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Consolidated Financial Statements

Hamilton Medical Center, Inc.

Years Ended September 30, 2024 and 2023

HAMILTON MEDICAL CENTER, INC.

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PYA
CERTIFIED PUBLIC ACCOUNTANTS

PYA, P.C.
One Cherokee Mills
2220 Sutherland Avenue
Knoxville, TN 37919
(865) 673-0844 | pyapc.com

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 sheets as of September 30, 2024 and 2023; 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 HMC 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 HMC and 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 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
March 27, 2025

HAMILTON MEDICAL CENTER, INC.

Consolidated Balance Sheets

	September 30,	
	2024	***2023***
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 36,215,734**	$ 19,059,346
Patient accounts receivable	**103,823,751**	47,759,780
Inventories	**13,373,686**	7,968,113
Other assets	**17,676,095**	19,497,780
TOTAL CURRENT ASSETS	**171,089,266**	94,285,019
INVESTMENTS	**440,384,418**	401,763,988
INVESTMENTS LIMITED AS TO USE		
Under trust agreement for liability claims	**13,332,536**	10,129,898
Series 2024A project fund	**62,063,908**	-
TOTAL INVESTMENTS LIMITED AS TO USE	**75,396,444**	10,129,898
PROPERTY, PLANT, AND EQUIPMENT		
Land and improvements	**58,639,791**	40,862,846
Buildings and improvements	**480,512,763**	319,441,980
Equipment	**352,772,743**	243,979,653
Construction in progress	**18,827,706**	55,874,972
	910,753,003	660,159,451
Accumulated depreciation	**(443,624,399)**	(322,330,912)
PROPERTY, PLANT, AND EQUIPMENT, NET	**467,128,604**	337,828,539
OTHER ASSETS		
Investment-Health One Alliance	**57,243,500**	54,276,212
Right-of-use assets-operating leases	**8,300,252**	3,777,723
Note receivable-HLTC, Inc.	**5,902,760**	6,776,560
Note receivable-Royal Oak Community, Ltd.	**2,970,000**	2,970,000
Goodwill	**27,331,532**	640,000
Intangible assets	**23,350,000**	250,000
Other long-term assets	**5,193,930**	5,010,819
TOTAL ASSETS	**$ 1,284,290,706**	$ 917,708,758

HAMILTON MEDICAL CENTER, INC.

Consolidated Balance Sheets - Continued

	September 30,	
	2024	***2023***
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	**$ 33,837,804**	$ 28,600,665
Accrued liabilities	**22,479,575**	14,196,635
Current portion of operating lease liabilities	**1,966,021**	706,071
Current maturities of long-term debt	**6,945,000**	6,290,000
TOTAL CURRENT LIABILITIES	**65,228,400**	49,793,371
OTHER LIABILITIES		
Accrued liability claims and other	**11,098,482**	6,297,093
Operating lease liability, net current portion	**6,268,905**	3,071,652
Long-term debt, net of current maturities	**422,923,561**	176,386,631
TOTAL LIABILITIES	**505,519,348**	235,548,747
NET ASSETS		
Net assets without donor restrictions	**778,771,358**	682,160,011
TOTAL LIABILITIES AND NET ASSETS	**$ 1,284,290,706**	$ 917,708,758

HAMILTON MEDICAL CENTER, INC.

Consolidated Statements of Changes in Net Assets

	Year Ended September 30,	
	2024	*2023*
Excess of unrestricted revenue, gains, and other support over expenses	**$ 95,708,501**	$ 51,227,544
Member Equity-BASC	**902,846**	-
Equity Transfer from HOSC	**-**	7,286,000
CHANGE IN NET ASSETS	**96,611,347**	58,513,544
NET ASSETS, BEGINNING OF YEAR	**682,160,011**	623,646,467
NET ASSETS, END OF YEAR	**$ 778,771,358**	$ 682,160,011

HAMILTON MEDICAL CENTER, INC.

Consolidated Statements of Operations

	Year Ended September 30,	
	2024	***2023***
Unrestricted revenue, gains, and other support:		
Patient service revenue	**$ 497,101,814**	421,460,795
Investment income, net	**65,865,275**	29,915,455
Provider relief funds	**151,135**	1,812,267
Gain on Health One Alliance, LLC	**2,967,288**	1,382,885
Other	**13,638,708**	14,621,558
TOTAL UNRESTRICTED REVENUE, GAINS, AND OTHER SUPPORT	**579,724,220**	469,192,960
Expenses:		
Salaries, wages, and benefits	**256,888,948**	221,822,180
Supplies and utilities	**93,071,365**	88,976,016
Purchased services	**40,185,305**	29,761,179
Other	**38,411,866**	29,103,644
Professional fees	**19,378,456**	17,907,808
Depreciation and amortization	**29,630,509**	25,569,129
Interest	**9,337,109**	7,664,718
TOTAL EXPENSES	**486,903,558**	420,804,674
NET INCOME FROM OPERATIONS EXCLUDING MINORITY INTEREST	**92,820,662**	48,388,286
Minority interest	**(1,174,163)**	575,198
NET INCOME FROM OPERATIONS	**91,646,499**	48,963,484
Gain on early extinguishment of debt	**10,307**	-
Distribution from Whitfield Healthcare Foundation, Inc.	**3,824,140**	1,875,885
Gain on disposal of assets, net	**227,555**	388,175
EXCESS OF UNRESTRICTED REVENUE, GAINS, AND OTHER SUPPORT OVER EXPENSES	**$ 95,708,501**	$ 51,227,544

HAMILTON MEDICAL CENTER, INC.

Consolidated Statements of Cash Flows

	Year Ended September 30,	
	2024	*2023*
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	**$ 96,611,347**	$ 58,513,544
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**29,630,509**	25,569,129
Net realized and unrealized gains from trading securities	**(58,880,304)**	(21,007,484)
Gain in investment-Health One Alliance, LLC	**(2,967,288)**	(1,382,885)
Debt issuance cost amortization	**164,674**	259,046
Amortization of insurance premium on long-term debt	**(394,404)**	(155,466)
Gain on disposal of assets	**(227,555)**	(388,175)
Gain on extinguishment of debt	**(10,307)**	-
Increase (decrease) in cash due to change in:		
Patient accounts receivable	**(56,063,971)**	1,423,244
Inventories	**(1,077,692)**	(1,409,260)
Other assets	**5,131,887**	(5,294,941)
Accounts payable and accrued liabilities	**11,038,731**	12,358,889
Accrued liability claims and other	**4,736,063**	(722,058)
Total adjustments	**(68,919,657)**	9,250,039
NET CASH PROVIDED BY OPERATING ACTIVITIES	**27,691,690**	67,763,583
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant, and equipment	**(51,533,734)**	(70,488,391)
Proceeds from sale of assets	**227,861**	716,744
Asset purchase-Bradley Medical Center	**(162,345,413)**	-
Decrease in investments, net	**18,779,958**	10,396,267
(Increase) decrease in investments limited as to use, net	**(63,581,305)**	333,116
Distribution from Health One Alliance, LLC	**-**	1,400,000
Increase in other long-term assets	**(183,111)**	(1,505,048)
Cash received note receivable-HLTC, Inc.	**873,800**	790,145
NET CASH USED IN INVESTING ACTIVITIES	**(257,761,944)**	(58,357,167)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in debt issuance costs	**(2,081,622)**	-
Proceeds from issuance of long-term debt	**334,388,464**	-
Repayment of long-term debt	**(84,874,875)**	(5,975,000)
NET CASH PROVIDED BY FINANCING ACTIVITIES	**247,431,967**	(5,975,000)

HAMILTON MEDICAL CENTER, INC.

Consolidated Statements of Cash Flows - Continued

	Year Ended September 30,	
	2024	*2023*
NET INCREASE IN CASH AND CASH EQUIVALENTS	**17,361,713**	3,431,416
CASH AND CASH EQUIVALENTS, beginning of year	**19,327,494**	15,896,078
CASH AND CASH EQUIVALENTS, end of year	**$ 36,689,207**	$ 19,327,494
SUPPLEMENTAL INFORMATION:		
Cash paid for operating leases	**$ 980,487**	$ 806,036
RECONCILIATION OF CASH AND CASH		
Cash and cash equivalents	**36,215,734**	19,059,346
Restricted cash and cash equivalents, included in investments limited as to use	**473,473**	268,148
	$ 36,689,207	$ 19,327,494

NOTE A--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. 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.

Consolidation: The consolidated financial statements include the accounts of HMC, HASC, HPG, HOSC, BPS, BMC, and BASC. All significant intercompany transactions and accounts 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 (U.S. GAAP) 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 2024 and 2023 for interest was $7,057,018 and $7,750,009, 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 excess of unrestricted revenue, gains, and other support over expenses. 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, HMC 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, HMC 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 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.

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.

Cost of Borrowing: Interest cost incurred during a period of construction related to borrowed funds is included in property, plant and equipment. HMC did not capitalize interest incurred on borrowed funds during the years ended September 30, 2024 and 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 $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 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, 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 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 consists 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. HMC evaluates the recoverability of intangible assets whenever events or changes in circumstances indicate that an intangible asset's carrying amount may not be recoverable. HMC 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 investment remained the same in 2023 and increased by $555,504 in 2024 to reflect HMC's share of earnings. The equity investment balance at September 30, 2024 and 2023, was $1,030,067 and $474,563, respectively.

Fair Value of Financial Instruments: Fair value is defined under U.S. GAAP 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, 2024 and 2023.

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

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The hierarchy of cash and investments measured at fair value on a recurring basis as of September 30, 2024, is as follows:

	Level One	Level Two	Total
Investments and investments limited as to use:			
Cash and cash equivalents (money market funds)	$ 15,952,935	$ -	$ 15,952,935
Equities			
Consumer goods	26,288,509	-	26,288,509
Energy and utilities	11,037,982	-	11,037,982
Financials	31,226,911	-	31,226,911

	Level One	Level Two	Total
Healthcare	31,450,831	-	31,450,831
Industrials and materials	36,339,705	-	36,339,705
Technology	28,193,682	-	28,193,682
Corporate obligations			
Domestic	-	75,885,455	75,885,455
U.S. government obligations			
Treasury/agency	-	32,815,291	32,815,291
Mortgage-backed	-	19,573,406	19,573,406
Asset-backed	-	4,833,172	4,833,172
Other	-	40,881,009	40,881,009
	180,490,555	173,988,333	354,478,888
Alternative investments measured at net asset value			161,301,974
Total investments and investments limited as to use			$ 515,780,862

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

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	13%	14%
Equity securities	40%	35%
Hedge funds	17%	18%
Private placement/asset-based loans	7%	8%
Real estate & commodities	23%	25%
	100%	100%

Investments include accumulated unrealized gains of $72,439,489 and $29,730,339 as of September 30, 2024 and 2023, respectively.

Certain of HMC's alternative investments have imposed liquidity restrictions that limit the timing and method of redemption of HMC's interest to specific periods ending after September 30, 2024. Approximately $75,604,000 of the alternative investments have such restrictions that limit redemption to future periods ranging from 2025 to 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	$ 8,191,938	$ 10,179,719
Net realized gains on sales of trading securities	16,171,154	4,991,152
Net unrealized gains on sales of trading securities	42,709,150	16,016,332
Investment fees	(1,206,967)	(1,271,748)
	$ 65,865,275	$ 29,915,455

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, 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 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.

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 are mainly comprised of amounts due directly from patients and represents HMC'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. HMC 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 health care coverage and other collection indicators.

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.

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

	2024	2023
Medicare	$ 88,962,880	$ 89,401,190
Medicare HMO	69,928,164	54,429,849
Medicaid	59,009,253	34,343,850
Self-pay	12,273,518	2,966,200
Cigna	68,100,354	84,095,917
Blue Cross Blue Shield	104,099,211	79,098,077
Other commercial	89,676,861	69,366,590
Other	5,051,573	7,759,122
Patient service revenue	$ 497,101,814	$ 421,460,795

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

	2024	2023
Charges at established rates	$ 2,124,782,327	$ 1,741,806,220
Explicit price concessions	(1,408,852,829)	(1,120,850,627)
Charity care	(87,124,215)	(79,831,065)
Implicit price concessions	(131,703,469)	(119,663,733)
Patient service revenue	$ 497,101,814	$ 421,460,795

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. 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 $2,161,000 and $1,691,000 in patient accounts receivable as of September 30, 2024 and 2023, respectively. Patient service revenue increased by approximately $941,000 for the year ended September 30, 2024, and decreased by $3,200,000 for the year ended September 30, 2023, due to changes in estimates related to prior-year settlements.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. HMC believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medicaid programs.

NOTE C--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. HMC 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 HMC to any significant credit risks in the collection of our accounts receivable.

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

	2024	2023
Medicare	45%	34%
Medicaid	10%	7%
Third-party payor	34%	32%
Patients	12%	27%
	100%	100%

NOTE D--LONG-TERM DEBT:

The long-term debt at September 30 consisted of:

	2024	2023
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 3.0% to 5.0% 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

	2024	2023
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	-
Dalton-Whitfield County Joint Development Authority (Georgia) Revenue Bonds, Series 2024B, interest at 5.0%, payable through 2042	74,625,000	-
	410,855,000	181,105,000
Plus Series 2017 bond premium	2,786,296	2,941,760
Plus Series 2024A bond premium	12,107,707	-
Plus Series 2024B bond premium	7,186,818	-
Less current maturities	(6,945,000)	(6,290,000)
Less unamortized issuance costs	(3,067,260)	(1,370,129)
	$ 422,923,561	$ 176,386,631

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

2025	$ 6,945,000
2026	42,360,000
2027	7,760,000
2028	8,305,000
2029	7,040,000
2030 and thereafter	338,445,000
	$ 410,855,000

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 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 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 Joint 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.

On July 25, 2024, a credit agreement (the BofA Agreement) 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 extended 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--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 consolidating 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 F--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 $6,361,947 and $5,543,206 in 2024 and 2023, respectively.

NOTE G--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.

NOTE H--HAMILTON AMBULATORY SURGERY CENTER, INC.:

On September 26, 2001, HMC 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 June 1, 2026. 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, 2024 and 2023.

NOTE I--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 $3,000,000 per occurrence and $7,500,000 aggregate per year through April 1, 2025, and HMC intends to continue to renew or replace the current policy with equivalent insurance.

An independent actuary is engaged to determine the amount of accrued liability claims and funding requirements. In conjunction, HMC maintains investments of $13,332,536 and $10,129,898 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 $9,292,104 and $5,593,793 as of September 30, 2024 and 2023, respectively, which have been discounted at 2.5%, 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.

NOTE J--COMMITMENTS:

HMC is obligated under contracts with certain outside service organizations. The related contracted services expense of $20,081,760 and $50,208,057 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 K--RELATED PARTY TRANSACTIONS:

Under terms of a Service Agreement, HMC paid the System $17,340,000 and $17,331,000, which is reflected in the operating expenses for years ended September 30, 2024 and 2023, respectively.

Under terms of a Service Agreement effective October 1, 1997, the System paid HMC $225,000 for years ended September 30, 2024 and 2023.

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 $32,062 and $31,256 for years ended September 30, 2024 and 2023, 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 $40,575 and $40,095 for the years ended September 30, 2024 and 2023, respectively.

Amounts due from related affiliates of $1,289,114 and $9,143,045 as of September 30, 2024 and 2023, respectively, are included in other current assets. Amounts due to related affiliates of $1,089,761 and $5,220 as of September 30, 2024 and 2023, respectively, are included in accounts payable.

NOTE L--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, 2024, are as follows:

	Healthcare Services	General and Administrative	Total
Salaries, wages, and benefits	$ 215,484,967	$ 41,403,981	$ 256,888,948
Supplies and utilities	87,137,772	5,933,593	93,071,365
Purchased services	28,241,143	11,944,162	40,185,305

	Healthcare Services	General and Administrative	Total
Other	21,485,752	16,926,114	38,411,866
Professional fees	19,378,456	-	19,378,456
Depreciation and amortization	17,482,001	12,148,508	29,630,509
Interest	5,815,114	3,521,995	9,337,109
	$ 395,025,205	$ 91,878,353	$ 486,903,558

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 and 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
	$ 348,593,288	$ 72,211,386	$ 420,804,674

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	$ 36,215,734	$ 19,059,346
Patient accounts receivable	103,823,751	47,759,780
Other assets	4,402,646	3,228,272
	$ 144,442,131	$ 70,047,398

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.

NOTE N--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 accompanying consolidated statements of operations) were approximately as follows during 2024 and 2023:

	2024	2023
Operating lease cost	$ 980,000	$ 795,000
Short-term lease cost	1,753,000	860,000
	$ 2,733,000	$ 1,655,000

Cash paid for amounts included in the measurement of lease liabilities for the years ended September 30, 2024 and 2023, was $764,283 and $648,089, respectively. Right-of-use assets obtained in exchange for new lease obligations for the years ended September 30, 2024 and 2023, were $5,302,918 and $806,036, respectively.

Other information is as follows:

Weighted-average remaining lease term – operating leases	5.4 years	6.2 years
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	$ 2,359,538
2026	1,877,828
2027	1,333,896
2028	1,234,050

2029		962,248
Thereafter		1,568,433
Total		9,335,993
Less interest		1,101,067
Lease liability		8,234,926
Less current portion		1,966,021
Operating lease liability, net current portion	$	6,268,905

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

		Assets Acquired
Excess Cash	$	3,000
Inventory		4,328,000
Prepaid Expenses		3,399,000
Total Current Assets		7,730,000
PPE		107,359,000
Non-Comp Agreements		1,100,000
Medicare Licenses		-
Certificate of need		22,000,000
Goodwill		26,725,000
Total Assets	$	164,914,000

		Liabilities Assumed
Accrued Employee Compensation	$	1,961,000
Property Tax Credits		571,000
Total Current Liabilities		2,532,000

	Liabilities Assumed
Total Liabilities	2,532,000
Total Invested Capital	162,382,000
Total Liabilities and Equity	164,914,000
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	$ 162,382,000

The excess of the purchase price over the fair value of the net assets acquired resulted in the recognition of goodwill of approximately $26,725,000, 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 HMC 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 $19,242 were expensed as incurred and are included in other expenses in the consolidated statement of operations.