CERTIFIED PUBLIC ACCOUNTANTS

Consolidated Financial Statements

Hamilton Medical Center, Inc.

Years Ended September 30, 2023 and 2022

HAMILTON MEDICAL CENTER, INC.

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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 Medical Center, Inc.

Opinion

We have audited the consolidated financial statements of Hamilton Medical Center, Inc. (HMC), 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 HMC 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 HMC 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 HMC 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 HMC'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 HMC'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 HMC'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 MEDICAL CENTER, INC.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

for the years ended September 30, 2023 and 2022

HAMILTON MEDICAL CENTER, INC.

CONSOLIDATED BALANCE SHEETS

September 30, 2023 and 2022

ASSETS

	2023	2022
Current:		
Cash and cash equivalents	$ 19,059,346	$ 15,703,441
Patient accounts receivable	47,759,780	49,183,024
Inventories	7,968,113	6,558,853
Other assets	19,497,780	14,202,839
Total current assets	94,285,019	85,648,157
Investments	401,763,988	391,152,771
Investments limited as to use:		
Under trust agreement for liability claims	10,129,898	10,387,503
Property, plant and equipment:		
Land and improvements	40,862,846	41,097,364
Buildings and improvements	319,441,980	304,230,509
Equipment	243,979,653	233,304,948
Construction in progress	55,874,972	12,052,882
	660,159,451	590,685,703
Accumulated depreciation	(322,330,912)	(297,491,036)
	337,828,539	293,194,667
Investment-Health One Alliance, LLC	54,276,212	54,293,327
Note receivable-HLTC, Inc.	6,776,560	7,566,705
Note receivable-Royal Oak Community, Ltd.	2,970,000	2,970,000
Other long-term assets	5,900,819	4,531,610
Right-of-use assets - operating leases	3,777,723	3,641,884
	$917,708,758	$853,386,624

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

HAMILTON MEDICAL CENTER, INC.

CONSOLIDATED BALANCE SHEETS (CONTINUED)

September 30, 2023 and 2022

LIABILITIES AND NET ASSETS

	2023	2022
Current:		
Current maturities of long-term debt	$ 6,290,000	$ 5,975,000
Accounts payable	28,600,665	19,236,351
Accrued liabilities	14,902,706	11,864,953
Total current liabilities	49,793,371	37,076,304
Accrued liability claims and other	6,297,093	7,093,258
Operating lease liability, net current portion	3,071,652	2,997,544
Long-term debt, net of current maturities	176,386,631	182,573,051
Total liabilities	235,548,747	229,740,157
Net assets:		
Net assets without donor restrictions	682,160,011	623,646,467
	$917,708,758	$853,386,624

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, 2023 and 2022

	2023	2022
Excess (deficit) of unrestricted revenues, (losses) gains, and other support over expenses	$ 51,227,544	$ (21,941,398)
Equity Transfer - HOSC	7,286,000	-
Net assets, beginning of year	623,646,467	645,587,865
Net assets, end of year	$682,160,011	$623,646,467

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, 2023 and 2022

	2023	2022
Unrestricted revenues, gains (losses) and other support:		
Patient service revenue	$421,460,795	$394,791,194
Investment (loss) income, net	29,915,455	(52,320,536)
Provider relief funds	1,812,267	6,537,746
(Loss) gain in Health One Alliance, LLC	1,382,885	(2,422,230)
Other	14,621,558	10,076,003
Total unrestricted revenues, gains and other support	469,192,960	356,662,177
Expenses:		
Salaries, wages and benefits	221,822,180	195,134,489
Supplies and utilities	88,976,016	80,715,945
Purchased services	29,761,179	32,744,489
Other	29,103,644	28,714,766
Professional fees	17,907,808	14,605,141
Depreciation and amortization	25,569,129	23,880,191
Interest	7,664,718	5,934,190
Total expenses	420,804,674	381,729,211
Income (Loss) from operations, excluding minority interest	48,388,286	(25,067,034)
Minority Interest	575,198	-
Income (loss) from operations	48,963,484	(25,067,034)
Nonoperating gains:		
Gain on early extinguishment of debt	-	599,793
Distribution from Whitfield Healthcare Foundation, Inc.	1,875,885	2,185,803
Gain on disposal of assets, net	388,175	340,040
(Deficit) excess of unrestricted revenues, gains (losses) and other support over expenses	$ 51,227,544	$ (21,941,398)

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, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Change in net assets	$ 58,513,544	$(21,941,398)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	25,569,129	23,880,191
Net realized and unrealized gain from trading securities	(21,007,484)	58,823,947
Loss in investment-Health One Alliance, LLC	(1,382,885)	2,422,230
Debt issuance cost amortization	259,046	193,449
Amortization of issuance premium on long-term debt	(155,466)	(384,281)
Gain on disposal of assets	(388,175)	(340,040)
Gain on early extinguishment of debt	-	(599,793)
Decrease (increase) in patient accounts receivable	1,423,244	(10,550,823)
(Increase) decrease in inventories	(1,409,260)	274,733
(Increase) decrease in other assets	(5,294,941)	1,484,391
Increase (decrease) in accounts payable and accrued liabilities	12,358,889	(5,508,250)
Decrease in Medicare advance payment liability	-	(25,105,019)
(Decrease) increase in accrued liability claims and other	(722,058)	1,611,675
Net cash provided by operating activities	67,763,583	24,261,012
Cash flows from investing activities:		
Purchase of property, plant and equipment, net	(70,488,391)	(32,000,975)
Proceeds from sale of assets	716,744	372,345
Decrease (increase) in investments, net	10,396,267	(9,809,684)
Decrease in investments limited as to use, net	333,116	16,456,453
Distribution from Health One Alliance, LLC	1,400,000	3,500,000
Increase in other long-term assets	(1,505,048)	(3,008,310)
Cash received note receivable-HLTC, Inc.	790,145	771,229
Net cash used by investing activities	(58,357,167)	(23,718,942)

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

HAMILTON MEDICAL CENTER, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

September 30, 2023 and 2022

	2023	2022
Cash flows from financing activities:		
Increase in debt issuance costs	$ -	$ (236,275)
Refunding of Series 2012A bonds	-	(28,490,000)
Issuance of Series 2022 bonds	-	28,490,000
Repayment of long-term debt	(5,975,000)	(5,882,050)
Net cash used by financing activities	(5,975,000)	(6,118,325)
Increase (decrease) in cash and cash equivalents	3,431,416	(5,576,255)
Cash and cash equivalents, beginning of year	15,896,078	21,472,333
Cash and cash equivalents, end of year	$19,327,494	$15,896,078
Supplementary disclosure of cash flow information:		
Lease liabilities arising from obtaining right-of-use assets	$806,036	$ -
Reconciliation of cash and cash equivalents:		
Cash and cash equivalents	$19,059,346	$15,703,441
Restricted cash and cash equivalents, included in investments limited as to use	268,148	192,637
Cash and cash equivalents	$19,327,494	$15,896,078

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., Royal Oak Community, Ltd. (Royal Oaks), Whitfield Healthcare Foundation, Inc., Whitfield Place, Inc. (WP), and Hamilton Children's Institute, Inc. Hamilton Ambulatory Surgery Center, Inc. (HASC) and Hamilton Physician Group, Inc. (HPG) 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.

Consolidation: The consolidated financial statements include the accounts of HMC, HASC, HOSC, 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 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. HMC has not experienced any significant losses on these investments.

Cash paid during 2023 and 2022 for interest was $7,750,009 and $6,367,043, respectively.

Inventories: Inventories are valued at the lower of cost (first-in, first-out) or net realizable value, 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 (deficit) excess of unrestricted revenues, gains (losses) and other support 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.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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, HMC capitalized approximately $375,000 of interest incurred on borrowed funds. HMC 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 HMC 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: 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, 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, respectively, to reflect HMC's share of earnings. The equity investment balance at 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 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.

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, 2023 and 2022.

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.

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 cash and 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)	$ 10,248,732	$ -	$ 10,248,732
Equities			
Consumer goods	23,444,955	-	23,444,955
Energy and utilities	8,285,137	-	8,285,137
Financials	32,811,137	-	32,811,137
Healthcare	23,322,371	-	23,322,371
Industrials and materials	28,939,361	-	28,939,361
Technology	25,411,088	-	25,411,088
Corporate obligations			
Domestic	-	25,917,743	25,917,743
U.S. government obligations			
Treasury/agency	-	19,192,238	19,192,238
Mortgage-backed	-	18,653,061	18,653,061
Asset-backed	-	5,005,731	5,005,731
Other	-	32,971,315	32,971,315
	$152,462,781	$101,740,088	254,202,869
Alternative investments measured at net asset value			157,691,017
Total investments and investments limited as to use			$411,893,886

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, 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)	$ 7,883,420	$ -	$ 7,883,420
Equities			
Consumer goods	22,344,278	-	22,344,278
Energy and utilities	7,338,240	-	7,338,240
Financials	29,907,031	-	29,907,031
Healthcare	24,212,367	-	24,212,367
Industrials and materials	25,581,216	-	25,581,216
Technology	27,359,833	-	27,359,833
Corporate obligations			
Domestic	-	43,223,097	43,223,097
U.S. government obligations			
Treasury/agency	-	21,580,299	21,580,299
Mortgage-backed	-	17,795,704	17,795,704
Asset-backed	-	4,918,506	4,918,506
Other	-	11,507,677	11,507,677
	$144,626,385	$ 99,025,283	243,651,668
Alternative investments measured at net asset value			157,888,606
Total investments and investments limited as to use			$401,540,274

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	14%	13%
Equity securities	35	35
Hedge funds	18	16
Private placement/asset-based loans	8	7
Real estate & commodities	25	29
	100%	100%

Investments include accumulated unrealized gains of $29,730,339 and $13,714,007 as of September 30, 2023 and 2022, respectively.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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, 2023. Approximately $68,830,000 of the alternative investments have such restrictions that limit redemption to future periods ranging from 2024 to 2030.

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	$ 10,179,719	$ 8,315,005
Net realized gains (losses) on sales of trading securities	4,991,152	(129,417)
Net unrealized gains (losses) on trading securities	16,016,332	(58,694,530)
Investment fees	(1,271,748)	(1,811,594)
	$29,915,455	$(52,320,536)

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

Subsequent Events: HMC 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 HMC 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 HMC. 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. HMC 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 HMC does not provide additional goods beyond the point of service.

PATIENT SERVICE REVENUE (CONTINUED):

HMC has elected the practical expedients available under 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, HMC 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. HMC 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.

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, 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 their valuation based upon business and economic considerations, trends in healthcare coverage, historical write-off experience and other collection trends.

HMC 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.

PATIENT SERVICE REVENUE (CONTINUED):

HMC disaggregates its patient service revenue by payor source. The disaggregation by payor source is as follows:

	2023	2022
Medicare	$ 89,401,190	$ 87,861,043
Medicare HMO	54,429,849	46,267,308
Medicaid	34,343,850	33,786,310
Self-pay	2,966,200	5,362,128
Other commercial	84,095,917	83,880,099
Blue Cross Blue Shield	79,098,077	74,919,265
Cigna	69,366,590	56,647,288
Other	7,759,122	6,067,753
Patient service revenue	$421,460,795	$394,791,194

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

	2023	2022
Charges, at established rates	$1,741,806,220	$1,599,417,471
Explicit price concessions	(1,120,850,627)	(1,021,583,737)
Charity care	(79,831,065)	(73,046,267)
Implicit price concessions	(119,663,733)	(109,996,273)
Patient service revenue	$ 421,460,795	$ 394,791,194

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. 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 $1,691,000 and $650,000 in patient accounts receivable as of September 30, 2023 and 2022, respectively. Patient service revenue decreased by approximately $3,200,000 for the year ended September 30, 2023 and increased by $868,000 for the year ended September 30, 2022, due to changes in estimates related to prior-year settlements.

PATIENT SERVICE REVENUE (CONTINUED):

Estimated Third-Party Payor Settlements (continued):

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.

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	34%	32%
Medicaid	7	8
Third-party payor	32	30
Patients	27	30
	100%	100%

LONG-TERM DEBT:

The long-term debt at September 30 consisted of:

	2023	2022
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

LONG-TERM DEBT (CONTINUED):

	2023	2022
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) payable 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
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
	181,105,000	187,080,000
Plus Series 2017 bond premium	2,941,760	3,097,226
Less current maturities	(6,290,000)	(5,975,000)
Less unamortized issuance costs	(1,370,129)	(1,629,175)
	$176,386,631	$182,573,051

LONG-TERM DEBT (CONTINUED):

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

2024	$ 6,290,000
2025	6,620,000
2026	6,890,000
2027	7,180,000
2028	7,535,000
2029 and thereafter	146,590,000
	$181,105,000

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.

LONG-TERM DEBT (CONTINUED):

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 (2012A 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 (Joint Development Authority) 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.

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 though 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.

INVESTMENT-HEALTH ONE ALLIANCE AND ALLIANT:

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

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

Summarized financial data of HOA, including the unaudited consolidated operations of Alliant, for the twelve months ended September 30, 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 gain (loss)	$ 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.

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 $5,543,206 and $4,411,478 in 2023 and 2022, respectively.

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.

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

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 included a self-insured retention of $2,000,000 per occurrence and $6,000,000 aggregate per year through April 1, 2023. HMC 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 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 claim and funding requirements. In conjunction, HMC maintains investments of $10,129,898 and $10,387,503 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 $5,593,793 and $5,786,574 as of September 30, 2023 and 2022, 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.

COMMITMENTS:

HMC is obligated under contracts with certain outside service organizations. The related contracted services expense of $50,208,057 and $18,218,000 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	$21,419,000
2025	6,054,000
2026	5,577,000
2027	4,580,000
2028	4,636,000

RELATED PARTY TRANSACTIONS:

Under terms of a Service Agreement, HMC paid the System $17,331,000 and $16,572,000 reflected in operating expense for years ended September 30, 2023 and 2022, respectively.

Under terms of a Service Agreement effective October 1, 1997, the System paid HMC $225,000 for years ended September 30, 2023 and 2022.

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 $31,256 and $30,525 for years ended September 30, 2023 and 2022, 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 $40,095 and $34,823 for the years ended September 30, 2023 and 2022, respectively.

Amounts due from related affiliates of $9,143,045 and $4,375,677 as of September 30, 2023 and 2022, respectively, are included in other current assets. Amounts due to related affiliates of $5,220 and $0 as of September 30, 2023 and 2022, 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, 2023 are as follows:

	Healthcare Services	General & Administrative	Total
Salaries, wages and benefits	$185,981,879	$35,840,301	$221,822,180
Supplies and utilities	84,365,762	4,610,254	88,976,016
Purchased services	21,690,223	8,070,956	29,761,179
Other	18,868,073	10,235,571	29,103,644
Professional fees	17,907,808	-	17,907,808
Depreciation and amortization	15,207,489	10,361,640	25,569,129
Interest	4,572,054	3,092,664	7,664,718
Total	$348,593,288	$72,211,386	$420,804,674

HMC provides healthcare services to residents within its geographic area. Expenses related to providing these services for the fiscal year ended September 30, 2022 are as follows:

	Healthcare Services	General & Administrative	Total
Salaries, wages and benefits	$165,503,827	$29,630,662	$195,134,489
Supplies and utilities	76,384,924	4,331,021	80,715,945
Purchased services	26,366,977	6,377,512	32,744,489
Other	18,284,723	10,430,043	28,714,766
Professional fees	14,605,141	-	14,605,141
Depreciation and amortization	14,177,368	9,702,823	23,880,191
Interest	3,549,076	2,385,114	5,934,190
Total	$318,872,036	$62,857,175	$381,729,211

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	$19,059,346	$15,703,441
Patient accounts receivable	47,759,780	49,183,024
Other assets	3,228,272	3,096,047
Total	$70,047,398	$67,982,512

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.

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, HMC received approximately $6,538,000 in distributions from this fund. HMC did not receive distributions from this fund during the year ended September 30, 2023. HMC has recognized these amounts as unrestricted revenues, gains, and other support in the accompanying consolidated statements of operations. 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 HMC 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, HMC also received approximately $33,782,000 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, HMC 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, HMC 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 $3,777,723 and $3,641,884 as of September 30, 2023 and 2022, respectively. The accounting for finance leases remained substantially unchanged with the adoption of *Topic 842*, and HMC has no finance leases.

HMC 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	$ 795,000	$ 797,000
Short-term lease cost	860,000	670,000
Total	$1,655,000	$1,467,000

Cash paid for amounts included in the measurement of lease liabilities for the years ended September 30, 2023 and 2022 was $648,089 and $618,277, respectively. Right-of-use of assets obtained in exchange for new lease obligations for the year ended September 30, 2023 was $806,036. No new leases were executed during the year ended September 30, 2022.

LEASES (CONTINUED):

Other information is as follows:

Weighted-average remaining lease term – operating leases	6.2 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	$ 860,376
2025	692,376
2026	650,426
2027	599,801
2028	572,767
Thereafter	962,770
Total	4,338,516
Less: interest	560,793
Lease liability	3,777,723
Less: current portion	706,071
Operating lease liability, net current portion	$3,071,652