Hamilton Medical Center, Inc.

Consolidated Financial Statements

Years Ended September 30, 2019 and 2018

DIXON HUGHES GOODMAN LLP

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Independent Auditors' Report

Board of Trustees
Hamilton Medical Center, Inc.
Dalton, Georgia

We have audited the accompanying consolidated financial statements of Hamilton Medical Center, 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 Medical Center, 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 Medical Center, 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 Medical Center 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 MEDICAL CENTER, INC.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

for the years ended September 30, 2019 and 2018

HAMILTON MEDICAL CENTER, INC.

CONSOLIDATED BALANCE SHEETS

September 30, 2019 and 2018

ASSETS

	2019	2018
Current:		
Cash and cash equivalents	$ 11,131,836	$ 13,635,991
Patient accounts receivable	32,915,046	29,600,568
Inventories	5,568,609	4,813,341
Other assets	9,772,940	13,187,892
Total current assets	59,388,431	61,237,792
Investments	339,044,393	325,670,739
Investments limited as to use:		
Under trust agreement for liability claims	8,952,489	6,491,326
Series 2017 project fund	42,376,960	71,556,580
	51,329,449	78,047,906
Property, plant and equipment:		
Land and improvements	28,758,436	25,799,152
Buildings and improvements	219,130,426	194,941,783
Equipment	177,229,270	165,393,416
Construction in progress	58,601,408	30,287,935
	483,719,540	416,422,286
Accumulated depreciation	(238,484,282)	(225,572,970)
	245,235,258	190,849,316
Investment-Health One Alliance, LLC	47,133,970	31,265,503
Note receivable-HLTC, Inc.	10,115,605	10,722,671
Note receivable-Royal Oak Community, Ltd.	2,970,000	2,970,000
Other long-term assets	1,226,172	1,353,499
	$ 756,443,278	$ 702,117,426

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

HAMILTON MEDICAL CENTER, INC.

CONSOLIDATED BALANCE SHEETS (CONTINUED)

September 30, 2019 and 2018

LIABILITIES AND NET ASSETS

	2019	2018
Current:		
Current maturities of long-term debt	$ 5,120,000	$ 4,865,000
Accounts payable	25,877,668	19,139,940
Accrued liabilities	17,282,751	15,852,969
Total current liabilities	48,280,419	39,857,909
Accrued liability claims and other	7,313,864	5,775,403
Long-term debt, net of current maturities	201,884,161	207,356,120
Total liabilities	257,478,444	252,989,432
Net assets:		
Net assets without donor restrictions	498,964,834	449,127,994
	$756,443,278	$702,117,426

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

HAMILTON MEDICAL CENTER, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

for the years ended September 30, 2019 and 2018

	2019	2018
Excess of unrestricted revenues, gains, and other support over expenses	$ 50,196,840	$ 64,854,396
Equity transfer to Hamilton Children's Institute	(360,000)	-
Increase in net assets	49,836,840	64,854,396
Net assets, beginning of year	449,127,994	384,273,598
Net assets, end of year	$498,964,834	$449,127,994

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

HAMILTON MEDICAL CENTER, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

for the years ended September 30, 2019 and 2018

	2019	2018 (as adjusted)
Unrestricted revenues, gains and other support:		
Net patient service revenue	$312,905,432	$283,650,208
Investment income, net	15,371,602	16,996,457
Gain in Health One Alliance, LLC	15,868,467	22,235,782
Other	10,737,183	10,812,052
Total unrestricted revenues, gains and other support	354,882,684	333,694,499
Expenses:		
Salaries, wages and benefits	166,918,696	147,225,117
Supplies and utilities	55,691,112	47,104,645
Purchased services	24,150,517	22,771,065
Other	25,537,939	22,149,722
Professional fees	11,418,334	10,340,033
Depreciation and amortization	14,984,560	13,986,662
Interest	6,511,789	5,893,034
Total expenses	305,212,947	269,470,278
Income from operations	49,669,737	64,224,221
Nonoperating gains:		
Distribution from Whitfield Healthcare Foundation, Inc.	500,000	500,000
Gain on disposal of assets, net	27,103	130,175
Excess of unrestricted revenues, gains and other support over expenses	$ 50,196,840	$ 64,854,396

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

HAMILTON MEDICAL CENTER, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the years ended September 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	$ 49,836,840	$ 64,854,396
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	14,984,560	13,986,662
Net realized and unrealized gain from trading securities	(9,771,930)	(11,256,886)
Gain in investment-Health One Alliance, LLC	(15,868,467)	(22,235,782)
Debt issuance cost amortization	224,160	214,600
Amortization of issuance premium on long-term debt	(576,119)	(436,492)
Gain on disposal of assets	(27,103)	(130,175)
Increase in patient accounts receivable	(3,314,478)	(3,271,121)
Increase in inventories	(755,268)	(589,086)
Decrease (increase) in other assets	3,414,952	(4,006,548)
Increase in accounts payable and accrued liabilities	8,167,510	5,899,225
Increase in accrued liability claims and accrued liabilities	1,538,461	1,066,316
Net cash provided by operating activities	47,853,118	44,095,109
Cash flows from investing activities:		
Purchase of property, plant and equipment, net	(69,734,342)	(52,754,995)
Proceeds from sale of assets	390,943	141,522
Increase in investments, net	(3,934,288)	(8,547,180)
Decrease (increase) in investments limited as to use, net	27,051,021	(71,676,003)
Decrease in other long-term assets	127,327	213,303
Cash received note receivable-HLTC, Inc.	607,066	548,852
Net cash used by investing activities	(45,492,273)	(132,074,501)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

for the years ended September 30, 2019 and 2018

	2019	2018
Cash flows from financing activities:		
Repayment of long-term debt	$ (4,865,000)	$ (4,630,000)
Participating refunding revenue certificate issue cost	-	(1,260,588)
Participating refunding revenue certificate, Series 2017	-	93,719,084
Net cash (used) provided by financing activities	(4,865,000)	87,828,496
Decrease in cash and cash equivalents	(2,504,155)	(150,896)
Cash and cash equivalents, beginning of year	13,635,991	13,786,887
Cash and cash equivalents, end of year	$11,131,836	$13,635,991

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization: Hamilton Medical Center, Inc. (HMC) is a tax-exempt controlled affiliate as described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, of Hamilton Health Care System, Inc. (the System), a not-for-profit holding corporation, whereby the trustees and officers are elected and appointed by the Board of Trustees of the System. Other controlled affiliates include Dalton Senior Housing, Inc. (DSH), HLTC, Inc. (HLTC), Hamilton Emergency Medical Services, Inc., Murray Medical Center, 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.

Consolidation: The consolidated financial statements include the accounts of HMC, HASC and HPG. All significant intercompany transactions and accounts have been eliminated in consolidation.

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

Adoption of New Accounting Standard Update and Prior Year Restatement: HMC 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. HMC is using the full retrospective method, which requires restatement of each prior reporting period presented.

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 2018 consolidated financial statements.

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. HMC has not experienced any significant losses on these investments.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Cash paid during 2019 and 2018 for interest was $8,072,899 and $6,695,840, 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 revenues, gains and other support over expenses.

Property, Plant and Equipment: Property, plant and equipment acquisitions are recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets. Gains or losses resulting from sale or disposal of assets are included in nonoperating gains and losses if significant.

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

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 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.

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: 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, 2019 and 2018.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Fair Value of Financial Instruments: Fair value is defined under accounting principles generally accepted in the United States of America as an exit price, representing the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A three-level fair value hierarchy prioritizes the inputs used to measure fair value with the highest priority given to unadjusted quoted prices in active markets (Level One) and the lowest priority given to unobservable inputs (Level Three).

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

Level One – Values based on unadjusted quoted prices for identical assets or liabilities in an active market that HMC has the ability to access.

Level Two – Values based on pricing inputs which are either directly observable or that can be derived or supported from observable data. These inputs may include quoted prices for similar assets or liabilities in nonactive markets or pricing models whose inputs are observable for substantially the full term of the asset or liability.

Level Three – Values based on prices or valuation techniques that require inputs that are both significant to the fair value of the financial asset or financial liability and are generally less observable from objective sources.

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

	Level One	Level Two	Total
Investments and investments limited as to use:			
Cash and cash equivalents	$ 3,827,770	$ -	$ 3,827,770
Equities			
Consumer goods	19,320,429	-	19,320,429
Energy and utilities	4,201,331	-	4,201,331
Financials	17,854,319	-	17,854,319
Healthcare	16,541,676	-	16,541,676
Industrials and materials	24,442,120	-	24,442,120
Technology	27,274,221	-	27,274,221
Corporate obligations			
Domestic	-	69,099,149	69,099,149
U.S. government obligations			
Treasury/agency	-	28,647,765	28,647,765
Mortgage-backed	-	21,723,258	21,723,258
Asset-backed	-	17,650,725	17,650,725
Other	-	687,582	687,582
	$113,461,866	$137,808,479	251,270,345
Alternative investments measured at net asset value			139,103,497
Total investments and investments limited as to use			$390,373,842

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

The hierarchy of cash and 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	$ 3,457,007	$ -	$ 3,457,007
Equities			
Consumer goods	16,274,722	-	16,274,722
Energy and utilities	9,969,462	-	9,969,462
Financials	23,139,878	-	23,139,878
Healthcare	22,743,224	-	22,743,224
Industrials and materials	22,585,515	-	22,585,515
Technology	28,683,704	-	28,683,704
Corporate obligations			
Domestic	-	49,831,766	49,831,766
U.S. government obligations			
Treasury/agency	-	39,975,455	39,975,455
Mortgage-backed	-	55,110,628	55,110,628
Asset-backed	-	10,885,011	10,885,011
Other	-	13,836,925	13,836,925
	$126,853,512	$169,639,785	296,493,297
Alternative investments measured at net asset value			107,225,348
Total investments and investments limited as to use			$403,718,645

Investments include accumulated unrealized gains of $31,895,253 and $30,184,666 as of September 30, 2019 and 2018, 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, 2019. Approximately $40,037,000 of the alternative investments have such restrictions that limit redemption to future periods ranging from 2020 to 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	$ 6,559,678	$ 6,979,549
Net realized gains on sales of trading securities	8,061,343	4,308,589
Net unrealized gains on trading securities	1,802,965	6,948,297
Investment fees	(1,052,384)	(1,239,978)
	$15,371,602	$16,996,457

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

Other Long-Term Assets: Other long-term assets, includes 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 HMC's share of earnings. The equity investment balance at September 30, 2019 and 2018 was $528,086 and $651,463, respectively.

Subsequent Events: HMC 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 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 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, HMC

NET PATIENT SERVICE REVENUE (CONTINUED):

has elected to apply the optional exemption from disclosure of amounts associated with unsatisfied performance obligations at the end of the reporting period. Such unsatisfied or partially unsatisfied performance obligations primarily relate to inpatient acute care services at the end of the reporting period for in-house patients, who are generally discharged within days or weeks after the end of the reporting period. HMC has an unconditional right to receive payment subject only to the passage of time for services provided to these in-house patients through the end of the reporting period. Such amounts are reported within patient accounts receivable in the consolidated balance sheets.

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

Implicit price concessions for uninsured and underinsured patients that do not qualify for financial assistance are estimated based on historical collection experience with this class of patients using a portfolio approach as a practical. 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 net patient service revenue by payor source. The disaggregation by payor source is as follows:

	2019	2018
Medicare	$ 66,800,192	$ 61,254,599
Medicare HMO	21,197,807	16,937,477
Medicaid	23,802,464	23,056,340
Self-pay	1,497,921	1,547,306
Cigna	47,698,560	41,078,704
Blue Cross Blue Shield	33,888,787	31,719,367
Other commercial	107,523,483	99,011,992
Other	10,496,218	9,044,423
	$312,905,432	$283,650,208

NET PATIENT SERVICE REVENUE (CONTINUED):

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

	2019	2018
Charges, at established rates	$1,243,943,823	$1,103,488,459
Explicit price concessions	(796,204,161)	(699,144,738)
Charity care	(53,933,688)	(48,448,822)
Implicit price concessions	(80,900,542)	(72,244,691)
Net patient service revenue	$ 312,905,432	$ 283,650,208

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. 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 $2,890,000 and $3,150,000 in patient accounts receivable as of September 30, 2019 and 2018, respectively. Net patient service revenue increased by approximately $1,296,000 and $791,000 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.

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	7	8
Third-party payor	33	34
Patients	28	28
	100%	100%

LONG-TERM DEBT:

The long-term debt at September 30 consisted of:

	2019	2018
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

LONG-TERM DEBT (CONTINUED):

	2019	2018
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
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
	203,265,000	208,130,000
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	(5,120,000)	(4,865,000)
Less unamortized issuance costs	(2,236,414)	(2,460,574)
	$201,884,161	$207,356,120

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

2020	$ 5,120,000
2021	5,390,000
2022	5,675,000
2023	5,975,000
2024	6,290,000
2025 and thereafter	174,815,000
	$203,265,000

LONG-TERM DEBT (CONTINUED):

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

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

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

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 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.

LONG-TERM DEBT (CONTINUED):

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

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, 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.

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 $4,140,859 and $3,753,377 in 2019 and 2018, respectively.

CONCENTRATION OF CREDIT RISK:

Financial instruments that potentially subject HMC to significant concentrations of credit risk consist of cash, cash equivalents and investments. Cash, cash equivalents and investments are maintained by HMC in accounts with several financial institutions. HMC performs periodic evaluations of the relative credit standing of those financial institutions that are considered in HMC's investment strategy.

HAMILTON AMBULATORY SURGERY CENTER, INC.:

HMC, on September 26, 2001, organized HASC as a controlled affiliate and tax-exempt corporation as described in 501(c)(3) of the Internal Revenue Code of 1986.

HASC operates an ambulatory surgery center facility (Surgery Center) with four operating rooms, which opened in November 2001, near the HMC acute-care hospital. The Surgery Center was constructed by HMC under a Certificate of Need (CON) from the State of Georgia with further CON approval in June 2002 granting HASC, rather than HMC, a license to operate the Surgery Center as freestanding.

On November 9, 2001, HMC entered into a Management Services Contract (Contract) with an outside vendor to provide management services for operation of the Surgery Center. The Contract was transferred on October 1, 2002 to Hamilton Surgeons' Management Company, LLC (Management Company) to provide comprehensive management services for operation of the Surgery Center under a Management and Clinical Supervision Agreement which has been renewed through August 31, 2020. 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 years ended September 30, 2019 and 2018.

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 includes a self-insured retention of $2,000,000 per occurrence and $6,000,000 aggregate per year through April 1, 2020 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 $8,952,489 and $6,491,326 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 $5,927,646 and $4,281,029 as of September 30, 2019 and 2018, respectively, which have been discounted at 3.5%, respectively. It is reasonably possible that actual losses may differ from management's estimates by a material amount. Under terms of the trust agreement, the fund is committed to the payment of liability claims and expenses.

COMMITMENTS:

HMC is obligated under contracts with certain outside service organizations. The related contracted services expense of $42,830,000 and $30,759,000 were incurred in 2019 and 2018, respectively.

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

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

RELATED PARTY TRANSACTIONS:

Under terms of a Service Agreement, HMC paid the System $9,495,000 and $9,058,062 reflected in operating expense for years ended September 30, 2019 and 2018, respectively.

Under terms of a Service Agreement effective October 1, 1997, the System paid HMC $225,000 for years ended September 30, 2019 and 2018.

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 $21,659 and $21,440 for years ended September 30, 2019 and 2018, 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 $25,645 and $26,139 for the years ended September 30, 2019 and 2018, respectively.

Amounts due from related affiliates of $822,428 and $627,207 as of September 30, 2019 and 2018, respectively, are included in other current assets. Amounts due to related affiliates of $1,469,997 and $1,767,309 as of September 30, 2019 and 2018, respectively, are included in accounts payable.

FUNCTIONAL EXPENSES:

HMC provides healthcare services to residents within its geographic area. Expenses related to providing these services for the fiscal year ended September 30, 2019 are as follows:

	Healthcare Services	General & Administrative	Total
Salaries, wages and benefits	$139,628,809	$27,289,887	$166,918,696
Supplies and utilities	51,963,330	3,727,782	55,691,112
Purchased services	17,423,966	6,726,551	24,150,517
Other	16,746,779	8,791,160	25,537,939
Professional fees	11,418,334	-	11,418,334
Depreciation and amortization	8,936,606	6,047,954	14,984,560
Interest	3,889,663	2,622,126	6,511,789
Total	$250,007,487	$55,205,460	$305,212,947

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

	Healthcare Services	General & Administrative	Total
Salaries, wages and benefits	$121,656,774	$25,568,343	$147,225,117
Supplies and utilities	43,508,966	3,595,679	47,104,645
Purchased services	16,849,409	5,921,656	22,771,065
Other	16,023,117	6,126,605	22,149,722
Professional fees	10,340,033	-	10,340,033
Depreciation and amortization	8,335,880	5,650,782	13,986,662
Interest	3,523,898	2,369,136	5,893,034
Total	$220,238,077	$49,232,201	$269,470,278

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	$11,131,836	$13,635,991
Patient accounts receivable	32,915,046	29,600,568
Other assets	4,645,622	8,189,897
Total	$48,692,504	$51,426,456

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.