Hamilton Health Care System, Inc.

Consolidated Financial Statements

Years Ended September 30, 2019 and 2018

DIXON HUGHES GOODMAN LLP

Independent Auditors’ Report

Board of Trustees
Hamilton Health Care System, Inc.
Dalton, Georgia

We have audited the accompanying consolidated financial statements of Hamilton Health Care System, Inc., which comprise the consolidated balance sheets as of September 30, 2019 and 2018, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors’ judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hamilton Health Care System, Inc. as of September 30, 2019 and 2018, and the results of their operations, changes in net assets, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in the notes to the consolidated financial statements, during the year ended September 30, 2019, Hamilton Health Care System, Inc. adopted Financial Accounting Standards Board Accounting Standards Update ("ASU") 2014-09 *Revenue from Contracts with Customers (Topic 606).* As a result of adopting this new standard, Hamilton Health Care System, Inc. restated amounts previously reported as of and for the year ended September 30, 2018. Our opinion is not modified with respect to these matters.

Dixon Hughes Goodman LLP

Atlanta, Georgia
January 17, 2020

HAMILTON HEALTH CARE SYSTEM, INC.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

for the years ended September 30, 2019 and 2018

HAMILTON HEALTH CARE SYSTEM, INC.

CONSOLIDATED BALANCE SHEETS

September 30, 2019 and 2018

ASSETS

	2019	2018
Current:		
Cash and cash equivalents	$ 15,623,833	$ 19,231,788
Resident trust account	107,755	76,272
Patient accounts receivable	38,493,309	33,874,592
Inventories	5,614,721	4,859,453
Other assets	11,083,795	14,944,673
Total current assets	70,923,413	72,986,778
Pledges receivable, net	5,859,167	6,898,392
Investments:		
Marketable securities	499,181,839	500,023,521
Board designated endowment fund	11,696,635	11,158,115
Board designated deferred compensation	1,971,108	1,893,333
Land	2,267,994	1,486,645
	515,117,576	514,561,614
Investments limited as to use:		
Under trust agreement for liability claims	10,628,950	8,048,014
Series 2017 project fund	42,376,960	71,556,580
Charitable trusts	815,491	811,730
Temporarily restricted by donor	3,789,138	3,868,112
By U.S. Department of Housing and Urban Development	513,355	511,930
	58,123,894	84,796,366
Investments permanently restricted by donor	203,190	203,190
Property, plant and equipment:		
Land and improvements	32,546,034	28,715,816
Buildings and improvements	278,685,595	233,190,064
Equipment	186,435,297	172,968,386
Construction in progress	58,603,724	43,290,494
	556,270,650	478,164,760
Accumulated depreciation	(272,932,448)	(258,120,921)
	283,338,202	220,043,839
Investment-Health One Alliance, LLC	47,133,970	31,265,503
Other long-term assets	1,226,172	1,353,499
	$ 981,925,584	$ 932,109,181

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

HAMILTON HEALTH CARE SYSTEM, INC.

CONSOLIDATED BALANCE SHEETS (CONTINUED)

September 30, 2019 and 2018

LIABILITIES AND NET ASSETS

	2019	2018
Current:		
Current maturities of long-term debt	$ 5,151,496	$ 4,895,215
Accounts payable	26,408,740	23,364,492
Accrued liabilities	20,890,541	18,978,637
Total current liabilities	52,450,777	47,238,344
Deferred support	847,871	917,707
Deferred compensation	435,704	642,304
Resident deposits	4,148,116	4,147,979
Accrued liability claims and other	9,895,453	7,426,119
Long-term debt, net of current maturities	202,886,295	208,386,859
Total liabilities	270,664,216	268,759,312
Net assets:		
Without donor restrictions	699,685,293	650,637,941
With donor restrictions	11,576,075	12,711,928
Total net assets	711,261,368	663,349,869
	$981,925,584	$932,109,181

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

HAMILTON HEALTH CARE SYSTEM, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

for the years ended September 30, 2019 and 2018

	2019	2018
Net assets without donor restrictions:		
Excess of revenues over expenses	$ 49,047,352	$ 69,394,780
Net assets, beginning of year	650,637,941	581,243,161
Net assets, end of year	$699,685,293	$650,637,941
Net assets with donor restrictions:		
Restricted contributions	$ 2,582,825	$ 5,270,308
Change in value of restricted split interest trust agreements	(60,252)	(48,160)
Decrease (increase) in provision for uncollectible pledges	120,855	(285,985)
Net investment income	290,723	187,233
Net assets released from restrictions	(4,070,004)	(1,503,660)
(Decrease) increase in net assets with donor restrictions	(1,135,853)	3,619,736
Net assets, beginning of year	12,711,928	9,092,192
Net assets, end of year	$ 11,576,075	$ 12,711,928

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

HAMILTON HEALTH CARE SYSTEM, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

for the years ended September 30, 2019 and 2018

	2019	2018
Unrestricted revenues, gains and other support:		
Net patient service revenue	$342,166,323	$313,034,624
Investment income, net	22,491,068	26,856,435
Gain in Health One Alliance, LLC	15,868,467	22,235,782
Net assets released from restriction	4,070,004	1,503,660
Other	19,535,876	18,726,870
Total revenues, gains and other support	404,131,738	382,357,371
Expenses:		
Salaries, wages and benefits	201,227,172	175,343,125
Supplies and utilities	60,268,362	51,257,330
Purchased services	27,170,501	26,837,760
Other	31,765,203	28,090,903
Professional fees	11,432,549	10,340,033
Depreciation and amortization	16,964,592	15,646,236
Interest	6,565,610	5,948,379
Total expenses	355,393,989	313,463,766
Reimbursement from Whitfield County	(262,500)	(370,000)
Net expenses	355,131,489	313,093,766
Income from operations	49,000,249	69,263,605
Nonoperating gains:		
Gain on disposal of assets, net	47,103	131,175
Excess of revenues, gains and other support over expenses	$ 49,047,352	$ 69,394,780

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

HAMILTON HEALTH CARE SYSTEM, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the years ended September 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	$ 47,911,499	$ 73,014,516
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	16,964,592	15,646,236
Net realized and unrealized gains from trading securities	(14,433,439)	(18,204,403)
Amortization of issuance premium on long-term debt	(576,119)	(537,545)
Debt issuance cost amortization	227,051	217,492
Gain on disposal of assets	(47,103)	(131,175)
Gain in investment-Health One Alliance, LLC	(15,868,467)	(22,235,782)
Increase in patient accounts receivable	(4,618,717)	(3,508,417)
Increase in resident trust account	(31,483)	(76,272)
Increase in inventories	(755,268)	(599,343)
Decrease (increase) in other current assets	3,516,845	(3,878,750)
Decrease (increase) in pledges receivable	1,380,640	(2,523,318)
Increase in accounts payable and accrued liabilities	4,956,152	9,434,180
Decrease in deferred support	(69,836)	(69,836)
Decrease in deferred compensation	(206,600)	(194,597)
Increase in accrued liability claims and other	2,471,952	1,452,992
Net cash provided by operating activities	40,821,699	47,805,978
Cash flows from investing activities:		
Purchase of property and equipment, net	(80,622,792)	(66,136,469)
Decrease in investments, net	13,451,339	2,967,875
Decrease (increase) in investments limited as to use, net	27,098,610	(73,181,262)
Proceeds from sale of equipment	410,940	142,522
Decrease in other long-term assets	127,327	213,303
Net cash used by investing activities	(39,534,576)	(135,994,031)

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

HAMILTON HEALTH CARE SYSTEM, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

for the years ended September 30, 2019 and 2018

	2019	2018
Cash flows from financing activities:		
Proceeds from resident deposits	$ 791,502	$ 1,084,118
Refund of resident deposits	(791,365)	(904,355)
Increase in debt issuance costs	-	(1,260,588)
Proceeds from long-term debt	-	93,719,084
Repayment of long-term debt	(4,895,215)	(4,557,933)
Net cash (used) provided by financing activities	(4,895,078)	88,080,326
Decrease in cash and cash equivalents	(3,607,955)	(107,727)
Cash and cash equivalents, beginning of year	19,231,788	19,339,515
Cash and cash equivalents, end of year	$ 15,623,833	$ 19,231,788

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization: Hamilton Health Care System, Inc. (the System) was organized in May, 1983 as a tax-exempt corporation as described in 501(c)(3) of the Internal Revenue Code of 1986, as amended. The System maintains control over affiliates including: Dalton Senior Housing, Inc., D/B/A Whitfield Commons (DSH) and Whitfield Place, Inc. (WP), providers of housing to low income seniors and handicapped individuals; Hamilton Emergency Medical Services, Inc. (HEMS), which operates Whitfield Emergency Medical Services; HLTC, Inc. (HLTC), a long-term care services provider; Hamilton Medical Center, Inc. (HMC), which operates Hamilton Medical Center hospital; Murray Medical Center, Inc. (MMCI), which operated Murray Medical Center hospital until January 31, 2012; 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. The trustees and officers of the controlled affiliates are elected and appointed by the Board of Trustees of the System.

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

Use of Estimates: The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents: Cash and cash equivalents consist of cash on hand, deposits with banks, and investments in short-term United States Treasury obligations and repurchase agreements backed by such obligations, excluding amounts limited as to use. The System has not experienced any significant losses on these investments.

Cash paid during 2019 and 2018 for interest was $8,123,933 and $6,748,395, respectively.

Adoption of New Accounting Standard Update and Prior Year Restatement: The System adopted new accounting guidance related to revenue recognition policies that expands qualitative and quantitative disclosures including disclosures over significant management judgments and estimates and disclosures over disaggregated net revenues. The System is using the full retrospective method, which requires restatement of each prior reporting period presented.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Adoption of the new standard resulted in changes to the presentation of net patient service revenue and patient accounts receivable in the consolidated financial statements, whereby amounts that have historically been characterized as provision for doubtful accounts and allowance for doubtful accounts are now reported as a direct reduction of net patient revenue and patient accounts receivable as implicit price concessions, respectively. In addition, financial statement captions for “Patient service revenue, net of contractual adjustments and charity care” and “Provision for doubtful accounts” have been removed from the consolidated statement of operations. Amounts previously reported as an increase or decrease in “allowance for doubtful accounts” and increase or decrease in “accounts receivable” within the consolidated statements of cash flows are now being combined and reported as an increase or decrease in “patient accounts receivable.” The adoption had no impact on net patient service revenue, the total net assets or total changes in net assets in the accompanying consolidated financial statements.

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 revenues, gains and other support over expenses.

Investments limited as to use include funds restricted in accordance with regulations established by the U.S. Department of Housing and Urban Development (HUD) for property replacement, insurance, security deposits and other expenditures. These funds are generally invested in savings or money market accounts and are held at various financial institutions.

Debt Issuance Costs: Debt issuance costs are amortized over the term of the related debt using the interest method and shown as a reduction in long-term debt.

Property, Plant and Equipment: Property, plant and equipment acquisitions are recorded at cost. The value of contributed land and buildings is established by appraised fair market value. Depreciation is determined using the straight-line method over the estimated useful lives of the assets. Gains or losses resulting from sale or disposal of assets are included in nonoperating gains and losses if significant.

Resident Deposits: Resident deposits, which are refundable no later than 90 days after termination of the residency agreement, are required for tenants to reside at Royal Oaks.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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 $1,057,915 and $1,117,496 at September 30, 2019 and 2018, respectively. No repayment of the capital advance is required as long as the facility is used for its intended purpose through 2035. The capital advance is being amortized over the estimated useful life of the facility.

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

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

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

Cost of Borrowing: Interest cost incurred during a period of construction related to borrowed funds is included in property, plant and equipment. During the years ended September 30, 2019 and 2018, the System capitalized approximately $1,210,000 and $900,000, respectively, of interest incurred on borrowed funds.

Charity Care: HMC treats all patients regardless of their ability to pay. Under its financial assistance and uninsured discount policies, HMC provides care without charge or at discounted rates to uninsured patients. Since the System does not anticipate payment for these services, charity care is considered an implicit price concession and is not recognized as net 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 $13,233,000 and $11,831,000 for the years ended September 30, 2019 and 2018, respectively. HMC received indigent care payments from the Dalton-Whitfield Indigent Trust and the Dalton-Whitfield Additional Trust of $3,000,000 and $4,000,000 for each of the years ended September 30, 2019 and 2018, respectively, reflected in other revenues.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

Income Taxes: The System has adopted procedures for determining the existence of uncertain tax positions, and the related timing and amount of their impact on the consolidated financial statements, and determined that there are no uncertain tax positions as of September 30, 2019 and 2018.

Other Long-Term Assets: Other long-term assets include goodwill of $640,000 as of September 30, 2019 and 2018 which is evaluated for impairment annually. Also, on August 1, 2015 an equity investment of $849,436 was made in a tax-exempt group distribution cooperative whose primary function is the provision of medical supplies. This equity investment decreased $123,377 and $251,639 in 2019 and 2018, respectively to reflect the System's share of earnings or losses. The equity investment balance at September 30, 2019 and 2018 was $528,086 and $651,463, respectively.

Prior Year Reclassifications: Certain reclassifications have been made to the fiscal year 2018 consolidated financial statements and footnote disclosures to conform to the 2019 presentation. These reclassifications had no impact on the total net assets or total changes in net assets in the accompanying consolidated financial statements.

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Certain financial assets and liabilities of the System are measured at fair value on a recurring basis. A description of the valuation methodologies used for instruments measured at fair value in accordance with the three-level fair value hierarchy follows:

> *Level One* – Values based on unadjusted quoted prices for identical assets or liabilities in an active market that the System has the ability to access.
>
> *Level Two* – Values based on pricing inputs which are either directly observable or that can be derived or supported from observable data. These inputs may include quoted prices for similar assets or liabilities in nonactive markets or pricing models whose inputs are observable for substantially the full term of the asset or liability.
>
> *Level Three* – Values based on prices or valuation techniques that require inputs that are both significant to the fair value of the financial asset or financial liability and are generally less observable from objective sources.

Level One investments held by the System include common stocks and equity mutual funds that are traded in an active market. Level Two investments held by the System include U.S. government and corporate obligations which are valued using prices that are determined through observable market information such as quotes from less active markets and/or quoted prices of securities with similar characteristics. The System did not hold any Level Three securities as of September 30, 2019 and 2018.

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 of funds. Alternative investments may have less liquidity, a stale quoted price, or varying prices from independent sources. The System is subject to certain limitations on redemption of various investments. Otherwise, all funds are redeemable at net asset value as of the redemption date.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The hierarchy of investments measured at fair value on a recurring basis as of September 30, 2019 is as follows:

	Level One	Level Two	Total
Investments and investments limited as to use:			
Cash and cash equivalents	$ 9,500,005	$ -	$ 9,500,005
Equities			
Consumer goods	28,538,306	-	28,538,306
Energy and utilities	6,222,867	-	6,222,867
Financials	26,751,627	-	26,751,627
Healthcare	24,957,122	-	24,957,122
Industrials and materials	36,314,958	-	36,314,958
Technology	40,979,431	-	40,979,431
Corporate obligations			
Domestic	-	86,207,694	86,207,694
U.S. government obligations			
Treasury/agency	-	39,848,598	39,848,598
Mortgage-backed	-	31,326,322	31,326,322
Asset-backed	-	21,268,441	21,268,441
Other	-	1,028,125	1,028,125
	$173,264,316	$179,679,180	352,943,496
Alternative investments measured at net asset value			218,233,170
Total investments and investments limited as to use			$571,176,666

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

The hierarchy of investments measured at fair value on a recurring basis as of September 30, 2018 is as follows:

	Level One	Level Two	Total
Investments and investments limited as to use:			
Cash and cash equivalents	$ 8,367,495	$ -	$ 8,367,495
Equities			
Consumer goods	25,371,547	-	25,371,547
Energy and utilities	15,591,159	-	15,591,159
Financials	36,168,168	-	36,168,168
Healthcare	35,553,142	-	35,553,142
Industrials and materials	35,264,154	-	35,264,154
Technology	44,803,552	-	44,803,552
Corporate obligations			
Domestic	-	68,922,517	68,922,517
U.S. government obligations			
Treasury/agency	-	52,862,809	52,862,809
Mortgage-backed	-	63,238,081	63,238,081
Asset-backed	-	15,110,495	15,110,495
Other	-	21,086,100	21,086,100
	$201,119,217	$221,220,002	422,339,219
Alternative investments measured at net asset value			175,735,306
Total investments and investments limited as to use			$598,074,525

Investments include accumulated unrealized gains of $67,716,106 and $65,802,561 as of September 30, 2019 and 2018, respectively.

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, 2019. Approximately $65,348,000 of the alternative investments measured at net asset value have such restrictions that limit redemption to future periods ranging from 2020 to 2027. The System has committed to invest approximately $36,198,000 in certain investments through August 15, 2027.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Investment income and gains and losses for investments and investments limited as to use are comprised of the following for the years ended September 30, 2019 and 2018:

	2019	2018
Interest and dividend income	$ 9,690,928	$10,614,763
Net realized gains on sales of trading securities	12,544,588	6,589,984
Net unrealized gains on trading securities	1,888,851	11,614,419
Investment fees	(1,633,299)	(1,962,731)
	$22,491,068	$26,856,435

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 $2,267,994 at September 30, 2019 and $1,486,645 at September 30, 2018.

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

Donor-Restricted Grants and Contributions: The System records contributions received, including unconditional promises to give, as revenue in the period received at their fair value. Conditional promises to give are recognized when the conditions are substantially met and contributions with donor-imposed restrictions are reported as restricted support.

Unconditional pledges to give cash and other assets, including charitable trusts, are reported at fair value at the date the pledge is made. Grants and pledges received with donor restrictions that limit the use of the donated assets are reported as restricted support. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported as net assets released from restrictions.

Subsequent Events: The System has evaluated activities subsequent to September 30, 2019 and determined that as of January 17, 2020, the date the consolidated financial statements were issued, there are no reportable subsequent events.

NET PATIENT SERVICE REVENUE:

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

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

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

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

NET PATIENT SERVICE REVENUE (CONTINUED):

Implicit price concessions for uninsured and underinsured patients that do not qualify for financial assistance are estimated based on historical collection experience with this class of patients using a portfolio approach as a practical expedient. For uninsured and underinsured patients that do not qualify for financial assistance, the System recognizes revenue on the basis of established rates, discounted according to policy for services rendered. Historical experience has shown a significant proportion of the System's uninsured patients, in addition to a growing proportion of the System's insured patients, will be unable or unwilling to pay for their responsible amounts for the services provided. In order to estimate the net realizable value of the revenues and accounts receivable associated with third-party payors and uninsured patients, management regularly assesses their valuation based upon business and economic considerations, trends in healthcare coverage, historical write-off experience and other collection trends.

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

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

	2019	2018
Medicare	$ 75,755,253	$ 68,152,656
Medicare HMO	21,197,807	16,937,477
Medicaid	43,559,056	44,255,298
Self-pay	1,478,931	1,068,684
Cigna	47,698,560	41,078,704
Blue Cross Blue Shield	33,888,787	31,719,367
Other commercial	107,811,041	100,778,015
Other	10,776,888	9,044,423
Net patient service revenue	$ 342,166,323	$ 313,034,624

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

	2019	2018
Charges, at established rates	$1,285,524,534	$1,144,614,778
Explicit price concessions	(806,081,590)	(710,825,337)
Charity care	(53,933,688)	(48,448,822)
Implicit price concessions	(83,342,933)	(72,305,995)
Net patient service revenue	$ 342,166,323	$ 313,034,624

NET PATIENT SERVICE REVENUE (CONTINUED):

Estimated Third-Party Payor Settlements:

Inpatient services provided to Medicare and Medicaid beneficiaries are reimbursed based on prospectively determined rates per discharge. Outpatient Medicare services are reimbursed based on prospectively determined rates per visit and outpatient Medicaid services are reimbursed based on cost subject to certain limitations. Such determinations are subject to review and retrospective adjustment by third-party payors. Final settlement has been reached for all Medicare years prior to 2013 and Medicaid years prior to 2017.

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 2019.

In the opinion of management, adequate provision has been made for any retrospective adjustments that may result from such reviews. Any difference between estimated settlements and final determinations are reflected in the year finalized. The System has recorded amounts due to Medicare and Medicaid programs of $2,808,000 and $3,005,000 in patient accounts receivable as of September 30, 2019 and 2018, respectively. Net patient service revenue increased by approximately $1,270,000 and $782,000 for the years ended September 30, 2019 and 2018, respectively, due to changes in estimates related to prior-year settlements.

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

PATIENT ACCOUNTS RECEIVABLE:

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

PATIENT ACCOUNTS RECEIVABLE (CONTINUED):

The mix of receivables, excluding patient credit balances which have been reclassified to current liabilities, at September 30, 2019 and 2018 is as follows:

	2019	2018
Medicare	32%	30%
Medicaid	9	8
Third-party payor	31	34
Patients	28	28
	100%	100%

LONG-TERM DEBT:

The long-term debt at September 30 consisted of:

	2019	2018
Mortgage note payable, HUD approved lender, interest at 4.16% at September 30, 2019 and 2018, respectively, payable through 2041	$1,096,450	$1,126,665
Development Authority of City of Dalton Revenue Certificates, Series 1996, interest at various rates from 3.65% to 5.5% payable through 2026	18,845,000	21,845,000
Development Authority of City of Dalton Subordinated Participating Refunding Revenue Certificates, Series 2003, variable interest rate with maximum of 15% (15% at September 30, 2019 and 2018) payable in 2023	1,000,000	1,000,000
Development Authority of City of Dalton Refunding Revenue Bonds, Series 2012A, Interest at various rates from 2.0% to 5.0% payable through 2028	35,675,000	37,540,000
Development Authority of City of Dalton Refunding Revenue Bonds, Series 2012B, variable interest rate (2.04% and 2.05% at September 30, 2019 and 2018, respectively) payable through 2029	2,970,000	2,970,000

LONG-TERM DEBT (CONTINUED):

	2019	2018
Development Authority of City of Dalton Refunding Revenue Bonds, Series 2012C, variable interest rate (2.04% and 2.05% at September 30, 2019 and 2018, respectively) payable through 2042	$ 53,620,000	$ 53,620,000
Development Authority of City of Dalton Subordinated Participating Refunding Revenue Certificates, Series 2016, variable interest rate with maximum of 9.30% (7.39% and 7.18% at September 30, 2019 and 2018, 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
	204,361,450	209,256,665
Plus Series 2012A bond premium	2,411,955	2,832,610
Plus Series 2017 bond premium	3,563,620	3,719,084
Less current maturities	(5,151,496)	(4,895,215)
Less unamortized issuance costs	(2,299,234)	(2,526,285)
	$202,886,295	$208,386,859

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

2020	$ 5,151,496
2021	5,422,831
2022	5,709,224
2023	6,010,675
2024	6,327,187
2025 and thereafter	175,740,037
	$204,361,450

LONG-TERM DEBT (CONTINUED):

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

On June 1, 2003, Development Authority issued tax-exempt Subordinated Participating Refunding Revenue Certificates, Series 2003 (Series 2003 Certificates) in the amount of $1,000,000 payable on June 1, 2023. Interest is calculated at the rate equal to the lesser of 15% or 1.6% of Net Patient Service Revenue at HASC, as defined. Pursuant to a Loan Agreement between Development Authority and HMC, both HMC and the System became obligated issuers. The proceeds were used to refund $1,000,000 in principal amount of Series 1996 Certificates. Hamilton Surgeons' Tax-Exempt Bond, LLC (Bond LLC) entered into a Purchase Agreement with HMC and the System for the purchase of the Series 2003 Certificates and offered units in the Bond LLC to qualified physicians. This liability was transferred from HMC to HASC on December 1, 2012.

On September 1, 2003, Development Authority issued tax-exempt Variable Rate Demand Revenue Certificates, Series 2003B (Series 2003B Certificates) in the amount of $55,000,000 payable through August 15, 2033. Pursuant to a Loan Agreement under the Master Trust Indenture between Development Authority and HMC, the proceeds were used to finance and reimburse HMC for certain capital improvements at HMC and for the cost of issuance. The Series 2003B Certificates were secured by an irrevocable Letter of Credit in the amount of $55,632,877 between HMC, the System and a financial institution under a Reimbursement Agreement.

On June 22, 2006, DSH entered into a 6.1% mortgage note payable with a HUD approved lender in the amount of $1,355,100 payable through July 1, 2041. The proceeds were used to pay off a HUD mortgage note payable and finance certain capital improvements, HUD required deposits and cost of issuance. Effective May 21, 2014 the note was modified to reduce the interest rate to 4.16%. All additional terms of the note were unchanged.

LONG-TERM DEBT (CONTINUED):

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

Also, on December 5, 2012 all of the outstanding Residential Care Facilities for the Elderly Authority of Whitfield County tax-exempt variable rate bonds, which were used to finance the acquisition, construction and equipping of the Royal Oaks facility, were redeemed and replaced with Development Authority of the City of Dalton Refunding Revenue Bonds Series 2012B, a tax-exempt variable rate obligation of both HMC and the System purchased directly by a financial institution, payable through 2029. A supporting note receivable was executed whereby Royal Oaks will reimburse HMC semiannually for the principal and interest payments required.

In addition, on December 5, 2012, the remaining Series 2003B Certificates were redeemed and replaced with a tax-exempt variable rate obligation purchased directly by a financial institution (Series 2012C Bonds) payable through 2042. Accordingly, the Letter of Credit was cancelled on December 5, 2012. The Series 2012C Bonds included $20,000,000 of additional proceeds to be used for certain additions, renovations and improvements at HMC.

On November 14, 2016, Development Authority issued tax-exempt Subordinated Participating Refunding Revenue Certificates, Series 2016 (Series 2016 Certificates) in the amount of $1,155,000 payable on June 1, 2026. Interest is calculated at the rate equal to the lesser of 9.3% or 0.71% of Net Patient Service Revenue at HASC, as defined. Pursuant to a Loan Agreement between Development Authority and HASC, HASC became the obligated issuer. The proceeds were used to refund $1,155,000 in principal amount of Series 1996 Certificates. Bond LLC entered into a Purchase Agreement with HASC for the purchase of the Series 2016 Certificates and offered units in the Bond LLC to qualified physicians.

On December 13, 2017, Dalton-Whitfield County Joint Development Authority (Georgia) issued tax-exempt Variable Rate Revenue Bonds, Series 2017 in the amount of $90,000,000 payable through August 15, 2048. Pursuant to a Loan Agreement under the Master Trust Indenture between Development Authority and HMC, the proceeds were used to finance and reimburse HMC for certain capital improvements at HMC and for the cost of issuance.

HLTC, INC. MANAGEMENT AGREEMENT:

HLTC was organized in July, 1997, as a controlled affiliate of the System to provide long-term care services. HLTC was granted tax-exemption as described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. HLTC purchased four nursing homes located in Dalton, Georgia from Care More, Inc. (Care More). HLTC also entered into Management Agreements (Agreement) with Care More to provide management services for the homes. The Agreement between HLTC and Care More, which merged into Health Scholarships, Inc. and operates as Ethica Health and Retirement Communities (Ethica), expired on December 31, 2018, at which time HLTC assumed management services of the homes.

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 currently extends through December 31, 2018. Under the terms of the Original Agreement the County reimbursement is $300,000 annually. On September 10, 2018, HEMS and the County entered into a new Agreement for Emergency Medical Services (New Agreement), effective January 1, 2019 and extending through December 31, 2020, with provisions to extend for additional two-year periods through December 31, 2030 unless either party advises the other of its intent to terminate the New Agreement. The New Agreement includes an annual reimbursement from the County to HEMS of $250,000. All other terms of the New Agreement are consistent with the Original Agreement.

INVESTMENT-HEALTH ONE ALLIANCE AND ALLIANT:

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

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

INVESTMENT-HEALTH ONE ALLIANCE AND ALLIANT (CONTINUED):

Summarized financial data of HOA, including the unaudited consolidated operations of Alliant, for the twelve months ended September 30, 2019 and 2018 is as follows:

	Unaudited Twelve Months Ended September 30, 2019	Unaudited Twelve Months Ended September 30, 2018
Total assets	$154,390,167	$137,941,126
Total shareholders' equity	$ 94,267,940	$ 62,531,006
Net gain	$ 31,736,934	$ 44,471,564

The investment in HOA is accounted for under the equity method and, accordingly, HMC recognized its share of HOA's gain of $15,868,467 and $22,235,782 in 2019 and 2018, respectively. The net investment in HOA was $47,133,970 and $31,265,503 at September 30, 2019 and 2018, respectively.

HAMILTON AMBULATORY SURGERY CENTER, INC.:

HMC, on September 26, 2001, organized HASC as a controlled affiliate and tax-exempt corporation as described in Section 501(c)(3) of the Internal Revenue Code of 1986. HASC operates an ambulatory surgery center facility (Surgery Center) with four operating rooms, which opened in November 2001, near the HMC acute-care hospital. The Surgery Center was constructed by HMC under a Certificate of Need (CON) from the State of Georgia with further CON approval in June 2002 granting HASC, rather than HMC, a license to operate the Surgery Center as freestanding.

On November 9, 2001, HMC entered into a Management Services Contract (Contract) with an outside vendor to provide management services for operation of the Surgery Center. The Contract was transferred on October 1, 2002 to Hamilton Surgeons' Management Company, LLC (Management Company) to provide comprehensive management services for operation of the Surgery Center under a Management and Clinical Supervisor Agreement which has been renewed through August 31, 2019. Many of the Management Company responsibilities are fulfilled through a contract with an outside vendor. The total management fees were $483,333 and $475,000 for the years ended September 30, 2019 and 2018, respectively.

LIABILITY CLAIMS:

The System and controlled affiliates are, from time to time, subject to liability claims and suits arising in the ordinary course of business. Since January 1988, the System and certain affiliates have been insured against such claims by a commercial insurance carrier on a claims-made basis. The coverage includes a self-insured retention of $2,000,000 per occurrence and $6,000,000 aggregate per year through April 1, 2020, 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 $10,628,950 and $8,048,014 as of September 30, 2019 and 2018, respectively, whose use is limited under a trust agreement for liability claims and has accrued liability claims of $7,726,387 and $5,376,004 as of September 30, 2019 and 2018, respectively, which have been discounted at 3.5%. It is reasonably possible that actual losses may exceed management's estimates by a material amount. Under terms of the trust agreement, the fund is committed to the payment of liability claims and expenses.

RETIREMENT PLAN:

Under a 403(b) matching plan, the System matches 100% of employee contributions up to 5% of salary. Full-time employees are eligible if they are 21 years of age and have at least one year of continuous service. Expense associated with the retirement plans was $4,828,418 and $4,453,361 in 2019 and 2018, respectively.

PLEDGES RECEIVABLE:

Outstanding pledges receivable from various individuals and corporations, with certain time and use restrictions, are set forth in the following table and discounted to their present value using a rate of 5% at September 30, 2019 and 2018.

	2019	2018
Pledges due:		
In less than one year	$ 1,233,607	$ 1,577,640
In one to five years (future value)	3,325,034	4,586,517
In more than five years (future value)	6,028,979	6,067,940
	10,587,620	12,232,097
Discounts on pledges greater than one year	(2,649,920)	(2,790,284)
Allowance for doubtful pledges	(844,926)	(965,781)
	$ 7,092,774	$ 8,476,032

Discounted pledges receivable from a single donor, as of September 30, 2019 and 2018, totaled $5,449,000 and $5,584,606, respectively.

FUNCTIONAL EXPENSES:

The System affiliates provide and support various services within their geographic area. Other services include senior living services, ambulance services and fundraising. Expenses related to providing these services for the fiscal year ended September 30, 2019 are as follows:

	Healthcare Services	General & Administrative	Other Services	Total
Salaries, wages and benefits	$151,631,428	$44,790,185	$4,805,559	$201,227,172
Supplies & utilities	55,269,770	4,383,309	615,283	60,268,362
Purchased services	19,531,672	7,228,346	410,483	27,170,501
Other	21,156,762	9,787,857	820,584	31,765,203
Professional Fees	11,432,549	-	-	11,432,549
Depreciation and amortization	9,610,797	6,527,047	826,748	16,964,592
Interest	3,889,663	2,622,126	53,821	6,565,610
Total	$272,522,641	$75,338,870	$7,532,478	$355,393,989

Expenses related to providing these services for the fiscal year ended September 30, 2018 are as follows:

	Healthcare Services	General & Administrative	Other Services	Total
Salaries, wages and benefits	$128,464,095	$42,269,177	$4,609,853	$175,343,125
Supplies & utilities	46,517,376	4,151,102	588,852	51,257,330
Purchased services	20,111,121	6,322,066	404,573	26,837,760
Other	20,636,927	6,640,255	813,721	28,090,903
Professional Fees	10,340,033	-	-	10,340,033
Depreciation and amortization	8,987,268	5,705,832	953,136	15,646,236
Interest	3,523,897	2,369,136	55,346	5,948,379
Total	$238,580,717	$67,457,568	$7,425,481	$313,463,766

COMMITMENTS:

The System and affiliates are obligated under contracts with certain outside service organizations. The related contracted services of approximately $51,365,000 and $40,357,000 were incurred in 2019 and 2018, respectively.

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

Year ending September 30	Amount
2020	$12,289,000
2021	10,844,000
2022	5,733,000
2023	4,348,000
2024	4,433,000

LIQUIDITY AND AVAILABILITY OF RESOURCES:

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

	2019	2018
Cash and cash equivalents	$15,623,833	$19,231,788
Patient accounts receivable	38,493,309	33,874,592
Other assets	6,765,445	10,436,478
Total	$60,882,587	$63,542,858

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

Although the System does not intend to spend from the board-designated endowment of $11,696,635 as of September 30, 2019, these amounts could be made available if necessary. At the discretion of System management, excess cash not needed for operating expenditures are invested in various investment funds.

NET ASSETS WITH DONOR RESTRICTIONS:

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

	2019	2018
Subject to expenditure for specified purpose:		
To assist with healthcare needs for the indigent	$ 2,822,299	$2,568,112
Held in perpetuity:		
Earnings to provide nursing scholarship assistance	203,190	203,190
Subject to the passage of time:		
Net assets held under split interest agreements	815,491	811,730
Promises to give that are restricted by donors by passage of time	7,735,095	9,128,896
	8,550,586	9,940,626
Total net assets with donor restrictions	$11,576,075	$12,711,928