HOUSTON HEALTHCARE SYSTEM, INC.

COMBINED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

DECEMBER 31, 2023 AND 2022

Warren Averett
CPAs AND ADVISORS
www.warrenaverett.com

The report accompanying this deliverable was issued by Warren Averett, LLC.

HOUSTON HEALTHCARE SYSTEM, INC.
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DECEMBER 31, 2023 AND 2022

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Warren Averett
CPAs AND ADVISORS

6 Concourse Parkway, Suite 600
Atlanta, GA 30328-5351
770.396.1100
warrenaverett.com

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Houston Healthcare System, Inc.

Opinion
We have audited the accompanying combined financial statements of Houston Healthcare System, Inc. (a Georgia corporation), which comprise the combined balance sheets as of December 31, 2023 and 2022 and the related combined statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the combined financial statements.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Houston Healthcare System, Inc. as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis of Opinion
We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Houston Healthcare System, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements
Management is responsible for the preparation and fair presentation of these combined 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the combined financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Houston Healthcare System, Inc.'s ability to continue as a going concern within one year after the date that the combined financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the combined financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Houston Healthcare System, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the combined financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Houston Healthcare System, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The supplementary combining information referred to in the table of contents is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audits of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining information is fairly stated, in all material respects, in relation to the combined financial statements as a whole.

Warren Averett, LLC

Atlanta, Georgia
April 26, 2024

HOUSTON HEALTHCARE SYSTEM, INC.
COMBINED BALANCE SHEETS
DECEMBER 31, 2023 AND 2022
(in thousands)

ASSETS

	2023	2022
CURRENT ASSETS		
Cash and cash equivalents	$ 12,997	$ 4,615
Assets limited as to use	675	576
Patient accounts receivable, net	24,858	24,101
Estimated third-party payor settlements	790	2,741
Insurance recoveries, current portion	2,422	2,768
Inventories	4,621	4,682
Other current assets	5,835	5,341
Total current assets	52,198	44,824
ASSETS LIMITED AS TO USE	100,878	124,895
PROPERTY AND EQUIPMENT, NET	141,036	131,861
PENSION ASSET	1,445	3,033
OTHER ASSETS		
Operating lease right-of-use assets, net	7,824	1,583
Investments in unconsolidated entities	3,596	3,746
Insurance recoveries	7,006	7,379
Total other assets	18,426	12,708
TOTAL ASSETS	$ 313,983	$ 317,321

See notes to the combined financial statements.

HOUSTON HEALTHCARE SYSTEM, INC.
COMBINED BALANCE SHEETS – CONTINUED
DECEMBER 31, 2023 AND 2022
(in thousands)

LIABILITIES AND NET ASSETS

	2023	2022
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 12,492	$ 10,323
Accrued compensation and benefits	22,267	19,620
Estimated third-party payor settlements	6,486	3,818
Operating lease liabilities, current portion	830	525
Other current liabilities	5,676	5,583
Total current liabilities	47,751	39,869
LINE OF CREDIT	6,411	5,000
OTHER LONG-TERM LIABILITY	6,523	-
OPERATING LEASE LIABILITIES, LESS CURENT PORTION	7,025	1,061
SELF-INSURANCE RESERVES	17,378	17,479
TOTAL LIABILITIES	85,088	63,409
NET ASSETS		
Without donor-imposed restrictions	228,895	253,912
Total net assets	228,895	253,912
TOTAL LIABILITIES AND NET ASSETS	$ 313,983	$ 317,321

See notes to the combined financial statements.

HOUSTON HEALTHCARE SYSTEM, INC.
COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022
(in thousands)

	2023	2022
OPERATING REVENUES		
Net patient service revenue	$ 298,871	$ 273,647
Other revenue	4,155	3,888
Total operating revenues	303,026	277,535
OPERATING EXPENSES		
Salaries and benefits	198,528	180,834
Supplies and drugs	48,232	45,985
Other expenses	82,071	79,881
Depreciation and amortization	10,237	10,490
Interest expense	541	184
Total operating expenses	339,609	317,374
OPERATING LOSS	(36,583)	(39,839)
NONOPERATING REVENUES (EXPENSES)		
Investment income	2,890	2,983
Other components of net periodic pension costs	58	1,792
Net realized gain (loss) on sales of securities	1,030	(1,850)
Net unrealized gain (loss) on securities	8,805	(23,224)
Other nonoperating expenses	(7,256)	-
Noncapital grants, contributions, and other	4	42
Total nonoperating revenues	5,531	(20,257)
EXCESS OF EXPENSES OVER REVENUES	(31,052)	(60,096)
Changes in pension assets and benefit obligations not included in net periodic pension costs	6,035	(8,123)
Contributions for capital	-	378
DECREASE IN NET ASSETS WITHOUT DONOR-IMPOSED RESTRICTIONS	(25,017)	(67,841)
NET ASSETS AT BEGINNING OF YEAR	253,912	321,753
NET ASSETS AT END OF YEAR	$ 228,895	$ 253,912

See notes to the combined financial statements.

HOUSTON HEALTHCARE SYSTEM, INC.
COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022
(in thousands)

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Decrease in net assets	$ (25,017)	$ (67,841)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	10,237	10,490
Gain on sale of assets	-	(22)
Unrealized (gain) loss on securities	(8,805)	23,224
Realized (gain) loss on securities	(1,030)	1,850
Amortization of operating right-of-use assets	701	423
Changes in:		
Patient accounts receivable, net	(757)	4,560
Inventories	61	222
Other current assets	(494)	(1,060)
Self-insurance reserves and insurance recoveries	618	1,980
Investments in unconsolidated entities	150	177
Accounts payable and accrued liabilities	4,816	(1,454)
Estimated third-party payor settlements, net	4,619	(1,103)
Other current liabilities	93	189
Operating lease liabilities	(673)	(420)
Accrued pension obligations	1,588	7,040
Net cash used in operating activities	(13,893)	(21,745)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of assets limited as to use	(129,365)	(102,883)
Proceeds from sale of assets limited as to use	163,118	122,873
Capital expenditures	(12,889)	(7,513)
Net cash provided by investing activities	20,864	12,477

See notes to the combined financial statements.

HOUSTON HEALTHCARE SYSTEM, INC.
COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022
(in thousands)

	2023	2022
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line-of-credit	$ 1,411	$ 5,000
Net cash provided by financing activities	1,411	5,000
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,382	(4,268)
CASH AND CASH EQUIVALENTS AT:		
BEGINNING OF YEAR	4,615	8,883
END OF YEAR	$ 12,997	$ 4,615
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Cash paid during the year for:		
Interest	$ 541	$ 184
Operating lease right-of-use assets in exchange for operating lease liabilities	$ 6,942	$ 2,006
Captial expenditures	$ 6,523	$ -

See notes to the combined financial statements.

1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Houston Healthcare System, Inc. (the System), located in Warner Robins, Georgia, is a not-for-profit corporation that operates acute care hospitals and freestanding outpatient treatment facilities. The System provides a full range of inpatient, outpatient, and emergency services to the residents of Houston County and surrounding areas. The following entities comprise the System: Houston Hospitals, Inc. operates two acute care hospitals Houston Healthcare – Warner Robins and Houston Healthcare – Perry, which provide inpatient, outpatient, and urgent care services; Houston Healthcare EMS, Inc. provides ambulance services to the residents of Houston County; Houston Healthcare Properties, Inc. owns and manages the non-hospital property of the System; Houston Health Ventures, Inc. is a for-profit corporation engaged in joint ventures that assist and promote the tax exempt purposes of the System; Houston Primary Care Physicians, LLC, Houston Physician Specialties, LLC operate free-standing primary care and specialty physician practices and Houston ASC, LLC operates a free-standing ambulatory surgery center. All intercompany transactions have been eliminated.

Effective January 1, 2009, the Hospital Authority of Houston County, Georgia (the Authority) implemented a reorganization plan for Houston Hospitals, Inc. and related facilities whereby all the assets, liabilities, management and governance of the facilities were transferred to Houston Hospitals, Inc., pursuant to a lease and transfer agreement which provides for a nominal rate to the Authority by the System. The lease term expires December 31, 2048.

Recently Adopted Accounting Guidance

Allowance for Credit Losses

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) 326 *Financial Instruments – Credit Losses*, which significantly changed how entities will measure credit losses for most financial assets and certain other instruments that aren’t measured at fair value through net income. The most significant change in this standard is a shift from the incurred loss model to the expected loss model. Under the standard, disclosures are required to provide users of the combined financial statements with useful information in analyzing an entity’s exposure to credit risk and the measurement of credit losses. Financial assets held by the Company that are subject to the guidance in FASB ASC 326 were trade accounts receivable.

The Company adopted the standard effective January 1, 2023. The impact of the adoption was not considered material to the combined financial statements.

Use of Estimates

The preparation of combined financial statements in conformity with generally accepted accounting principles in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents
Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less, excluding cash and cash equivalents included in assets limited as to use.

Investments and Investment Income
Investments in equity and debt securities are measured at fair value in the combined balance sheets. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in excess of expenses over revenues unless the income or loss is restricted by donor or law.

Assets Limited as to Use
Assets limited as to use primarily include assets set aside by the Board of Trustees (the Board) for future capital improvements and other, over which the Board retains control and may at its discretion subsequently use for other purposes. Amounts required to meet current liabilities of the System have been reclassified as current assets in the combined balance sheets at December 31, 2023 and 2022.

Inventories
Inventories, consisting primarily of medical supplies, pharmaceuticals and durable medical equipment are stated at the lower of cost or net realizable value.

Property and Equipment
Property and equipment acquisitions are recorded at cost at date of acquisition or estimated value on the date received for donated items. Depreciation is recorded over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Property and equipment assets are deprecated over a period of one to 47 years.

Impairment of Long-Lived Assets
The System evaluates on an ongoing basis the recoverability of its assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is required to be recognized if the carrying value of the asset exceeds the undiscounted future net cash flows associated with that asset. The impairment loss to be recognized is the amount by which the carrying value of the long-lived asset exceeds the asset's fair value. In most instances, the fair value is determined by discounted estimated future cash flows using an appropriate interest rate. The System has not recorded any impairment charges in the accompanying combined statements of operations and changes in net assets for the years ended December 31, 2023 and 2022.

Cost of Borrowing
Interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. There was no capitalized interest cost for the years ended December 31, 2023 and 2022.

Investments in Unconsolidated Entities
Investments in unconsolidated companies represent the System's participation in joint ventures and partnerships, which are accounted for on the cost and equity methods and are not material to the System's combined financial statements.

Leases
In accordance with FASB ASC Topic 842, Leases, at lease commencement, the System initially measures the lease liability at the present value of payments expected to be made during the lease term. The right-of-use lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs.

Key estimates and judgments related to leases include how the System determines: (1) the discount rate used to discount the expected lease payments to present value, (2) lease term, and (3) lease payments. The System uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the System generally uses the incremental borrowing rate as the discount rate for leases. The lease term includes the noncancellable period of the lease, as well as expected renewal terms. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options are only included in the lease term if the lease is reasonably certain to be extended.

The System monitors changes in circumstances that would require a remeasurement of its leases and will remeasure right-of-use lease assets and liabilities if certain changes occur that are expected to significantly affect the amount of any lease liability.

Excess of Expenses over Revenue
The combined statements of operations and changes in net assets include excess of expenses over revenues. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods and services, changes in pension assets and benefit obligations not included in net periodic pension costs, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

Net Patient Service Revenue
Net patient service revenue is recorded at the transaction price estimated by the System to reflect the total consideration due from patients and third-party payors in exchange for providing goods and services for patient care. These services are considered to be a single performance obligation and have a duration of less than one year. Revenues are recorded as these goods and services are provided.

The transaction price, which involves significant estimates, is determined based on the System's standard charges for the goods and services provided, with a reduction recorded for price concessions related to third-party contractual arrangements as well as patient discounts and other patient price concessions. During the years ended December 31, 2023 and 2022, the impact of changes to the inputs used to determine the transaction price was considered immaterial to the current periods.

Charity Care

The System provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the System does not pursue collection of amounts determined to qualify as charity care, they are not reported in net patient service revenue.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the System are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as support without donor restrictions if they are received with donor stipulations that limit the use of the donated assets. 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 unrestricted net assets and reported in the combined statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restrictions in the accompanying combined financial statements.

Risk Management

The System is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years. The System is partially self-insured for employee health and professional liability as disclosed in Note 14. The System is also partially self-insured for workers' compensation.

Estimated Malpractice Costs and Other Self-Insurance Costs

The provision for estimated medical malpractice claims and other self-insurance plans includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Income Taxes

The System is a not-for-profit corporation that has been recognized as tax-exempt pursuant to Section 501(c)3 of the Internal Revenue Code (IRC).

The System applies accounting policies that prescribe when to recognize and how to measure the combined financial statements effects of income tax positions taken or expected to be taken on its income tax returns. These rules require management to evaluate the likelihood that, upon examination by the relevant taxing jurisdictions, those income tax positions would be sustained.

Based on that evaluation, the System only recognizes the maximum benefit of each income tax position that is more than 50% likely of being sustained. To the extent that all or a portion of the benefits of an income tax position are not recognized, a liability would be recognized for the unrecognized benefits, along with any interest and penalties that would result from disallowance of the position. Should any such penalties and interest be incurred, they would be recognized as operating expenses.

Based on the results of management's evaluation, no liability is recognized in the accompanying combined balance sheets for unrecognized income tax positions. Further, no interest or penalties have been accrued or charged to expense as of December 31, 2023 and 2022 or for the years then ended. The System's tax returns are subject to possible examination by taxing authorities. For federal income tax purposes, the tax returns essentially remain open for possible examination for a period of three years after the respective filing deadlines of those returns.

Houston Health Ventures, Inc. is a for-profit corporation and a wholly owned subsidiary of the System. The System has not recorded a current or deferred tax provision, as this would not have a material effect on the combined financial statements.

Fair Value Measurements

The standards for fair value measurement of financial assets and liabilities define fair value, establish a framework for measuring fair value, and expand disclosures about fair value measurement. The guidance also emphasizes that fair value is based on a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Fair value measurements are disclosed by level within the hierarchy.

Under the guidance for fair value measurement of nonfinancial assets and liabilities, measurements occur on a nonrecurring basis, and recognition at fair value occurs when nonfinancial assets and liabilities are deemed to be other-than-temporarily impaired. The System does not have any nonfinancial assets or nonfinancial liabilities at December 31, 2023 and 2022 that require disclosure by levels within the hierarchy.

Reclassifications

Certain prior year items in the financial statements have been reclassified to be comparable with the classification for the year ended December 31, 2023. The reclassifications have no effect on the previously reported financials.

Subsequent Events

The System has evaluated the impact of subsequent events through April 26, 2024, representing the date on which the combined financial statements were issued.

2. ATRIUM HEALTH STRATEGIC PARTNERSHIP

Effective February 23, 2023, the System entered into a Strategic Partnership Agreement (Agreement) with Navicent Health, Inc. and Atrium Health, Inc. (Atrium Health). The strategic partnership is intended to provide the System with meaningful opportunities to optimize economies of scale and create operational efficiencies to reduce costs, while maintaining the quality delivery and ongoing improvement of healthcare within the System's service delivery area. The System maintains independent management and an independent board of directors with full control and no board or board committee representation by Atrium Health. As part of the Agreement, Atrium Health provides certain core services for an annual fee of $875,000. The initial term of the Agreement is ten years expiring February 23, 2033 with option to renew for two successive periods of two years each.

In the event the Agreement is terminated or not renewed, the System shall pay an exit payment in accordance with the terms of the Agreement. The exit payment shall be determined by an independent valuation performed at or around the time of the termination of the Agreement.

In connection with the Agreement, the System and Atrium Health entered into an Investment Agreement and Master Information Technology Services Agreement (IT Agreement). Under the Investment Agreement, Atrium Health commits to make an investment in the amount of $43,110 for the initial implementation of technology and $50,000 as co-investments with the System for strategic investments mutually agreed upon. The IT Agreement includes technology services and implementation of certain technology systems.

The Agreement include payment obligations by the System for technology related fees and exit payments, defined by the Agreement, in the event of early termination of the Agreement. As of the year ended December 31, 2023, Atrium Health has provided $6,523 of technology implementation services that has been paid through a dollar-for-dollar setoff against the Investment Agreement. The implementation services of $6,523 is included as other long-term liability in the accompanying combined balance sheets.

The System also entered into a GPO Membership Agreement with Atrium Health Supply Chain Alliance (AHSCA). The agreement allows AHSCA to act as the purchasing agent for goods and services as well as the exclusive group purchasing organization.

3. PATIENT SERVICE REVENUE

The System has agreements with third-party payors that provide for payments to the System at amounts different from its established rates. The System does not believe there are any significant credit risks associated with receivables due from third-party payors.

A summary of the payment arrangements with major third-party payors follows:

Medicare

Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

The System is reimbursed for certain reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the System and audits thereof by the Medicare Administrative Contractor (MAC). The System’s classification of patients under the Medicare program and the appropriateness of their admissions are subject to an independent review by a peer review organization under contract with the System. The System’s Medicare cost reports have been audited by the MAC through 2016 for Houston Healthcare – Warner Robins and 2018 for Houston Healthcare – Perry.

Revenue from the Medicare program accounted for approximately 42% and 43% of the System's net patient service revenue for 2023 and 2022, respectively. Laws and regulations governing the Medicare program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Estimated reimbursement amounts are adjusted in subsequent periods as cost reports are prepared and filed and as final settlements are determined. The 2023 net patient service revenue increased approximately $1,044 (increased $44 for 2022) primarily due to changes in previously estimated settlements.

The System 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. However, there has been an increase in regulatory initiatives at the federal level including the initiation of the Recovery Audit Contractor (RAC) program. The RAC program was created to review Medicare claims for medical necessity and coding appropriateness. The RACs have the authority to pursue improper payments with a three year look back from the date the claim was paid. 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 program.

Medicaid

Inpatient acute care services rendered to Medicaid program beneficiaries are paid at a prospectively determined rate per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services rendered to the Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology.

The System is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the System and audits thereof by the Medicaid fiscal intermediary. The System's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through 2018 for both Houston Healthcare – Warner Robins and Houston Healthcare – Perry.

Revenue from the Medicaid program accounted for approximately 11% and 12% of the System's net patient service revenue for 2023 and 2022, respectively. Laws and regulations governing the Medicaid program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Estimated reimbursement amounts are adjusted in subsequent periods as cost reports are prepared and filed and as final settlements are determined.

The System also contracts with certain managed care organizations to receive reimbursement for providing services to selected enrolled Medicaid beneficiaries. Payment arrangements with these managed care organizations consist primarily of prospectively determined rates per discharge, discounts from established charges, or prospectively determined per diems.

The System 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. However, there has been an increase in regulatory initiatives at the state level including the initiation of the Medicaid Integrity Contractor (MIC) program. This program was created to review Medicaid claims for medical necessity and coding appropriateness. 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 Medicaid program.

During 2010, the State of Georgia (the State) enacted legislation known as the Provider Payment Agreement Act (the Act) whereby hospitals in the State are assessed a “provider payment” in the amount of 1.45% of their net patient service revenue. The Act became effective July 1, 2010, the beginning of the State fiscal year 2011. The provider payments are due on a quarterly basis to the State’s Department of Community Health. The payments are to be used for the sole purpose of obtaining federal financial participation for medical assistance payments to providers on behalf of Medicaid recipients. The provider payment results in an increase in payments for Medicaid services to hospitals of approximately 11.88%. Approximately $3,603 and $3,320 of provider payments relating to the Act are included in other expense in the accompanying combined statements of operations and changes in net assets for years 2023 and 2022, respectively.

Medicaid Upper Payment Limit
The Medicare, Medicaid, and State Children’s Health Insurance Program (SCHIP) Benefits Improvement and Protection Act of 2000 (BIPA) provides for enhanced payments to Medicaid providers under the Upper Payment Limit (UPL) methodology. Subsequent to the implementation of the UPL methodology, federal budget concerns have led to reconsideration of the BIPA legislation with possible elimination or reduction of enhanced Medicaid payments. Legislation has been enacted to reduce the level of UPL payments. These reductions are anticipated to remain in effect in future periods. Net patient service revenue includes enhanced payments for December 31, 2023 and 2022 of approximately $2,675 and $3,290, respectively.

Georgia STRONG Program
During 2023, the System began participating in a new Georgia Department of Community Health state directed program for Strengthening The Reinvestment Of a Necessary-workforce in Georgia (Georgia Strong). The Georgia Strong program is for the eligible teaching hospitals and allows for increased Medicaid funding to focus on stabilization, development, and diversification of the healthcare workforce, leading to improved health outcomes for Medicaid members. The System recognized supplemental payments of $21,605 during the year 2023. These payments help cover the additional costs associated with treating the Medicaid population in the System’s service area and reflected in net patient service revenue in the accompanying combined statements of operations and changes in net assets.

Indigent Care Trust Fund
The System participates in the Georgia Indigent Care Trust Fund (ICTF) Program. The System receives ICTF payments for treating a disproportionate number of Medicaid and other indigent patients. ICTF payments are based on the System’s estimated uncompensated cost of services to Medicaid and uninsured patients. The amount of ICTF payments recognized in net patient revenue was approximately $-0- and $5,069 for the years ended December 31, 2023 and 2022, respectively.

(dollars in thousands)

Other Agreements
The System has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the System under these agreements include prospectively determined rates per discharge, prospectively determined daily rates, fixed rate fee schedules, and discounts from established charges.

The System recognizes patient service revenue associated with services provided to patients who have third-party coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the System recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the System’s uninsured patients will be unable or unwilling to pay for the services provided. Therefore, the System records an implicit price concession equal to the estimated uncollectible portion of the charges related to uninsured patients in the period the services are provided.

The System’s net patient revenues during the years ended December 31, 2023 and 2022 have been presented in the following table based on an allocation of the estimated transaction price with the patient between the primary patient classification and insurance coverage:

	2023	2022
Medicare	$ 116,952	$ 116,378
Medicaid	29,680	33,583
Other third-party payors	146,283	119,561
Self-pay	5,956	4,125
Total	$ 298,871	$ 273,647

Patient Accounts Receivable
Patient accounts receivable are recorded at net realizable value based on certain assumptions determined by each payor. For Medicare, Medicaid, and other third-party payors, the net realizable value is based on the estimated contractual reimbursement percentage, which is based on current contract prices or historical paid claims data by payor. For self-pay accounts receivable, which includes patients who are uninsured and the patient responsibility portion for patients with insurance, the net realizable value is determined using estimates of historical collection experience. These estimates are adjusted for estimated conversions of patient responsibility portions, expected recoveries and any anticipated changes in trends. Patient accounts receivable can be impacted by the effectiveness of the System’s collection efforts. Additionally, significant changes in payor mix, business office operations, economic conditions or trends in federal and state governmental healthcare coverage could affect the net realizable value of accounts receivable. The System also continually reviews the net realizable value of accounts receivable by monitoring historical cash collections as a percentage of trailing net patient revenues, as well as by analyzing current period net revenue and admissions by payor classification, aged accounts receivable by payor, days revenue outstanding, and the composition of self-pay receivables between pure self-pay patients and the patient responsibility portion of third-party insured receivables.

(dollars in thousands)

Charity Care

In the ordinary course of business, the System renders services to patients who are financially unable to pay for hospital care. The System's policy is not to pursue collections for such amounts; therefore, the related charges for those patients who are financially unable to pay and otherwise do not qualify for reimbursement from a governmental program are not reported in net operating revenues, and are; therefore, classified as charity care. The System determines amounts that qualify for charity care primarily based on the patient's household income relative to the federal poverty level guidelines, as established by the federal government. These charity care services are estimated to be $30,746 and $39,927 for the years ended December 31, 2023 and 2022, respectively, representing the value (at the System's standard charges) of these charity care services that are excluded from net operating revenues. The estimated cost incurred by the System to provide these charity care services to patients who are unable to pay was approximately $9,575 and $12,147 for the years ended December 31, 2023 and 2022, respectively. The estimated cost of these charity care services was determined using a ratio of cost to gross charges and applying that ratio to the gross charges associated with providing care to charity patients for the year.

4. UNCOMPENSATED SERVICES

The System was compensated for services at amounts less than its established rates. The following is a summary of uncompensated services and a reconciliation of gross patient charges to net patient service revenue for 2023 and 2022:

	2023	2022
Gross patient charges	$ 1,051,786	$ 997,319
Uncompensated services:		
Charity and indigent care	30,746	39,927
Medicare	342,085	323,473
Medicaid	110,258	102,060
Other allowances	287,347	258,212
Total uncompensated care	752,915	723,672
	$ 298,871	$ 273,647

(dollars in thousands)

5. INVESTMENTS

Assets Limited as to Use

The composition of assets limited as to use at December 31, 2023 and 2022 is set forth in the following table. Investments are stated at fair value.

	2023	2022
Internally designated for capital acquisition and other:		
Cash and cash equivalents	$ 2,002	$ 3,430
Mutual funds – fixed income	8,027	7,604
Mutual funds – equities	10,322	13,620
Mutual funds – real estate	3,945	3,538
Government agency obligations	20,684	26,982
U.S. Corporate bonds	24,103	27,687
U.S. Equities	23,095	28,648
International assets – corporate obligations	2,071	3,679
International assets – equities	7,304	10,283
	$ 101,553	$ 125,471

The System's investments are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could affect the amounts reported in the accompanying combined financial statements.

6. CONCENTRATIONS OF CREDIT RISK

The System grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at December 31, 2023 and 2022 is as follows:

	2023	2022
Medicare	32%	36%
Medicaid	6%	7%
Blue Cross	12%	11%
Other third-party payors	24%	20%
Patients	26%	26%
	100%	100%

At December 31, 2023, the System had deposits at major financial institutions which exceeded the Federal Deposit Insurance Corporation limits. Management believes the credit risks related to these deposits are minimal.

(dollars in thousands)

7. PROPERTY AND EQUIPMENT

A summary of property and equipment at December 31, 2023 and 2022 is as follows:

	2023	2022
Land	$ 14,910	$ 14,910
Land improvements	3,893	3,853
Buildings and improvements	218,792	215,943
Equipment	128,863	122,431
	366,458	357,137
Less accumulated depreciation	238,034	227,986
	128,424	129,151
Construction-in-progress	12,612	2,710
Property and equipment, net	$ 141,036	$ 131,861

Depreciation expense for the years ended December 31, 2023 and 2022 amounted to approximately $10,237 and $10,490, respectively.

Contracts of approximately $12,724 exist for the purchase of various equipment and renovations to facilities. At December 31, 2023, the remaining commitment on these contracts approximated $6,956.

8. LINE OF CREDIT

On April 3, 2020, the System entered into a revolving line of credit agreement with a financial institution to advance credit with a maximum revolving borrowing line of $15,000. The line of credit is secured by first priority interest in certain reserve accounts and matures April 3, 2024. The interest rate is 1% less than Prime Rate (effective rate of 7.50% at December 31, 2023). At December 31, 2023 and 2022, the outstanding balance was $6,411 and $5,000, respectively

9. NET ASSETS

At December 31, 2023 and 2022 net assets without donor-imposed restrictions were as follows:

	2023	2022
Without donor-imposed restrictions:		
Internally designated for capital acquisition and other	$ 100,878	$ 124,895
Undesignated	128,017	129,017
Total net assets without donor-imposed restrictions	$ 228,895	$ 253,912

(dollars in thousands)

10. LIQUIDITY

The following reflects the System's financial assets at December 31, 2023 and 2022, reduced by amounts not available for general use within one year of the combined balance sheets dates because of contractual or internal designations. Amounts not available include amounts set aside by the Board for future capital acquisition and other reserves that could be drawn upon if the Board approves the action.

	2023	2022
Cash and cash equivalents	$ 12,997	$ 4,615
Patients accounts receivable, net	24,858	24,101
Estimated third-party payor settlements	790	2,741
Insurance recoveries, current portion	2,422	2,768
	$ 41,067	$ 34,225

As part of the System's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the System has a line of credit available, which it can draw upon as a liquidity resource (See Note 8).

11. PENSION PLAN

Plan Description

The System contributes to a defined benefit pension plan (the Plan) managed by a trustee. All full-time and part-time employees who regularly worked 32 or more hours per week that were hired prior to May 1, 2009, age 21 or older and with at least one year of service, are eligible to participate in the Plan. Plan participants under the age of 45 as of January 1, 2011 no longer accumulate benefits. System employees who are vested are entitled to an annual benefit payable monthly for life, in an amount equal to 1% of final average earnings up to covered compensation, plus 1.55% of final average earnings in excess of covered compensation, times credited service up to 30 years. Participants are 100% vested after five years of employment. Participants are fully vested at age 65. The System's funding policy is to make the minimum annual contribution required by applicable regulations. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future.

The measurement date was December 31, 2023 and 2022.

(dollars in thousands)

The following table sets forth the Plan's funded status and amounts recognized in the combined financial statements at December 31, 2023 and 2022:

	2023	2022
Plan assets at fair value at December 31	$ 98,153	$ 104,653
Projected benefit obligation at December 31	96,708	101,620
Funded status	$ 1,445	$ 3,033
Amounts recognized in the combined balance sheets consist of:		
Noncurrent assets (liabilities)	$ 1,445	$ 3,033
Amounts recognized in net assets without donor-imposed restrictions:		
Net actuarial loss	$ 17,125	$ 23,160

The following table sets forth the components of net periodic pension cost and other amounts recognized in net assets without donor-imposed restrictions for the years ended December 31, 2023 and 2022:

	2023	2022
Service cost	$ 425	$ 709
Interest cost	5,024	3,173
Expected return on Plan assets	(5,559)	(5,025)
Amortization of net actuarial loss	478	60
Settlement/curtailment expense	1,919	-
Net periodic cost	2,287	(1,083)
Other changes in Plan assets and benefit obligations recognized in net assets without donor imposed restrictions:		
Net actuarial (gain) loss	(5,558)	8,183
Amortization of net actuarial loss	(478)	(60)
Total recognized in net assets without donor-imposed restrictions	(6,036)	8,123
Total recognized in net periodic benefit cost and net assets without donor imposed restrictions	$ (3,749)	$ 7,040

The components of net periodic cost above other than service cost are included in nonoperating revenues (expenses) in the combined statements of operations and changes in net assets.

(dollars in thousands)

The System's expected rate of return on Plan assets is determined by the Plan assets' historical long-term investment performance, current asset allocation, and estimates of future long-term returns by asset class.

	2023	2022
Weighted-average assumptions used to determine pension benefit obligations:		
Discount rate	5.01%	5.21%
Rate of increase in future compensation levels	2.00%	2.00%
Weighted-average assumptions used to determine net period benefit cost:		
Discount rate	5.20%	2.97%
Expected long-term return on Plan assets	3.80%	5.70%
Rate of increase in future compensation levels	2.00%	2.00%

The change in projected benefit obligation for the Plan for the years ended December 31, 2023 and 2022 included the following components:

	2023	2022
Projected benefit obligation, beginning of year	$ 101,619	$ 131,529
Service cost	425	709
Interest cost	5,024	3,173
Actuarial gain (loss)	1,827	(28,530)
Benefits paid	(16,164)	(5,261)
Liability gain due to curtailment	(1,360)	-
Special termination benefits	5,336	-
Projected benefit obligation, end of year	$ 96,707	$ 101,620

During 2023, the System offered a "Voluntary Early Retirement Program" to a select group of active participants. This group had the one-time opportunity to receive their accrued pension benefit in the form of a lump sum or annuity. The lump sum was calculated based on the Internal Revenue Service (IRS) applicable interest rates and was paid in December 2023. The December 2023 lump sum payments of approximately $10,838 exceeded the 2023 service cost plus interest cost, whereby settlement accounting was triggered and $1,919 of amounts previously recognized as other changes in net assets were required to be recognized in 2023 pension expense. In addition, there was a curtailment, and the projected benefit obligation decreased $1,360 for the active participants who accepted the offer of the program. Lastly, the program resulted in special termination benefits that increased the projected benefit obligation by $5,336, which was also required to be recognized in 2023 pension expense.

(dollars in thousands)

The change in fair value of Plan assets for the years ended December 31, 2023 and 2022 included the following components:

	2023	2022
Plan assets at fair value, beginning of year	$ 104,653	$ 141,602
Actual return on assets	9,663	(31,688)
Employer contributions	-	-
Benefits paid	(16,164)	(5,261)
Plan assets at fair value, end of year	$ 98,152	$ 104,653

Plan Assets
The composition of Plan assets at December 31, 2023 and 2022 is as follows:

	2023	%	2022	%
Cash and cash equivalents	$ 2,444	2%	$ 1,393	1%
Mutual funds – fixed income	81,063	83%	87,642	84%
Mutual funds – equities	14,644	15%	4,912	5%
Mutual funds – real estate	-	0%	2,217	2%
U.S. Equities	-	0%	5,886	6%
International assets – equities	1	0%	2,603	2%
	$ 98,152	100%	$ 104,653	100%

The System's investment strategy is to manage the portfolio to preserve principal and liquidity while maximizing the return on the investment portfolio through the full investment of available funds. The portfolio is diversified by investing in multiple types of investment-grade securities. The investment policy requires assets of the Plan to be primarily invested in securities with at least an investment grade rating to minimize interest rate and credit risk. The Plan assets are long-term in nature and are intended to generate returns while preserving capital. The Plan has adopted a liability-hedging portfolio that has a target allocation of 75% – 95% liability-hedging and 5% – 25% return seeking.

Pension assets are invested in equities, fixed income securities, and cash and cash equivalents. The allocation between different investment vehicles is determined by the System's investment committee, based on current market conditions, short-term and long-term market outlooks, and cash needs for distributions and Plan expenses. Assumptions for expected returns on Plan assets are based on historical performance, long-term market outlook, and a diversified investment approach designed to provide steady, consistent returns that minimize market fluctuations. The System utilizes the services of a professional investment advisor in the selection of individual fund managers. The investment advisor tracks the performance of each fund manager and makes recommendations for redistributions, as needed, to comply with targeted allocations or to replace underperforming funds.

(dollars in thousands)

The System attempts to mitigate investment risk by rebalancing between investment classes as the System's contributions and monthly benefit payments are made. Although changes in interest rates may affect the fair value of a portion of the investment portfolio and cause unrealized gains and losses, such gains or losses would not be realized unless the investments are sold.

The fair values of the System's Plan assets at December 31, 2023 and 2022, by asset category (see Note 16) are as follows:

		Fair Value Measurements		
December 31, 2023	**Fair Value**	**Quoted Prices in Active Markets for Identical Assets Level 1**	**Significant Other Observable Inputs Level 2**	**Significant Unobservable Inputs Level 3**
Cash and cash equivalents	$ 2,444	$ 2,444	$ -	$ -
Mutual funds – fixed income	81,065	81,065	-	-
Mutual funds – equities	14,644	14,644	-	-
Total	$ 98,153	$ 98,153	$ -	$ -

		Fair Value Measurements		
December 31, 2022	**Fair Value**	**Quoted Prices in Active Markets for Identical Assets Level 1**	**Significant Other Observable Inputs Level 2**	**Significant Unobservable Inputs Level 3**
Cash and cash equivalents	$ 1,393	$ 1,393	$ -	$ -
Mutual funds – fixed income	87,642	87,642	-	-
Mutual funds – equities	4,912	4,912	-	-
Mutual funds – real estate	2,217	2,217	-	-
U.S. Equities	5,886	5,886	-	-
International assets – corporate obligations	42	-	42	-
International assets – equities	2,561	2,561	-	-
Total	$ 104,653	$ 104,611	$ 42	$ -

See Note 16 for the methods and assumptions used by the System in estimating the fair value of the above Plan assets.

Estimated Contributions

The System does not plan to contribute to the Plan in 2023.

(dollars in thousands)

Estimated Future Benefit Payments
The following benefit payments, which reflect expected future service and decrements as appropriate, are expected to be paid as follows:

For the Years Ending December 31,	Pension Benefits
2024	$ 6,387
2025	6,501
2026	6,653
2027	6,812
2028	6,887
2029 – 2033	34,174

The expected benefits to be paid are based on the same assumptions used to measure the System's benefit obligation at December 31, 2023.

12. DEFINED CONTRIBUTION PLAN

The System has a defined contribution retirement plan (the Retirement Plan) covering substantially all employees. The Retirement Plan is a tax-deferred annuity plan under Section 403(b) of the IRC which allows employee contributions upon employment and at least 1,000 hours of work and allows employer contributions upon attainment of the age of 21 and at least one year of service. Participants may contribute up to 20% of their annual compensation up to a maximum dollar limitation. Employer contributions are made at a matching level of 50% of the participants' annual contribution to the Retirement Plan, up to a maximum of 4% of the employee's annual compensation. The Plan also allows employer discretionary contributions that is payable the following the end of each year. The System made contributions to the Retirement Plan of approximately $2,649 and $2,990 for the years ended December 31, 2023 and 2022, respectively.

13. EMPLOYEE HEALTH PLAN

The System has a self-insurance program under which a third-party administrator processes and pays claims. The System reimburses the third-party administrator for claims incurred and paid and has purchased stop-loss insurance coverage for claims in excess of $650,000 for each individual employee. Under this self-insurance program, approximately $18,795 and $17,576 were paid or accrued during the years ended December 31, 2023 and 2022, respectively.

(dollars in thousands)

14. PROFESSIONAL LIABILITY CLAIMS

The System is covered by a claims-made general and professional liability insurance policy with excess coverage not-to-exceed $35 million. Self-insured retention related to this policy in 2023 and 2022 was $2M per occurrence and $8M in aggregate. The System uses a third-party administrator to review and analyze incidents that may result in a claim against the System. In conjunction with the third-party administrator, incidents are assigned reserve amounts for the ultimate liability that may result from an asserted claim. The System also uses independent actuaries to estimate the ultimate costs, if any, of the settlement of such claims. Long-term accrued professional claims are included in self-insurance reserves and the current portion is included in other current liabilities in the combined balance sheets, and in management's opinion, provide an adequate reserve for loss contingencies.

Various claims and assertions have been made against the System in its normal course of providing services. In addition, other claims may be asserted arising from services provided to patients in the past. In the opinion of management, adequate provision has been made for losses which may occur from such asserted and unasserted claims that are not covered by liability insurance.

Obligations covered by reinsurance contracts are included in the reserves for professional liability risks, as the System remains liable to the extent the reinsurers do not meet their obligations under the reinsurance contracts. The current amount receivable under the reinsurance contracts include $2,332 and $2,610 at December 31, 2023 and 2022, respectively, recorded in insurance recoveries, current portion and the long-term portion of $6,892 and $7,152, respectively, is recorded in insurance recoveries.

15. FUNCTIONAL EXPENSES

The System provides general healthcare services to residents within its geographic location. The following table present expenses by both their nature and function for the years ended December 31:

	2023			2022		
	Healthcare Services	General and Administrative	Total	Healthcare Services	General and Administrative	Total
Salaries and benefits	$ 182,205	$ 16,323	$ 198,528	$ 165,171	$ 15,663	$ 180,834
Supplies and drugs	47,985	247	48,232	45,595	390	45,985
Other expenses	68,487	13,584	82,071	68,070	11,811	79,881
Depreciation and amortization	8,235	2,002	10,237	8,491	1,999	10,490
Interest expense	-	541	541	-	184	184
Total operating expenses	$ 306,912	$ 32,697	$ 339,609	$ 287,327	$ 30,047	$ 317,374

The combined financial statements report certain categories of expenses that are attributable to healthcare services as well as general and administrative functions. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include utilities, depreciation and amortization, and interest expense, all of which are allocated based on a square footage basis, as well as certain employee benefits, which are allocated based on salaries.

16. FAIR VALUE OF FINANCIAL INSTRUMENTS

The System's assets and liabilities recorded at fair value or for which fair value is required to be disclosed have been categorized based upon a fair value hierarchy in accordance with accounting standards which require that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

- Level 1 – Observable quoted market prices in active markets for identical assets or liabilities.
- Level 2 – Observable inputs other than Level 1, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.
- Level 3 – Unobservable inputs for the asset or liability that are significant to the fair value of the assets or liabilities.

The following methods and assumptions were used by the System in estimating the fair value of its financial instruments:

- *Cash and cash equivalents*, *accounts payable, accrued expenses, and estimated third-party payor settlements*: The carrying amount reported in the combined balance sheets approximates its fair value, due to the short-term nature of these instruments.
- *Assets limited as to use*: Fair values, which are the amounts reported in the combined balance sheets, are based on quoted market prices, if available, or estimated using quoted market prices for similar securities.

Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets valued using Level 2 inputs are based primarily on quoted prices for similar investments in active or inactive markets. Valuation techniques utilized to determine fair value are consistently applied. All assets have been valued using a market approach.

- *Government agency obligations:* Level 2 assets are valued using pricing models maximizing the use of observable inputs for similar securities.
- *U.S. Corporate bonds:* Level 2 assets are valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing values on yields currently available on comparable securities of issuers with similar credit ratings. The corporate bonds contain credit ratings of A3 to AAA.

(dollars in thousands)

The estimated fair values of the System's investments at December 31, 2023 and 2022 and the level within the fair value hierarchy are as follows:

		Fair Value Measurements		
December 31, 2023	**Fair Value**	**Quoted Prices in Active Markets for Identical Assets Level 1**	**Significant Other Observable Inputs Level 2**	**Significant Unobservable Inputs Level 3**
Cash and cash equivalents	$ 2,436	$ 2,436	$ -	$ -
Mutual funds – fixed income	8,027	8,027	-	-
Mutual funds – equities	10,322	10,322	-	-
Mutual funds – real estate	3,945	3,945	-	-
Government agency obligations	20,250	-	20,250	-
U.S. Corporate bonds	24,103	-	24,103	-
U.S. Equities	23,095	23,095	-	-
International assets – corporate obligations	2,071	-	2,071	-
International assets – equities	7,304	7,304	-	-
Total	$ 101,553	$ 55,129	$ 46,424	$ -

		Fair Value Measurements		
December 31, 2022	**Fair Value**	**Quoted Prices in Active Markets for Identical Assets Level 1**	**Significant Other Observable Inputs Level 2**	**Significant Unobservable Inputs Level 3**
Cash and cash equivalents	$ 3,430	$ 3,430	$ -	$ -
Mutual funds – fixed income	7,604	7,604	-	-
Mutual funds – equities	13,620	13,620	-	-
Mutual funds – real estate	3,538	3,538	-	-
Government agency obligations	26,982	-	26,982	-
U.S. Corporate bonds	27,687	-	27,687	-
U.S. Equities	28,648	28,648	-	-
International assets – corporate obligations	3,679	-	3,679	-
International assets – equities	10,283	10,283	-	-
Total	$ 125,471	$ 67,123	$ 58,348	$ -

17. LEASES

The System leases certain property, buildings and equipment under operating leases expiring through July 2027. Leases with greater than 12 months are recorded with the related right-of-use assets and operating lease liabilities.

(dollars in thousands)

The following summarizes the weighted average remaining lease term and discount rate as of December 31, 2023:

Weighted Average Remaining Lease Term	15.84 years
Weighted Average Discount Rate	5.00%

Future maturities of lease liabilities as of December 31, 2023, were as follows:

For the Years Ending December 31,		
2024	$	1,200
2025		1,096
2026		669
2028		473
2029		429
Thereafter		8,039
		11,906
Less interest		4,051
Present value of lease liabilities	$	7,855

For the years ended December 31, 2023 and 2022, the operating lease expenses included in the combined statements of operations and changes in net assets in other expenses were $862 and $490, respectively.

18. COMMITMENTS AND CONTINGENCIES

Compliance Plan

The healthcare industry has recently been subjected to increased scrutiny from governmental agencies at both the national and state level with respect to compliance with regulations. Areas of noncompliance identified at the national level include Medicare and Medicaid, Internal Revenue Service (IRS), and other regulations governing the healthcare industry. The System has implemented a compliance plan focusing on such issues. There can be no assurance that the System will not be subjected to future investigations with accompanying monetary damages.

Healthcare Reform

In recent years, there has been increasing pressure on Congress and some state legislatures to control and reduce the cost of healthcare on the national or at the state level. In 2010, legislation was enacted which included cost controls on hospitals, insurance market reforms, delivery system reforms and various individual and business mandates among other provisions. The costs of certain provisions will be funded in part by reductions in payments by government programs, including Medicare and Medicaid. There can be no assurance that these changes will not adversely affect the System.

Litigation
The System is involved in litigation and regulatory investigations arising in the normal course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the System's future financial position or results from operations.

Letter of Credit Agreement
The System has a standby letter of credit issued by a financial institution on behalf of the System in favor of a third party. As of December 31, 2023 and 2022, the System is contingently liable under the open letter of credit in the amount of $1,860.

SUPPLEMENTARY INFORMATION

HOUSTON HEALTHCARE SYSTEM, INC.
COMBINING BALANCE SHEET
DECEMBER 31, 2023
(in thousands)

ASSETS	Houston Hospitals, Inc. (Hospitals)	Houston Healthcare EMS, Inc.	Houston Healthcare System, Inc.	Houston Healthcare Ventures, Inc.	Houston Healthcare Properties, Inc.	Houston Primary Care Physicians LLC	Houston Physician Specialties LLC	Houston ASC, LLC	Eliminations	Total
CURRENT ASSETS										
Cash and cash equivalents	$ 9,853	$ 296	$ 4	$ 873	$ 225	$ 139	$ 367	$ 1,240	$ -	$ 12,997
Assets limited as to use	675	-	-	-	-	-	-	-	-	675
Patient accounts receivable, net	23,934	118	-	-	-	-	(33,000)	839	-	24,858
Estimated third-party payor settlements	790	-	-	-	-	-	-	-	-	790
Insurance recoveries, current portion	2,422	-	-	-	-	-	-	-	-	2,422
Inventories	4,285	-	-	-	-	-	-	336	-	4,621
Other current assets	6,789	-	-	2,500	-	-	-	44	(3,498)	5,835
Total current assets	48,748	414	4	3,373	225	139	334	2,459	(3,498)	52,198
ASSETS LIMITED AS TO USE	100,878	-	-	-	-	-	-	-	-	100,878
PROPERTY AND EQUIPMENT, NET	112,321	1,060	-	-	27,009	44	470	132	-	141,036
PENSION ASSET	1,445	-	-	-	-	-	-	-	-	1,445
OTHER ASSETS										-
Operating lease right-of-use assets, net	7,824	-	-	-	-	-	-	-	-	7,824
Investments in unconsolidated entities	4,786	-	2,049	652	-	-	-	-	(3,891)	3,596
Insurance recoveries	7,006	-	-	-	-	-	-	-	-	7,006
Total other assets	19,616	-	2,049	652	-	-	-	-	(3,891)	18,426
TOTAL ASSETS	$ 283,008	$ 1,474	$ 2,053	$ 4,025	$ 27,234	$ 183	$ 804	$ 2,591	$ (7,389)	$ 313,983

See independent auditors' report.

HOUSTON HEALTHCARE SYSTEM, INC.
COMBINING BALANCE SHEET
DECEMBER 31, 2023
(in thousands)

LIABILITIES AND NET ASSETS	Houston Hospitals, Inc. (Hospitals)	Houston Healthcare EMS, Inc.	Houston Healthcare System, Inc.	Houston Healthcare Ventures, Inc.	Houston Healthcare Properties, Inc.	Houston Primary Care Physicians LLC	Houston Physician Specialties LLC	Houston ASC, LLC	Eliminations	Total
CURRENT LIABILITIES										
Accounts payable and accrued liabilities	$ 14,698	$ -	$ -	$ -	$ 23	$ 15	$ 28	$ 1,226	$ (3,498)	$ 12,492
Accrued compensation and benefits	20,160	260	-	-	14	592	1,040	201	-	22,267
Estimated third-party payor settlements	6,486	-	-	-	-	-	-	-	-	6,486
Operating lease liabilities, current portion	830	-	-	-	-	-	-	-	-	830
Other current liabilities	5,676	-	-	-	-	-	-	-	-	5,676
Total current liabilities	47,850	260	-	-	37	607	1,068	1,427	(3,498)	47,751
LINE OF CREDIT	6,411	-	-	-	-	-	-	-	-	6,411
OTHER LONG-TERM LIABILITY	6,523	-	-	-	-	-	-	-	-	6,523
OPERATING LEASE LIABILITIES, LESS	7025000									
CURRENT PORTION	7,025	-	-	-	-	-	-	-	-	7,025
SELF-INSURANCE RESERVES	17,378	-	-	-	-	-	-	-	-	17,378
TOTAL LIABILITIES	85,187	260	-	-	37	607	1,068	1,427	(3,498)	85,088
NET ASSETS (DEFICITS)										-
Without donor-imposed restrictions	197,821	1,214	2,053	4,025	27,197	(424)	(264)	1,164	(3,891)	228,895
Total net assets (deficits)	197,821	1,214	2,053	4,025	27,197	(424)	(264)	1,164	(3,891)	228,895
TOTAL LIABILITIES AND NET ASSETS	$ 283,008	$ 1,474	$ 2,053	$ 4,025	$ 27,234	$ 183	$ 804	$ 2,591	$ (7,389)	$ 313,983

See independent auditors' report.

HOUSTON HEALTHCARE SYSTEM, INC.
COMBINING BALANCE SHEET
DECEMBER 31, 2022
(in thousands)

ASSETS	Houston Hospitals, Inc. (Hospitals)	Houston Healthcare EMS, Inc.	Houston Healthcare System, Inc.	Houston Healthcare Ventures, Inc.	Houston Healthcare Properties, Inc.	Houston Primary Care Physicians LLC	Houston Physician Specialties LLC	Houston ASC, LLC	Eliminations	Total
CURRENT ASSETS										
Cash and cash equivalents	$ 2,011	$ 88	$ 5	$ 563	$ 109	$ 193	$ 426	$ 1,220	$ -	$ 4,615
Assets limited as to use	576	-	-	-	-	-	-	-	-	576
Patient accounts receivable, net	23,474	127	-	-	-	-	-	500	-	24,101
Estimated third-party payor settlements	2,741	-	-	-	-	-	-	-	-	2,741
Insurance recoveries, current portion	2,768	-	-	-	-	-	-	-	-	2,768
Inventories	4,332	-	-	-	-	-	-	350	-	4,682
Other current assets	5,504	-	-	2,500	-	-	-	39	(2,702)	5,341
Total current assets	41,406	215	5	3,063	109	193	426	2,109	(2,702)	44,824
ASSETS LIMITED AS TO USE	124,895	-	-	-	-	-	-	-	-	124,895
PROPERTY AND EQUIPMENT, NET	103,435	822	-	-	26,940	52	544	68	-	131,861
PENSION ASSET	3,033	-	-	-	-	-	-	-	-	3,033
OTHER ASSETS										-
Operating lease right-of-use assets, net	1,583	-	-	-	-	-	-	-	-	1,583
Investments in unconsolidated entities	4,935	-	2,050	652	-	-	-	-	(3,891)	3,746
Insurance recoveries	7,379	-	-	-	-	-	-	-	-	7,379
Total other assets	13,897	-	2,050	652	-	-	-	-	(3,891)	12,708
TOTAL ASSETS	$ 286,666	$ 1,037	$ 2,055	$ 3,715	$ 27,049	$ 245	$ 970	$ 2,177	$ (6,593)	$ 317,321

See independent auditors' report.

HOUSTON HEALTHCARE SYSTEM, INC.
COMBINING BALANCE SHEET – CONTINUED
DECEMBER 31, 2022
(in thousands)

LIABILITIES AND NET ASSETS	Houston Hospitals, Inc. (Hospitals)	Houston Healthcare EMS, Inc.	Houston Healthcare System, Inc.	Houston Healthcare Ventures, Inc.	Houston Healthcare Properties, Inc.	Houston Primary Care Physicians LLC	Houston Physician Specialties LLC	Houston ASC, LLC	Eliminations	Total
CURRENT LIABILITIES										
Accounts payable and accrued liabilities	$ 12,815	$ -	$ -	$ -	$ 23	$ (28)	$ (40)	$ 255	$ (2,702)	$ 10,323
Accrued compensation and benefits	17,815	271	-	-	20	583	746	185	-	19,620
Estimated third-party payor settlements	3,818	-	-	-	-	-	-	-	-	3,818
Operating lease liabilities, current portion	525	-	-	-	-	-	-	-	-	525
Other current liabilities	5,583	-	-	-	-	-	-	-	-	5,583
Total current liabilities	40,556	271	-	-	43	555	706	440	(2,702)	39,869
LINE OF CREDIT	5,000	-	-	-	-	-	-	-	-	5,000
OPERATING LEASE LIABILITIES, LESS CURRENT PORTION	1,061	-	-	-	-	-	-	-	-	1,061
SELF-INSURANCE RESERVES	17,479	-	-	-	-	-	-	-	-	17,479
TOTAL LIABILITIES	64,096	271	-	-	43	555	706	440	(2,702)	63,409
NET ASSETS										-
Without donor-imposed restrictions	222,570	766	2,055	3,715	27,006	(310)	264	1,737	(3,891)	253,912
Total net assets	222,570	766	2,055	3,715	27,006	(310)	264	1,737	(3,891)	253,912
TOTAL LIABILITIES AND NET ASSETS	$ 286,666	$ 1,037	$ 2,055	$ 3,715	$ 27,049	$ 245	$ 970	$ 2,177	$ (6,593)	$ 317,321

See independent auditors' report.

HOUSTON HEALTHCARE SYSTEM, INC.
COMBINING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2023
(in thousands)

	Houston Hospitals, Inc. (Hospitals)	Houston Healthcare EMS, Inc.	Houston Healthcare System, Inc.	Houston Healthcare Ventures, Inc.	Houston Healthcare Properties, Inc.	Houston Primary Care Physicians, LLC	Houston Physician Specialties, LLC	Houston ASC, LLC	Eliminations	Total
OPERATING REVENUES										
Net patient service revenue	$ 275,408	$ 6,108	$ -	$ -	$ -	$ 2,444	$ 8,560	$ 6,351	$ -	$ 298,871
Other revenue	3,982	65	-	-	1,708	4,587	2	-	(6,189)	4,155
Total operating revenues	279,390	6,173	-	-	1,708	7,031	8,562	6,351	(6,189)	303,026
OPERATING EXPENSES										-
Salaries and benefits	166,459	5,354	-	-	463	8,955	14,874	2,423	-	198,528
Supplies and drugs	46,035	225	-	-	-	146	522	1,304	-	48,232
Other expenses	79,494	1,804	-	-	378	1,109	2,278	3,196	(6,188)	82,071
Depreciation and amortization	8,552	248	-	-	1,306	9	116	6	-	10,237
Interest expense	541	-	-	-	-	-	-	-	-	541
Overhead allocation	(2,234)	579	-	-	90	1,013	552	-	-	-
Total operating expenses	298,847	8,210	-	-	2,237	11,232	18,342	6,929	(6,188)	339,609
OPERATING (LOSS) GAIN	(19,457)	(2,037)	-	-	(529)	(4,201)	(9,780)	(578)	(1)	(36,583)
NONOPERATING REVENUES (EXPENSES)										-
Investment income	2,890	-	-	-	-	-	-	-	-	2,890
Other components of net periodic pension costs	58	-	-	-	-	-	-	-	-	58
Net realized gains on sales of securities	757	-	-	273	-	-	-	-	-	1,030
Net unrealized loss on securities	8,805	-	-	-	-	-	-	-	-	8,805
Other nonoperating expenses	(7,256)									(7,256)
Noncapital grants, contributions, and other	4	-	-	-	-	-	-	-	-	4
Total nonoperating revenues (expenses)	5,258	-	-	273	-	-	-	-	-	5,531
EXCESS OF REVENUES (UNDER) OVER EXPENSES	(14,199)	(2,037)	-	273	(529)	(4,201)	(9,780)	(578)	(1)	(31,052)
Changes in pension assets and benefit obligations										-
not included in net periodic pension costs	6,035	-	-	-	-	-	-	-	-	6,035
Changes in intercompany	(16,585)	2,485	(2)	37	720	4,087	9,252	5	1	-
(DECREASE) INCREASE IN NET ASSETS										-
WITHOUT DONOR-IMPOSED RESTRICTIONS	(24,749)	448	(2)	310	191	(114)	(528)	(573)	-	(25,017)
NET ASSETS (DEFICITS) AT BEGINNING OF YEAR	222,570	766	2,055	3,715	27,006	(310)	264	1,737	(3,891,000)	253,912
NET ASSETS (DEFICITS) AT END OF YEAR	$ 197,821	$ 1,214	$ 2,053	$ 4,025	$ 27,197	$ (424)	$ (264)	$ 1,164	$ (3,891)	$ 228,895

See independent auditors' report.

HOUSTON HEALTHCARE SYSTEM, INC.
COMBINING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2022
(in thousands)

	Houston Hospitals, Inc. (Hospitals)	Houston Healthcare EMS, Inc.	Houston Healthcare System, Inc.	Houston Healthcare Ventures, Inc.	Houston Healthcare Properties, Inc.	Houston Primary Care Physicians, LLC	Houston Physician Specialties, LLC	Houston ASC, LLC	Eliminations	Total
OPERATING REVENUES										
Net patient service revenue	$ 259,435	$ 5,486	$ -	$ -	$ -	$ 1,999	$ 4,720	$ 2,007	$ -	$ 273,647
Grant revenue	-									-
Other revenue	3,769	79	-	-	1,262	4,285	2	-	(5,509)	3,888
Total operating revenues	263,204	5,565	-	-	1,262	6,284	4,722	2,007	(5,509)	277,535
OPERATING EXPENSES										-
Salaries and benefits	156,458	5,235	-	-	465	8,335	8,570	1,771	-	180,834
Supplies and drugs	44,960	211	-	-	-	110	372	332	-	45,985
Other expenses	79,062	1,527	1	-	231	963	1,442	2,164	(5,509)	79,881
Depreciation and amortization	8,845	246	-	-	1,272	9	116	2	-	10,490
Interest expense	184	-	-	-	-	-	-	-	-	184
Overhead allocation	(1,771)	480	-	-	81	853	357	-	-	-
Total operating expenses	287,738	7,699	1	-	2,049	10,270	10,857	4,269	(5,509)	317,374
OPERATING (LOSS) GAIN	(24,534)	(2,134)	(1)	-	(787)	(3,986)	(6,135)	(2,262)	-	(39,839)
NONOPERATING REVENUES (EXPENSES)										-
Investment income	2,983	-	-	-	-	-	-	-	-	2,983
Other components of net periodic pension costs	1,792	-	-	-	-	-	-	-	-	1,792
Net realized gains on sales of securities	(2,091)	-	(63)	304	-	-	-	-	-	(1,850)
Net unrealized loss on securities	(23,224)	-	-	-	-	-	-	-	-	(23,224)
Noncapital grants, contributions, and other	(19,000)	61	-	-	-	-	-	-	-	42
Total nonoperating revenues (expenses)	(20,559)	61	(63)	304	-	-	-	-	-	(20,257)
EXCESS OF REVENUES (UNDER) OVER EXPENSES	(45,093)	(2,073)	(64)	304	(787)	(3,986)	(6,135)	(2,262)	-	(60,096)
Changes in pension assets and benefit obligations										-
not included in net periodic pension costs	(8,123)	-	-	-	-	-	-	-	-	(8,123)
Contributions for capital	15	254	-	-	-	-	-	4,000	(3,891)	378
Changes in intercompany	(12,303)	1,981	2	-	(244)	4,211	6,354	(1)	-	-
(DECREASE) INCREASE IN NET ASSETS										-
WITHOUT DONOR-IMPOSED RESTRICTIONS	(65,504)	162	(62)	304	(1,031)	225	219	1,737	(3,891)	(67,841)
NET ASSETS (DEFICITS) AT BEGINNING OF YEAR	288,074	604	2,117	3,411	28,037	(535)	45	-	-	321,753
NET ASSETS (DEFICITS) AT END OF YEAR	$ 222,570	$ 766	$ 2,055	$ 3,715	$ 27,006	$ (310)	$ 264	$ 1,737	$ (3,891)	$ 253,912

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