JohnsonLambert LLP
cpas + consultants

Phoebe Putney Indemnity, LLC

Audited Financial Statements
and Required Supplementary Information

As of and for the years ended July 31, 2018 and 2017
with Report of Independent Auditors

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Contents

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Report of Independent Auditors

Board of Directors
Phoebe Putney Indemnity, LLC

We have audited the accompanying financial statements of Phoebe Putney Indemnity, LLC ("the Company") which comprise the balance sheets as of July 31, 2018 and 2017, and the related statements of income and comprehensive income, changes in member's equity, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP"); this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the 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 Company'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 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 financial statements referred to above present fairly, in all material respects, the financial position of Phoebe Putney Indemnity, LLC as of July 31, 2018 and 2016, and the results of its operations and its cash flows for the years then ended in conformity with GAAP.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that disclosures about short-duration insurance contracts on pages 20 - 21 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries with management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Johnson Lambert LLP

Charleston, South Carolina
October 29, 2018

Phoebe Putney Indemnity, LLC

Balance Sheets

	As of July 31, 2018	As of July 31, 2017
Assets		
Investments:		
Mutual funds	$ 45,910,428	$ 44,492,012
Alternative fixed income funds	20,147,258	18,953,675
Alternative investment funds	15,642,446	13,494,873
Total Investments	81,700,132	76,940,560
Cash and cash equivalents	7,217,579	8,151,138
Reinsurance recoverable	6,242,500	4,473,805
Prepaid expenses	5,833	-
Total Assets	$ 95,166,044	$ 89,565,503
Liabilities and Member's Equity		
Liabilities:		
Loss and loss adjustment expenses	$ 55,861,563	$ 58,787,384
Ceded premiums payable	1,721,376	982,205
Accounts payable and accrued expenses	36,352	39,880
Premium taxes payable	11,861	-
Total Liabilities	57,631,152	59,809,469
Member's Equity:		
Member's contributions	11,074,701	11,074,701
Accumulated other comprehensive income	12,567,576	8,784,089
Member's earnings	13,892,615	9,897,244
Total Member's Equity	37,534,892	29,756,034
Total Liabilities and Member's Equity	$ 95,166,044	$ 89,565,503

See accompanying notes to the financial statements.

Phoebe Putney Indemnity, LLC

Statements of Income and Comprehensive Income

	Years ended July 31, 2018	2017
Statements of Income		
Revenues		
Net premiums earned	$ 10,255,650	$ 9,879,171
Net investment income	954,611	956,670
Net realized gains on investments	77,137	326,734
Total Revenues	11,287,398	11,162,575
Expenses		
Incurred loss and loss adjustment expenses	7,016,555	9,903,596
Professional and management fees	178,144	153,491
General and administrative expenses	97,328	71,930
Total Expenses	7,292,027	10,129,017
Net Income	$ 3,995,371	$ 1,033,558
Statements of Comprehensive Income		
Net income	$ 3,995,371	$ 1,033,558
Other comprehensive income:		
Net unrealized gain on investments	3,860,624	6,245,857
Less: reclassification adjustment for realized investment gain included in net income	(77,137)	(326,734)
Other Comprehensive Income	3,783,487	5,919,123
Comprehensive Income	$ 7,778,858	$ 6,952,681

See accompanying notes to the financial statements.

Phoebe Putney Indemnity, LLC

Statements of Changes in Member's Equity

	Member's Contributions	Accumulated Other Comprehensive Income	Member's Earnings	Total Member's Equity
Balance at August 1, 2016	$ 11,074,701	$ 2,864,966	$ 8,863,686	$ 22,803,353
Other comprehensive income	-	5,919,123	-	5,919,123
Net income	-	-	1,033,558	1,033,558
Balance at July 31, 2017	11,074,701	8,784,089	9,897,244	29,756,034
Other comprehensive income	-	3,783,487	-	3,783,487
Net income	-	-	3,995,371	3,995,371
Balance at July 31, 2018	$ 11,074,701	$ 12,567,576	$ 13,892,615	$ 37,534,892

See accompanying notes to the financial statements.

Phoebe Putney Indemnity, LLC

Statements of Cash Flows

	Years ended July 31, 2018	2017
Cash flows from operating activities		
Net income	$ 3,995,371	$ 1,033,558
Deduct items not affecting cash:		
Net realized gain on investments	(77,137)	(326,734)
Changes in assets and liabilities:		
Reinsurance recoverable	(1,768,695)	(2,770,558)
Prepaid expenses	(5,833)	5,833
Interest receivable	-	345
Loss and loss adjustment expenses	(2,925,821)	7,209,899
Ceded premiums payable	739,171	982,205
Accounts payable and accrued expenses	(3,528)	500
Premium taxes payable	11,861	-
Net cash provided by operating activities	(34,611)	6,135,048
Cash flows from investing activities		
Cost of investments purchased	(7,990,405)	(7,201,012)
Proceeds from sales of investments	7,091,457	6,243,734
Net cash used in investing activities	(898,948)	(957,278)
Net change in cash and cash equivalents	(933,559)	5,177,770
Cash and cash equivalents, beginning of year	8,151,138	2,973,368
Cash and cash equivalents, end of year	$ 7,217,579	$ 8,151,138

See accompanying notes to the financial statements.

Note A - Organization and Significant Accounting Policies

Organization
Phoebe Putney Indemnity, LLC ("the Company" or "PPI") was organized on August 1, 2006 as a single parent captive under the captive insurance laws of the state of South Carolina to insure the risks of Phoebe Putney Health System ("the Parent") in Southwest Georgia. The Company is a wholly-owned subsidiary of the Parent, a not-for-profit corporation, organized under Section 501(c)(3) of the Internal Revenue Code. The Company provides general liability, professional liability, personal injury liability, advertising injury liability, contractual liability and auto physical damage coverage to the Parent.

Basis of Reporting
The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Adoption of New Accounting Standards
As of August 1, 2017, PPI adopted Accounting Standards Update ("ASU") 2015-09, Disclosures about Short-Duration Contracts. The FASB issued ASU 2015-09, which requires insurance entities to disclose additional information for the purpose of providing better insight into an insurer's initial claim estimates and subsequent adjustments and to help financial statement users understand the frequency, severity, and timing of future cashflows related to the estimated claim costs. Adoption of the guidance had no material effect on PPI's results of operations or financial position, as it only impacts financial statement disclosures.

PPI adopted ASU 2015-07, Disclosures for Investment in Certain Entities that Calculate Net Asset Value per Share. Therefore, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy.

Subsequent Events
PPI has evaluated subsequent events for disclosure and recognition through October 29, 2018 the date on which these financial statements were available to be issued.

Investments
Investments in mutual funds are classified as available for sale and are accordingly reported at fair value, with unrealized gains and losses reported as a component of other comprehensive income. Realized gains and losses are determined on the specific identification method.

Note A - Organization and Significant Accounting Policies (Continued)

The alternative fund investments and the alternative fixed income fund investments, which are not readily marketable, are carried at estimated fair values as provided by the investment manager. Unrealized gains and losses are reported as a component of other comprehensive income. Because these investments are not readily marketable, the estimated fair value is subject to judgment and uncertainty and; therefore, may differ from the value that would have been used had a ready market for such investment existed. Such difference could be material. See Note C for a more detailed description of these investments.

Other Than Temporary Impairment
An investment is considered impaired when the fair value of the investment is less than its cost. When an investment is impaired, PPI must make a determination as to whether the impairment is other-than-temporary ("OTTI").

With respect to an investment in a fund, if the decline in fair value is determined to be other-than-temporary, a loss in the entire amount of the impairment is reflected in net realized gains in the statement of income and comprehensive income.

Factors considered in identifying OTTI include PPI's ability and intent to retain the investment for a period of time sufficient to allow for an anticipated recovery in value, the length of time and extent to which the fair value has been less than cost and the financial condition, near-term and long-term prospects for the issuer, including relevant industry conditions and trends, and implications of rating agency actions and offering prices.

Liability for Loss and Loss Adjustment Expenses
The liability for loss and loss adjustment expenses includes case-basis estimates for known claims plus supplemental amounts calculated for incurred but not reported ("IBNR") reserves. In establishing its liability for losses and loss adjustment expenses, the Company utilizes the findings of an independent consulting actuary. The liability for losses and loss adjustment expenses has been recorded based upon the estimated ultimate cost of settling claims. Significant actuarial methods are summarized in Note B.

Management believes that the amounts recorded for loss and loss adjustment expenses represent its best estimates of such amounts. However, considerable uncertainty and variability are inherent in these estimates, and accordingly, the subsequent development of these estimates may not conform to the assumptions inherent in these financial statements. In addition, medical and hospital professional liability are long-tailed lines of insurance subject to considerable loss variability attributable to social, economic and legal considerations that are not directly quantifiable. Therefore, the ultimate liability could be significantly in excess of or less than the amount indicated in the financial statements and the ultimate net cost may vary significantly from such estimates, as it is subject to the outcome of events yet to occur. As adjustments to these estimates become necessary, such adjustments will be reflected in current operations.

Note A - Organization and Significant Accounting Policies (Continued)

Reinsurance
PPI relies on ceded reinsurance to limit its retained insurance risk as described further in Note B. Reinsurance recoverables are estimated using assumptions consistent with those used in estimating the liability for losses and loss adjustment expenses. In preparing financial statements, management makes estimates of amounts recoverable from reinsurers, which includes consideration of amounts, if any, estimated to be uncollectible based on a variety of factors including an assessment of the creditworthiness of the reinsurers. Management has determined that no provision for uncollectible reinsurance recoveries is necessary as of July 31, 2018 or 2017.

Premiums
Premiums written are earned ratably over the terms of the policies to which they relate. Policies are written on a fiscal year basis; therefore, there is no difference between written and earned premiums. Ceded premiums are calculated in accordance with the contract and reported net of premium revenue. Adjustments to ceded premium are recorded in the period known based on underwriting results.

Cash and Cash Equivalents
PPI considers all highly liquid instruments with original maturities of three months or less to be cash equivalents. Cash and cash equivalents include amounts on deposit with financial institutions in excess of federally insured limits. Management does not consider this a significant credit risk.

Federal Income Taxes
Management believes that the Company's operations are not subject to income taxes due to its organization as a single member LLC and as a subsidiary of the Parent. As a result, no provision for income taxes has been recorded.

Note B - Insurance Activity

Effective August 1, 2006, PPI issued a claims-made policy covering professional and general liabilities, personal injury, advertising injury liability, and contractual liability of the Parent with a retroactive date of January 1, 1990. Under the policy, the limit of liability is $3,000,000 per occurrence, with an annual aggregate limit of $9,000,000. Effective August 1, 2007, PPI issued a policy with limits of $5,000,000 per occurrence, with an annual aggregate limit of $15,000,000. Effective August 1, 2011, PPI issued a policy with limits of $5,000,000 per occurrence, with an annual aggregate limit of $27,000,000. Effective August 1, 2013, and renewing annually, PPI issued a policy with limits of $5,000,000 per occurrence, with an annual aggregate limit of $27,000,000.

Note B - Insurance Activity (Continued)

Effective August 1, 2015, PPI purchases annual excess of loss reinsurance coverage in order to limit its financial exposure to large claims relating to employed physicians and surgeons. Under the per risk coverage, the reinsurer shall pay up to $750,000 per loss, per insured, in excess of $250,000 per loss, per insured. Under the clash coverage, the reinsurer shall pay up to $750,000 per loss occurrence, in excess of $250,000 per loss occurrence. The maximum amount recoverable for both of these coverage's combined shall not exceed 40% of the subject premium or $6,000,000, whichever is greater. Under the excess of limits coverage, the reinsurer shall pay up to $4,000,000 per loss, per insured, in excess of $1,000,000, per loss, per insured. The maximum amount recoverable for this coverage shall not exceed $8,000,000. The reinsurance treaty provides for adjustable premiums based on ceded losses up to a stated maximum. Such adjustments are recorded in the period when they become known.

Effective August 1, 2006, and renewing annually, PPI issued a policy covering automobile physical damage for Phoebe Putney Health System owned vehicles. Under the policy, the limit of liability for the physical damage comprehensive coverage is for the actual cash value or cost of the repair, whichever is less. Under the policies, approximately 80 vehicles are covered during the years ending July 31, 2018 and 2017.

A reconciliation of gross and net premiums written during the years ended July 31, 2018 and 2017 is as follows:

	2018	2017
Gross premium written	$ 13,220,890	$ 12,944,345
Reinsurance ceded	(2,965,240)	(3,065,174)
Net premiums written	$ 10,255,650	$ 9,879,171

Note B - Insurance Activity (Continued)

Activity in the liability for loss and loss adjustment expenses for the years ended July 31, 2018 and 2017 is as follows:

	2018	2017
Gross liability, beginning of year	$ 58,787,384	$ 51,577,485
Less: reinsurance recoverable's on unpaid losses	(4,473,805)	(1,703,247)
Net liability, beginning of year	54,313,579	49,874,238
Incurred related to:		
Current year	12,974,254	13,229,274
Prior years	(6,189,749)	(3,386,009)
Tail	232,050	60,331
Total incurred during the year	7,016,555	9,903,596
Paid related to:		
Current year	(746,977)	(339,043)
Prior years	(10,964,094)	(5,125,212)
Total paid during the year	(11,711,071)	(5,464,255)
Net loss reserves	49,619,063	54,313,579
Add: reinsurance recoverable on unpaid losses	6,242,500	4,473,805
Gross liability, end of year	$ 55,861,563	$ 58,787,384

Incurred losses resulting from claims related to insured events of prior years have decreased $6,189,749 during the year ended July 31, 2018 due to changes in management's estimates of insured events and payment of losses for certain claims which were settled for less than the amount of their related reserve estimates. The decrease in prior year development for the year ending July 31, 2018, was mainly attributed to favorable development on the 2009, 2015 and 2016 loss years offset by unfavorable development on the 2017 loss year.

Incurred losses resulting from claims related to insured events of prior years have decreased $3,386,009 during the year ended July 31, 2017 due to changes in management's estimates of insured events and payment of losses for certain claims which were settled for less than the amount of their related reserve estimates. The decrease in prior year development for the year ending July 31, 2017, was mainly attributed to favorable development on the 2014 and 2015 loss years offset by unfavorable development on the 2012 loss year.

Note B - Insurance Activity (Continued)

As of July 31, 2018 and 2017, the components of the liability for loss and loss adjustment expenses are as follows:

	2018	2017
Case-basis reserves	$ 35,201,272	$ 42,047,654
IBNR reserves	14,417,791	12,265,925
Net loss reserves	49,619,063	54,313,579
Add: reinsurance recoverable on unpaid losses	6,242,500	4,473,805
Gross loss reserves	$ 55,861,563	$ 58,787,384

The reconciliation of the net incurred and paid losses development tables to the liability for losses and loss adjustment expenses on the balance sheet as of July 31, 2018 is as follows:

Net outstanding liabilities	
Professional and General Liability	$ 49,619,063
Reinsurance recoverable	6,242,500
Total gross liability for unpaid losses and loss adjustment expenses	$ 55,861,563

The following is information, for accident years 2014 through 2018, about incurred and cumulative paid losses and loss adjustment expenses, net of reinsurance, and total IBNR liabilities plus expected development on reported claims, net of reinsurance and the cumulative number of reported claims as of July 31, 2018:

Professional and General Liability

Accident Year	Incurred	Cumulative Paid	Total IBNR	Cumulative Number of Reported Claims
2014	$ 9,543,534	$ 8,386,803	$ 769,127	111
2015	12,303,341	6,207,151	1,129,173	117
2016	7,209,596	2,765,287	2,846,570	103
2017	15,830,078	4,274,066	(1,753,290)	122
2018	12,974,254	746,977	(2,371,872)	111
Tail	13,518,400	-	13,518,400	-
Total	$ 71,379,203	$ 22,380,284	$ 14,138,108	

Methodology for Determining Losses and Loss Adjustment Expense Reserves
The principal estimate and analysis methods utilized by the Company's actuary to evaluate management's existing reserve estimates are the modified expected loss and loss adjustment expense, the reported Bornhuetter-Ferguson method and the paid Bornhuetter-Ferguson method.

Note B - Insurance Activity (Continued)

Methodology for Determining IBNR
IBNR reserves are estimated based upon loss projections utilizing certain actuarial assumptions and historical and industry data. The reserves established for supplemental IBNR equals the difference between the projected ultimate losses and loss expenses incurred and the sum of case losses and loss expense reserves; and inception-to-date paid losses and loss expense.

Methodology for Determining Cumulative Number of Reported Claims
The amounts reported for the cumulative number of reported claims include open and closed claims by accident year at the claimant level.

Note C - Investments

The cost, gross unrealized gains, gross unrealized losses, and fair values of investments at July 31, 2018 is as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mutual funds	$ 37,615,757	$ 8,925,447	$ (630,776)	$ 45,910,428
Alternative fixed income funds:				
SSGA Intermediate	15,740,217	1,302,334	-	17,042,551
Brandywine Global	2,941,185	163,522	-	3,104,707
Alternative investment funds:				
Davidson Kempner	1,950,248	500,934	-	2,451,182
Mason Capital	1,864,260	-	(827)	1,863,433
Aetos Balanced	7,020,889	2,088,258	-	9,109,147
Parametric Global	2,000,000	218,684	-	2,218,684
Totals	$ 69,132,556	$ 13,199,179	$ (631,603)	$ 81,700,132

Note C - Investments (Continued)

The cost, gross unrealized gains, gross unrealized losses, and fair values of investments at July 31, 2017 is as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mutual funds	$ 39,334,418	$ 5,908,085	$ (750,491)	$ 44,492,012
Alternative fixed income fund:				
SSGA Intermediate	14,446,545	1,463,107	-	15,909,652
Brandywine Global	2,954,372	89,651	-	3,044,023
Alternative investment funds:				
Davidson Kempner	1,950,248	395,926	-	2,346,174
Mason Capital	1,864,260	-	(43,874)	1,820,386
Aetos Balanced	5,520,889	1,721,684	-	7,242,573
Parametric Global	2,085,740	-	-	2,085,740
Totals	$ 68,156,472	$ 9,578,453	$ (794,365)	$ 76,940,560

Mutual funds held by the Company as of July 31, 2018 represent units held in Vanguard, Morgan Stanley, and DoubleLine funds. Mutual funds held by the Company as of July 31, 2017 represent units held in Vanguard, Morgan Stanley, Lazard, and DoubleLine funds. The funds consist of international equities, equities of emerging market countries, domestic equities, and mortgage backed security bonds. The overall objective of the funds are long-term capital appreciation.

The alternative fixed income funds as of July 31, 2018 and 2017, represent units owned in the SSGA Intermediate Government Credit BD and Brandywine Global Fixed Income funds. The SSGA Intermediate Government Credit BD funds' objective is to maximize total return by investing in fixed income securities, including but not limited to those represented by the Barclays Capital U.S. Aggregate Bond Index. The Brandywine Global Fixed Income funds' objective is to have interest income and long-term capital from appreciation by investing in non U.S. debt securities. The funds are valued using the fund's net asset value.

As of July 31, 2018, the alternative investment funds include investments held in the Aetos Balanced Fund, Mason Capital, Davidson Kempner and Parametric Global funds, which are all hedge funds. These funds are valued using net asset value based on underlying funds.

The Aetos Balanced Fund is registered with the Securities and Exchange Commission and primarily focuses on investing in other hedge funds also registered with the Securities Exchange Commission. Investors are given the option to liquidate their investment in this fund quarterly and must give 90 days notice prior to liquidating.

Note C - Investments (Continued)

The Mason Capital investment is registered under the Mutual Funds Law of the Cayman Islands and is regulated by the Cayman Islands Monetary Authority. The investment objective of the fund is to seek maximum capital appreciation primarily by using a variety of investment techniques, including employing three event-driven investment strategies: merger arbitrage, distressed securities, and special situations. Investors must give written notice of 45 days prior to the applicable redemption date in order to redeem some or all of its shares.

The Davidson Kempner Fund invests in the public equity, fixed income, distressed debt, and hedging markets across the globe. Investors are given the option to liquidate their investment through quarterly redemption dates and must give notice 60 days prior to the end of the respective quarter.

The Parametric Global fund is registered with the Securities and Exchange Commission and primarily focuses on investing in equity index positions and cash equivalents. Investors must give notice of 30 days in order to divest from the fund.

The following tables presents fair value and unrealized losses for the Company's investments aggregated by investment category and length of time that the security was in a continuous unrealized loss position as of July 31, 2018 and 2017:

	Less Than Twelve Months		Greater Than Twelve Months	
At July 31, 2018	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mutual funds	$ -	$ -	$ 14,980,769	$ (630,776)
Alternative Investment funds	-	-	1,863,432	(827)
Total	$ -	$ -	$ 16,844,201	$ (631,603)

	Less Than Twelve Months		Greater Than Twelve Months	
At July 31, 2017	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mutual funds	$ -	$ -	$ 13,852,795	$ (750,491)
Alternative Investment funds	-	-	1,820,386	(43,874)
Total	$ -	$ -	$ 15,673,181	$ (794,365)

Note C - Investments (Continued)

As of July 31, 2018, there were two mutual funds in an unrealized loss position and one alternative investment fund in an unrealized loss position. Because the Company has the ability and intent to hold these investments until a recovery of fair value, and given consideration to the period the mutual funds have been in an unrealized loss position, management does not consider any of these investments to be other-than-temporarily impaired at July 31, 2018. As of July 31, 2017, there were three mutual funds in an unrealized loss position and one alternative investment fund in an unrealized loss position.

During the year ended July 31, 2018, the proceeds from sales and maturities of investment securities totaled $7,091,457. There were gross realized gains of $860,408 and $564,587 gross realized losses related to these sales. During the year ended July 31, 2017, the proceeds from sales and maturities of investment securities totaled $6,243,734. There were gross realized gains of $326,884 and $150 gross realized losses related to these sales.

Fair Value of Investments
PPI's estimate of fair value for financial assets are based on the framework established in the Fair Value Measurements and Disclosures accounting guidance. The framework is based on the inputs used in valuation and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the fair value accounting guidance includes a hierarchy based on whether significant valuation inputs are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect PPI's significant market assumptions. The three levels of the hierarchy are as follows:

Level 1 - Inputs to the valuation methodology are quoted prices for identical assets traded in active markets that the Company has the ability to access.

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable for the asset and market corroborated inputs.

Level 3 - Valuations based on models where significant inputs are not observable. The unobservable inputs reflect PPI's own assumptions about the inputs that market participants would use.

Fair values are based on quoted market prices when available (Level 1). When market prices are not available, fair value is generally estimated using current market inputs for similar financial instruments with comparable terms and credit quality, commonly referred to as matrix pricing (Level 2). In instances where there is little or no market activity for the same or similar instruments, PPI estimates fair value using methods, models, and assumptions that management believes are relevant to the particular asset. This may include discounted cash flow analysis or other income based approaches (Level 3). These valuation techniques involve some level of management estimation and judgment. Where appropriate, adjustments are included to reflect the risk inherent in a particular methodology, model or input used and are reflective of the assumptions that market participants would use in valuing assets.

Note C - Investments (Continued)

The following tables show how the Company's investments are categorized in accordance with the fair value hierarchy, as of July 31, 2018 and 2017, respectively:

Class of Security - 2018	Level 1	Level 2	Level 3	Total
Mutual funds	$ 45,910,428	$ -	$ -	$ 45,910,428
Total				45,910,428
Alternative fixed income funds valued using practical expedient				20,147,258
Alternative investment funds valued using practical expedient				15,642,446
Total fair value of investments				$ 81,700,132

Class of Security - 2017	Level 1	Level 2	Level 3	Total
Mutual funds	$ 44,492,012	$ -	$ -	$ 44,492,012
Total				44,492,012
Alternative fixed income funds valued using practical expedient				18,953,675
Alternative investment funds valued using practical expedient				13,494,873
Total fair value of investments				$ 76,940,560

Note D - Related Party Transactions and Service Agreements

Records retention and related services are provided by USA Risk Group, Inc., pursuant to a management agreement. During the years ended July 31, 2018 and 2017, the Company incurred management fees of $35,000 and $32,083, respectively, under the agreement. An employee of USA Risk Group, Inc., is a member of the Board of Directors of the Company.

Claims management services are provided by the Parent at no charge to the Company.

Note E - Member's Equity

The laws of the State of South Carolina require PPI to maintain minimum capital and surplus of $5,000,000. At July 31, 2018 and 2017, member's equity totaled $37,534,892 and $29,756,034, respectively.

PPI may not pay a dividend out of, or other distribution with respect to, member's equity without prior approval of the Director of Insurance of the State of South Carolina. No dividends were declared or paid during the year ended July 31, 2018 or 2017. Dividend payments must be pre-approved by the South Carolina Department of Insurance.

Note E - Member's Equity (Continued)

The following is a reconciliation of member's equity and net income as reported in the Company's July 31, 2018 and 2017 South Carolina Department of Insurance Annual Reports to these audited financial statements:

	Net Income	Member's Equity
Per 2018 Annual Report	$ 7,778,863	$ 37,534,895
Unrealized gain on investments	(3,783,487)	-
Rounding	(5)	(3)
As reported in the 2018 audited financial statements	$ 3,995,371	$ 37,534,892

	Net Income	Member's Equity
Per 2017 Annual Report	$ 6,952,679	$ 29,756,032
Unrealized gain on investments	(5,919,123)	-
Rounding	2	2
As reported in the 2017 audited financial statements	$ 1,033,556	$ 29,756,034

Required Supplementary Information

Phoebe Putney Indemnity, LLC

Incurred and Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance (Unaudited)

The following is information about incurred and paid claims development, net of reinsurance and by category for years ended July 31.

Professional and General Liability

	Incurred Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance				
Accident Year	2014	2015	2016	2017	2018
2014	$ 9,952,932	$ 18,825,498	$ 11,755,117	$ 9,442,468	$ 9,543,534
2015	-	9,972,532	15,715,046	13,497,868	12,303,341
2016	-	-	10,366,891	10,875,846	7,209,596
2017	-	-	-	13,229,274	15,830,078
2018	-	-	-	-	12,974,254
Tail	10,609,000	10,752,000	12,899,600	13,274,450	13,518,400
Total					71,379,203

	Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance				
Accident Year	2014	2015	2016	2017	2018
2014	$ 69,707	$ 4,272,195	$ 6,462,017	$ 6,733,855	$ 8,386,803
2015	-	2,243,425	3,470,283	4,523,591	6,207,151
2016	-	-	333,993	1,006,071	2,765,287
2017	-	-	-	331,718	4,274,066
2018	-	-	-	-	746,977
Tail	-	-	-	-	-
Total					22,380,284
All outstanding liabilities before accident year 2014, net of reinsurance					620,144
Liabilities for losses and loss adjustment expenses, net of reinsurance					$ 49,619,063

Phoebe Putney Indemnity, LLC

Avaerage Annual Percentage Payout of Incurred Losses by Age (Unaudited)

The following is the average historical claims duration as of July 31, 2018:

Average Annual Percentage Payout of Incurred Claims by Age										
Years	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Professional and General Liability	6.5 %	19.8 %	22.8 %	21.4 %	8.7 %	9.0 %	2.1 %	2.4 %	1.0 %	9.4 %