# HOUSTON HEALTHCARE SYSTEM, INC.

## COMBINED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

## DECEMBER 31, 2022 AND 2021

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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CPAs AND ADVISORS

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# 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, 2022 and 2021 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, 2022 and 2021, 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
March 28, 2023

**HOUSTON HEALTHCARE SYSTEM, INC.**
**COMBINED BALANCE SHEETS**
**DECEMBER 31, 2022 AND 2021**
***(in thousands)***

## ASSETS

| | 2022 | 2021 |
|---|---|---|
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | $ 4,615 | $ 8,883 |
| Assets limited as to use | 576 | 696 |
| Patient accounts receivable, net | 24,101 | 28,661 |
| Estimated third-party payor settlements | 2,741 | 1,887 |
| Insurance recoveries, current portion | 2,768 | 3,039 |
| Inventories | 4,682 | 4,904 |
| Other current assets | 5,341 | 4,281 |
| Total current assets | 44,824 | 52,351 |
| **ASSETS LIMITED AS TO USE** | 124,895 | 169,839 |
| **PROPERTY AND EQUIPMENT, NET** | 131,861 | 134,816 |
| **PENSION ASSET** | 3,033 | 10,073 |
| **OTHER ASSETS** | | |
| Operating lease right-of-use assets, net | 1,583 | - |
| Investments in unconsolidated entities | 3,746 | 3,923 |
| Insurance recoveries | 7,379 | 8,620 |
| Total other assets | 12,708 | 12,543 |
| **TOTAL ASSETS** | $ 317,321 | $ 379,622 |

See notes to the combined financial statements.

**HOUSTON HEALTHCARE SYSTEM, INC.**
**COMBINED BALANCE SHEETS – CONTINUED**
**DECEMBER 31, 2022 AND 2021**
***(in thousands)***

## LIABILITIES AND NET ASSETS

| | 2022 | 2021 |
|---|---|---|
| **CURRENT LIABILITIES** | | |
| Accounts payable and accrued liabilities | $ 10,323 | $ 11,898 |
| Accrued compensation and benefits | 19,620 | 19,499 |
| Estimated third-party payor settlements | 3,818 | 4,067 |
| Operating lease liabilities, current portion | 525 | - |
| Other current liabilities | 5,583 | 5,394 |
| Total current liabilities | 39,869 | 40,858 |
| **LINE OF CREDIT** | 5,000 | - |
| **OPERATING LEASE LIABILITIES, LESS CURENT PORTION** | 1,061 | - |
| **SELF-INSURANCE RESERVES** | 17,479 | 17,011 |
| **TOTAL LIABILITIES** | 63,409 | 57,869 |
| **NET ASSETS** | | |
| Without donor-imposed restrictions | 253,912 | 321,753 |
| Total net assets | 253,912 | 321,753 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 317,321 | $ 379,622 |

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, 2022 AND 2021
***(in thousands)***

| | 2022 | 2021 |
|---|---|---|
| **OPERATING REVENUES** | | |
| Net patient service revenue | $ 273,647 | $ 290,480 |
| Grant revenue | - | 8,142 |
| Other revenue | 3,888 | 3,866 |
| Total operating revenues | 277,535 | 302,488 |
| **OPERATING EXPENSES** | | |
| Salaries and benefits | 180,834 | 177,227 |
| Supplies and drugs | 45,985 | 50,311 |
| Other expenses | 79,881 | 77,790 |
| Depreciation and amortization | 10,490 | 10,826 |
| Interest expense | 184 | 1,126 |
| Total operating expenses | 317,374 | 317,280 |
| **OPERATING LOSS** | (39,839) | (14,792) |
| **NONOPERATING REVENUES (EXPENSES)** | | |
| Investment income | 2,983 | 2,687 |
| Other components of net periodic pension costs | 1,792 | 2,720 |
| Net realized (loss) gains on sales of securities | (1,850) | 17,328 |
| Loss on extinguishment of long-term debt | - | (3,298) |
| Net unrealized loss on securities | (23,224) | (1,715) |
| Noncapital grants, contributions, and other | 42 | 32 |
| Total nonoperating revenues | (20,257) | 17,754 |
| **EXCESS OF REVENUES OVER EXPENSES** | (60,096) | 2,962 |
| Changes in pension assets and benefit obligations not included in net periodic pension costs | (8,123) | 11,348 |
| Contributions for capital | 378 | - |
| **(DECREASE) INCREASE IN NET ASSETS WITHOUT DONOR-IMPOSED RESTRICTIONS** | (67,841) | 14,310 |
| **NET ASSETS AT BEGINNING OF YEAR** | 321,753 | 307,443 |
| **NET ASSETS AT END OF YEAR** | $ 253,912 | $ 321,753 |

See notes to the combined financial statements.

# HOUSTON HEALTHCARE SYSTEM, INC.
## COMBINED STATEMENTS OF CASH FLOWS
## FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
*(in thousands)*

| | 2022 | 2021 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Change in net assets | $ (67,841) | $ 14,310 |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Depreciation and amortization | 10,490 | 10,826 |
| Amortization of bond premium and discount | - | (329) |
| Loss on extinguishment of long-term debt | - | 3,298 |
| Loss (gain) on sale of assets | (22) | 20 |
| Unrealized loss (gain) on securities | 23,224 | 1,715 |
| Realized loss (gains) on securities | 1,850 | (17,328) |
| Amortization of operating right-of-use assets | 423 | - |
| Changes in: | | |
| Patient accounts receivable, net | 4,560 | (3,913) |
| Inventories | 222 | (151) |
| Other current assets | (1,060) | (277) |
| Self-insurance reserves and insurance recoveries | 1,980 | (572) |
| Investments to unconsolidated entities | 177 | 337 |
| Accounts payable and accrued liabilities | (1,454) | 6,039 |
| Estimated third-party payor settlements, net | (1,103) | (813) |
| Other current liabilities | 189 | (12,327) |
| Operating lease liabilities | (420) | - |
| Accrued pension obligations | 7,040 | (15,028) |
| Net cash used in operating activities | (21,745) | (14,193) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchase of assets limited as to use | (102,883) | (170,922) |
| Proceeds from sale of assets limited as to use | 122,873 | 258,211 |
| Irrevocable trust deposit | - | (67,698) |
| Capital expenditures | (7,513) | (10,366) |
| Net cash provided by investing activities | 12,477 | 9,225 |

See notes to the combined financial statements.

**HOUSTON HEALTHCARE SYSTEM, INC.**
**COMBINED STATEMENTS OF CASH FLOWS – CONTINUED**
**FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**
***(in thousands)***

| | 2022 | 2021 |
|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from line-of-credit | $ 5,000 | $ - |
| Net cash provided by financing activities | 5,000 | - |
| **DECREASE IN CASH AND CASH EQUIVALENTS** | (4,268) | (4,938) |
| **CASH AND CASH EQUIVALENTS AT:** | | |
| **BEGINNING OF YEAR** | 8,883 | 13,821 |
| **END OF YEAR** | $ 4,615 | $ 8,883 |
| **SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:** | | |
| Cash paid during the year for: | | |
| Interest | $ 184 | $ 1,502 |
| Decrecognition of long-term debt and accrued interest | $ - | $ 64,400 |
| Operating lease right of use assets in exchange for operating lease liabilities | $ 2,006 | $ - |

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 Medical Center and Perry Hospital, 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.

**Use of Estimates**

The preparation of combined financial statements in conformity with generally accepted account 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 revenues over (under) expenses unless the income or loss is restricted by donor or law.

## 1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUTED

**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, 2022 and 2021.

**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, 2022 and 2021.

**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, 2022 and 2021.

**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**
Effective January 1, 2022, the System adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 842, *Leases* ("Topic 842"). Under Topic 842, a lessee is required to recognize a lease liability and a right-of-use lease asset on the balance sheet. Upon adoption of the new guidance, the System recognized right-of-use lease assets and lease liabilities of $2,006. There was no cumulative effect adjustment to the System's retained earnings as a result of the adoption of this standard.

## 1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUTED

In connection with the adoption of Topic 842, the System elected to apply the following practical expedients:

- not to reassess whether a contract includes an embedded lease at adoption;
- not to reassess the previously determined classification of a lease as operating or capital;
- election of an accounting policy to exclude lease accounting requirements for leases that have terms of less than 12 months; and
- the use of hindsight in determining the lease term and in assessing impairment of right-of-use assets.

In accordance with Topic 842, 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 Revenues over Expenses**
The combined statements of operations and changes in net assets include excess of revenues over expenses. 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).

## 1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUTED

### 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, 2022 and 2021, 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.

### Provider Relief Funds

As part of the response to the coronavirus pandemic, the federal government passed legislation, referred to as the Coronavirus Aid, Relief, and Economic Security (CARES) Act, on March 27, 2020 that included, among other things, financial assistance to offset some of the financial burden expected to be incurred by providers such as the System in responding to the pandemic. During 2020, the System received approximately $31,208 in provider relief funds established under the CARES Act in the form of various grants. During 2021, the System received approximately $4,271 of additional grant funds from the CARES Act. During the years ended December 31, 2021, the System recognized grant revenue of $8,142 which is included as a separate line within operating revenues in the combined statements of operations and changes in net assets. The System continues to monitor compliance with the terms and conditions of the provider relief funds. If unable to attest to or comply with current or future terms and conditions, the System's ability to retain some or all of the distributions received may be impacted.

### Medicare Accelerated Payment Program

During 2020, the System received a $10,000 advance payment from Medicare to help minimize the effects of revenue shortfalls due to COVID-19. The advanced payments are considered loans with repayment timelines and terms. Recipients may retain the accelerated payments for one year from the date of receipt before recoupment commences, which will be effectuated by a 25% offset of claims payments for 11 months, followed by 50% offset for the succeeding six months. The advanced payments were fully recouped in 2021 and there was no balance due at December 31, 2022 and 2021.

## 1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUTED

### 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 13. 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.

## 1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUTED

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, 2022 and 2021 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, 2022 and 2021 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, 2022. The reclassifications have no effect on the previously reported financials.

### Subsequent Events

The System has evaluated the impact of subsequent events through March 28, 2023, representing the date on which the combined financial statements were issued.

## 2. 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 Medical Center and 2018 for Perry Hospital.

Revenue from the Medicare program accounted for approximately 44% and 41% of the System's net patient service revenue for 2022 and 2021, 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 2022 net patient service revenue increased approximately $44 (increased $1,135 for 2021) 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.

## 2. PATIENT SERVICE REVENUE – CONTINUED

### 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 Medical Center and Perry Hospital.

Revenue from the Medicaid program accounted for approximately 11% of the System's net patient service revenue for 2022 and 2021. 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 $3,320 and $3,255 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 2022 and 2021, respectively.

*(dollars in thousands)*

## 2. PATIENT SERVICE REVENUE – CONTINUED

**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, 2022 and 2021 of approximately $3,290 and $5,054, respectively.

**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 $5,069 and $3,863 for the years ended December 31, 2022 and 2021, respectively.

**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, 2022 and 2021 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:

| | 2022 | 2021 |
|---|---|---|
| Medicare | $ 116,378 | $ 119,217 |
| Medicaid | 33,583 | 32,970 |
| Other third-party payors | 119,561 | 132,300 |
| Self-pay | 4,125 | 5,993 |
| Total | $ 273,647 | $ 290,480 |

## 2. PATIENT SERVICE REVENUE – CONTINUED

### 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.

### 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 $39,927 and $39,541 for the years ended December 31, 2022 and 2021, 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 $12,147 and $13,330 for the years ended December 31, 2022 and 2021, 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.

*(dollars in thousands)*

## 3. 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 2022 and 2021:

| | 2022 | 2021 |
|---|---|---|
| Gross patient charges | $ 997,319 | $ 979,807 |
| Uncompensated services: | | |
| Charity and indigent care | 39,927 | 39,541 |
| Medicare | 323,473 | 300,159 |
| Medicaid | 102,060 | 95,963 |
| Other allowances | 258,212 | 253,664 |
| Total uncompensated care | 723,672 | 689,327 |
| | $ 273,647 | $ 290,480 |

## 4. INVESTMENTS

**Assets Limited as to Use**

The composition of assets limited as to use at December 31, 2022 and 2021 is set forth in the following table. Investments are stated at fair value.

| | 2022 | 2021 |
|---|---|---|
| Internally designated for capital acquisition and other: | | |
| Cash and cash equivalents | $ 3,430 | $ 7,676 |
| Mutual funds – fixed income | 7,604 | 13,659 |
| Mutual funds – equities | 13,620 | 16,518 |
| Mutual funds – real estate | 3,538 | 4,698 |
| Government agency obligations | 26,982 | 28,836 |
| U.S. Corporate bonds | 27,687 | 38,807 |
| U.S. Equities | 28,648 | 36,173 |
| International assets – corporate obligations | 3,679 | 6,265 |
| International assets – government agency obligations | - | 605 |
| International assets – equities | 10,283 | 17,298 |
| | $ 125,471 | $ 170,535 |

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.

*(dollars in thousands)*

## 5. 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, 2022 and 2021 is as follows:

| | 2022 | 2021 |
|---|---|---|
| Medicare | 36% | 32% |
| Medicaid | 7% | 7% |
| Blue Cross | 11% | 12% |
| Other third-party payors | 20% | 23% |
| Patients | 26% | 26% |
| | 100% | 100% |

At December 31, 2022, 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.

## 6. PROPERTY AND EQUIPMENT

A summary of property and equipment at December 31, 2022 and 2021 is as follows:

| | 2022 | 2021 |
|---|---|---|
| Land | $ 14,910 | $ 14,910 |
| Land improvements | 3,853 | 3,850 |
| Buildings and improvements | 215,943 | 214,093 |
| Equipment | 122,431 | 117,384 |
| | 357,137 | 350,237 |
| Less accumulated depreciation | 227,986 | 218,587 |
| | 129,151 | 131,650 |
| Construction-in-progress | 2,710 | 3,166 |
| Property and equipment, net | $ 131,861 | $ 134,816 |

Depreciation expense for the years ended December 31, 2022 and 2021 amounted to approximately $10,490 and $10,814 respectively.

Contracts of approximately $5,789 exist for the purchase of various equipment and renovations to facilities. At December 31, 2022, the remaining commitment on these contracts approximated $4,703.

***(dollars in thousands)***

## 7. 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 6.27% at December 31, 2022). At December 31, 2022, the outstanding balance was $5,000. At December 31, 2021, the System had $28 in origination fees outstanding and is included in other current liabilities in the accompanying combined balance sheets.

## 8. NET ASSETS

At December 31, 2022 and 2021, net assets without donor-imposed restrictions were as follows:

| | 2022 | 2021 |
|---|---|---|
| Without donor-imposed restrictions: | | |
| Internally designated for capital acquisition and other | $ 124,895 | $ 170,535 |
| Undesignated | 129,017 | 151,218 |
| Total net assets without donor-imposed restrictions | $ 253,912 | $ 321,753 |

## 9. LIQUIDITY

The following reflects the System's financial assets at December 31, 2022 and 2021, 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.

| | 2022 | 2021 |
|---|---|---|
| Cash and cash equivalents | $ 4,615 | $ 8,883 |
| Patients accounts receivable, net | 24,101 | 28,661 |
| Estimated third-party payor settlements | 2,741 | 1,887 |
| Insurance recoveries, current portion | 2,768 | 3,039 |
| | $ 34,225 | $ 42,470 |

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 7).

*(dollars in thousands)*

## 10. 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, 2022 and 2021.

The following table sets forth the Plan's funded status and amounts recognized in the combined financial statements at December 31, 2022 and 2021:

| | 2022 | 2021 |
|---|---|---|
| Plan assets at fair value at December 31 | $ 104,653 | $ 141,602 |
| Projected benefit obligation at December 31 | 101,620 | 131,529 |
| Funded status | $ 3,033 | $ 10,073 |
| Amounts recognized in the combined balance sheets consist of: | | |
| Noncurrent assets (liabilities) | $ 3,033 | $ 10,073 |
| Amounts recognized in net assets without donor-imposed restrictions: | | |
| Net actuarial loss | $ 23,160 | $ 15,037 |

***(dollars in thousands)***

## 10. PENSION PLAN – CONTINUED

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, 2022 and 2021:

| | 2022 | 2021 |
|---|---|---|
| Service cost | $ 709 | $ 790 |
| Interest cost | 3,173 | 2,700 |
| Expected return on Plan assets | (5,025) | (6,853) |
| Amortization of net actuarial loss | 60 | 497 |
| Settlement/curtailment expense | - | 937 |
| Net periodic cost | (1,083) | (1,929) |
| Other changes in Plan assets and benefit obligations recognized in net assets without donor imposed restrictions: | | |
| Net actuarial (gain) loss | 8,183 | (9,914) |
| Amortization of net actuarial loss | (60) | (1,434) |
| Total recognized in net assets without donor-imposed restrictions | 8,123 | (11,348) |
| Total recognized in net periodic benefit cost and net assets without donor imposed restrictions | $ 7,040 | $ (13,277) |

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)*

## 10. PENSION PLAN – CONTINUED

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.

| | 2022 | 2021 |
|---|---|---|
| Weighted-average assumptions used to determine pension benefit obligations: | | |
| Discount rate | 5.21% | 2.97% |
| Rate of increase in future compensation levels | 2.00% | 2.00% |
| Weighted-average assumptions used to determine net period benefit cost: | | |
| Discount rate | 2.97% | 2.67% |
| Expected long-term return on Plan assets | 5.70% | 3.80% |
| 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, 2022 and 2021 included the following components:

| | 2022 | 2021 |
|---|---|---|
| Projected benefit obligation, beginning of year | $ 131,529 | $ 139,986 |
| Service cost | 709 | 790 |
| Interest cost | 3,173 | 2,700 |
| Actuarial loss | (28,530) | (2,317) |
| Benefits paid | (5,261) | (9,630) |
| Projected benefit obligation, end of year | $ 101,620 | $ 131,529 |
| Accumulated benefit obligation | $ 100,373 | $ 138,453 |

During 2020, the System offered a "Special 2020 In-Service Distribution Window 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 without terminating employment. The lump sum was calculated based on the Internal Revenue Service (IRS) applicable interest rates and was paid in December 2020 and January 2021. The January 2021 lump sums payments of approximately $4,733 exceeded the 2021 service cost plus interest cost, whereby settlement accounting was triggered and $937 of amounts previously recognized as other changes in net assets were required to be recognized in 2021 pension expense.

*(dollars in thousands)*

## 10. PENSION PLAN – CONTINUED

The change in fair value of Plan assets for the years ended December 31, 2022 and 2021 included the following components:

| | 2022 | 2021 |
|---|---|---|
| Plan assets at fair value, beginning of year | $ 141,602 | $ 135,031 |
| Actual return on assets | (31,688) | 14,451 |
| Employer contributions | - | 1,750 |
| Benefits paid | (5,261) | (9,630) |
| Plan assets at fair value, end of year | $ 104,653 | $ 141,602 |

**Plan Assets**
The composition of Plan assets at December 31, 2022 and 2021 is as follows:

| | 2022 | % | 2021 | % |
|---|---|---|---|---|
| Cash and cash equivalents | $ 1,393 | 1% | $ 1,445 | 1% |
| Mutual funds – fixed income | 87,642 | 84% | 118,697 | 84% |
| Mutual funds – equities | 4,912 | 5% | 7,698 | 5% |
| Mutual funds – real estate | 2,217 | 2% | 2,944 | 2% |
| U.S. Equities | 5,886 | 6% | 8,142 | 6% |
| International assets – equities | 2,603 | 2% | 2,676 | 2% |
| | $ 104,653 | 100% | $ 141,602 | 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 target allocation for the Plan's investments was 45% U.S. equity, 10% international equity, 35% fixed income, and 10% other securities. Beginning September 2021, the Plan rebalanced the asset allocations to adopt a liability-hedging portfolio that has a target allocation of 75% – 95% liability-hedging and 5% – 25% return seeking.

*(dollars in thousands)*

## 10. PENSION PLAN – CONTINUED

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.

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, 2022 and 2021, by asset category (see Note 15) are as follows:

| | | 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 | $ - |

*(dollars in thousands)*

## 10. PENSION PLAN – CONTINUED

| | | Fair Value Measurements | | |
|---|---|---|---|---|
| **December 31, 2021** | **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 | $ 1,445 | $ 1,445 | $ - | $ - |
| Mutual funds – fixed income | 118,697 | 118,697 | - | - |
| Mutual funds – equities | 7,698 | 7,698 | - | - |
| Mutual funds – real estate | 2,944 | 2,944 | - | - |
| U.S. Equities | 8,142 | 8,142 | - | - |
| International assets – corporate obligations | 34 | - | 34 | - |
| International assets – equities | 2,642 | 2,642 | - | - |
| Total | $ 141,602 | $ 141,568 | $ 34 | $ - |

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 2022.

**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 |
|---|---|
| 2023 | $ 6,078 |
| 2024 | 6,314 |
| 2025 | 6,534 |
| 2026 | 6,806 |
| 2027 | 7,075 |
| 2028 – 2030 | 36,962 |

The expected benefits to be paid are based on the same assumptions used to measure the System's benefit obligation at December 31, 2022.

## 11. 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 $2,990 and $3,187 for the years ended December 31, 2022 and 2021, respectively.

## 12. 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 $17,576 and $17,120 were paid or accrued during the years ended December 31, 2022 and 2021, respectively.

## 13. 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 2022 and 2021 was $2 million per occurrence and $8 million 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 $2,610 and $2,824 at December 31, 2022 and 2021, respectively, recorded in insurance recoveries, current portion and the long-term portion of $7,152 and $8,024, respectively, is recorded in insurance recoveries.

*(dollars in thousands)*

## 14. FUNCTIONAL EXPENSES

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

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | Health Care Services | General and Administrative | Total | Health Care Services | General and Administrative | Total |
| Salaries and benefits | $ 165,171 | $ 15,663 | $ 180,834 | $ 162,324 | $ 14,903 | $ 177,227 |
| Supplies and drugs | 45,595 | 390 | 45,985 | 50,002 | 309 | 50,311 |
| Other expenses | 68,070 | 11,811 | 79,881 | 66,078 | 11,712 | 77,790 |
| Depreciation and amortization | 8,491 | 1,999 | 10,490 | 8,800 | 2,026 | 10,826 |
| Interest expense | - | 184 | 184 | - | 1,126 | 1,126 |
| Total operating expenses | $ 287,327 | $ 30,047 | $ 317,374 | $ 287,204 | $ 30,076 | $ 317,280 |

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.

## 15. 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.

## 15. FAIR VALUE OF FINANCIAL INSTRUMENTS – CONTINUED

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)*

## 15. FAIR VALUE OF FINANCIAL INSTRUMENTS – CONTINUED

The estimated fair values of the System's investments at December 31, 2022 and 2021 and the level within the fair value hierarchy are as follows:

| | | 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 | $ - |

| | | Fair Value Measurements | | |
|---|---|---|---|---|
| **December 31, 2021** | **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 | $ 7,676 | $ 7,676 | $ - | $ - |
| Mutual funds – fixed income | 13,659 | 13,659 | - | - |
| Mutual funds – equities | 16,518 | 16,518 | - | - |
| Mutual funds – real estate | 4,698 | 4,698 | - | - |
| Government agency obligations | 28,836 | - | 28,836 | - |
| U.S. Corporate bonds | 38,807 | - | 38,807 | - |
| U.S. Equities | 36,173 | 36,173 | - | - |
| International assets – corporate obligations | 6,265 | - | 6,265 | - |
| International assets – Government agency obligations | 605 | - | 605 | - |
| International assets – equities | 17,298 | 17,298 | - | - |
| Total | $ 170,535 | $ 96,022 | $ 74,513 | $ - |

*(dollars in thousands)*

## 16. 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.

The following summarizes the weighted average remaining lease term and discount rate as of December 31, 2022:

| | |
|---|---|
| Weighted Average Remaining Lease Term | 3.08 years |
| Weighted Average Discount Rate | 5.00% |

Future maturities of lease liabilities as of December 31, 2022, were as follows:

| **For the Years Ending December 31,** | |
|---|---|
| 2023 | $ 590 |
| 2024 | 536 |
| 2025 | 421 |
| 2026 | 107 |
| 2027 | 57 |
| | 1,711 |
| Less interest | 125 |
| Present value of lease liabilities | $ 1,586 |

For the year ended December 31, 2022, the operating lease expenses included in the combined statement of operations and changes in net assets in other expenses were $490.

## 17. 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.

## 17. COMMITMENTS AND CONTINGENCIES – CONTINUED

**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, 2022 and December 31, 2021, the System is contingently liable under the open letter of credit in the amount of $1,860.

## 18. SUBSEQUENT EVENT

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 will maintain 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 will provide certain core services for an annual fee. The initial term of the Agreement is ten years and the Agreement includes certain provisions for early termination.

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 agreements 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.

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.

# SUPPLEMENTARY INFORMATION

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

| ASSETS | Houston Medical Center | Perry Hospital | 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 | $ 2,010 | $ 1 | $ 88 | $ 5 | $ 563 | $ 109 | $ 193 | $ 426 | $ 1,220 | $ - | $ 4,615 |
| Assets limited as to use | 576 | - | - | - | - | - | - | - | - | - | 576 |
| Patient accounts receivable, net | 20,522 | 2,952 | 127 | - | - | - | - | - | 500 | - | 24,101 |
| Estimated third-party payor settlements | 2,535 | 206 | - | - | - | - | - | - | - | - | 2,741 |
| Insurance recoveries, current portion | 2,768 | - | - | - | - | - | - | - | - | - | 2,768 |
| Inventories | 3,743 | 589 | - | - | - | - | - | - | 350 | - | 4,682 |
| Other current assets | 5,484 | 20 | - | - | 2,500 | - | - | - | 39 | (2,702) | 5,341 |
| Total current assets | 37,638 | 3,768 | 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** | 94,152 | 9,283 | 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** | $ 273,615 | $ 13,051 | $ 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 Medical Center | Perry Hospital | 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 | 16,579 | 1,236 | 271 | - | - | 20 | 583 | 746 | 185 | - | 19,620 |
| Estimated third-party payor settlements | 1,297 | 2,521 | - | - | - | - | - | - | - | - | 3,818 |
| Operating lease liabilities, current portion | 525 | - | - | - | - | - | - | - | - | - | 525 |
| Other current liabilities | 5,583 | - | - | - | - | - | - | - | - | - | 5,583 |
| Total current liabilities | 36,799 | 3,757 | 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** | 60,339 | 3,757 | 271 | - | - | 43 | 555 | 706 | 440 | (2,702) | 63,409 |
| **NET ASSETS** | | | | | | | | | | | |
| Without donor-imposed restrictions | 213,276 | 9,294 | 766 | 2,055 | 3,715 | 27,006 | (310) | 264 | 1,737 | (3,891) | 253,912 |
| Total net assets | 213,276 | 9,294 | 766 | 2,055 | 3,715 | 27,006 | (310) | 264 | 1,737 | (3,891) | 253,912 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 273,615 | $ 13,051 | $ 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
# DECEMBER 31, 2021
## *(in thousands)*

| ASSETS | Houston Medical Center | Perry Hospital | 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 | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **CURRENT ASSETS** | | | | | | | | | | |
| Cash and cash equivalents | $ 5,817 | $ 1 | $ 110 | $ 5 | $ 2,759 | $ 69 | $ 71 | $ 51 | $ - | $ 8,883 |
| Assets limited as to use | 696 | - | - | - | - | - | - | - | - | 696 |
| Patient accounts receivable, net | 25,377 | 3,100 | 183 | - | - | - | 1 | - | - | 28,661 |
| Estimated third-party payor settlements | 1,637 | 250 | - | - | - | - | - | - | - | 1,887 |
| Insurance recoveries | 3,039 | - | - | - | - | - | - | - | - | 3,039 |
| Inventories | 4,369 | 535 | - | - | - | - | - | - | - | 4,904 |
| Other current assets | 4,253 | 28 | - | - | - | - | - | - | - | 4,281 |
| Total current assets | 45,188 | 3,914 | 293 | 5 | 2,759 | 69 | 72 | 51 | - | 52,351 |
| **ASSETS LIMITED AS TO USE** | 169,839 | - | - | - | - | - | - | - | - | 169,839 |
| **PROPERTY AND EQUIPMENT, NET** | 96,683 | 8,848 | 633 | - | - | 28,061 | 56 | 535 | - | 134,816 |
| **PENSION ASSET** | 10,073 | - | - | - | - | - | - | - | - | 10,073 |
| **OTHER ASSETS** | | | | | | | | | | |
| Investments in unconsolidated entities | 1,159 | - | - | 2,112 | 652 | - | - | - | - | 3,923 |
| Insurance recoveries | 8,620 | - | - | - | - | - | - | - | - | 8,620 |
| Total other assets | 9,779 | - | - | 2,112 | 652 | - | - | - | - | 12,543 |
| **TOTAL ASSETS** | $ 331,562 | $ 12,762 | $ 926 | $ 2,117 | $ 3,411 | $ 28,130 | $ 128 | $ 586 | $ - | $ 379,622 |

See independent auditors' report.

# HOUSTON HEALTHCARE SYSTEM, INC.
# COMBINING BALANCE SHEET – CONTINUED
# DECEMBER 31, 2021
*(in thousands)*

| LIABILITIES AND NET ASSETS | Houston Medical Center | Perry Hospital | 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 | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **CURRENT LIABILITIES** | | | | | | | | | | |
| Accounts payable and accrued liabilities | $ 11,829 | $ 1 | $ - | $ - | $ - | $ 62 | $ 17 | $ (11) | $ - | $ 11,898 |
| Accrued compensation and benefits | 16,701 | 1,253 | 322 | - | - | 31 | 640 | 552 | - | 19,499 |
| Estimated third-party payor settlements | 2,284 | 1,783 | - | - | - | - | - | - | - | 4,067 |
| Other current liabilities | 5,388 | - | - | - | - | - | 6 | - | - | 5,394 |
| Total current liabilities | 36,202 | 3,037 | 322 | - | - | 93 | 663 | 541 | - | 40,858 |
| **SELF-INSURANCE RESERVES** | 17,011 | - | - | - | - | - | - | - | - | 17,011 |
| **TOTAL LIABILITIES** | 53,213 | 3,037 | 322 | - | - | 93 | 663 | 541 | - | 57,869 |
| **NET ASSETS** | | | | | | | | | | |
| Without donor-imposed restrictions | 278,349 | 9,725 | 604 | 2,117 | 3,411 | 28,037 | (535) | 45 | - | 321,753 |
| Total net assets | 278,349 | 9,725 | 604 | 2,117 | 3,411 | 28,037 | (535) | 45 | - | 321,753 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 331,562 | $ 12,762 | $ 926 | $ 2,117 | $ 3,411 | $ 28,130 | $ 128 | $ 586 | $ - | $ 379,622 |

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 Medical Center | Perry Hospital | 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 | $ 226,418 | $ 33,017 | $ 5,486 | $ - | $ - | $ - | $ 1,999 | $ 4,720 | $ 2,007 | $ - | $ 273,647 |
| Grant revenue | | | | | | | | | | | |
| Other revenue | 3,516 | 253 | 79 | - | - | 1,262 | 4,285 | 2 | - | (5,509) | 3,888 |
| Total operating revenues | 229,934 | 33,270 | 5,565 | - | - | 1,262 | 6,284 | 4,722 | 2,007 | (5,509) | 277,535 |
| **OPERATING EXPENSES** | | | | | | | | | | | |
| Salaries and benefits | 140,364 | 16,094 | 5,235 | - | - | 465 | 8,335 | 8,570 | 1,771 | - | 180,834 |
| Supplies and drugs | 39,674 | 5,286 | 211 | - | - | - | 110 | 372 | 332 | - | 45,985 |
| Other expenses | 71,647 | 7,415 | 1,527 | 1 | - | 231 | 963 | 1,442 | 2,164 | (5,509) | 79,881 |
| Depreciation and amortization | 7,960 | 885 | 246 | - | - | 1,272 | 9 | 116 | 2 | - | 10,490 |
| Interest expense | 184 | - | - | - | - | - | - | - | - | - | 184 |
| Overhead allocation | (6,376) | 4,605 | 480 | - | - | 81 | 853 | 357 | - | - | - |
| Total operating expenses | 253,453 | 34,285 | 7,699 | 1 | - | 2,049 | 10,270 | 10,857 | 4,269 | (5,509) | 317,374 |
| **OPERATING (LOSS) GAIN** | (23,519) | (1,015) | (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) | - | 61 | - | - | - | - | - | - | - | 42 |
| Total nonoperating revenues (expenses) | (20,559) | - | 61 | (63) | 304 | - | - | - | - | - | (20,257) |
| **EXCESS OF REVENUES (UNDER) OVER EXPENSES** | (44,078) | (1,015) | (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 | (12,887) | 584 | 1,981 | 2 | - | (244) | 4,211 | 6,354 | (1) | - | - |
| **(DECREASE) INCREASE IN NET ASSETS WITHOUT DONOR-IMPOSED RESTRICTIONS** | (65,073) | (431) | 162 | (62) | 304 | (1,031) | 225 | 219 | 1,737 | (3,891) | (67,841) |
| **NET ASSETS AT BEGINNING OF YEAR** | 278,349 | 9,725 | 604 | 2,117 | 3,411 | 28,037 | (535) | 45 | - | - | 321,753 |
| **NET ASSETS AT END OF YEAR** | $ 213,276 | $ 9,294 | $ 766 | $ 2,055 | $ 3,715 | $ 27,006 | $ (310) | $ 264 | $ 1,737 | $ (3,891) | $ 253,912 |

See independent auditors' report.

# HOUSTON HEALTHCARE SYSTEM, INC.
# COMBINING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
# FOR THE YEAR ENDED DECEMBER 31, 2021
# *(in thousands)*

| | Houston Medical Center | Perry Hospital | 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 | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **OPERATING REVENUES** | | | | | | | | | | |
| Net patient service revenue | $ 248,057 | $ 31,522 | $ 4,950 | $ - | $ - | $ - | $ 1,628 | $ 4,323 | $ - | $ 290,480 |
| Grant revenue | 7,709 | - | 433 | - | - | - | - | - | - | 8,142 |
| Other revenue | 3,105 | 238 | 71 | - | - | 1,214 | 4,367 | 1 | (5,130) | 3,866 |
| Total operating revenues | 258,871 | 31,760 | 5,454 | - | - | 1,214 | 5,995 | 4,324 | (5,130) | 302,488 |
| **OPERATING EXPENSES** | | | | | | | | | | |
| Salaries and benefits | 139,796 | 15,867 | 6,028 | - | - | 426 | 8,091 | 7,019 | - | 177,227 |
| Supplies and drugs | 44,413 | 5,409 | 221 | - | - | - | 85 | 183 | - | 50,311 |
| Other expenses | 71,316 | 7,813 | 1,202 | 4 | - | 249 | 1,218 | 1,118 | (5,130) | 77,790 |
| Depreciation and amortization | 8,303 | 849 | 268 | - | - | 1,262 | 9 | 135 | - | 10,826 |
| Interest expense | 1,126 | - | - | - | - | - | - | - | - | 1,126 |
| Overhead allocation | (5,638) | 3,964 | 438 | - | - | 57 | 656 | 523 | - | - |
| Total operating expenses | 259,316 | 33,902 | 8,157 | 4 | - | 1,994 | 10,059 | 8,978 | (5,130) | 317,280 |
| **OPERATING GAIN (LOSS)** | (445) | (2,142) | (2,703) | (4) | - | (780) | (4,064) | (4,654) | - | (14,792) |
| **NONOPERATING REVENUES (EXPENSES)** | | | | | | | | | | |
| Investment income | 2,687 | - | - | - | - | - | - | - | - | 2,687 |
| Other components of net periodic pension costs | 2,720 | - | - | - | - | - | - | - | - | 2,720 |
| Net realized gains on sales of securities | 16,359 | - | - | 159 | 810 | - | - | - | - | 17,328 |
| Loss on extinguishment of long-term debt | (3,298) | - | - | - | - | - | - | - | - | (3,298) |
| Net unrealized gains on securities | (1,715) | - | - | - | - | - | - | - | - | (1,715) |
| Noncapital grants, contributions, and other | 31 | 1 | - | - | - | - | - | - | - | 32 |
| Total nonoperating revenues (expenses) | 16,784 | 1 | - | 159 | 810 | - | - | - | - | 17,754 |
| **EXCESS OF REVENUES OVER (UNDER) EXPENSES** | 16,339 | (2,141) | (2,703) | 155 | 810 | (780) | (4,064) | (4,654) | - | 2,962 |
| Changes in pension assets and benefit obligations not included in net periodic pension costs | 11,348 | - | - | - | - | - | - | - | - | 11,348 |
| **INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR-IMPOSED RESTRICTIONS** | 27,687 | (2,141) | (2,703) | 155 | 810 | (780) | (4,064) | (4,654) | - | 14,310 |
| **NET ASSETS AT BEGINNING OF YEAR** | 250,662 | 11,866 | 3,307 | 1,962 | 2,601 | 28,817 | 3,529 | 4,699 | - | 307,443 |
| **NET ASSETS AT END OF YEAR** | $ 278,349 | $ 9,725 | $ 604 | $ 2,117 | $ 3,411 | $ 28,037 | $ (535) | $ 45 | $ - | $ 321,753 |

See independent auditors' report.