Consolidated Financial Statements

Hamilton Health Care System, Inc.

Years Ended September 30, 2023 and 2022

HAMILTON HEALTH CARE SYSTEM, INC.

Table of Contents

Years Ended September 30, 2023 and 2022

PYA, P.C.
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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Hamilton Health Care System, Inc.

Opinion

We have audited the consolidated financial statements of Hamilton Health Care System, Inc. (the System), which comprise the consolidated balance sheet as of September 30, 2023, and the related consolidated statements of changes in net assets, operations, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the System as of September 30, 2023, and the results of its operations, changes in net assets, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter

The consolidated financial statements of the System for the year ended September 30, 2022, were audited by another auditor who expressed an unmodified opinion on those statements on January 23, 2023.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

PYA, P.C.

Knoxville, Tennessee
January 24, 2024

HAMILTON HEALTH CARE SYSTEM, INC.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

for the years ended September 30, 2023 and 2022

HAMILTON HEALTH CARE SYSTEM, INC.

CONSOLIDATED BALANCE SHEETS

September 30, 2023 and 2022

ASSETS

	2023	2022
Current:		
Cash and cash equivalents	$ 33,650,738	$ 22,174,289
Resident trust account	128,024	159,848
Patient accounts receivable	50,944,915	51,678,989
Inventories	8,014,225	6,604,965
Other assets	12,835,915	11,780,836
Total current assets	105,573,817	92,398,927
Pledges receivable, net	3,891,894	3,851,417
Investments:		
Marketable securities	549,133,001	541,614,119
Board designated endowment fund	14,119,212	13,150,761
Board designated deferred compensation	2,386,396	2,155,428
Land	2,238,912	2,238,912
	567,877,521	559,159,220
Investments limited as to use:		
Under trust agreement for liability claims	15,300,434	14,174,540
Charitable trusts	610,908	621,003
Restricted by donor	20,782,497	7,369,576
By U.S. Department of Housing and Urban Development	533,974	512,955
	37,227,813	22,678,074
Investments restricted by donor	637,389	595,152
Property, plant and equipment:		
Land and improvements	44,665,944	44,900,462
Buildings and improvements	381,115,812	363,774,713
Equipment	255,710,011	244,032,218
Construction in progress	55,877,288	13,505,696
	737,369,055	666,213,089
Accumulated depreciation	(365,286,127)	(338,265,088)
	372,082,928	327,948,001
Investment-Health One Alliance, LLC	54,276,212	54,293,327
Other long-term assets	5,900,819	4,531,610
Right-of-use assets – operating leases	3,846,536	3,760,070
	$ 1,151,314,929	$ 1,069,215,798

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

HAMILTON HEALTH CARE SYSTEM, INC.

CONSOLIDATED BALANCE SHEETS (CONTINUED)

September 30, 2023 and 2022

LIABILITIES AND NET ASSETS

	2023	2022
Current:		
Current maturities of long-term debt	$ 6,327,187	$ 6,010,675
Accounts payable	30,392,244	20,842,799
Accrued liabilities	18,778,787	15,771,615
Total current liabilities	55,498,218	42,625,089
Deferred support	770,147	829,459
Deferred compensation	99,107	178,748
Resident deposits	4,648,105	4,283,696
Accrued liability claims and other	12,010,469	11,773,668
Operating lease liability, net current portion	3,078,759	3,045,507
Long-term debt, net of current maturities	177,260,415	183,481,131
Total liabilities	253,365,220	246,217,298
Net assets:		
Without donor restrictions	871,592,685	809,812,133
With donor restrictions	26,357,024	13,186,367
Total net assets	897,949,709	822,998,500
	$1,151,314,929	$1,069,215,798

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, 2023 and 2022

	2023	2022
Net assets without donor restrictions:		
Excess (deficit) of revenues over expenses	$ 54,494,552	$ (53,210,859)
Equity transfer-HOSC	7,286,000	-
Net assets, beginning of year	809,812,133	863,022,992
Net assets, end of year	$871,592,685	$809,812,133
Net assets with donor restrictions:		
Restricted contributions	$ 20,711,320	$ 12,529,632
Change in value of restricted split interest trust agreements	3,529	(100,273)
Increase in provision for uncollectible pledges	93,347	161,376
Net investment income (loss)	89,844	(162,439)
Net assets released from restrictions	(7,727,383)	(6,099,230)
Increase in net assets with donor restrictions	13,170,657	6,329,066
Net assets, beginning of year	13,186,367	6,857,301
Net assets, end of year	$26,357,024	$13,186,367
Increase (decrease) in net assets	$ 74,951,209	$ (46,881,793)
Net assets, beginning of year	822,998,500	869,880,293
Net assets, end of year	$897,949,709	$822,998,500

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, 2023 and 2022

	2023	2022
Unrestricted revenues, gains (losses) and other support:		
Patient service revenue	$451,262,373	$423,392,861
Investment income (loss) net	41,530,285	(72,631,119)
Provider relief funds	1,812,267	7,352,638
Gain (loss) in Health One Alliance, LLC	1,382,885	(2,422,230)
Net assets released from restriction	512,914	6,099,230
Other	27,291,781	15,901,911
Total revenues, gains and other support	523,792,505	377,693,291
Expenses:		
Salaries, wages and benefits	257,185,478	232,703,290
Supplies and utilities	93,711,111	85,899,457
Purchased services	31,376,282	34,120,098
Other	34,763,460	33,424,129
Professional fees	18,011,574	14,659,145
Depreciation and amortization	27,750,295	26,049,134
Interest	7,713,126	5,983,773
Total expenses	470,511,326	432,839,026
Reimbursement from Whitfield County	(250,000)	(250,000)
Net expenses	470,261,326	432,589,026
Income (loss) from operations, excluding minority interest	53,531,179	(54,895,735)
Minority interest	575,198	-
Income (loss) from operations	54,106,377	(54,895,735)
Non-operating gains:		
Gain on early extinguishment of debt	-	975,055
Gain on disposal of assets	388,175	709,821
Excess (deficit) of unrestricted revenues , gains (losses) and other support over (under) expenses	$ 54,494,552	$ (53,210,859)

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, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Change in net assets	$74,951,209	$(46,881,793)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	27,750,295	26,049,134
Net realized and unrealized gains (losses) from trading securities	(28,833,128)	82,252,678
Amortization of issuance premium on long-term debt	(155,465)	(384,281)
Debt issuance cost amortization	261,936	196,342
Gain on disposal of assets	(388,175)	(709,821)
Gain on early extinguishment of debt	-	(975,055)
(Gain) loss in investment-Health One Alliance, LLC	(1,382,885)	2,422,230
Increase in patient accounts receivable	734,074	(10,038,330)
Decrease in resident trust account	31,824	83,427
(Increase) decrease in inventories	(1,409,260)	274,733
(Increase) decrease in other current assets	(1,431,192)	4,594,932
Decrease in pledges receivable	274,405	596,134
Increase (decrease) in accounts payable and accrued liabilities	12,503,403	(3,189,215)
Decrease in Medicare advance payment liability	-	(26,625,535)
Decrease in deferred support	(59,312)	(59,312)
Decrease in deferred compensation	(79,641)	(82,403)
Increase in accrued liability claims and other	298,032	2,543,264
Net cash provided by operating activities	83,066,120	30,067,129
Cash flows from investing activities:		
Purchase of property and equipment, net	(72,213,793)	(34,173,195)
(Increase) decrease in investments, net	19,372,999	(4,223,080)
(Increase) decrease in investments limited as to use, net	(502,338)	14,203,904
Distribution from Health One Alliance, LLC	1,400,000	3,500,000
Proceeds from sale of equipment	716,746	742,126
Increase in other long-term assets	(1,369,209)	(3,008,310)
Net cash used in investing activities	(52,595,595)	(22,958,555)

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, 2023 and 2022

	2023	2022
Cash flows from financing activities:		
Proceeds from resident deposits	$ 914,183	$ 1,447,381
Refund of resident deposits	(549,774)	(660,112)
Refunding of Series 2012A bonds	-	(28,490,000)
Issuance of Series 2022 bonds	-	28,490,000
Increase in debt issuance costs	-	(236,275)
Repayment of long-term debt	(6,010,675)	(5,916,274)
Net cash used in financing activities	(5,646,266)	(5,365,280)
Increase in cash and cash equivalents	24,824,259	1,743,294
Cash and cash equivalents, beginning of year	30,209,849	28,466,555
Cash and cash equivalents, end of year	$ 55,034,108	$ 30,209,849
Supplementary disclosure of cash flow information		
Lease liabilities arising from obtaining right-of-use assets	$ 833,529	$ 68,732

	2023	2022
Reconciliation of cash and cash equivalents:		
Cash and cash equivalents	$ 33,650,738	$ 22,174,289
Restricted cash and cash equivalents, included in investments limited as to use	21,383,370	8,035,560
Cash and cash equivalents	$ 55,034,108	$ 30,209,849

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

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; Royal Oak Community, Ltd. (Royal Oaks), a retirement community, Whitfield Healthcare Foundation, Inc., a philanthropic organization, and Hamilton Children's Institute, Inc., a provider of pediatric behavioral services. Hamilton Ambulatory Surgery Center, Inc. (HASC), and Hamilton Physician Group, Inc. are controlled affiliates of HMC. During the year ended September 30, 2023, HMC became the controlling member of Hamilton Orthopedic Surgery Center (HOSC) which is now accounted for as a controlled affiliate 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 of America 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 highly liquid financial instruments with original maturities of three months or less when purchased. This includes cash on hand, deposits with banks, and investments in short-term United States Treasury obligations and repurchase agreements backed by such obligations. The System has not experienced any significant losses on these investments.

Cash paid during 2023 and 2022 for interest was $7,795,649 and $6,413,855 respectively.

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 unrestricted revenues, gains (losses) and other support over expenses.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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.

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

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.

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 $850,348 and $891,263 at September 30, 2023 and 2022, 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 in accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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. During the year ended September 30, 2022, the System capitalized approximately $375,000, of interest incurred on borrowed funds. The System did not capitalize interest during the year ended September 30, 2023.

Charity Care: HMC treats all patients regardless of their ability to pay. Under its financial assistance and uninsured discount policies, HMC provides care without charge or at discounted rates to uninsured patients. Since the System does not anticipate payment for these services, charity care is considered an implicit price concession and is not recognized as patient service revenue. 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 approximately $19,286,000 and $17,434,000 for the years ended September 30, 2023 and 2022, respectively.

Patient Service Revenue: Patient service revenue reflects the estimated net realizable amounts from patients, third-party payors, and others as services are rendered, including a provision for bad debts (implicit price concessions) and estimated retroactive adjustments under reimbursement agreements. Such amounts are recognized on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

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, 2023 and 2022.

Other Long-Term Assets: Other long-term assets include goodwill of $640,000 as of September 30, 2023 and 2022, 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 remained the same in 2023 and decreased $109,362 in 2022 to reflect the System's share of earnings or losses. The equity investment balance for both years ended September 30, 2023 and 2022 was $474,563.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Fair Value of Financial Instruments: Fair value is defined under accounting principles generally accepted in the United States of America 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.

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, 2023 and 2022.

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 or 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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, 2023 is as follows:

	Level One	Level Two	Total
Investments and investments limited as to use:			
Cash and cash equivalents			
(money market funds)	$36,677,864	$ -	$36,677,864
Equities			
Consumer goods	33,218,951	-	33,218,951
Energy and utilities	11,741,584	-	11,741,584
Financials	46,679,513	-	46,679,513
Healthcare	33,196,543	-	33,196,543
Industrials and materials	40,966,819	-	40,966,819
Technology	36,378,936	-	36,378,936
Corporate obligations			
Domestic	-	35,930,404	35,930,404
U.S. government obligations			
Treasury/agency	-	26,355,776	26,355,776
Mortgage-backed	-	25,589,224	25,589,224
Asset-backed	-	6,827,254	6,827,254
Other	-	45,673,574	45,673,574
	$238,860,210	$140,376,232	379,236,442
Alternative investments measured at net asset value			224,267,369
Total investments and investments limited as to use			$603,503,811

The hierarchy of investments measured at fair value on a recurring basis as of September 30, 2022 is as follows:

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

	Level One	Level Two	Total
Investments and investments limited as to use:			
Cash and cash equivalents			
(money market funds)	$20,071,045	$ -	$20,071,045
Equities			
Consumer goods	31,478,832	-	31,478,832
Energy and utilities	10,346,874	-	10,346,874
Financials	42,128,092	-	42,128,092
Healthcare	34,134,561	-	34,134,561
Industrials and materials	36,207,356	-	36,207,356
Technology	38,423,310	-	38,423,310
Corporate obligations			
Domestic	-	61,094,644	61,094,644
U.S. government obligations			
Treasury/agency	-	30,302,281	30,302,281
Mortgage-backed	-	24,878,652	24,878,652
Asset-backed	-	6,711,967	6,711,967
Other	-	16,829,613	16,829,613
	$212,790,070	$139,817,157	352,607,227
Alternative investments measured at net asset value			227,586,307
Total investments and investments limited as to use			$580,193,534

Investments include accumulated unrealized gains of $64,549,041 and $44,502,168 as of September 30, 2023 and 2022, respectively.

The mix of underlying investments of the alternative investments measured at net asset value, at September 30, 2023 and 2022 is as follows:

	2023	2022
Debt securities	13%	13%
Equity securities	35	35
Hedge funds	17	16
Private placement/asset-based loans	8	7
Real estate & commodities	27	29
	100%	100%

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, 2023. Approximately $96,780,000 of the alternative investments measured at net asset value have such restrictions that limit redemption to future periods ranging from

2024 to 2030. The System has committed to invest approximately $33,897,000 in certain investments through March 31, 2031.

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, 2023 and 2022:

	2023	2022
Interest and dividend income	$ 14,502,980	$12,363,890
Net realized gains (losses) on sales of trading securities	7,076,125	(244,956)
Net unrealized gains (losses) on trading securities	21,757,003	(82,007,722)
Investment fees	(1,805,823)	(2,742,331)
	$41,530,285	$(72,631,119)

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 $2,238,912 at both September 30, 2023 and 2022, respectively.

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, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported as net assets released from restrictions.

Reclassifications: Certain 2022 amounts have been reclassified to conform with 2023 presentation.

Subsequent Events: The System has evaluated activities subsequent to September 30, 2023 and determined that as of the date of the Independent Auditor's Report which is the date the consolidated financial statements were available to be issued, there are no reportable subsequent events.

PATIENT SERVICE REVENUE:

Patient service revenue is generated by providing patient care and recognized as performance obligations are satisfied. Amounts are reported at the estimated net realizable amount that reflects the consideration to which the System expects to be paid from patients, third-party payors (including health insurer and government programs) and others.

Performance obligations are determined based on the nature of the services provided by the System. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected charges. Generally, performance obligations satisfied over time relate to patients in the hospital receiving inpatient acute care services. The System measures the performance obligation from admission to the point when it is no longer required to provide services to that patient, which is generally the time of discharge. Revenue for performance obligations satisfied at a point in time generally relate to patients receiving outpatient services or patients and customers in a retail setting (for example, pharmaceuticals and medical equipment) where the System does not provide additional goods beyond the point of service.

The System has elected the practical expedients available under the new revenue recognition accounting guidance related to accounting for significant financing components and incremental contract acquisition costs, and such amounts are insignificant. In addition, because all of its performance obligations relate to contracts with a duration of less than one year, the System has elected to apply the optional exemption from disclosure of amounts associated with unsatisfied performance obligations at the end of the reporting period. Such unsatisfied or partially unsatisfied performance obligations primarily relate to inpatient acute care services at the end of the reporting period for in-house patients, who are generally discharged within days or weeks after the end of the reporting period. The System has an unconditional right to receive payment subject only to the passage of time for services provided to these in-house patients through the end of the reporting period. Such amounts are reported within patient accounts receivable in the consolidated balance sheets.

The transaction price is based on standard charges for goods and services provided, reduced by explicit price concessions (contractual adjustments) provided to third-party payors, implicit price concessions (discounts provided to patients qualifying under the charity policy), and implicit price concessions provided to self-pay patients.

PATIENT SERVICE REVENUE (CONTINUED):

Implicit price concessions for uninsured and underinsured patients that do not qualify for financial assistance are estimated based on historical collection experience with this class of patients using a portfolio approach as a practical expedient. For uninsured and underinsured patients that do not qualify for financial assistance, the System recognizes revenue on the basis of established rates, discounted according to policy for services rendered. Historical experience has shown a significant proportion of the System's uninsured patients, in addition to a growing proportion of the System'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 their valuation based upon business and economic considerations, trends in healthcare coverage, historical write-off experience and other collection trends.

The System has agreements with third-party payors that provide for payments at amounts different from established rates. These contractual adjustments are explicit price concessions and represent the difference between established charges and the estimated reimbursable amounts from third-party payors. Explicit price concessions are estimated based on contractual agreements, discount policies, and historical experience.

The System disaggregates its patient service revenue by payor source. The disaggregation by payor source is as follows for the years ended September 30:

	2023	2022
Medicare	$ 93,358,196	$ 95,987,065
Medicare HMO	54,429,849	46,267,308
Medicaid	56,519,707	51,239,841
Self-pay	4,671,662	6,527,261
Other Commercial	84,293,164	84,105,508
Blue Cross Blue Shield	79,407,519	75,331,877
Cigna	70,730,456	57,866,248
Other	7,851,820	6,067,753
Patient service revenue	$451,262,373	$ 423,392,861

Components of patient service revenue is summarized as follows for the years ended September 30:

	2023	2022
Charges, at established rates	$ 1,773,830,417	$1,632,890,960
Explicit price concessions	(1,122,891,632)	(1,025,940,992)
Charity care	(79,831,065)	(73,046,267)
Implicit price concessions	(119,845,347)	(110,510,840)
Patient service revenue	$ 451,262,373	$ 423,392,861

PATIENT SERVICE REVENUE (CONTINUED):

Estimated Third-Party Payor Settlements:

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 2019 and Medicaid years prior to 2020.

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 2021.

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 $1,523,192 and $374,000 in patient accounts receivable as of September 30, 2023 and 2022, respectively. Patient service revenue decreased by approximately $3,385,000 for the year ended September 30,2023 and increased approximately $1,175,000 for the year ended September 30, 2022, 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:

Patient accounts receivable represent expected amounts to be collected from the Medicare and Medicaid programs, private insurance carriers, and private-pay residents, as well as residents with co-insurance provisions. HMC grants credit without collateral to its patients, most of whom are local residents. The net amount expected to be collected is determined based on an established collection history and review of individual balances. Third-party reimbursement is a complex process which involves submission of claims to multiple payors, each having its own claims requirements. In some cases, the ultimate collection of patient accounts receivable subsequent to the service dates may not be known for several months.

PATIENT ACCOUNTS RECEIVABLE (CONTINUED):

The mix of receivables, excluding patient credit balances which have been reclassified to current liabilities, at September 30, 2023 and 2022 is as follows:

	2023	2022
Medicare	33%	32%
Medicaid	7	8
Third-party payor	32	30
Patients	28	30
	100%	100%

LONG-TERM DEBT:

The long-term debt at September 30 consisted of:

	2023	2022
Mortgage note payable, HUD approved lender, interest at 4.16% at September 30, 2023 and 2022, respectively, payable through 2041	$ 962,224	$ 997,899
Development Authority of City of Dalton Revenue Certificates, Series 1996, interest at various rates from 3.65% to 5.5% payable through 2026	7,845,000	9,845,000
Development Authority of City of Dalton Subordinated Participating Refunding Revenue Certificates, Series 2003, variable interest rate with maximum of 15% (15% at September 30, 2022) paid in 2023	-	1,000,000
Development Authority of City of Dalton Refunding Revenue Bonds, Series 2012B, variable interest rate (4.89% and 2.60% at September 30, 2023 and 2022, respectively) payable through 2029	2,970,000	2,970,000

LONG-TERM DEBT (CONTINUED):

	2023	2022
Development Authority of City of Dalton Refunding Revenue Bonds, Series 2012C, variable interest rate (4.89% and 2.60% at September 30, 2023 and 2022, 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% (7.10% and 7.58% at September 30, 2023 and 2022, 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	90,000,000
Dalton-Whitfield County Joint Development Authority (Georgia) Revenue Bonds, Series 2022, interest at 2.69%, payable through 2028	25,515,000	28,490,000
	182,067,224	188,077,899
Plus Series 2017 bond premium	2,941,760	3,097,226
Less current maturities	(6,327,187)	(6,010,675)
Less unamortized issuance costs	(1,421,382)	(1,683,319)
	$177,260,415	$183,481,131

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

Year Ending September 30,	
2024	$ 6,327,187
2025	6,658,764
2026	6,930,408
2027	7,222,121

LONG-TERM DEBT (CONTINUED):

2028	7,578,907
2029 and thereafter	147,349,837
	$182,067,224

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 paid 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 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.

LONG-TERM DEBT (CONTINUED):

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 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.

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 2029. 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 were used to finance and reimburse HMC for certain capital improvements at HMC and for the cost of issuance.

On June 9, 2022, the $31,165,000 2012A Bonds were refunded in order to achieve debt service savings with tax-exempt Joint Development Authority 2022 Refunding Revenue Bonds payable through 2028 with interest at 2.69%. The supporting note between HLTC and HMC remains unchanged. The refunding resulted in a gain on extinguishment of debt related primarily to unamortized issuance premium on the 2012A Bonds.

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 extended 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.

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, 2023 and 2022 is as follows:

	Unaudited Twelve Months Ended September 30, 2023	Unaudited Twelve Months Ended September 30, 2022
Total assets	$194,837,759	$168,858,820
Total shareholders' equity	$108,552,424	$108,586,655
Net (loss) gain	$ 2,765,770	$ (4,844,460)

The investment in HOA is accounted for under the equity method and, accordingly, HMC recognized its share of HOA's gain of $1,382,885 and loss of $2,422,230 in 2023 and 2022, respectively. The net investment in HOA was $54,276,212 and $54,293,327 at September 30, 2023 and 2022, respectively.

Distributions received from HOA are classified in the consolidated statements of cash flows under the nature of the distribution approach, in which distributions received are classified on the basis of the nature of the activity or activities that generated the distribution. Management has determined that distributions from HOA are considered a return of investment, and therefore, the distributions are classified as cash inflows from investing activities on the consolidated statements of cash flows.

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, 2024. Many of the Management Company responsibilities are fulfilled through a contract with an outside vendor. The total management fees were $575,000 for the years ended September 30, 2023 and 2022, respectively.

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 included a self-insured retention of $2,000,000 per occurrence and $6,000,000 aggregate per year through April 1, 2023. The System renewed the policy for coverage that includes a self-insured retention of $3,000,000 per occurrence and $7,500,000 aggregate per year through April 1, 2024, 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 $15,300,434 and $14,174,540 as of September 30, 2023 and 2022, respectively, whose use is limited under a trust agreement for liability claims and has accrued liability claims of $8,925,376 and $8,695,757 as of September 30, 2023 and 2022, 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 $6,855,359 and $5,510,727 in 2023 and 2022, respectively.

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, 2023 and 2022.

	2023	2022
Pledges due:		
In less than one year	$ 622,894	$ 999,007
In one to five years (future value)	884,868	946,201
In more than five years (future value)	5,094,476	5,096,765
	6,602,238	7,041,973
Discounts on pledges greater than one year than one year	(1,585,807)	(1,596,558)
Allowance for doubtful pledges	(501,643)	(594,991)
	$ 4,514,788	$ 4,850,424

Discounted pledges receivable from a single donor, as of September 30, 2023 and 2022, totaled $4,322,271 and $4,323,749, respectively.

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, 2023 are as follows:

	Healthcare Services	General & Administrative	Other Services	Total
Salaries, wages and benefits	$197,394,705	$53,252,430	$6,538,343	$257,185,478
Supplies and utilities	87,618,689	5,367,900	724,522	93,711,111
Purchased services	22,599,962	8,303,860	472,460	31,376,282
Other	22,377,298	11,404,333	981,829	34,763,460
Professional Fees	18,011,574	-	-	18,011,574
Depreciation and amortization	15,949,205	11,295,102	505,988	27,750,295
Interest	4,572,054	3,092,664	48,408	7,713,126
Total	$368,523,487	$92,716,289	$9,271,550	$470,511,326

Expenses related to providing these services for the fiscal year ended September 30, 2022 are as follows:

	Healthcare Services	General & Administrative	Other Services	Total
Salaries, wages and benefits	$178,180,740	$48,904,884	$5,617,666	$232,703,290
Supplies and utilities	80,230,904	4,997,330	671,223	85,899,457
Purchased services	27,780,645	5,904,532	434,921	34,120,098
Other	22,081,389	10,215,617	1,127,123	33,424,129
Professional Fees	14,659,145	-	-	14,659,145
Depreciation and amortization	14,916,773	10,620,428	511,933	26,049,134
Interest	3,549,074	2,385,114	49,585	5,983,773
Total	$341,398,670	$83,027,905	$8,412,451	$432,839,026

COMMITMENTS:

The System is obligated under contracts with certain outside service organizations. The related contracted services expense of approximately $50,208,000 and $18,254,000 were incurred in 2023 and 2022, 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
2024	$21,455,000
2025	6,090,000
2026	5,613,000
2027	4,616,000
2028	4,672,000

LIQUIDITY AND AVAILABILITY OF RESOURCES:

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

	2023	2022
Cash and cash equivalents	$33,650,738	$22,174,289
Patient accounts receivable	50,944,915	51,678,989
Other assets	5,492,365	5,752,745
Total	$90,088,018	$79,606,023

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

Although the System does not intend to spend from the board-designated endowment of $14,119,212 as of September 30, 2023, 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.

NET ASSETS WITH DONOR RESTRICTIONS:

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

	2023	2022
Subject to expenditure for specified purpose:		
To provide services for children and the indigent	$ 407,497	$ 155,107
To assist with the HMC cardiovascular program	20,375,000	7,214,469
	20,782,497	7,369,576
Held in perpetuity:		
Earnings to provide nursing scholarship assistance	295,948	277,131
Provide staff recognition and resident activity funds	341,441	318,021
	637,389	595,152
Subject to the passage of time:		
Net assets held under split interest agreements	422,350	371,215
Promises to give that are restricted by donors by passage of time	4,514,788	4,850,424
	4,937,138	5,221,639
Total net assets with donor restrictions	$26,357,024	$13,186,367

COVID-19 PANDEMIC AND PROVIDER RELIEF FUNDS:

On March 11, 2020, the World Health Organization declared the outbreak of COVID-19, a novel strain of coronavirus, a pandemic, and on March 13, 2020, a national emergency was declared in the United States. In response to the COVID-19 pandemic, the Coronavirus Aid, Relief and Economic Security Act (CARES Act) was signed into law on March 27, 2020. One provision of the CARES Act was the establishment of the Provider Relief Funds, administered by the U.S. Department of Health and Human Services (HHS).

The Provider Relief Funds are being distributed to healthcare providers throughout the country to support the battle against the COVID-19 outbreak. During the year ended September 30, 2022, the System received approximately $7,404,000 in distributions from this fund. The System did not receive distributions from this fund during the year ended September 30, 2023. The System has recognized these amounts as unrestricted revenues, gains and other support in the accompanying consolidated statements of operations for the years ended September 30, 2023 and 2022, respectively. These funds are intended to reimburse qualifying expenses and lost revenues attributable to COVID-19 and are subject to the terms, conditions, and regulatory requirements set forth by HHS. If the total distributions received by the System exceed the cumulative amount of qualifying expenses and lost revenues attributable to COVID-19 through June 30, 2022, any excess funding may be subject to recoupment.

COVID-19 PANDEMIC AND PROVIDER RELIEF FUNDS (CONTINUED):

During the year ended September 30, 2020, the System also received approximately $36,042,000 in Advance Medicare Payments as part of the CARES Act stimulus to provide additional working capital. On September 30, 2020, the Continuing Appropriations Act (CAA) was signed into law, which included a provision to relax the recoupment of Medicare Advance Payments, including delaying recoupment for one year from when the advances were made. It also staggered the percentage of claims processed that were to be recouped over a twenty-nine-month period. As of September 30, 2022, all funds have been recouped by the Centers for Medicare and Medicaid Services.

LEASES:

As part of the transition to the new standard, the System was required to measure and recognize leases that existed at October 1, 2020 using a modified retrospective approach. For leases existing at the effective date, the System elected the package of three transition practical expedients and therefore did not reassess whether an arrangement is or contains a lease, did not reassess lease classification, and did not reassess what qualifies as an initial direct cost.

The adoption of *Topic 842* resulted in the recognition of net operating ROU assets and lease liabilities of $3,846,536 and $3,760,070 as of September 30, 2023 and 2022, respectively. The accounting for finance leases remained substantially unchanged with the adoption of *Topic 842*, and the System has no finance leases.

The System leases office buildings under the terms of non-cancellable operating leases. For leases with terms greater than 12 months, the related right-of-use assets and right-of-use obligations are recorded at the present value of lease payments over the term. Some of the leases include rental escalation clauses and renewal options that are factored into the determination of lease payments when appropriate.

The components of lease expense (and related classification within the accompanying consolidated statements of operations) were approximately as follows during 2023 and 2022:

	2023	2022
Operating lease cost	$ 869,000	$ 878,000
Short-term lease cost	1,289,000	1,100,000
Total lease cost	$2,158,000	$1,978,000

LEASES (CONTINUED):

Cash paid for amounts included in the measurement of lease liabilities for the years ended September 30, 2023 and 2022 was $740,254 and $692,075, respectively. Right-of-use assets obtained in exchange for new lease obligations for the years ended September 30, 2023 and 2022 was $833,529 and $100,851, respectively.

Other information is as follows:

Weighted-average remaining lease term – operating leases	6.1 years
Weighted-average discount rate – operating leases	4.50%

The following is a schedule of operating lease liability maturities related to leases with third-parties for the years ending:

2024	$ 923,746
2025	699,576
2026	650,426
2027	599,801
2028	572,767
Thereafter	962,770
Total	4,409,086
Less: interest	562,550
Lease liability	3,846,536
Less: current portion	767,777
Operating lease liability, net current portion	$3,078,759