

Hamilton Health Care System, Inc.

Consolidated Financial Statements

Years Ended September 30, 2018 and 2017

Independent Auditors' Report

Board of Trustees
Hamilton Health Care System, Inc.
Dalton, Georgia

We have audited the accompanying consolidated financial statements of Hamilton Health Care System, Inc., which comprise the consolidated balance sheets as of September 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 Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 entity'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 entity'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 Hamilton Health Care System, Inc. as of September 30, 2018 and 2017, and the results of its operations, changes in net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – New Accounting Pronouncement

As discussed in the notes to the financial statements, during the year ended September 30, 2018, Hamilton Health Care System, Inc. implemented new accounting guidance (Accounting Standards Update 2016-14, Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*) that requires changes to the classification of net assets, as well as increases to footnote disclosures over liquidity and financial performance. As required, these changes have been applied to amounts previously reported as of and for the year ended September 30, 2017. Our opinion is not modified with respect to this matter.

Dixon Hughes Goodman LLP

**Atlanta, Georgia
December 21, 2018**

HAMILTON HEALTH CARE SYSTEM, INC.



AUDITED CONSOLIDATED FINANCIAL STATEMENTS

for the years ended September 30, 2018 and 2017

HAMILTON HEALTH CARE SYSTEM, INC.

CONSOLIDATED BALANCE SHEETS

September 30, 2018 and 2017

ASSETS

	<u>2018</u>	<u>2017</u>
Current:		
Cash and cash equivalents	\$ 19,231,788	\$ 19,339,515
Accounts receivable, net of allowance for doubtful accounts of \$68,182,000 and \$59,666,000 in 2018 and 2017, respectively	33,874,592	30,366,175
Inventories	4,859,453	4,260,110
Other assets	<u>14,944,673</u>	<u>10,826,994</u>
Total current assets	<u>72,910,506</u>	<u>64,792,794</u>
Pledges receivable	<u>6,898,392</u>	<u>4,630,954</u>
Investments:		
Marketable securities	500,023,521	485,829,758
Board designated endowment fund	11,158,115	10,550,387
Board designated deferred compensation	1,893,333	1,747,145
Land	<u>1,486,645</u>	<u>1,486,645</u>
	<u>514,561,614</u>	<u>499,613,935</u>
Investments limited as to use:		
Under trust agreement for liability claims	8,048,014	7,619,431
Series 2017 project fund	71,556,580	-
Charitable trusts	811,730	820,978
Temporarily restricted by donor	3,868,112	2,442,446
By U.S. Department of Housing and Urban Development	<u>511,930</u>	<u>443,400</u>
	<u>84,796,366</u>	<u>11,326,255</u>
Investments permanently restricted by donor	<u>203,190</u>	<u>203,190</u>
Property, plant and equipment:		
Land and improvements	28,715,816	19,034,422
Buildings and improvements	233,190,064	214,080,728
Equipment	172,968,386	164,919,227
Construction in progress	<u>43,290,494</u>	<u>14,107,103</u>
	478,164,760	412,141,480
Accumulated depreciation	<u>(258,120,921)</u>	<u>(242,576,527)</u>
	<u>220,043,839</u>	<u>169,564,953</u>
Investment-Health One Alliance, LLC	<u>31,265,503</u>	<u>9,029,721</u>
Other long-term assets	<u>1,353,499</u>	<u>1,566,802</u>
	<u>\$ 932,032,909</u>	<u>\$760,728,604</u>

The accompanying notes are an integral part
of the consolidated financial statements.

HAMILTON HEALTH CARE SYSTEM, INC.

CONSOLIDATED BALANCE SHEETS (CONTINUED)

September 30, 2018 and 2017

LIABILITIES AND NET ASSETS

	<u>2018</u>	<u>2017</u>
Current:		
Current maturities of long-term debt	\$ 4,895,215	\$ 4,658,986
Accounts payable	23,288,220	14,546,138
Accrued liabilities	<u>18,978,637</u>	<u>18,362,811</u>
Total current liabilities	<u>47,162,072</u>	<u>37,567,935</u>
Deferred support	917,707	987,543
Deferred compensation	642,304	836,901
Resident deposits	4,147,979	3,968,216
Accrued liability claims and other	7,426,119	5,990,078
Long-term debt, net of current maturities	<u>208,386,859</u>	<u>121,042,578</u>
Total liabilities	<u>268,683,040</u>	<u>170,393,251</u>
Net assets:		
Without donor restrictions	650,637,941	581,243,161
With donor restrictions	<u>12,711,928</u>	<u>9,092,192</u>
Total net assets	<u>663,349,869</u>	<u>590,335,353</u>
	<u>\$932,032,909</u>	<u>\$760,728,604</u>

The accompanying notes are an integral part
of the consolidated financial statements.

HAMILTON HEALTH CARE SYSTEM, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

for the years ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Net assets without donor restrictions:		
Excess of revenues over expenses	\$ 69,394,780	\$ 63,469,048
Net assets, beginning of year	<u>581,243,161</u>	<u>517,774,113</u>
Net assets, end of year	<u>\$650,637,941</u>	<u>\$581,243,161</u>
Net assets with donor restrictions:		
Restricted contributions	\$ 5,270,308	\$ 2,281,605
Change in value of restricted split interest trust agreements	(48,160)	97,823
Increase in provision for uncollectible pledges	(285,985)	(77,555)
Net investment income	187,233	301,872
Net assets released from restrictions	<u>(1,503,660)</u>	<u>(1,585,198)</u>
Increase in restricted net assets	3,619,736	1,018,547
Net assets, beginning of year	<u>9,092,192</u>	<u>8,073,645</u>
Net assets, end of year	<u>\$ 12,711,928</u>	<u>\$ 9,092,192</u>

The accompanying notes are an integral part
of the consolidated financial statements.

HAMILTON HEALTH CARE SYSTEM, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

for the years ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Unrestricted revenues, gains and other support:		
Patient service revenue, net of contractual adjustments and charity care	\$385,340,619	\$359,316,654
Provision for doubtful accounts	<u>(72,305,995)</u>	<u>(68,080,253)</u>
Patient service revenue, net	313,034,624	291,236,401
Investment income, net	26,856,435	40,456,446
Gain in Health One Alliance, LLC	22,235,782	1,894,351
Net assets released from restriction	1,503,660	1,585,198
Other	<u>18,726,870</u>	<u>18,666,911</u>
Total revenues, gains and other support	<u>382,357,371</u>	<u>353,839,307</u>
Expenses:		
Salaries, wages and benefits	175,343,125	163,255,866
Supplies and utilities	51,257,330	47,062,712
Purchased services	26,837,760	24,414,808
Other	28,090,903	26,315,826
Professional fees	10,340,033	9,310,036
Depreciation and amortization	15,646,236	16,774,297
Interest	<u>5,948,379</u>	<u>4,101,869</u>
Total expenses	313,463,766	291,235,414
Reimbursement from Whitfield County	<u>(370,000)</u>	<u>(300,000)</u>
Net expenses	<u>313,093,766</u>	<u>290,935,414</u>
Income from operations	69,263,605	62,903,893
Nonoperating gains:		
Gain on disposal of assets, net	<u>131,175</u>	<u>140,846</u>
Excess of revenues, gains and other support over expenses from continuing operations	<u>69,394,780</u>	<u>63,044,739</u>
Gain on discontinued operations, net	<u>-</u>	<u>424,309</u>
Excess of revenues, gains and other support over expenses	<u>\$ 69,394,780</u>	<u>\$ 63,469,048</u>

The accompanying notes are an integral part of the consolidated financial statements.

HAMILTON HEALTH CARE SYSTEM, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the years ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ 73,014,516	\$ 64,487,595
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	15,646,236	16,774,297
Net realized and unrealized gains from trading Securities	(18,204,403)	(35,148,170)
Amortization of issuance premium on long-term debt	(537,545)	(466,858)
Debt issuance cost amortization	217,492	189,566
Gain on disposal of assets	(131,175)	(140,846)
Gain in investment-Health One Alliance, LLC	(22,235,782)	(1,894,351)
Gain on discontinued operations	-	(424,309)
Increase in allowance for doubtful accounts	8,515,537	9,746,418
Increase in accounts receivable	(12,023,954)	(15,484,489)
Increase in inventories	(599,343)	(56,864)
Increase in other current assets	(3,878,750)	(689,592)
Increase in pledges receivable	(2,523,318)	(1,024,715)
Increase in accounts payable and accrued liabilities	9,357,908	3,435,331
Decrease in deferred support	(69,836)	(69,836)
Decrease in deferred compensation	(194,597)	(183,292)
Increase in accrued liability claims and other	<u>1,452,992</u>	<u>1,447,045</u>
Net cash provided by operating activities	<u>47,805,978</u>	<u>40,496,930</u>
Cash flows from investing activities:		
Purchase of property and equipment, net	(66,136,469)	(29,698,847)
Decrease (increase) in investments, net	2,967,875	(2,387,685)
Increase in investments limited as to use, net	(73,181,262)	(156,133)
Proceeds from sale of assets	142,522	254,453
Proceeds from discontinued operations	-	424,309
Increase in investment Health One Alliance	-	(931,305)
Decrease (increase) in other long-term assets	<u>213,303</u>	<u>(3,950)</u>
Net cash used by investing activities	<u>(135,994,031)</u>	<u>(32,499,158)</u>

The accompanying notes are an integral part of the consolidated financial statements.

HAMILTON HEALTH CARE SYSTEM, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

for the years ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from financing activities:		
Proceeds from resident deposits	\$ 1,084,118	\$ 1,100,043
Refund of resident deposits	(904,355)	(634,267)
Increase in debt issuance costs	(1,260,588)	(246,705)
Proceeds from long-term debt	93,719,084	-
Repayment of long-term debt	<u>(4,557,933)</u>	<u>(4,462,806)</u>
Net cash provided (used) by financing activities	<u>88,080,326</u>	<u>(4,243,735)</u>
(Decrease) increase in cash and cash equivalents	(107,727)	3,754,037
Cash and cash equivalents, beginning of year	<u>19,339,515</u>	<u>15,585,478</u>
Cash and cash equivalents, end of year	<u>\$ 19,231,788</u>	<u>\$19,339,515</u>

The accompanying notes are an integral part
of the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization: Hamilton Health Care System, Inc. (the System) was organized in May, 1983 as a tax-exempt corporation as described in 501(c)(3) of the Internal Revenue Code of 1986, as amended. The System maintains control over affiliates including: Dalton Senior Housing, Inc., D/B/A Whitfield Commons (DSH) and Whitfield Place, Inc. (WP), providers of housing to low income seniors and handicapped individuals; Hamilton Emergency Medical Services, Inc. (HEMS), which operates Whitfield Emergency Medical Services; HLTC, Inc. (HLTC), a long-term care services provider; Hamilton Medical Center, Inc. (HMC), which operates Hamilton Medical Center hospital; Murray Medical Center, Inc. (MMCI), which operated Murray Medical Center hospital until January 31, 2012; Royal Oak Community, Ltd. (Royal Oaks), a retirement community; and Whitfield Healthcare Foundation, Inc., a philanthropic organization. Hamilton Ambulatory Surgery Center, Inc. (HASC) and Hamilton Physician Group, Inc. are controlled affiliates of HMC. The trustees and officers of the controlled affiliates are elected and appointed by the Board of Trustees of the System.

Consolidation: The consolidated financial statements include the accounts of the System and controlled affiliates. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates: The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents: Cash and cash equivalents consist of cash on hand, deposits with banks, and investments in short-term United States Treasury obligations and repurchase agreements backed by such obligations, excluding amounts limited as to use. The System has not experienced any significant losses on these investments.

Cash paid during 2018 and 2017 for interest was \$6,748,395 and \$4,080,920, respectively.

Inventories: Inventories are valued at the lower of cost (first-in, first-out) or market, and consist of medical and other supplies.

Investments and Investments Limited as to Use: Investments in marketable debt securities and equities are recorded at fair value. Realized and unrealized gains and losses for trading securities are included in excess of revenues over expenses.

Investments limited as to use include funds restricted in accordance with regulations established by the U.S. Department of Housing and Urban Development (HUD) for property replacement, insurance, security deposits and other expenditures. These funds are generally invested in savings or money market accounts and are held at various financial institutions.

Debt Issuance Costs: Debt issuance costs are amortized over the term of the related debt using the interest method and shown as a reduction in long-term debt.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Property, Plant and Equipment: Property, plant and equipment acquisitions are recorded at cost. The value of contributed land and buildings is established by appraised fair market value. Depreciation is determined using the straight-line method over the estimated useful lives of the assets. Gains or losses resulting from sale or disposal of assets are included in nonoperating gains and losses if significant.

Resident Deposits: Resident deposits, which are refundable no later than 90 days after termination of the residency agreement, are required for tenants to reside at Royal Oaks.

Deferred Support: WP obtained a capital advance of \$2,454,100 from HUD for construction of its facility. The capital advance is secured by a mortgage note and bears no interest. The net book value of the facility was \$1,117,496 and \$1,187,844 at September 30, 2018 and 2017, respectively. No repayment of the capital advance is required as long as the facility is used for its intended purpose through 2035. The capital advance is being amortized over the estimated useful life of the facility.

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

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for board-designated endowment to be used for strategic purposes as determined by the board.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The System reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Cost of Borrowing: Interest cost incurred during a period of construction related to borrowed funds is included in property, plant and equipment.

Charity Care: HMC treats all patients regardless of their ability to pay. Since the System does not anticipate payment for these services, charity care is not recognized as patient service revenue.

Patient Service Revenue, Net: Patient service revenue, net reflects the estimated net realizable amounts from patients and third-party payors.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Income Taxes: The System has adopted procedures for determining the existence of uncertain tax positions, and the related timing and amount of their impact on the consolidated financial statements, and determined that there are no uncertain tax positions as of September 30, 2018 and 2017.

Other Long-Term Assets: Other long-term assets include goodwill of \$640,000 as of September 30, 2018 and 2017 which is evaluated for impairment annually. Also, on August 1, 2015 an equity investment of \$849,436 was made in a tax-exempt group distribution cooperative whose primary function is the provision of medical supplies. This equity investment decreased \$251,639 in 2018 and was unchanged in 2017 to reflect the System's share of earnings. The equity investment balance at September 30, 2018 and 2017 was \$651,463 and \$903,102, respectively.

Prior Year Reclassifications and Adoption of New Accounting Standard Update: Certain reclassifications have been made to the fiscal year 2017 consolidated financial statements and footnote disclosures to conform to the 2018 presentation due to the early adoption of a new accounting standard update on the presentation of financial statements of not-for-profit entities. The provisions of the update are intended to simplify and improve the presentation of net assets, as well as information regarding liquidity and financial performance. Amounts previously reported as unrestricted net assets are now classified as net assets without donor restrictions. Amounts previously reported as temporarily restricted net assets and permanently restricted net assets are now classified as net assets with donor restrictions. These reclassifications had no impact on the total net assets or total changes in net assets in the accompanying consolidated financial statements.

Fair Value of Financial Instruments: Fair value is defined under accounting principles generally accepted in the United States as an exit price, representing 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. A three-level fair value hierarchy prioritizes the inputs used to measure fair value with the highest priority given to unadjusted quoted prices in active markets (Level One) and the lowest priority given to unobservable inputs (Level Three).

Certain financial assets and liabilities of the System are measured at fair value on a recurring basis. A description of the valuation methodologies used for instruments measured at fair value in accordance with the three-level fair value hierarchy follows:

Level One – Values based on unadjusted quoted prices for identical assets or liabilities in an active market that the System has the ability to access.

Level Two – Values based on pricing inputs which are either directly observable or that can be derived or supported from observable data. These inputs may include quoted prices for similar assets or liabilities in nonactive markets or pricing models whose inputs are observable for substantially the full term of the asset or liability.

Level Three – Values based on prices or valuation techniques that require inputs that are both significant to the fair value of the financial asset or financial liability and are generally less observable from objective sources.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Level One investments held by the System include common stocks and equity mutual funds that are traded in an active market. Level Two investments held by the System include U.S. government and corporate obligations which are valued using prices that are determined through observable market information such as quotes from less active markets and/or quoted prices of securities with similar characteristics. The System did not hold any Level Three securities as of September 30, 2018 and 2017.

The System's alternative investment funds are measured at net asset value as a practical expedient for fair value and are accordingly excluded from the fair value hierarchy. These funds include ownership interests in limited liability partnerships, limited liability companies, and commodities through a limited partnership. Underlying assets of these investment funds include mortgage-backed securities, asset-backed securities and global equity fund of funds. Alternative investments may have less liquidity, a stale quoted price, or varying prices from independent sources. The System is subject to certain limitations on redemption of various investments. Otherwise, all funds are redeemable at net asset value as of the redemption date.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The hierarchy of investments measured at fair value on a recurring basis as of September 30, 2018 is as follows:

	<u>Level One</u>	<u>Level Two</u>	<u>Total</u>
Investments and investments limited as to use:			
Cash and cash equivalents	\$ 8,367,495	-	\$ 8,367,495
Equities			
Consumer goods	25,371,547	-	25,371,547
Energy and utilities	15,591,159	-	15,591,159
Financials	36,168,168	-	36,168,168
Healthcare	35,553,142	-	35,553,142
Industrials and materials	35,264,154	-	35,264,154
Technology	44,803,552	-	44,803,552
Corporate obligations			
Domestic	-	68,922,517	68,922,517
U.S. government obligations			
Treasury/agency	-	52,862,809	52,862,809
Mortgage-backed	-	63,238,081	63,238,081
Asset-backed	-	15,110,495	15,110,495
Other	-	21,086,100	21,086,100
	<u>\$201,119,217</u>	<u>221,220,002</u>	422,339,219
Alternative investments measured at net asset value			<u>175,735,306</u>
Total investments and investments limited as to use			<u>\$598,074,525</u>

HAMILTON HEALTH CARE SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

The hierarchy of investments measured at fair value on a recurring basis as of September 30, 2017 is as follows:

	<u>Level One</u>	<u>Level Two</u>	<u>Total</u>
Investments and investments limited as to use:			
Cash and cash equivalents	\$ 11,052,063	-	\$ 11,052,063
Equities			
Consumer goods	22,552,747	-	22,552,747
Energy and utilities	10,078,939	-	10,078,939
Financials	29,515,725	-	29,515,725
Healthcare	25,674,362	-	25,674,362
Industrials and materials	29,121,463	-	29,121,463
Technology	43,428,253	-	43,428,253
Corporate obligations			
Domestic	-	45,539,435	45,539,435
U.S. government obligations			
Treasury/agency	-	31,358,943	31,358,943
Mortgage-backed	-	18,956,190	18,956,190
Asset-backed	-	10,228,673	10,228,673
Other	-	<u>21,581,844</u>	<u>21,581,844</u>
	<u>\$171,423,552</u>	<u>127,665,085</u>	299,088,637
Alternative investments measured at net asset value			<u>210,568,098</u>
Total investments and investments limited as to use			<u>\$509,656,735</u>

Investments include accumulated unrealized gains of \$65,802,561 and \$54,129,995 as of September 30, 2018 and 2017, respectively.

Certain of the System's alternative investments have imposed liquidity restrictions that limit the timing and method of redemption of the System's interest to specific periods ending after September 30, 2018. Approximately \$58,045,000 of the alternative investments measured at net asset value have such restrictions that limit redemption to future periods ranging from 2019 to 2027. The System has committed to invest approximately \$25,030,000 in certain investments through August 15, 2027.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Investment income and gains and losses for investments and investments limited as to use are comprised of the following for the years ended September 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Interest and dividend income	\$10,614,763	\$ 7,095,758
Net realized gains on sales of trading securities	6,589,984	7,238,721
Net unrealized gains on trading securities	11,614,419	27,909,449
Investment fees	<u>(1,962,731)</u>	<u>(1,787,482)</u>
	<u>\$26,856,435</u>	<u>\$40,456,446</u>

The composition of investments and investments limited as to use is not materially different. Contributed land and buildings are included in investments, but excluded from the fair value table, and amount to \$1,486,645 at September 30, 2018 and 2017.

The carrying values of accounts receivable, accounts payable and long-term debt, as reported in the consolidated financial statements, approximate their respective fair values.

Donor-Restricted Grants and Contributions: The System records contributions received, including unconditional promises to give, as revenue in the period received at their fair value. Conditional promises to give are recognized when the conditions are substantially met and contributions with donor-imposed restrictions are reported as restricted support.

Unconditional pledges to give cash and other assets, including charitable trusts, are reported at fair value at the date the pledge is made. Grants and pledges received with donor restrictions that limit the use of the donated assets are reported as restricted support. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, restricted net assets are reclassified as unrestricted net assets and reported as net assets released from restrictions.

Subsequent Events: The System has evaluated activities subsequent to September 30, 2018 and determined that as of December 21, 2018, the date the consolidated financial statements were issued, there are no reportable subsequent events.

HAMILTON HEALTH CARE SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

PATIENT SERVICE REVENUE, NET:

Patient service revenue, net is determined as follows for the years ended September 30:

	<u>2018</u>	<u>2017</u>
Charges, at established rates	\$1,144,614,778	\$1,051,510,204
Contractual adjustments	(710,825,337)	(646,891,225)
Charity care	<u>(48,448,822)</u>	<u>(45,302,325)</u>
	385,340,619	359,316,654
Provision for doubtful accounts	<u>(72,305,995)</u>	<u>(68,080,253)</u>
Patient service revenue, net	<u>\$ 313,034,624</u>	<u>\$ 291,236,401</u>

The System affiliates maintain records to identify and monitor charges associated with the level of charity care provided.

Affiliates have agreements with third-party payors that provide for payments at amounts different from established rates. Contractual adjustments represent the difference between established charges and the estimated reimbursable amounts from third-party payors. Affiliate revenues from the Medicare and Medicaid programs accounted for approximately 63% of charges in both 2018 and 2017.

Inpatient acute and emergency rescue services provided to Medicare and Medicaid beneficiaries are reimbursed based on prospectively determined rates. Outpatient Medicare services are reimbursed based on prospectively determined rates per visit, and outpatient Medicaid services are reimbursed based on cost subject to certain limitations. Such determinations are subject to review and retrospective adjustment by third-party payors. Final settlement has been reached for all Medicare years prior to 2013 and Medicaid years prior to 2016.

Long-term care services provided to Medicare beneficiaries are reimbursed based on prospectively determined rates per day. Reimbursement for services provided to Medicaid beneficiaries is based on cost subject to certain limitations. Such determinations are subject to review and retrospective adjustment by third-party payors. Final settlement for long-term care services has been reached for all Medicare and Medicaid years prior to 2018.

In the opinion of management, adequate provision has been made for any retrospective adjustments that may result from such reviews. Any difference between estimated settlements and final determinations are reflected in the year finalized. The System has recorded amounts due to Medicare and Medicaid programs of \$3,005,000 and \$2,988,000 in accounts receivable as of September 30, 2018 and 2017, respectively. Patient service revenue, net increased by approximately \$782,000 and \$1,551,000 for the years ended September 30, 2018 and 2017, respectively, due to changes in estimates related to prior-year settlements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

PATIENT SERVICE REVENUE, NET (CONTINUED):

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Affiliates believe that they are in compliance with all applicable laws and regulations and are not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, 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.

PATIENT ACCOUNTS RECEIVABLE:

HMC, under its financial assistance and uninsured discount policies, provides care without charge or at discounted rates to uninsured patients. The estimated cost of services provided under HMC's financial assistance policy based on applying an estimated cost to charge ratio to the amount of applicable charges was \$11,831,000 and \$11,099,000 for the years ended September 30, 2018 and 2017, respectively. HMC received indigent care payments from the Dalton-Whitfield Indigent Trust and the Dalton-Whitfield Additional Trust of \$4,000,000 in each of the years ended September 30, 2018 and 2017, reflected in other revenues.

For uninsured and underinsured patients that do not qualify for financial assistance, HMC recognizes revenue on the basis of established rates, discounted according to policy for services rendered. Historical experience has shown a significant proportion of HMC's uninsured patients, in addition to a growing proportion of HMC's insured patients, will be unable or unwilling to pay for their responsible amounts for the services provided. In order to estimate the net realizable value of the revenues and accounts receivable associated with third-party payors and uninsured patients, management regularly assesses the adequacy of the allowance and provision for doubtful accounts based upon business and economic considerations, trends in healthcare coverage, historical write-off experience and other collection trends. Based on these historical analyses, HMC records a provision and allowance for doubtful accounts for third-party and uninsured patient accounts receivable balances for which the patient is responsible.

HAMILTON HEALTH CARE SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

LONG-TERM DEBT:

The long-term debt at September 30 consisted of:

	<u>2018</u>	<u>2017</u>
Mortgage note payable, HUD approved lender, interest at 4.16% at September 30, 2018 and 2017, respectively, payable through 2041	\$1,126,665	\$1,155,651
Development Authority of City of Dalton Revenue Certificates, Series 1996, interest at various rates from 3.65% to 5.5% payable through 2026	21,845,000	24,845,000
Development Authority of City of Dalton Subordinated Participating Refunding Revenue Certificates, Series 2003, variable interest rate with maximum of 15% (15% at September 30, 2018 and 2017) payable in 2023	1,000,000	1,000,000
Development Authority of City of Dalton Refunding Revenue Bonds, Series 2012A interest at various rates from 2.0% to 5.0% payable through 2028	37,540,000	39,170,000
Development Authority of City of Dalton Refunding Revenue Bonds, Series 2012B variable interest rate (2.05% and 1.44% at September 30, 2018 and 2017, respectively) payable through 2029	2,970,000	2,970,000
Development Authority of City of Dalton Refunding Revenue Bonds, Series 2012C variable interest rate (2.05% and 1.44% at September 30, 2018 and 2017, respectively) payable through 2042	53,620,000	53,620,000
Development Authority of City of Dalton Subordinate Participating Refunding Revenue Certificates, Series 2016 variable interest rate with maximum of 9.30% (7.18% at September 30, 2018) payable through 2026	1,155,000	1,155,000

HAMILTON HEALTH CARE SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

LONG-TERM DEBT (CONTINUED):

Dalton-Whitfield County Joint Development Authority Revenue Bonds, Series 2017, interest at various Rates from 3.0% to 5.0% payable through 2048	\$ <u>90,000,000</u>	\$ <u> -</u>
	209,256,665	123,915,651
Plus Series 2012A bond premium	2,832,610	3,269,102
Plus Series 2017 bond premium	3,719,084	-
Less current maturities	(4,895,215)	(4,658,986)
Less unamortized issuance costs	<u>(2,526,285)</u>	<u>(1,483,189)</u>
	<u>\$208,386,859</u>	<u>\$121,042,578</u>

Principal maturities of the long-term debt are due in aggregate annual installments as follows:

2019	\$ 4,895,215
2020	5,141,496
2021	5,422,831
2022	5,709,224
2023	6,010,675
2024 and thereafter	<u>182,077,224</u>
	<u>\$209,256,665</u>

On December 1, 1996, the Development Authority of City of Dalton (Development Authority) issued tax-exempt Revenue Certificates, Series 1996, (Series 1996 Certificates) in the amount of \$80,000,000 payable through 2026 with interest at various rates from 3.65% to 5.5%. Pursuant to a Loan Agreement between Development Authority and HMC, both HMC and the System became obligated issuers under a Master Trust Indenture. The proceeds were used to refinance the \$56,000,000 term loan, finance and reimburse the cost of certain additions, extensions and improvements at HMC and pay for cost of issuance. Under a financial guaranty insurance policy on the Series 1996 Certificates, the obligated issuers, HMC and the System, must maintain certain performance conditions and may issue additional parity certificates under certain conditions.

On June 1, 2003, Development Authority issued tax-exempt Subordinated Participating Refunding Revenue Certificates, Series 2003 (Series 2003 Certificates) in the amount of \$1,000,000 payable on June 1, 2023. Interest is calculated at the rate equal to the lesser of 15% or 1.6% of Net Patient Service Revenue at HASC, as defined. Pursuant to a Loan Agreement between Development Authority and HMC, both HMC and the System became obligated issuers. The proceeds were used to refund \$1,000,000 in principal amount of Series 1996 Certificates. Hamilton Surgeons' Tax-Exempt Bond, LLC (Bond LLC) entered into a Purchase Agreement with HMC and the System for the purchase of the Series 2003 Certificates and offered units in the Bond LLC to qualified physicians. This liability was transferred from HMC to HASC on December 1, 2012.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

LONG-TERM DEBT (CONTINUED):

On September 1, 2003, Development Authority issued tax-exempt Variable Rate Demand Revenue Certificates, Series 2003B (Series 2003B Certificates) in the amount of \$55,000,000 payable through August 15, 2033. Pursuant to a Loan Agreement under the Master Trust Indenture between Development Authority and HMC, the proceeds were used to finance and reimburse HMC for certain capital improvements at HMC and for the cost of issuance. The Series 2003B Certificates were secured by an irrevocable Letter of Credit in the amount of \$55,632,877 between HMC, the System and a financial institution under a Reimbursement Agreement.

On June 22, 2006, DSH entered into a 6.1% mortgage note payable with a HUD approved lender in the amount of \$1,355,100 payable through July 1, 2041. The proceeds were used to pay off a HUD mortgage note payable and finance certain capital improvements, HUD required deposits and cost of issuance. Effective May 21, 2014 the note was modified to reduce the interest rate to 4.16%. All additional terms of the note were unchanged.

On December 5, 2012, \$19,570,000 of Series 1996 Certificates, \$20,000,000 of Series 2003B Certificates and \$14,310,000 of Development Authority Revenue Certificates, Series 1998, which were used to finance the acquisition of the four skilled nursing homes operated by HLTC, were refunded in order to achieve debt service savings with tax-exempt Development Authority 2012A Refunding Revenue Bonds payable through 2028 with interest at various rates from 2% to 5%. A supporting note receivable was executed whereby HLTC will reimburse HMC semiannually for the principal and interest payments required.

Also, on December 5, 2012 all of the outstanding Residential Care Facilities for the Elderly Authority of Whitfield County tax-exempt variable rate bonds, which were used to finance the acquisition, construction and equipping of the Royal Oaks facility, were redeemed and replaced with Development Authority of the City of Dalton Refunding Revenue Bonds Series 2012B, a tax-exempt variable rate obligation of both HMC and the System purchased directly by a financial institution, payable through 2042. A supporting note receivable was executed whereby Royal Oaks will reimburse HMC semiannually for the principal and interest payments required.

In addition, on December 5, 2012, the remaining Series 2003B Certificates were redeemed and replaced with a tax-exempt variable rate obligation purchased directly by a financial institution (Series 2012C Bonds) payable through 2042. Accordingly, the Letter of Credit was cancelled on December 5, 2012. The Series 2012C Bonds included \$20,000,000 of additional proceeds to be used for certain additions, renovations and improvements at HMC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

LONG-TERM DEBT (CONTINUED):

On November 14, 2016, Development Authority issued tax-exempt Subordinated Participating Refunding Revenue Certificates, Series 2016 (Series 2016 Certificates) in the amount of \$1,155,000 payable on June 1, 2026. Interest is calculated at the rate equal to the lesser of 9.3% or 0.71% of Net Patient Service Revenue at HASC, as defined. Pursuant to a Loan Agreement between Development Authority and HASC, HASC became the obligated issuer. The proceeds were used to refund \$1,155,000 in principal amount of Series 1996 Certificates. Bond LLC entered into a Purchase Agreement with HASC for the purchase of the Series 2016 Certificates and offered units in the Bond LLC to qualified physicians.

On December 13, 2017, Dalton-Whitfield County Joint Development Authority (Georgia) issued tax-exempt Variable Rate Revenue Bonds, Series 2017 in the amount of \$90,000,000 payable through August 15, 2048. Pursuant to a Loan Agreement under the Master Trust Indenture between Development Authority and HMC, the proceeds were used to finance and reimburse HMC for certain capital improvements at HMC and for the cost of issuance.

HLTC, INC. MANAGEMENT AGREEMENT:

HLTC was organized in July, 1997, as a controlled affiliate of the System to provide long-term care services. HLTC was granted tax-exemption as described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. HLTC purchased four nursing homes located in Dalton, Georgia from Care More, Inc. (Care More). HLTC also entered into Management Agreements (Agreement) with Care More to provide management services for the homes. The current Agreement between HLTC and Care More, which merged into Health Scholarships, Inc. and operates as Ethica Health and Retirement Communities (Ethica), will continue through December 31, 2018. In June, 2018, HLTC notified Ethica that HLTC will assume management services of the homes effective January 1, 2019 and, accordingly, the Agreement will not be amended or revised to extend beyond December 31, 2018.

MURRAY MEDICAL CENTER LEASE:

MMCI was organized February 18, 1998 and pursuant to an Asset Purchase Agreement purchased the assets, including accounts receivable, inventory and certain equipment of Chatsworth Hospital Corporation (CHC), a subsidiary of Columbia/HCA, on March 6, 1998 for \$4,610,000. Additionally, the lease of the Murray Medical Center facility between CHC and the Hospital Authority of Murray County (Hospital Authority) was assigned to MMCI. MMCI was operated as an acute care hospital until January 31, 2012, when MMCI and the System entered into a Termination of Lease Agreement and Asset Transfer Agreement with Hospital Authority whereby substantially all assets and liabilities of MMCI reverted to Hospital Authority. As of September 30, 2017, no accruals for liability and worker's compensation claims, which are determined by an independent actuary, are required for MMCI. Accordingly, no further results from discontinued operations are anticipated.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

EMERGENCY RESCUE SERVICES MANAGEMENT AGREEMENT:

On January 1, 1986, HEMS and Whitfield County (County) entered into an Emergency Rescue Services Management Agreement (Original Agreement) which grants HEMS the sole and exclusive right to supervise, manage and operate an ambulance and emergency rescue service in Whitfield County, and provides for an annual reimbursement from the County to HEMS for operating expenses and equipment purchases. The Original Agreement currently extends through December 31, 2018. Under the terms of the Original Agreement the County reimbursement is \$300,000 annually. On September 10, 2018, HEMS and the County entered into a new Agreement for Emergency Medical Services (New Agreement), effective January 1, 2019 and extending through December 31, 2020, with provisions to extend for additional two-year periods through December 31, 2030 unless either party advises the other of its intent to terminate the New Agreement. The New Agreement includes an annual reimbursement from the County to HEMS of \$250,000. All other terms of the New Agreement are consistent with the Original Agreement.

INVESTMENT-HEALTH ONE ALLIANCE AND ALLIANT:

HMC and Physician Health Services, Inc. (PHS) were the initial members and are equal owners of Health One Alliance, LLC (HOA), a limited liability company that began operations in April 1995 as a physician hospital organization. HOA developed a managed care network of providers in northwest Georgia and contracts with employers to provide healthcare services.

In 1998, HOA acquired a 25% ownership interest in Alliant Health Plans, Inc. (Alliant) and in June 2001, through the withdrawal of other Alliant owners, increased ownership of Alliant to 100%. Alliant is a nonprofit provider-sponsored healthcare plan that contracts to provide hospital and medical services to members.

Summarized financial data of HOA, including the unaudited consolidated operations of Alliant, for the twelve months ended September 30, 2018 and 2017 is as follows:

	Unaudited Twelve Months Ended <u>September 30, 2018</u>	Unaudited Twelve Months Ended <u>September 30, 2017</u>
Total assets	\$137,941,126	\$59,629,935
Total shareholders' equity	\$ 62,531,006	\$18,059,442
Net gain	\$ 44,471,564	\$ 3,788,702

The investment in HOA is accounted for under the equity method and, accordingly, HMC recognized its share of HOA's gain of \$22,235,782 and \$1,894,351 in 2018 and 2017, respectively. The net investment in HOA was \$31,265,503 and \$9,029,721 at September 30, 2018 and 2017, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

HAMILTON AMBULATORY SURGERY CENTER, INC.:

HMC, on September 26, 2001, organized HASC as a controlled affiliate and tax-exempt corporation as described in Section 501(c)(3) of the Internal Revenue Code of 1986. HASC operates an ambulatory surgery center facility (Surgery Center) with four operating rooms, which opened in November 2001, near the HMC acute-care hospital. The Surgery Center was constructed by HMC under a Certificate of Need (CON) from the State of Georgia with further CON approval in June 2002 granting HASC, rather than HMC, a license to operate the Surgery Center as freestanding.

On November 9, 2001, HMC entered into a Management Services Contract (Contract) with an outside vendor to provide management services for operation of the Surgery Center. The Contract was transferred on October 1, 2002 to Hamilton Surgeons' Management Company, LLC (Management Company) to provide comprehensive management services for operation of the Surgery Center under a Management and Clinical Supervisor Agreement which has been renewed through August 31, 2019. Many of the Management Company responsibilities are fulfilled through a contract with an outside vendor. The total management fees were \$475,000 for the years ended September 30, 2018 and 2017.

LIABILITY CLAIMS:

The System and controlled affiliates are, from time to time, subject to liability claims and suits arising in the ordinary course of business. Since January 1988, the System and certain affiliates have been insured against such claims by a commercial insurance carrier on a claims-made basis. The coverage includes a self-insured retention of \$2,000,000 per occurrence and \$6,000,000 aggregate per year through April 1, 2019, and the System intends to continue to renew or replace the current policy with equivalent insurance.

An independent actuary is engaged to determine the amount of accrued liability claims and funding requirements. In conjunction, investments are maintained in the amount of \$8,048,014 and \$7,619,431 as of September 30, 2018 and 2017, respectively, whose use is limited under a trust agreement for liability claims and has accrued liability claims of \$5,376,004 and \$4,062,437 as of September 30, 2018 and 2017, respectively, which have been discounted at 3.5%. It is reasonably possible that actual losses may exceed management's estimates by a material amount. Under terms of the trust agreement, the fund is committed to the payment of liability claims and expenses.

RETIREMENT PLAN:

Under a 403(b) matching plan, the System matches 100% of employee contributions up to 5% of salary. Full-time employees are eligible if they are 21 years of age and have at least one year of continuous service. Expense associated with the retirement plans was \$4,453,361 and \$4,166,743 in 2018 and 2017, respectively.

HAMILTON HEALTH CARE SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

PLEDGES RECEIVABLE:

Outstanding pledges receivable from various individuals and corporations, with certain time and use restrictions, are set forth in the following table and discounted to their present value using a rate of 5% at September 30, 2018 and 2017.

	<u>2018</u>	<u>2017</u>
Pledges due:		
In less than one year	\$ 1,577,640	\$ 1,338,711
In one to five years (future value)	4,586,517	4,388,177
In more than five years (future value)	<u>6,067,940</u>	<u>2,319,171</u>
	12,232,097	8,046,059
Discounts on pledges greater than one year	(2,790,284)	(1,396,598)
Allowance for doubtful pledges	<u>(965,781)</u>	<u>(679,796)</u>
	<u>\$ 8,476,032</u>	<u>\$ 5,969,665</u>

Discounted pledges receivable from a single donor, as of September 30, 2018, total \$5,584,606.

FUNCTIONAL EXPENSES:

The System affiliates provide and support various services within their geographic area. Other services include senior living services, ambulance services and fundraising. Expenses related to providing these services for the fiscal year ended September 30, 2018 are as follows:

	<u>Healthcare Services</u>	<u>General & Administrative</u>	<u>Other Services</u>	<u>Total</u>
Salaries, wages and benefits	\$128,464,095	\$42,269,177	\$4,609,853	\$175,343,125
Supplies & utilities	46,517,376	4,151,102	588,852	51,257,330
Purchased services	20,111,121	6,322,066	404,573	26,837,760
Other	20,636,927	6,640,255	813,721	28,090,903
Professional Fees	10,340,033	-	-	10,340,033
Depreciation and amortization	8,987,268	5,705,832	953,136	15,646,236
Interest	<u>3,523,897</u>	<u>2,369,136</u>	<u>55,346</u>	<u>5,948,379</u>
Total	<u>\$238,580,717</u>	<u>\$67,457,568</u>	<u>\$7,425,481</u>	<u>\$313,463,766</u>

HAMILTON HEALTH CARE SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

FUNCTIONAL EXPENSES (CONTINUED):

Expenses related to providing these services for the fiscal year ended September 30, 2017 are as follows:

	<u>Healthcare Services</u>	<u>General & Administrative</u>	<u>Other Services</u>	<u>Total</u>
Salaries, wages and benefits	\$118,154,722	\$40,543,292	\$4,557,852	\$163,255,866
Supplies & utilities	41,971,230	4,528,079	563,403	47,062,712
Purchased services	12,768,847	11,323,570	322,391	24,414,808
Other	16,494,906	8,884,850	936,070	26,315,826
Professional Fees	9,310,036	-	-	9,310,036
Depreciation and amortization	9,809,801	6,121,385	843,111	16,774,297
Interest	<u>2,431,254</u>	<u>1,613,825</u>	<u>56,790</u>	<u>4,101,869</u>
Total	<u>\$210,940,796</u>	<u>\$73,015,001</u>	<u>\$7,279,617</u>	<u>\$291,235,414</u>

COMMITMENTS:

The System and affiliates are obligated under contracts with certain outside service organizations. The related contracted services of approximately \$40,357,000 and \$14,642,000 were incurred in 2018 and 2017, respectively.

Future minimum contracted services for information technology, medical and management services and facility renovation with initial or remaining terms equal to or exceeding one year were as follows:

<u>Year ending September 30</u>	<u>Amount</u>
2019	\$48,575,000
2020	5,344,000
2021	2,681,000
2022	2,658,000
2023	2,764,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

CONCENTRATION OF CREDIT RISK:

Financial instruments that potentially subject the System to significant concentrations of credit risk consist of cash, cash equivalents and investments. Cash, cash equivalents and investments are maintained by the System in accounts with several financial institutions. The System performs periodic evaluations of the relative credit standing of those financial institutions that are considered in the System's investment strategy.

In addition, the System grants credit without collateral to its patients, most of whom are local residents with some insured under third-party payor agreements. The mix of receivables, excluding patient credit balances which have been reclassified to current liabilities, at September 30, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Medicare	30%	29%
Medicaid	8	8
Third-party payor	34	33
Patient	<u>28</u>	<u>30</u>
	<u>100%</u>	<u>100%</u>

LIQUIDITY AND AVAILABILITY OF RESOURCES:

Financial assets available for general expenditure, without donor or other restrictions limiting their use, within one year of the balance sheet date are reflected in the balance sheets as current assets and include the following balances at September 30, 2018:

Cash and cash equivalents	\$19,231,788
Accounts receivable, net of allowance for doubtful accounts of \$68,182,000	33,874,592
Other assets	<u>10,379,925</u>
Total	\$63,486,305

The System funds its operations primarily through services charges to patients.

Although the System does not intend to spend from the board-designated endowment of \$11,158,115 as of September 30, 2018, these amounts could be made available if necessary. At the discretion of System management, excess cash not needed for operating expenditures are invested in various investment funds.

HAMILTON HEALTH CARE SYSTEM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

NET ASSETS WITH DONOR RESTRICTIONS:

Net assets with donor restrictions are restricted for the following purposes or periods:

	<u>2018</u>	<u>2017</u>
<i>Subject to expenditure for specified purpose:</i>		
To assist with healthcare needs for the indigent	\$ 2,568,112	\$2,442,446
<i>Held in perpetuity:</i>		
Earnings to provide nursing scholarship assistance	203,190	203,190
<i>Subject to the passage of time:</i>		
Net assets held under split interest agreements	811,730	820,978
Promises to give that are restricted by donors by passage of time	<u>9,128,896</u>	<u>5,625,578</u>
	<u>9,940,626</u>	<u>6,446,556</u>
Total net assets with donor restrictions	<u>\$12,711,928</u>	<u>\$9,092,192</u>