



Consolidated Financial Statements

Hamilton Health Care System, Inc.

Years Ended September 30, 2024 and 2023

HAMILTON HEALTH CARE SYSTEM, INC.

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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 sheets as of September 30, 2024 and 2023, and the related consolidated statements of changes in net assets, operations, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the System as of September 30, 2024 and 2023, and the results of its operations, changes in net assets, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits 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 audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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
March 27, 2025

HAMILTON HEALTH CARE SYSTEM

Consolidated Balance Sheets

	<i>September 30,</i>	
	2024	2023
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	43,550,529	33,650,738
Resident trust account	104,112	128,024
Patient accounts receivable	107,820,547	50,944,915
Inventories	13,419,798	8,014,225
Other assets	18,748,269	12,835,915
TOTAL CURRENT ASSETS	183,643,255	105,573,817
PLEDGES RECEIVABLE, net	2,487,463	3,891,894
INVESTMENTS		
Marketable securities	581,302,773	549,133,001
Board designated endowment fund	16,320,765	14,119,212
Board designated deferred compensation	2,853,377	2,386,396
Land	2,238,912	2,238,912
TOTAL INVESTMENTS	602,715,827	567,877,521
INVESTMENTS LIMITED AS TO USE		
Under trust agreement for liability claims	17,887,003	15,300,434
Series 2024A project fund	62,063,908	-
Charitable trusts	653,075	610,908
Restricted by donor	19,259,810	20,782,497
By U.S. Department of Housing and Urban Development	520,312	533,974
TOTAL INVESTMENTS LIMITED AS TO USE	100,384,108	37,227,813
INVESTMENTS RESTRICTED BY DONOR	738,970	637,389
PROPERTY, PLANT, AND EQUIPMENT		
Land and improvements	62,442,890	44,665,944
Buildings and improvements	542,486,361	381,115,812
Equipment	365,525,243	255,710,011
Construction in progress	18,828,766	55,877,288
	989,283,260	737,369,055
Accumulated depreciation	(488,756,520)	(365,286,127)
PROPERTY, PLANT, AND EQUIPMENT, NET	500,526,740	372,082,928

HAMILTON HEALTH CARE SYSTEM, INC.

Consolidated Balance Sheets - Continued

	<i>September 30,</i>	
	<i>2024</i>	<i>2023</i>
OTHER ASSETS		
Investment-Health One Alliance, LLC	57,243,500	54,276,212
Right-of-use assets-operating leases	8,542,396	3,846,536
Goodwill	27,331,532	640,000
Intangible assets	23,350,000	250,000
Other long-term assets	14,798,930	5,010,819
TOTAL ASSETS	\$ 1,521,762,721	\$ 1,151,314,929
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	34,966,557	30,335,535
Accrued liabilities	27,246,253	18,067,719
Current portion of operating lease liabilities	2,058,804	767,777
Current maturities of long-term debt	6,983,764	6,327,187
TOTAL CURRENT LIABILITIES	71,255,378	55,498,218
OTHER LIABILITIES		
Deferred support	710,670	770,147
Deferred compensation	21,941	99,107
Resident deposits	4,875,755	4,648,105
Accrued liability claims and other	17,522,442	12,010,469
Operating lease liability, net current portion	6,418,266	3,078,759
Long-term debt, net of current maturities	423,761,473	177,260,415
TOTAL LIABILITIES	524,565,925	253,365,220
NET ASSETS		
Net assets without donor restrictions	974,051,819	871,592,685
Net assets with donor restrictions	23,144,977	26,357,024
TOTAL NET ASSETS	997,196,796	897,949,709
TOTAL LIABILITIES AND NET ASSETS	\$ 1,521,762,721	\$ 1,151,314,929

HAMILTON HEALTH CARE SYSTEM, INC.

Consolidated Statements of Changes in Net Assets

	<i>Year Ended September 30,</i>	
	<i>2024</i>	<i>2023</i>
Net Assets without donor restrictions:		
Excess of unrestricted revenue, gains, and other support over expenses	\$ 101,556,290	\$ 54,494,552
Member Equity - BASC	902,844	-
Equity Transfer from HOSC	-	7,286,000
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	102,459,134	61,780,552
NET ASSETS WITHOUT DONOR RESTRICTIONS, BEGINNING OF YEAR	871,592,685	809,812,133
NET ASSETS WITHOUT DONOR RESTRICTIONS, END OF YEAR	974,051,819	871,592,685
Net Assets with donor restrictions:		
Restricted contributions	892,541	20,711,320
Change in value of restricted split interest trust agreements	(55,525)	3,529
Increase (decrease) in provision for uncollectible pledges	(55,436)	93,347
Net investment income	1,376,898	89,844
Net assets released from restrictions	(5,370,525)	(7,727,383)
INCREASE (DECREASE) IN NET ASSETS WITH DONOR RESTRICTIONS	(3,212,047)	13,170,657
NET ASSETS WITH DONOR RESTRICTIONS, BEGINNING OF YEAR	26,357,024	13,186,367
NET ASSETS WITH DONOR RESTRICTIONS, END OF YEAR	23,144,977	26,357,024
INCREASE IN NET ASSETS	99,247,087	74,951,209
NET ASSETS , BEGINNING OF YEAR	897,949,709	822,998,500
NET ASSETS, END OF YEAR	997,196,796	897,949,709

HAMILTON HEALTH CARE SYSTEM, INC.

Consolidated Statements of Operations

	<i>Year Ended September 30,</i>	
	<i>2024</i>	<i>2023</i>
Unrestricted revenue, gains, and other support:		
Patient service revenue	526,936,347	451,262,373
Investment income, net	91,022,906	41,530,285
Provider relief funds	151,135	1,812,267
Gain on Health One Alliance, LLC	2,967,288	1,382,885
Net assets released from restriction	5,370,525	512,914
Other	25,325,923	27,291,781
TOTAL UNRESTRICTED REVENUE, GAINS, AND OTHER SUPPORT	651,774,124	523,792,505
Expenses:		
Salaries, wages, and benefits	297,118,161	257,185,478
Supplies and utilities	98,279,228	93,711,111
Purchased services	42,395,907	31,376,282
Other	51,092,865	34,763,460
Professional fees	19,422,146	18,011,574
Depreciation and amortization	31,839,859	27,750,295
Interest	9,383,867	7,713,126
TOTAL EXPENSES	549,532,033	470,511,326
Reimbursement from Whitfield County	(250,000)	(250,000)
NET EXPENSES	549,282,033	470,261,326
NET INCOME FROM OPERATIONS EXCLUDING MINORITY INTEREST	102,492,091	53,531,179
Minority interest	(1,174,163)	575,198
NET INCOME FROM OPERATIONS	101,317,928	54,106,377
Gain on early extinguishment of debt	10,307	-
Gain on disposal of assets, net	228,055	388,175
EXCESS OF UNRESTRICTED REVENUE, GAINS AND OTHER SUPPORT OVER EXPENSES	\$ 101,556,290	\$ 54,494,552

HAMILTON HEALTH CARE SYSTEM, INC.

Consolidated Statements of Cash Flows

	<i>Year Ended December 31,</i>	
	<i>2024</i>	<i>2023</i>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 99,247,087	\$ 74,951,209
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation and amortization	31,839,859	27,750,295
Net realized and unrealized gains on investments	(81,636,461)	(28,833,128)
Gain on disposal of assets	(228,055)	(388,175)
Gain on early extinguishment of debt	(10,307)	-
Amortization of debt issuance cost	178,273	261,936
Amortization of issuance premium on long-term debt	(394,404)	(155,465)
Gain on Health One Alliance, LLC	(2,967,288)	(1,382,885)
Increase (decrease) in cash due to changes in:		
Patient accounts receivable	(56,875,632)	734,074
Resident trust account	23,912	31,824
Inventories	(1,077,693)	(1,409,260)
Other current assets	(3,032,000)	(1,431,192)
Pledges receivable	1,829,610	274,405
Accounts payable and accrued liabilities	11,277,556	12,503,403
Deferred support	(59,477)	(59,312)
Deferred compensation	(77,166)	(79,641)
Accrued liability claims and other	5,440,114	298,032
Total adjustments	(95,769,159)	8,114,911
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,477,928	83,066,120
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant, and equipment, net	(52,861,116)	(72,213,793)
Proceeds from sale of property, plant and equipment	228,055	716,746
Increase in investments limited as to use, net	(61,972,780)	(502,338)
Decrease in investments, net	44,487,516	19,372,999
Asset purchase-Bradley Medical Center	(162,245,412)	-
Distribution from Health One Alliance, LLC	-	1,400,000
Increase in other long-term assets	(9,851,666)	(1,369,209)
NET CASH USED IN INVESTING ACTIVITIES	(242,215,403)	(52,595,595)

HAMILTON HEALTH CARE SYSTEM, INC.

Consolidated Statements of Cash Flows - Continued

	<i>Year Ended December 31,</i>	
	<i>2024</i>	<i>2023</i>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from resident deposits	892,309	914,183
Refund of resident deposits	(664,659)	(549,774)
Increase in debt issuance costs	(2,081,622)	-
Proceeds from issuance of long term debt	334,388,464	-
Repayment of long-term debt	(84,922,769)	(6,010,675)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	247,611,723	(5,646,266)
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,874,248	24,824,259
CASH AND CASH EQUIVALENTS, beginning of year	55,034,108	30,209,849
CASH AND CASH EQUIVALENTS, end of year	\$ 63,908,356	\$ 55,034,108
SUPPLEMENTAL INFORMATION:		
Cash paid for operating leases	\$ 1,077,457	\$ 900,607
RECONCILIATION OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents	\$ 43,550,529	\$ 33,650,738
Restricted cash and cash equivalents included in investments limited as to use	20,357,827	21,383,370
	\$ 63,908,356	\$ 55,034,108

HAMILTON HEALTH CARE SYSTEM, INC.

Notes to Consolidated Financial Statements

Years Ended September 30, 2024 and 2023

NOTE A--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. During the year ended September 30, 2024, HMC became the controlling member of Bradley Medical Center (BMC), Bradley Physician Services (BPS), and Bradley Ambulatory Surgery Center (BASC), all of which are now accounted for as controlled affiliates of HMC. The trustees and officers of the controlled affiliates are elected and appointed by the Board of Trustees of the System.

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

Reclassification: Certain prior year amounts have been reclassified to meet current year presentation.

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 2024 and 2023 for interest was \$7,101,012 and \$7,795,649 respectively.

HAMILTON HEALTH CARE SYSTEM, INC.

Notes To Consolidated Financial Statements - Continued

September 30, 2024 and 2023

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 revenue, gains, and other support over expenses. The value of contributed land is established by appraised value. Realized gains and losses are computed using the specific identification method for cost determination.

For any debt securities that are in an unrealized loss position at the consolidated balance sheet date, the System assesses whether or not it intends to sell the security or, more likely than not, will be required to sell the security before recovery of its amortized cost basis. If either criterion is met, the security's amortized cost basis is written down to fair value through non-operating gains (losses). If neither criterion is met, the System evaluates whether any portion of the decline in fair value is the result of credit deterioration. Such evaluations consider the extent to which the amortized cost of the security exceeds its fair value, changes in credit ratings, and any other known adverse conditions related to the specific security. If the evaluation indicates that a credit loss exists, an allowance for credit losses is recorded through provisions for credit losses for the amount by which the amortized cost basis of the security exceeds the present value of cash flows expected to be collected, limited to the amount by which the amortized cost exceeds fair value. Any impairment not recognized in the allowance for credit losses is recorded as a change in net assets.

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 by a HUD-approved lender.

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.

Cost of Borrowing: Interest cost incurred during a period of construction related to borrowed funds is included in property, plant, and equipment. The System did not capitalize interest incurred on borrowed funds during the years ended September 30, 2024 and 2023.

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

HAMILTON HEALTH CARE SYSTEM, INC.

Notes To Consolidated Financial Statements - Continued

September 30, 2024 and 2023

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 \$781,390 and \$850,348 at September 30, 2024 and 2023, respectively. No repayment of the capital advance is required as long as the facility is used for its intended purpose through 2035. The capital advance is being amortized over the estimated useful life of the facility.

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

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

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

Charity Care: The System treats all patients regardless of their ability to pay. Under its financial assistance and uninsured discount policies, the System 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 the System's financial assistance policy based on applying an estimated cost to charge ratio to the amount of applicable charges was approximately \$19,965,000 and \$19,286,000 for the years ended September 30, 2024 and 2023, 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

HAMILTON HEALTH CARE SYSTEM, INC.

Notes To Consolidated Financial Statements - Continued

September 30, 2024 and 2023

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, 2024 and 2023.

Goodwill: Goodwill represents the excess purchase price over the assigned fair value of identifiable tangible assets and separately identified intangible assets acquired and totals \$27,331,532 and \$640,000 as of September 30, 2024 and September 30, 2023, respectively. The System annually evaluates goodwill for impairment, initially using a qualitative method, and records any reduction in goodwill in the period in which impairment is determined under a quantitative methodology. The System identified no such impairment for the years ended September 30, 2024 and 2023.

Intangible Assets: Intangible assets consist primarily of a certificate of need related to the acquisition of BMC, BASC, and BPS and total \$23,350,000 and \$250,000 at September 30, 2024 and 2023, respectively. All intangible assets are considered to have an indefinite useful life as there are no legal, regulatory, contractual, competitive, economic, or other factors that limit the useful life. The System evaluates the recoverability of intangible assets whenever events or changes in circumstances indicate that an intangible asset's carrying amount may not be recoverable. The System believes no such event or circumstances have occurred.

Other Long-Term Assets: 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 increased \$555,504 in 2024 and remained the same in 2023. The equity investment balance for the years ended September 30, 2024 and 2023, was \$1,030,067 and \$474,563, respectively. During the year ended September 30, 2024, the System entered into a collateral assignment split-dollar Supplemental Executive Retirement Plan for a member of management, under which the System retains a collateral interest in the underlying life insurance policy to recover its contributions of \$9,500,000.

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).

HAMILTON HEALTH CARE SYSTEM, INC.

Notes To Consolidated Financial Statements - Continued

September 30, 2024 and 2023

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 that 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, 2024 and 2023.

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.

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, 2024, is as follows:

	Level One	Level Two	Total
Investments and investments limited as to use:			
Cash and cash equivalents (money market funds)	\$ 23,390,873	\$ -	\$ 23,390,873
Equities			
Consumer goods	37,210,090	-	37,210,090
Energy and utilities	15,521,233	-	15,521,233

HAMILTON HEALTH CARE SYSTEM, INC.

Notes To Consolidated Financial Statements - Continued

September 30, 2024 and 2023

	Level One	Level Two	Total
Financials	44,435,137	-	44,435,137
Healthcare	44,511,318	-	44,511,318
Industrials and materials	51,484,018	-	51,484,018
Technology	40,227,201	-	40,227,201
Corporate obligations			
Domestic		86,202,779	86,202,779
U.S. Government obligations			
Treasury/agency		41,101,580	41,101,580
Mortgage-backed		27,247,448	27,247,448
Asset-backed		6,807,038	6,807,038
Other		56,863,120	56,863,120
	256,779,870	218,221,965	475,001,835
Alternative investments measured at net asset value			226,622,903
Total investments and investments limited as to use			<u>\$ 701,624,738</u>

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			<u>\$ 603,503,811</u>

HAMILTON HEALTH CARE SYSTEM, INC.

Notes To Consolidated Financial Statements - Continued

September 30, 2024 and 2023

Investments include accumulated unrealized gains of \$125,653,371 and \$64,549,041 as of September 30, 2024 and 2023, respectively.

The mix of underlying investments of the alternative investments measured at net asset value at September 30, 2024 and 2023, is as follows:

	2024	2023
Debt securities	12%	13%
Equity securities	40%	35%
Hedge funds	17%	17%
Private placement/asset-based loans	7%	8%
Real estate & commodities	24%	27%
	<u>100%</u>	<u>100%</u>

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, 2024. Approximately \$104,437,000 of the alternative investments measured at net asset value have such restrictions that limit redemption to future periods ranging from 2025 to 2031. The System has committed to invest approximately \$27,631,000 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, 2024 and 2023:

	2024	2023
Interest and dividend income	11,202,643	\$ 14,502,980
Net realized gains on sales of trading securities	22,827,840	7,076,125
Net unrealized gains on sales of trading securities	58,808,621	21,757,003
Investment fees	(1,816,198)	(1,805,823)
	<u>\$ 91,022,906</u>	<u>\$ 41,530,285</u>

The composition of investments and investments limited as to use is not materially different. Contributed land and buildings are included in investments but excluded from the fair value table and amount to \$2,238,912 at both September 30, 2024 and 2023.

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

HAMILTON HEALTH CARE SYSTEM, INC.

Notes To Consolidated Financial Statements - Continued

September 30, 2024 and 2023

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.

Subsequent Events: The System has evaluated activities subsequent to September 30, 2024, 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.

NOTE B--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 insurers 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 relates 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 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

HAMILTON HEALTH CARE SYSTEM, INC.

Notes To Consolidated Financial Statements - Continued

September 30, 2024 and 2023

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. Implicit price concessions are mainly comprised of amounts due directly from patients and represent the System's primary collection risk. Estimated implicit price concessions are recorded for all uninsured accounts, regardless of the age of those accounts. Accounts are written off when all reasonable collection efforts have been made. The System determines its estimate of implicit price concessions based on an analysis of historical loss experience and expected net collections; business and economic conditions; trends in federal, state, and private employer healthcare coverage; and other collection indicators.

For uninsured and underinsured patients who 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:

	2024	2023
Medicare	\$ 96,000,181	\$ 93,358,196
Medicare HMO	69,596,539	54,429,849
Medicaid	76,151,812	56,519,707
Self-pay	14,177,284	4,671,662

HAMILTON HEALTH CARE SYSTEM, INC.

Notes To Consolidated Financial Statements - Continued

September 30, 2024 and 2023

	2024	2023
Cigna	68,456,855	70,730,456
Blue Cross Blue Shield	103,639,077	79,407,519
Other commercial	93,772,963	84,293,164
Other	5,141,636	7,851,820
Patient service revenue	<u>\$ 526,936,347</u>	<u>\$ 451,262,373</u>

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

	2024	2023
Charges at established rates	\$2,159,174,280	\$1,773,830,417
Explicit price concessions	(1,412,970,315)	(1,122,891,632)
Charity care	(87,124,215)	(79,831,065)
Implicit price concessions	(132,143,403)	(119,845,347)
Patient service revenue	<u>\$ 526,936,347</u>	<u>\$ 451,262,373</u>

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 2021 and Medicaid years prior to 2022.

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 is reflected in the year finalized. The System has recorded amounts due from Medicare and Medicaid programs of \$2,389,000 and \$1,523,192 in patient accounts receivable as of September 30, 2024 and 2023, respectively. Patient service revenue increased by approximately \$660,000 for the year ended September 30, 2024, and decreased approximately \$3,385,000 for the year ended September 30, 2023, due to changes in estimates related to prior-year settlements.

HAMILTON HEALTH CARE SYSTEM, INC.

Notes To Consolidated Financial Statements - Continued

September 30, 2024 and 2023

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.

NOTE C--PATIENT ACCOUNTS RECEIVABLE

Patient accounts receivable represent expected amounts to be collected from the Medicare and Medicaid programs, private insurance carriers, 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 that 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 System receives payments for services rendered from federal and state agencies, managed care health plans, commercial insurance companies, employers and patients. Management recognizes that revenues and receivables from government agencies are significant to our operations but does not believe there are significant credit risks associated with these government agencies. Management does not believe there are any other significant concentrations of revenues from any particular payer that would subject the System to any significant credit risks in the collection of our accounts receivable.

The mix of receivables, excluding patient credit balances, which have been reclassified to current liabilities at September 30, 2024 and 2023, is as follows:

	2024	2023
Medicare	44%	33%
Medicaid	10%	7%
Third-party payor	34%	32%
Patients	12%	28%
	<u>100%</u>	<u>100%</u>

NOTE D--LONG-TERM DEBT

The long-term debt at September 30, consisted of:

HAMILTON HEALTH CARE SYSTEM, INC.

Notes To Consolidated Financial Statements - Continued

September 30, 2024 and 2023

	2024	2023
Mortgage note payable – HUD approved lender, interest at 4.16% at September 30, 2024 and 2023 payable in monthly amounts of \$6,365 in principal and interest through 2041	925,036	962,224
Development Authority of City of Dalton Revenue Certificates, Series 1996, interest at 5.5% payable through 2026	4,845,000	7,845,000
Development Authority of City of Dalton Refunding Revenue Bonds, Series 2012B, variable interest rate (4.89% at September 30, 2023) refunded in 2024	-	2,970,000
Development Authority of City of Dalton Refunding Revenue Bonds, Series 2012C, variable interest rate (4.89% at September 30, 2023) refunded in 2024	-	53,620,000
Development Authority of City of Dalton Subordinated Participating Refunding Revenue Certificates, Series 2016, variable interest rate with maximum of 9.30% (5.10% and 7.10% at September 30, 2024 and 2023, 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%, refunded in 2024	-	25,515,000
Bank of America, N.A., Revolving Credit Facility, variable interest at 5.84% as of September 30, 2024, payable October 1, 2025	35,000,000	-
The Health and Educational Facilities Board of the City of Cleveland, Tennessee Revenue Bonds Series 2024A, interest at various rates from 4.25% to 5.25%, payable through 2054.	205,230,000	-

HAMILTON HEALTH CARE SYSTEM, INC.

Notes To Consolidated Financial Statements - Continued

September 30, 2024 and 2023

	2024	2023
Dalton-Whitfield County Joint Development Authority (Georgia) Revenue Bonds, Series 2024B, interest at 5.0%, payable through 2042	74,625,000	-
	411,780,036	182,067,224
Plus Series 2017 bond premium	2,786,297	2,941,760
Plus Series 2024A bond premium	12,107,707	-
Plus Series 2024B bond premium	7,186,818	-
Less current maturities	(6,983,764)	(6,327,187)
Less unamortized issuance costs	(3,115,621)	(1,421,382)
	<u>\$ 423,761,473</u>	<u>\$ 177,260,415</u>

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

2025	\$ 6,983,764
2026	42,400,408
2027	7,802,121
2028	8,348,907
2029	7,085,769
2030 and thereafter	339,159,067
	<u>\$ 411,780,036</u>

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

On June 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.

HAMILTON HEALTH CARE SYSTEM, INC.

Notes To Consolidated Financial Statements - Continued

September 30, 2024 and 2023

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

Also, on December 5, 2012 all of the outstanding Residential Care Facilities for the Elderly Authority of Whitfield County tax-exempt variable rate bonds, which were used to finance the acquisition, construction and equipping of the Royal Oaks facility, were redeemed and replaced with Development Authority of the City of Dalton Refunding Revenue Bonds Series 2012B, a tax-exempt variable rate obligation of both HMC and the System purchased directly by a financial institution, payable through 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 canceled 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 to purchase 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

HAMILTON HEALTH CARE SYSTEM, INC.

Notes To Consolidated Financial Statements - Continued

September 30, 2024 and 2023

unchanged. The refunding resulted in a gain on extinguishment of debt related primarily to unamortized issuance premium on the 2012A Bonds.

On July 25, 2024, a credit agreement (the BofA Agreement) was entered into between Bank of America, N.A. and the System, as representative of a credit group consisting of the System, HMC, BMC, and VBMC. The credit agreement provides for a revolving credit facility of \$50,000,000 at a variable interest rate equal to the Secured Overnight Financing Rate (SOFR) plus seventy-five basis points (0.75%) with a maturity date of July 24, 2025. On November 26, 2024, the BofA Agreement was amended to increase the credit facility to \$75,000,000 and extend the maturity date to October 1, 2025.

On July 31, 2024, The Health and Educational Facilities Board of the City of Cleveland, Tennessee (Cleveland Facilities Board) issued tax-exempt Fixed Rate Revenue Bonds, Series 2024A in the amount of \$205,230,000 payable through August 15, 2054, with interest at various rates from 4.25% to 5.25%. Pursuant to a Loan Agreement under the Master Trust Indenture between Cleveland Facilities Board and the System, the proceeds will be used to finance and reimburse BMC for a portion of the acquisition price of the assets of BMC, BPS, and BASC, in addition to certain capital improvements of BMC and for the cost of issuance.

Also on July 31, 2024, the Joint Development Authority issued tax-exempt Fixed Rate Revenue Bonds, Series 2024B in the amount of \$74,625,000, payable through August 15, 2042, with interest at 5.0%. Pursuant to a Loan Agreement under the Master Trust Indenture between Development Authority and the System, the proceeds were used to reimburse HMC for the redemption and replacement of the 2012B, 2012C, and 2022 bonds and to reimburse HMC for the cost of issuance.

NOTE E--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's 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.

HAMILTON HEALTH CARE SYSTEM, INC.

Notes To Consolidated Financial Statements - Continued

September 30, 2024 and 2023

NOTE F--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, 2024 and 2023, is as follows:

	Unaudited Twelve Months Ended September 30, 2024	Unaudited Twelve Months Ended September 30, 2023
Total assets	\$ 208,329,000	\$ 194,837,759
Total shareholders' equity	114,487,000	108,552,424
Net gain (loss)	5,934,576	2,765,770

The investment in HOA is accounted for under the equity method and, accordingly, HMC recognized its share of HOA's gain of \$2,967,288 and \$1,382,885 in 2024 and 2023, respectively. The net investment in HOA was \$57,243,500 and \$54,276,212 at September 30, 2024 and 2023, 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.

NOTE G--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

HAMILTON HEALTH CARE SYSTEM, INC.

Notes To Consolidated Financial Statements - Continued

September 30, 2024 and 2023

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 June 1, 2026. Many of the Management Company's responsibilities are fulfilled through a contract with an outside vendor. The total management fees were \$575,000 for the years ended September 30, 2024 and 2023.

NOTE H--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 \$3,000,000 per occurrence and \$7,500,000 aggregate per year through April 1, 2025, 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 \$17,887,003 and \$15,300,454 as of September 30, 2024 and 2023, respectively, whose use is limited under a trust agreement for liability claims and has accrued liability claims of \$12,161,254 and \$8,925,376 as of September 30, 2024 and 2023, respectively, which have been discounted at 2.5%. 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.

NOTE I--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 \$7,514,137 and \$6,855,359 in 2024 and 2023, respectively.

HAMILTON HEALTH CARE SYSTEM, INC.

Notes To Consolidated Financial Statements - Continued

September 30, 2024 and 2023

NOTE J--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, 2024 and 2023.

	2024	2023
Pledges due:		
In less than one year	\$ 204,248	\$ 622,894
In one to five years (future value)	414,387	884,868
In more than five years (future value)	3,179,573	5,094,476
	<u>3,798,208</u>	<u>6,602,238</u>
Discount on pledges greater than one year	(549,417)	(1,585,807)
Allowance for doubtful pledges	(557,079)	(501,643)
	<u>\$ 2,691,712</u>	<u>\$ 4,514,788</u>

Discounted pledges receivable from a single donor, as of September 30, 2024 and 2023, totaled \$3,107,899 and \$4,322,271, respectively.

NOTE K--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, 2024, are as follows:

	Healthcare Services	General and Administrative	Other Services	Total
Salaries, wages, and benefits	\$ 228,028,372	\$ 61,768,441	\$ 7,321,348	\$ 297,118,161
Supplies and utilities	90,905,472	6,627,374	746,382	98,279,228
Purchased services	28,911,188	12,929,280	555,439	42,395,907
Other	25,248,786	24,790,869	1,053,210	51,092,865
Professional Fees	19,422,146	-	-	19,422,146
Depreciation	18,187,012	13,055,603	597,244	31,839,859
Interest	5,815,155	3,521,955	46,757	9,383,867
	<u>\$ 416,518,131</u>	<u>\$ 122,693,522</u>	<u>\$ 10,320,380</u>	<u>\$ 549,532,033</u>

Expenses related to providing these services for the fiscal year ended September 30, 2023, are as follows:

HAMILTON HEALTH CARE SYSTEM, INC.

Notes To Consolidated Financial Statements - Continued

September 30, 2024 and 2023

	Healthcare Services	General and 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
	<u>\$ 368,523,487</u>	<u>\$ 92,716,289</u>	<u>\$ 9,271,550</u>	<u>\$ 470,511,326</u>

NOTE L--COMMITMENTS

The System is obligated under contracts with certain outside service organizations. The related contracted services expense of approximately \$20,081,760 and \$50,208,000 were incurred in 2024 and 2023, 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 for the year ending September 30:

2025	\$ 34,202,776
2026	13,688,784
2027	12,660,900
2028	12,660,900
2029	12,660,900

NOTE M--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:

	2024	2023
Cash and cash equivalents	\$ 43,550,529	\$ 33,650,738
Patient accounts receivable	107,820,547	50,944,915
Other assets	6,374,800	5,492,365
	<u>\$ 157,745,876</u>	<u>\$ 90,088,018</u>

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

HAMILTON HEALTH CARE SYSTEM, INC.

Notes To Consolidated Financial Statements - Continued

September 30, 2024 and 2023

Although the System does not intend to spend from the board-designated endowment of \$16,320,765 as of September 30, 2024, these amounts could be made available if necessary. At the discretion of System management, excess cash not needed for operating expenditures is invested in various investment funds.

NOTE N--NET ASSETS WITH DONOR RESTRICTIONS

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

	2024	2023
Subject to expenditure for specified purpose:		
To assist with healthcare needs for the indigent	\$ 405,487	\$ 407,497
To assist with the HMC cardiovascular program	-	20,375,000
To assist with ASCI operations	18,850,825	-
	<u>19,256,312</u>	<u>20,782,497</u>
Held in perpetuity:		
Earnings to provide nursing scholarship assistance	344,289	295,948
Provide staff recognition and resident activity funds	394,681	341,441
	<u>738,970</u>	<u>637,389</u>
Subject to the passage of time:		
Net assets held under split interest agreements	457,984	422,350
Promises to give that are restricted by donors by passage of time	2,691,711	4,514,788
Total net assets with donor restrictions	<u>3,149,695</u>	<u>4,937,138</u>
	<u>\$ 23,144,977</u>	<u>\$ 26,357,024</u>

NOTE O--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 2024 and 2023:

HAMILTON HEALTH CARE SYSTEM, INC.

Notes To Consolidated Financial Statements - Continued

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	2024	2023
Operating lease cost	\$ 1,028,000	\$ 869,000
Short-term lease cost	2,234,000	1,289,000
	<u>\$ 3,262,000</u>	<u>\$ 2,158,000</u>

Cash paid for amounts included in the measurement of lease liabilities for the years ended September 30, 2024 and 2023, was \$833,468 and \$740,254, respectively. Right-of-use assets obtained in exchange for new lease obligations for the years ended September 30, 2024 and 2023, were \$756,860 and \$833,529, respectively.

Other information is as follows:

Weighted-average remaining lease term – operating leases	5.4	6.1
Weighted-average discount rate – operating leases	4.50%	4.50%

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

2025	\$ 2,461,238
2026	1,972,328
2027	1,394,797
2028	1,234,051
2029	962,248
Thereafter	1,568,430
Total	<u>9,593,092</u>
Less interest	<u>1,116,022</u>
Lease liability	8,477,070
Less current portion	<u>2,058,804</u>
Operating lease liability, net current portion	<u>\$ 6,418,266</u>

NOTE P--BRADLEY MEDICAL CENTER

On July 31, 2024, HMC became the sole member of BMC, BPS, and BASC. Total transferred for the purchase of these entities was approximately \$162,400,000. The following table summarizes

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Notes To Consolidated Financial Statements - Continued

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the preliminary fair values of the identifiable assets acquired and liabilities assumed as of the acquisition date.

	<u>Assets Acquired</u>
Excess Cash	\$ 3,000
Inventory	4,328,000
Prepaid Expenses	3,399,000
Total Current Assets	<u>7,730,000</u>
PPE	107,359,000
Non-Comp Agreements	1,100,000
Medicare Licenses	-
Certificate of need	22,000,000
Goodwill	26,725,000
Total Assets	<u><u>164,914,000</u></u>
	<u>Liabilities Assumed</u>
Accrued Employee Compensation	1,961,000
Property Tax Credits	571,000
Total Current Liabilities	<u>2,532,000</u>
Total Liabilities	2,532,000
Total Invested Capital	<u>162,382,000</u>
Total Liabilities and Equity	<u><u>164,914,000</u></u>
Excess Cash	3,000
Net Working Capital	5,195,000
Property, Plant Equipment	107,359,000
Intangible Assets	23,100,000
Goodwill	26,725,000
Total Invested Capital	<u><u>\$ 162,382,000</u></u>

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The excess of the purchase price over the fair value of the net assets acquired resulted in the recognition of goodwill of approximately \$26,700,000, which is primarily related to expected synergies and expanded market reach.

The results of the operations of BMC, BPS, and BASC have been included in the consolidated financial statements of the System from the acquisition date. For the year ended September 30, 2024, BMC, BPS, and BASC contributed approximately \$31,000,000 in patient revenue and incurred approximately \$32,000,000 in expenses.

Acquisition-related transaction costs of \$7,380,979 were expensed as incurred and are included in other expenses in the consolidated statement of operations.