Hamilton Medical Center, Inc.

Consolidated Financial Statements

Years Ended September 30, 2018 and 2017

DHG
DIXON HUGHES GOODMAN LLP

DIXON HUGHES GOODMAN LLP

Independent Auditors' Report

Board of Trustees
Hamilton Medical Center, Inc.
Dalton, Georgia

We have audited the accompanying consolidated financial statements of Hamilton Medical Center, 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 Medical Center, 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.

DIXON HUGHES GOODMAN LLP

Emphasis of Matter – New Accounting Pronouncement

As discussed in the notes to the financial statements, during the year ended September 30, 2018, Hamilton Medical Center, 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 MEDICAL CENTER, INC.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

for the years ended September 30, 2018 and 2017

HAMILTON MEDICAL CENTER, INC.

CONSOLIDATED BALANCE SHEETS

September 30, 2018 and 2017

ASSETS

	2018	2017
Current:		
Cash and cash equivalents	$ 13,635,991	$ 13,786,887
Accounts receivable, net of allowance for doubtful accounts of $67,237,000 and $58,921,000 in 2018 and 2017, respectively	29,600,568	26,329,447
Inventories	4,813,341	4,224,255
Other assets	13,187,892	9,181,344
Total current assets	61,237,792	53,521,933
Investments	325,670,739	306,106,928
Investments limited as to use:		
Under trust agreement for liability claims	6,491,326	6,131,648
Series 2017 project fund	71,556,580	-
	78,047,906	6,131,648
Property, plant and equipment:		
Land and improvements	25,799,152	16,197,636
Buildings and improvements	194,941,783	176,231,138
Equipment	165,393,416	157,880,849
Construction in progress	30,287,935	13,382,584
	416,422,286	363,692,207
Accumulated depreciation	(225,572,970)	(211,599,877)
	190,849,316	152,092,330
Investment-Health One Alliance, LLC	31,265,503	9,029,721
Note receivable-HLTC, Inc.	10,722,671	11,271,523
Note receivable-Royal Oak Community, Ltd.	2,970,000	2,970,000
Other long-term assets	1,353,499	1,566,802
	$ 702,117,426	$542,690,885

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

HAMILTON MEDICAL CENTER, INC.

CONSOLIDATED BALANCE SHEETS (CONTINUED)

September 30, 2018 and 2017

LIABILITIES AND NET ASSETS

	2018	2017
Current:		
Current maturities of long-term debt	$ 4,865,000	$ 4,630,000
Accounts payable	19,139,940	13,691,321
Accrued liabilities	15,852,969	15,402,363
Total current liabilities	39,857,909	33,723,684
Accrued liability claims and other	5,775,403	4,709,087
Long-term debt, net of current maturities	207,356,120	119,984,516
Total liabilities	252,989,432	158,417,287
Net assets:		
Net assets without donor restrictions	449,127,994	384,273,598
	$702,117,426	$542,690,885

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

HAMILTON MEDICAL CENTER, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

for the years ended September 30, 2018 and 2017

	2018	2017
Excess of revenues over expenses	$ 64,854,396	$ 53,559,958
Change in net assets	64,854,396	53,559,958
Net assets, beginning of year	384,273,598	330,713,640
Net assets, end of year	$449,127,994	$384,273,598

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

HAMILTON MEDICAL CENTER, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

for the years ended September 30, 2018 and 2017

	2018	2017
Unrestricted revenues, gains and other support:		
Patient service revenue, net of contractual adjustments and charity care	$355,894,899	$330,426,029
Provision for doubtful accounts	(72,244,691)	(68,080,253)
Patient service revenue, net	283,650,208	262,345,776
Investment income, net	16,996,457	24,710,885
Gain in Health One Alliance, LLC	22,235,782	1,894,351
Other	10,812,052	10,943,185
Total unrestricted revenues, gains and other support	333,694,499	299,894,197
Expenses:		
Salaries, wages and benefits	147,225,117	135,776,878
Supplies and utilities	47,104,645	43,014,814
Purchased services	22,771,065	20,309,563
Other	22,149,722	19,576,765
Professional fees	10,340,033	9,310,036
Depreciation and amortization	13,986,662	14,917,343
Interest	5,893,034	4,045,079
Total expenses	269,470,278	246,950,478
Income from operations	64,224,221	52,943,719
Nonoperating gains:		
Distribution from Whitfield Healthcare Foundation, Inc.	500,000	500,000
Gain on disposal of assets, net	130,175	116,239
Excess of unrestricted revenues, gains and other support over expenses	$ 64,854,396	$ 53,559,958

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

HAMILTON MEDICAL CENTER, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the years ended September 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ 64,854,396	$53,559,958
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	13,986,662	14,917,343
Net realized and unrealized gain from trading securities	(11,256,886)	(21,466,103)
Gain in investment-Health One Alliance, LLC	(22,235,782)	(1,894,351)
Debt issuance cost amortization	214,600	186,674
Amortization of issuance premium on long-term debt	(436,492)	(466,858)
Gain on disposal of assets	(130,175)	(116,239)
Increase in allowance for doubtful accounts	8,316,000	9,676,000
Increase in accounts receivable	(11,587,121)	(14,651,143)
Increase in inventories	(589,086)	(56,864)
Increase in other assets	(4,006,548)	(1,761,548)
Increase in accounts payable and accrued liabilities	5,899,225	2,306,417
Increase in accrued liability claims and other	1,066,316	1,605,006
Net cash provided by operating activities	44,095,109	41,838,292
Cash flows from investing activities:		
Purchase of property, plant and equipment, net	(52,754,995)	(25,703,338)
Proceeds from sale of assets	141,522	225,682
Increase in investments, net	(8,547,180)	(8,925,322)
Increase in investments limited as to use, net	(71,676,003)	(471,820)
Decrease (increase) in other long-term assets	213,303	(3,950)
Increase in investment Health One Alliance	-	(931,305)
Cash received note receivable-HLTC, Inc.	548,852	787,998
Cash received note receivable-Royal Oak Community, Ltd.	-	775,000
Net cash used by investing activities	(132,074,501)	(34,247,055)

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

HAMILTON MEDICAL CENTER, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

for the years ended September 30, 2018 and 2017

	2018	2017
Cash flows from financing activities:		
Repayment of long-term debt	$ (4,630,000)	$ (4,435,000)
Participating refunding revenue certificate issue cost	(1,260,588)	(246,705)
Cancelled revenue certificate, Series 1996	-	(1,155,000)
Participating refunding revenue certificate, Series 2016	-	1,155,000
Participating refunding revenue certificate, Series 2017	93,719,084	-
Net cash provided (used) by financing activities	87,828,496	(4,681,705)
(Decrease) increase in cash and cash equivalents	(150,896)	2,909,532
Cash and cash equivalents, beginning of year	13,786,887	10,877,355
Cash and cash equivalents, end of year	$13,635,991	$13,786,887

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization: Hamilton Medical Center, Inc. (HMC) is a tax-exempt controlled affiliate as described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, of Hamilton Health Care System, Inc. (the System), a not-for-profit holding corporation, whereby the trustees and officers are elected and appointed by the Board of Trustees of the System. Other controlled affiliates include Dalton Senior Housing, Inc. (DSH), HLTC, Inc. (HLTC), Hamilton Emergency Medical Services, Inc., Murray Medical Center, Inc., Royal Oak Community, Ltd. (Royal Oaks), Whitfield Healthcare Foundation, Inc., and Whitfield Place, Inc. (WP). Hamilton Ambulatory Surgery Center, Inc. (HASC) and Hamilton Physician Group, Inc. (HPG) are controlled affiliates of HMC.

Consolidation: The consolidated financial statements include the accounts of HMC, HASC and HPG. All significant intercompany transactions and accounts 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. HMC has not experienced any significant losses on these investments.

Cash paid during 2018 and 2017 for interest was $6,695,840 and $4,021,914, 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.

Property, Plant and Equipment: Property, plant and equipment acquisitions are recorded at cost. Depreciation is provided 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.

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.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

Income Taxes: HMC 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.

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 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. 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 HMC 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 HMC 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Level One investments held by HMC include common stocks and equity mutual funds that are traded in an active market. Level Two investments held by HMC 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. HMC did not hold any Level Three securities as of September 30, 2018 and 2017.

HMC's alternative investments 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. HMC 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 cash and investments measured at fair value on a recurring basis as of September 30, 2018 is as follows:

	Level One	Level Two	Total
Investments and investments limited as to use:			
Cash and cash equivalents	$ 3,457,007	$ -	$ 3,457,007
Equities			
Consumer goods	16,274,722	-	16,274,722
Energy and utilities	9,969,462	-	9,969,462
Financials	23,139,878	-	23,139,878
Healthcare	22,743,224	-	22,743,224
Industrials and materials	22,585,515	-	22,585,515
Technology	28,683,704	-	28,683,704
Corporate obligations			
Domestic	-	49,831,766	49,831,766
U.S. government obligations			
Treasury/agency	-	39,975,455	39,975,455
Mortgage-backed	-	55,110,628	55,110,628
Asset-backed	-	10,885,011	10,885,011
Other	-	13,836,925	13,836,925
	$126,853,512	$169,639,785	296,493,297
Alternative investments measured at net asset value			107,225,348
Total investments and investments limited as to use			$403,718,645

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

	Level One	Level Two	Total
Investments and investments limited as to use:			
Cash and cash equivalents	$ 5,732,300	$ -	$ 5,732,300
Equities			
Consumer goods	14,091,545	-	14,091,545
Energy and utilities	6,328,399	-	6,328,399
Financials	18,391,727	-	18,391,727
Healthcare	16,024,565	-	16,024,565
Industrials and materials	18,207,445	-	18,207,445
Technology	27,071,483	-	27,071,483
Corporate obligations			
Domestic	-	28,868,257	28,868,257
U.S. government obligations			
Treasury/agency	-	19,895,406	19,895,406
Mortgage-backed	-	12,123,108	12,123,108
Asset-backed	-	6,479,486	6,479,486
Other	-	13,979,172	13,979,172
	$105,847,464	$81,345,429	187,192,893
Alternative investments measured at net asset value			125,045,683
Total investments and investments limited as to use			$312,238,576

Investments include accumulated unrealized gains of $30,184,666 and $23,236,369 as of September 30, 2018 and 2017, respectively.

Certain of HMC's alternative investments have imposed liquidity restrictions that limit the timing and method of redemption of HMC's interest to specific periods ending after September 30, 2018. Approximately $34,537,000 of the alternative investments have such restrictions that limit redemption to future periods ranging from 2019 to 2027.

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:

	2018	2017
Interest and dividend income	$ 6,979,549	$ 4,292,858
Net realized gains on sales of trading securities	4,308,589	4,341,193
Net unrealized gains on trading securities	6,948,297	17,124,910
Investment fees	(1,239,978)	(1,048,076)
	$ 16,996,457	$24,710,885

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

Other Long-Term Assets: Other long-term assets, includes 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 HMC's share of earnings. The equity investment balance at September 30, 2018 and 2017 was $651,463 and $903,102, respectively.

Subsequent Events: HMC 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.

PATIENT SERVICE REVENUE, NET:

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

	2018	2017
Charges, at established rates	$1,103,488,459	$1,012,284,898
Contractual adjustments	(699,144,738)	(636,556,544)
Charity care	(48,448,822)	(45,302,325)
	355,894,899	330,426,029
Provision for doubtful accounts	(72,244,691)	(68,080,253)
Patient service revenue, net	$ 283,650,208	$ 262,345,776

HMC maintains records to identify and monitor charges associated with the level of charity care it provides.

HMC has 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. Revenues from the Medicare and Medicaid programs accounted for approximately 63% and 62% of charges in 2018 and 2017, respectively.

Inpatient services provided to Medicare and Medicaid beneficiaries are reimbursed based on prospectively determined rates per discharge. 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.

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. HMC has recorded amounts due to Medicare and Medicaid programs of $3,150,000 and $2,965,000 in accounts receivable as of September 30, 2018 and 2017, respectively. Patient service revenue, net increased by approximately $791,000 and $1,549,000 for the years ended September 30, 2018 and 2017, respectively, due to changes in estimates related to prior-year settlements.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. HMC believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. 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 for each of the years ended September 30, 2018 and 2017, respectively, 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.

LONG-TERM DEBT:

The long-term debt at September 30 consisted of:

	2018	2017
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

LONG-TERM DEBT (CONTINUED):

	2018	2017
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 Subordinated Participating Refunding Revenue Certificates, Series 2016, variable interest rate with maximum of 9.30% (7.18% and 7.53% at September 30, 2018 and 2017, respectively), payable in 2026	1,155,000	1,155,000
Dalton-Whitfield County Joint Development Authority (Georgia) Revenue Bonds, Series 2017, interest at various rates from 3% to 5% payable through 2048	90,000,000	-
	208,130,000	122,760,000
Plus Series 2012A bond premium	2,832,610	3,269,102
Plus Series 2017 bond premium	3,719,084	-
Less current maturities	(4,865,000)	(4,630,000)
Less unamortized issuance costs	(2,460,574)	(1,414,586)
	$207,356,120	$119,984,516

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

2019	$ 4,865,000
2020	5,120,000
2021	5,390,000
2022	5,675,000
2023	5,975,000
2024 and thereafter	181,105,000
	$208,130,000

LONG-TERM DEBT (CONTINUED):

On December 1, 1996, 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.

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 December 5, 2012, $19,570,000 of the Series 1996 Certificates, $20,000,000 of the 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 though 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.

LONG-TERM DEBT (CONTINUED):

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.

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 will be used to finance and reimburse HMC for certain capital improvements at HMC and for the cost of issuance.

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.

INVESTMENT-HEALTH ONE ALLIANCE AND ALLIANT (CONTINUED):

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 September 30, 2018	Unaudited Twelve Months Ended September 30, 2017
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.

HAMILTON AMBULATORY SURGERY CENTER, INC.:

HMC, on September 26, 2001, organized HASC as a controlled affiliate and tax-exempt corporation as described in 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 Supervision 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 years ended September 30, 2018 and 2017.

LIABILITY CLAIMS:

HMC is, from time to time, subject to claims and suits arising in the ordinary course of hospital business. Since January 1988, HMC has 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 HMC 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, HMC maintains investments of $6,491,326 and $6,131,648 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 $4,281,029 and $3,347,606 as of September 30, 2018 and 2017, respectively, which have been discounted at 3.5%, respectively. It is reasonably possible that actual losses may differ from 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, HMC 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 $3,753,377 and $3,509,467 in 2018 and 2017, respectively.

COMMITMENTS:

HMC is obligated under contracts with certain outside service organizations. The related contracted services expense of $30,759,000 and $11,822,000 were incurred in 2018 and 2017, respectively.

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

Year ending September 30	Amount
2019	$39,993,000
2020	5,344,000
2021	2,682,000
2022	2,658,000
2023	2,764,000

RELATED PARTY TRANSACTIONS:

Under terms of a Service Agreement, HMC paid the System $9,058,062 and $7,950,000 reflected in operating expense for years ended September 30, 2018 and 2017, respectively.

Under terms of a Service Agreement effective October 1, 1997, the System paid HMC $225,000 for years ended September 30, 2018 and 2017.

HMC has entered into a management agreement effective June 15, 1989 with DSH. The management fees received from DSH under the agreement are based on 6% of certain revenue. The management fee was $21,440 and $20,996 for years ended September 30, 2018 and 2017, respectively.

HMC has entered into a management agreement effective October 1, 1996 with WP. The management fees received from WP under the agreement are based on approximately 11% of certain revenue. The management fee was $26,139 and $25,881 for the years ended September 30, 2018 and 2017, respectively.

Amounts due from related affiliates of $627,207 and $1,055,720 as of September 30, 2018 and 2017, respectively, are included in other current assets. Amounts due to related affiliates of $1,767,309 and $1,252,221 as of September 30, 2018 and 2017, respectively, are included in accounts payable.

FUNCTIONAL EXPENSES:

HMC provides healthcare services to residents within its geographic area. Expenses related to providing these services for the fiscal year ended September 30, 2018 are as follows:

	Healthcare Services	General & Administrative	Total
Salaries, wages and benefits	$121,656,774	$25,568,343	$147,225,117
Supplies and utilities	43,508,966	3,595,679	47,104,645
Purchased services	16,849,409	5,921,656	22,771,065
Other	16,023,117	6,126,605	22,149,722
Professional fees	10,340,033	-	10,340,033
Depreciation and amortization	8,335,880	5,650,782	13,986,662
Interest	3,523,898	2,369,136	5,893,034
Total	$220,238,077	$49,232,201	$269,470,278

FUNCTIONAL EXPENSES (CONTINUED):

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

	Healthcare Services	General & Administrative	Total
Salaries, wages and benefits	$111,928,409	$23,848,469	$135,776,878
Supplies and utilities	39,035,720	3,979,094	43,014,814
Purchased services	9,314,296	10,995,267	20,309,563
Other	11,679,450	7,897,315	19,576,765
Professional fees	9,310,036	-	9,310,036
Depreciation and amortization	8,867,415	6,049,928	14,917,343
Interest	2,431,254	1,613,825	4,045,079
Total	$192,566,580	$54,383,898	$246,950,478

CONCENTRATION OF CREDIT RISK:

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

In addition, HMC 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:

	2018	2017
Medicare	30%	29%
Medicaid	8	7
Third-party payor	34	34
Patients	28	30
	100%	100%

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	$13,635,991
Accounts receivable, net of allowance for doubtful accounts of $67,237,000	29,600,568
Other assets	8,189,897
Total	$51,426,456

HMC funds its operations primarily through service charges to patients.

At the discretion of HMC management, excess cash not needed for operating expenditures are invested in various investment funds.