6,960	8,345
Domestic equity securities and equity funds	23,867	-	23,867
Foreign equity securities	1,134	-	1,134
International private mutual funds	12,821	-	12,821
Domestic exchange-traded funds	8,350	-	8,350
Total assets in the fair value hierarchy	$ 56,688	$ 106,321	162,725
Investments measured at net asset value (a)			45
			$ 162,770

	2017		
	Level 1	Level 2	Total
Cash and cash equivalents	$ 2,806	$ -	$ 2,806
U.S. Treasury and agency obligations	-	44,454	44,454
U.S. government and municipal bond funds	3,877	-	3,877
Domestic corporate bonds and bond funds	494	58,207	58,701
Foreign corporate bonds and bond funds	251	5,082	5,333
Asset-backed securities and fixed income funds	1,328	1,139	2,467
Domestic equity securities and equity funds	22,582	-	22,582
Foreign equity securities	731	-	731
International private mutual funds	8,088	-	8,088
Domestic exchange-traded funds	14,182	-	14,182
Total assets in the fair value hierarchy	$ 54,338	$ 108,882	163,221
Investments measured at net asset value (a)			2,774
			$ 165,995

(a) In accordance with applicable financial reporting standards, certain investments that were measured at NAV per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the accompanying disclosure in Note 10 of the fair value of Plan assets.

Other Financial Instruments

Except for long-term debt, the carrying amounts for other financial instruments approximate their estimated fair values at June 30, 2018 and 2017 due to their short-term nature or based on the measurements described below.

Long-term Debt:

The System's long-term debt consists of publicly traded municipal bonds. These bonds are not considered to be traded in an active market, as transactions generally do not take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of long-term debt instruments has been estimated using historical traded prices for the System's bonds, as well as yield curves for bonds having similar character, collateral, and ratings. No adjustment for fair value measurements is reflected or required in the accompanying consolidated balance sheets. The fair value of long-term debt is measured using Level 2 inputs and totaled approximately $183,532,000 and $191,073,000 at June 30, 2018 and 2017, respectively.

Asset Retirement Obligation:

The System's asset retirement obligation relates to its legal obligation over the removal of asbestos when the System renovates or retires the impacted buildings. The System employed an independent third-party to develop the initial fair value of the obligation, which includes the total estimated removal costs, discounted using an expected inflation rate, estimated discount rate, and expected years until renovation for each respective building. There have been no buildings sold or renovated which have resulted in the removal of asbestos in satisfaction of the related obligation. Further, there have been no additional building purchases that would require an additional obligation for asbestos removal. Therefore, the only change in the estimated fair value of the obligation is the accretion to present value each period. As such, the fair value of the asset retirement obligation approximates its carrying value using Level 2 inputs.

Interest Rate Swaps:

The System's interest rate swaps were executed over the counter and are valued using the net present value of the cash flow streams since no quoted market prices exist for such instruments. The System employs an independent third-party to perform a mark-to-market valuation assessment on the swaps to assess the reasonableness of the estimated values. The interest rate swaps are reported at fair value using Level 2 inputs.

DeKalb Regional Health System, Inc. and Subsidiaries
Consolidating Balance Sheet
June 30, 2018
(in thousands)

	DeKalb Medical at North Decatur	DeKalb Medical at Hillandale	DeKalb Regional Health System, Inc.	DeKalb Medical Physician Network	Obligated Group	Decatur Health Resources, Inc.	DRHS Ventures, Inc.	Dekalb Medical Center Foundation Inc.	DRHS, Inc. consolidated
ASSETS									
Current assets:									
Cash and cash equivalents	$ 9,704	$ 4	$ 218	$ -	$ 9,926	$ -	$ 159	$ 1,436	$ 11,521
Investments	6,022	-	-	-	6,022	-	-	-	6,022
Patient accounts receivable, net	51,240	12,841	66	9,458	73,605	3,954	-	-	77,559
Estimated third party receivables	1,345	177	-	(19)	1,503	106	-	-	1,609
Other current assets	12,534	2,023	4,608	234	19,399	213	(18)	1,384	20,978
Assets limited as to use	4,302	2,919	-	-	7,221	-	-	-	7,221
Total current assets	85,147	17,964	4,892	9,673	117,676	4,273	141	2,820	124,910
Assets limited as to use	103,639	-	3,168	-	106,807	-	-	2,625	109,432
Property and equipment, net	58,046	32,285	18,784	2,087	111,202	1,522	-	-	112,724
Other assets	1,535	-	1,564	25	3,124	-	15	310	3,449
Total assets	$ 248,367	$ 50,249	$ 28,408	$ 11,785	$ 338,809	$ 5,795	$ 156	$ 5,755	$ 350,515
LIABILITIES AND NET ASSETS									
Current liabilities:									
Current installments of long-term debt obligations	$ 93,258	$ 75,677	$ -	$ -	$ 168,935	$ -	$ -	$ -	$ 168,935
Accounts payable and accrued expenses	42,287	3,357	7,747	5,607	58,998	528	12	5	59,543
Estimated third-party payor settlements	931	701	-	-	1,632	-	-	-	1,632
Other current liabilities	1,936	1,558	1,066	-	4,560	-	-	-	4,560
Total current liabilities	138,412	81,293	8,813	5,607	234,125	528	12	5	234,670
Self-insurance reserves	5,671	-	26,176	-	31,847	-	-	-	31,847
Accrued pension cost	-	-	-	-	-	-	-	-	-
Asset retirement obligations	5,162	1,355	2,304	-	8,821	558	-	-	9,379
Fair value of interest rate swaps	105	-	-	-	105	-	-	-	105
Total liabilities	149,350	82,648	37,293	5,607	274,898	1,086	12	5	276,001
Net assets:									
Unrestricted	98,139	(32,399)	(8,885)	6,178	63,033	4,709	144	4,507	72,393
Temporarily restricted	878	-	-	-	878	-	-	1,243	2,121
Total net assets	99,017	(32,399)	(8,885)	6,178	63,911	4,709	144	5,750	74,514
Total liabilities and net assets	$ 248,367	$ 50,249	$ 28,408	$ 11,785	$ 338,809	$ 5,795	$ 156	$ 5,755	$ 350,515

See accompanying auditors' report on supplementary information.

DeKalb Regional Health System, Inc. and Subsidiaries
Consolidating Statement of Operations
Year Ended June 30, 2018
(in thousands)

	DeKalb Medical at North Decatur	DeKalb Medical at Hillandale	DeKalb Regional Health System, Inc.	DeKalb Medical Physician Network	Eliminations	Obligated Group	Decatur Health Resources, Inc.	DRHS Ventures, Inc.	Dekalb Medical Center Foundation Inc.	Eliminations	DRHS, Inc. consolidated
Unrestricted revenues, gains, and other support:											
Net patient service revenue	$ 319,995	$ 74,600	$ -	$ 55,281	$ -	$ 449,876	$ 15,582	$ -	$ -	$ -	$ 465,458
Net assets released from restriction-operations	586	-	-	-	-	586	-	-	1,920	-	2,506
Other income	2,820	982	11,333	2,412	(4,705)	12,842	51	-	2,458	(466)	14,885
Total net revenues	323,401	75,582	11,333	57,693	(4,705)	463,304	15,633	-	4,378	(466)	482,849
Expenses:											
Salaries and benefits	157,263	36,654	38,650	67,287	-	299,854	11,410	-	-	-	311,264
Supplies and other expenses	110,691	18,679	48,856	15,430	(4,705)	188,951	4,050	50	3,595	(466)	196,180
Depreciation and amortization	8,412	2,221	4,396	868	-	15,897	145	-	-	-	16,042
Interest	5,778	4,802	169	-	-	10,749	22	-	-	-	10,771
Support services allocation	57,033	16,766	(81,151)	4,527	-	(2,825)	2,825	-	-	-	-
Total expenses	339,177	79,122	10,920	88,112	(4,705)	512,626	18,452	50	3,595	(466)	534,257
Operating (loss) income	(15,776)	(3,540)	413	(30,419)	-	(49,322)	(2,819)	(50)	783	-	(51,408)
Investment income	2,720	134	-	-	-	2,854	-	-	31	-	2,885
Net realized (losses) gains on sales of investments	(753)	-	-	-	-	(753)	-	-	122	-	(631)
Net change in unrealized gains (losses) on investments	2,042	-	-	-	-	2,042	-	-	(93)	-	1,949
Change in fair value of interest rate swaps	431	-	-	-	-	431	-	-	-	-	431
Unrealized loss on non-service components of net periodic pension cost	-	-	(2,370)	-	-	(2,370)	-	-	-	-	(2,370)
Other non operating gains (losses), net	(728)	-	-	4	-	(724)	-	58	990	-	324
Revenues, gains, and other support (less than) over expenses and losses	(12,064)	(3,406)	(1,957)	(30,415)	-	(47,842)	(2,819)	8	1,833	-	(48,820)
Contribution for capital purposes	2,073	-	-	-	-	2,073	-	-	-	-	2,073
Pension accounting adjustments, net	7,933	-	-	-	-	7,933	-	-	-	-	7,933
Intercompany equity transfers	(18,651)	2,012	(7,902)	23,721	-	(820)	1,421	-	(601)	-	-
Change in unrestricted net assets	$ (20,709)	$ (1,394)	$ (9,859)	$ (6,694)	$ -	$ (38,656)	$ (1,398)	$ 8	$ 1,232	$ -	$ (38,814)

See accompanying auditors' report on supplementary information.

DeKalb Regional Health System, Inc. and Subsidiaries
Consolidating Statement of Changes in Net Assets
Year Ended June 30, 2018
(in thousands)

	DeKalb Medical at North Decatur	DeKalb Medical at Hillandale	Regional Health System, Inc.	DeKalb Medical Physician Network	Obligated Group	Decatur Health Resources, Inc.	DRHS Ventures, Inc.	Dekalb Medical Center Foundation Inc.	DRHS, Inc. consolidated
Unrestricted net assets:									
Revenues, gains, and other support (less than) over expenses and losses	$ (12,064)	$ (3,406)	$ (1,957)	$ (30,415)	$ (47,842)	$ (2,819)	$ 8	$ 1,833	$ (48,820)
Contribution for capital purposes	2,073	-	-	-	2,073	-	-	-	2,073
Pension accounting adjustments, net	7,933	-	-	-	7,933	-	-	-	7,933
Change in intercompany	(18,651)	2,012	(7,902)	23,721	(820)	1,421	-	(601)	-
Change in unrestricted net assets	(20,709)	(1,394)	(9,859)	(6,694)	(38,656)	(1,398)	8	1,232	(38,814)
Temporarily restricted net assets:									
Contributions	617	-	-	-	617	-	-	711	1,328
Investment loss	-	-	-	-	-	-	-	(630)	(630)
Net assets released from restrictions for operating purposes	(586)	-	-	-	(586)	-	-	(1,920)	(2,506)
Change in temporarily restricted net assets	31	-	-	-	31	-	-	(1,839)	(1,808)
Change in net assets	(20,678)	(1,394)	(9,859)	(6,694)	(38,625)	(1,398)	8	(607)	(40,622)
Net assets, beginning of year	119,695	(31,005)	974	12,872	102,536	6,107	136	6,357	115,136
Net assets, end of the year	$ 99,017	$ (32,399)	$ (8,885)	$ 6,178	$ 63,911	$ 4,709	$ 144	$ 5,750	$ 74,514

See accompanying auditors' report on supplementary information.

DeKalb Regional Health System, Inc. and Subsidiaries
Consolidating Balance Sheet
June 30, 2017
(in thousands)

	DeKalb Medical at North Decatur	DeKalb Medical at Hillandale	DeKalb Regional Health System, Inc.	DeKalb Medical Physician Network	Obligated Group	Decatur Health Resources, Inc.	DRHS Ventures, Inc.	Dekalb Medical Center Foundation Inc.	DRHS, Inc. consolidated
ASSETS									
Current assets:									
Cash and cash equivalents	$ 1,507	$ 3	$ 178	$ (1)	$ 1,687	$ 46	$ 193	$ 1,676	$ 3,602
Investments	7,659	-	-	-	7,659	-	-	-	7,659
Patient accounts receivable, net	51,401	13,146	66	11,491	76,104	5,357	-	-	81,461
Estimated third-party receivables	3,301	546	-		3,847	17	-	-	3,864
Other current assets	11,928	1,825	4,443	764	18,960	260	(3)	-	19,217
Assets limited as to use	4,250	2,876	-	-	7,126	-	-	-	7,126
Total current assets	80,046	18,396	4,687	12,254	115,383	5,680	190	1,676	122,929
Assets limited as to use	128,455	-	4,564	-	133,019	-	-	4,854	137,873
Property and equipment, net	59,262	33,883	20,823	2,716	116,684	1,657	-	-	118,341
Other assets	2,802	-	(662)	25	2,165	-	28	310	2,503
Total assets	$ 270,565	$ 52,279	$ 29,412	$ 14,995	$ 367,251	$ 7,337	$ 218	$ 6,840	$ 381,646
LIABILITIES AND NET ASSETS									
Current liabilities:									
Current installments of long-term debt and capital lease obligations	$ 1,950	$ 1,595	$ -	$ -	$ 3,545	$ -	$ -	$ -	$ 3,545
Accounts payable and accrued expenses	38,211	2,673	5,085	2,095	48,064	695	82	483	49,324
Estimated third-party payor settlements	1,758	591	-	24	2,373	-	-	-	2,373
Other current liabilities	1,949	1,589	1,045	4	4,587	-	-	-	4,587
Total current liabilities	43,868	6,448	6,130	2,123	58,569	695	82	483	59,829
Long-term debt and capital lease obligations, net of current installments	93,101	75,549	-	-	168,650	-	-	-	168,650
Self-insurance reserves	4,484	-	20,098	-	24,582	-	-	-	24,582
Accrued pension cost	3,926	-	-	-	3,926	-	-	-	3,926
Asset retirement obligation	4,956	1,287	2,210	-	8,453	535	-	-	8,988
Fair value of interest rate swaps	535	-	-	-	535	-	-	-	535
Total liabilities	150,870	83,284	28,438	2,123	264,715	1,230	82	483	266,510
Net assets:									
Unrestricted	118,848	(31,005)	974	12,872	101,689	6,107	136	3,275	111,207
Temporarily restricted	847	-	-	-	847	-	-	3,082	3,929
Total net assets	119,695	(31,005)	974	12,872	102,536	6,107	136	6,357	115,136
Total liabilities and net assets	$ 270,565	$ 52,279	$ 29,412	$ 14,995	$ 367,251	$ 7,337	$ 218	$ 6,840	$ 381,646

See accompanying auditors' report on supplementary information.

DeKalb Regional Health System, Inc. and Subsidiaries
Consolidating Statement of Operations
Year Ended June 30, 2017
(in thousands)

	DeKalb Medical at North Decatur	DeKalb Medical at Hillandale	DeKalb Regional Health System, Inc.	DeKalb Medical Physician Network	Eliminations	Obligated Group	Decatur Health Resources, Inc.	DRHS Ventures, Inc.	Dekalb Medical Center Foundation Inc.	Eliminations	DRHS, Inc. consolidated
Unrestricted revenues, gains, and other support:											
Net patient service revenue	$ 321,560	$ 76,244	$ -	$ 60,467	$ -	$ 458,271	$ 15,111	$ -	$ -	$ -	$ 473,382
Net assets released from restrictions-operating	788	-	-	-	-	788	-	-	235	-	1,023
Other income	2,115	502	10,729	3,066	(4,662)	11,750	-	-	1,304	-	13,054
Total net revenues	324,463	76,746	10,729	63,533	(4,662)	470,809	15,111	-	1,539	-	487,459
Expenses:											
Salaries and benefits	145,416	35,338	37,040	62,971	-	280,765	10,174	-	303	-	291,242
Supplies and other expenses	115,836	18,647	37,244	16,297	(4,662)	183,362	4,668	85	1,118	-	189,233
Depreciation and amortization	9,755	2,289	4,878	903	-	17,825	113	-	-	-	17,938
Interest	6,065	4,889	119	-	-	11,073	52	-	-	-	11,125
Support services allocation	50,620	14,451	(71,577)	3,719	-	(2,787)	2,787	-	-	-	-
Total expenses	327,692	75,614	7,704	83,890	(4,662)	490,238	17,794	85	1,421	-	509,538
Operating (loss) income	(3,229)	1,132	3,025	(20,357)	-	(19,429)	(2,683)	(85)	118	-	(22,079)
Interest income	2,827	91	-	-	-	2,918	-	-	(130)	-	2,788
Net realized gains on sales of investments	4,097	-	-	-	-	4,097	-	-	22	-	4,119
Net change in unrealized gains (losses) on investments	2,295	-	-	-	-	2,295	-	-	149	-	2,444
Loss on exstinguishment of debt											
Change in fair value of interest rate swaps	(134)	-	-	-	-	(134)	-	-	-	-	(134)
Unrealized loss on non-service components of net periodic pension cost	-	-	(3,613)	-	-	(3,613)	-	-	-	-	(3,613)
Other non operating gains (losses), net	(230)	-	-	144	-	(86)	-	83	-	-	(3)
Revenues, gains, and other support (less than) over expenses and losses	5,626	1,223	(588)	(20,213)	-	(13,952)	(2,683)	(2)	159	-	(16,478)
Contribution for capital purposes	132	-	-	-	-	132	-	-	-	-	132
Pension accounting adjustments, net	10,430	-	-	-	-	10,430	-	-	-	-	10,430
Intercompany equity transfers	(30,332)	2,321	204	23,224	-	(4,583)	4,100	-	483	-	-
Other											
Change in unrestricted net assets	$ (14,144)	$ 3,544	$ (384)	$ 3,011	$ -	$ (7,973)	$ 1,417	$ (2)	$ 642	$ -	$ (5,916)

See accompanying auditors' report on supplementary information.

DeKalb Regional Health System, Inc. and Subsidiaries
Consolidating Statement of Changes in Net Assets
Year Ended June 30, 2017
(in thousands)

	DeKalb Medical at North Decatur	DeKalb Medical at Hillandale	DeKalb Regional Health System, Inc.	DeKalb Medical Physician Network	Obligated Group	Decatur Health Resources, Inc.	DRHS Ventures, Inc.	Dekalb Medical Center Foundation Inc.	DRHS, Inc. consolidated
Unrestricted net assets:									
Revenues, gains, and other support (less than) over expenses and losses	$ 5,626	$ 1,223	$ (588)	$ (20,213)	$ (13,952)	$ (2,683)	$ (2)	$ 159	$ (16,478)
Contribution for capital purposes	132	-	-	-	132	-	-	-	132
Pension accounting adjustments, net	10,430	-	-	-	10,430	-	-	-	10,430
Change in intercompany	(30,332)	2,321	204	23,224	(4,583)	4,100	-	483	-
Change in unrestricted net assets	(14,144)	3,544	(384)	3,011	(7,973)	1,417	(2)	642	(5,916)
Temporarily restricted net assets:									
Contributions	900	-	-	-	900	-	-	(206)	694
Investment gains, net	-	-	-	-	-	-	-	91	91
Net assets released from restrictions-operating	(788)	-	-	-	(788)	-	-	(235)	(1,023)
Change in temporarily restricted net assets	112	-	-	-	112	-	-	(350)	(238)
Change in net assets	(14,032)	3,544	(384)	3,011	(7,861)	1,417	(2)	292	(6,154)
Net assets, beginning of year	133,727	(34,549)	1,358	9,861	110,397	4,690	138	6,065	121,290
Net assets, end of the year	$ 119,695	$ (31,005)	$ 974	$ 12,872	$ 102,536	$ 6,107	$ 136	$ 6,357	$ 115,136

See accompanying auditors' report on supplementary information.