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Carlos G. Otis Health Care Center, Inc. and Subsidiary

Audited Consolidated Financial Statements and Other Financial Information

Years Ended September 30, 2019 and 2018
With Independent Auditors' Report

Baker Newman & Noyes LLC
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CARLOS G. OTIS HEALTH CARE CENTER, INC. AND SUBSIDIARY

Audited Consolidated Financial Statements
and Other Financial Information

September 30, 2019 and 2018

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Carlos G. Otis Health Care Center, Inc. and Subsidiary

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Board of Trustees
Carlos G. Otis Health Care Center, Inc. and Subsidiary

Opinion

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

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, in 2019, Carlos G. Otis Health Care Center, Inc. and Subsidiary adopted the provisions of Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements for Not-for-Profit Entities* and applied the guidance retrospectively for all periods presented. Our opinion is not modified with respect to this matter.

Baku Newman & Noyes LLC

Manchester, New Hampshire
March 16, 2020

CARLOS G. OTIS HEALTH CARE CENTER, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

September 30, 2019 and 2018

ASSETS

	2019	2018
Current assets:		
Cash and cash equivalents	$ 199,022	$ 23,386
Accounts receivable, less allowance for doubtful accounts of $548,036 in 2019 and $652,388 in 2018	1,917,986	2,083,725
Estimated third-party payor settlements receivable	415,630	–
Meaningful use receivable	17,000	34,000
Other receivables	–	32
Inventories	1,847,467	1,715,794
Prepaid expenses	221,271	209,789
Total current assets	4,618,376	4,066,726
Property and equipment, net	3,182,910	3,364,427
Assets whose use is limited or restricted:		
Restricted cash and cash equivalents	595,940	424,557
Investments	5,968,440	5,725,976
Contributions receivable from charitable remainder trusts	33,726	34,016
Beneficial interest in perpetual trust	1,706,934	1,717,123
Deposits with trustee	56,618	63,437
Total assets whose use is limited or restricted	8,361,658	7,965,109
Total assets	$16,162,944	$15,396,262

LIABILITIES AND NET ASSETS

	2019	2018
Current liabilities:		
Line of credit	$ 1,946,913	$ 1,078,501
Accounts payable	1,413,604	1,063,191
Accrued compensated absences	499,473	677,097
Accrued expenses	1,259,052	1,023,207
Estimated third-party payor settlements payable	–	321,147
Current portion of charitable gift annuities liability	9,351	18,244
Current portion of long-term debt and capital lease obligations	356,490	352,757
Total current liabilities	5,484,883	4,534,144
Charitable gift annuities liability, less current portion	33,498	62,593
Long-term debt and capital lease obligations, less current portion	817,981	1,012,282
Total liabilities	6,336,362	5,609,019
Net assets:		
Without donor restrictions	6,405,496	6,558,441
With donor restrictions	3,421,086	3,228,802
Total net assets	9,826,582	9,787,243
Total liabilities and net assets	$16,162,944	$15,396,262

See accompanying notes.

CARLOS G. OTIS HEALTH CARE CENTER, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS
AND CHANGES IN NET ASSETS

Years Ended September 30, 2019 and 2018

	2019	2018
Revenue without donor restrictions and other support:		
Patient service revenue (net of contractual allowances and discounts)	$19,200,794	$18,730,838
Provision for bad debts	(571,623)	(556,089)
Net patient service revenue less provision for bad debts	18,629,171	18,174,749
Other revenue	3,969,758	4,129,962
Meaningful use revenue	–	42,500
Net assets released from restrictions for operations	526,951	430,497
Total revenue without donor restrictions and other support	23,125,880	22,777,708
Expenses:		
Salaries and benefits	16,338,008	15,664,670
Supplies and other	6,491,814	6,299,907
State provider taxes	631,409	620,394
Depreciation and amortization	644,180	612,930
Interest	155,800	135,586
Total expenses	24,261,211	23,333,487
Loss from operations	(1,135,331)	(555,779)
Nonoperating gains (losses):		
Investment return, net	384,053	372,203
Contributions and program support	334,251	524,600
Other nonoperating gains (losses)	16,814	(19,581)
Nonoperating gains, net	735,118	877,222
(Deficiency) excess of revenue, gains and other support over expenses	(400,213)	321,443

Continued next page.

CARLOS G. OTIS HEALTH CARE CENTER, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS
AND CHANGES IN NET ASSETS (CONTINUED)

Years Ended September 30, 2019 and 2018

	2019	2018
(Deficiency) excess of revenue, gains and other support over expenses	$ (400,213)	$ 321,443
Net assets released from restrictions for capital purchases	247,268	459,840
Change in net assets without donor restrictions	(152,945)	781,283
Net assets with donor restrictions:		
Contributions	976,982	774,254
Net assets released from restrictions for operations	(526,951)	(430,497)
Net assets released from restrictions for capital purchases	(247,268)	(459,840)
Net change in charitable remainder trusts	(290)	(1,052)
Change in beneficial interest in perpetual trust	(10,189)	26,145
Change in net assets with donor restrictions	192,284	(90,990)
Change in net assets	39,339	690,293
Net assets, beginning of year	9,787,243	9,096,950
Net assets, end of year	$ 9,826,582	$ 9,787,243

See accompanying notes.

CARLOS G. OTIS HEALTH CARE CENTER, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended September 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	$ 39,339	$ 690,293
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation and amortization	644,180	612,930
Provision for bad debts	571,623	556,089
Net realized and unrealized changes in the fair value of investments	(286,706)	(279,170)
Debt issuance cost amortization	4,021	4,021
Loss on disposal of property and equipment	17,283	11,764
Change in charitable remainder trusts	290	1,052
Change in beneficial interest in perpetual trust	10,189	(26,145)
Restricted contributions	(976,982)	(774,254)
Changes in operating assets and liabilities:		
Accounts receivable	(405,884)	(622,018)
Estimated third-party payor settlements	(736,777)	470,597
Other receivables	17,000	177
Meaningful use receivable	32	51,000
Inventories	(131,673)	(250,501)
Prepaid expenses	(11,482)	(574)
Accounts payable	350,413	(240,648)
Accrued compensated absences	(177,624)	126,279
Accrued expenses	235,845	(85,459)
Net cash (used) provided by operating activities	(836,913)	245,433
Cash flows from investing activities:		
Purchases of property and equipment	(323,573)	(593,970)
Proceeds from sale and maturities of investments	2,868,432	1,672,459
Purchases of investments	(2,824,190)	(1,845,137)
Change in restricted cash	(171,383)	291,103
Deposits with trustee	6,819	(6,271)
Net cash used by investing activities	(443,895)	(481,816)
Cash flows from financing activities:		
Net proceeds from (payments) on line of credit	868,412	(238,797)
Payments on long-term debt and capital lease obligations	(350,962)	(338,741)
Restricted contributions	976,982	774,254
Change in charitable gift annuities	(37,988)	(4,445)
Net cash provided by financing activities	1,456,444	192,271
Net change in cash and cash equivalents	175,636	(44,112)
Cash and cash equivalents at beginning of year	23,386	67,498
Cash and cash equivalents at end of year	$ 199,022	$ 23,386
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 151,779	$ 131,565
Noncash investing and financing activities:		
Equipment financed by capital lease obligations	$ 156,373	$ –

See accompanying notes.

1. Description of Organization and Summary of Significant Accounting Policies

Organization

Carlos G. Otis Health Care Center, Inc. (OHCC) is a not-for-profit organization located in Townshend, Vermont consisting of Grace Cottage Hospital (a Critical Access Hospital), Messenger Valley Pharmacy, and Grace Cottage Family Health (a Rural Health Clinic). The accompanying consolidated financial statements include the accounts of all these entities.

OHCC is the sole corporate member of Grace Cottage Foundation (the Foundation), a not-for-profit corporation, established to solicit contributions from the general public solely for the funding of health care services by OHCC.

The accounting policies that affect the more significant elements of the consolidated financial statements are summarized below:

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of OHCC and its subsidiary organization, the Foundation (together the Organization). All significant intercompany accounts and transactions have been eliminated in consolidation.

Basis of Accounting

The accompanying consolidated financial statements have been prepared on an accrual basis of accounting.

Use of Estimates

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

Net Assets With Donor Restrictions

Gifts are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (when a stipulated time restriction ends or purpose restriction is accomplished), restricted net assets are reclassified as net assets without donor restrictions and reported in the consolidated statements of operations as either net assets released from restrictions for operations (for noncapital-related items) or net assets released from restrictions for capital purchases (for capital-related items). Some net assets with donor restrictions have been restricted by donors to be maintained by the Organization in perpetuity.

1. Description of Organization and Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

Cash and cash equivalents include all demand deposit accounts, investments with original maturities of three months or less when purchased and money market funds, excluding assets whose use is limited or restricted. Restricted cash and cash equivalents are limited as to use for long-term purposes by donor-imposed restrictions.

Accounts Receivable and the Allowance for Doubtful Accounts

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, the Organization analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Organization analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients, the Organization records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

Inventories

Inventories of supplies and pharmaceuticals are carried at the lower of cost (determined by the first-in, first-out method) or net realizable value.

Deposits With Trustee

Deposits with trustee under revenue bond agreements are recorded at fair value and are comprised of short-term investments and United States government obligations.

Investments and Investment Income

Investments are measured at fair value in the accompanying consolidated balance sheets. Investment income or loss (including realized and unrealized gains and losses on investments, and interest and dividends) is included in the (deficiency) excess of revenue, gains and other support over expenses as the Organization has elected to reflect changes in the fair value of investments and assets whose use is limited, including both increases and decreases in value whether realized or unrealized, in nonoperating gains or losses unless the income or loss is restricted by donor or law, in which case it is reported as an increase or decrease in net assets with donor restrictions.

1. Description of Organization and Summary of Significant Accounting Policies (Continued)

Endowment, Investment and Spending Policies

In accordance with the *Uniform Prudent Management of Institutional Funds Act* (UPMIFA), the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (a) the duration and preservation of the fund; (b) the purpose of the organization and the donor-restricted endowment fund; (c) general economic conditions; (d) the possible effect of inflation and deflation; (e) the expected total return from income and the appreciation of investments; (f) other resources of the organization; and (g) the investment policies of the organization.

The goal of the investments is to support the Organization's future capital expenditures and other major program needs, and to generally increase the financial strength of the Organization. In addition to occasional capital expenditures, board designated funds are invested in a prudent manner with regard to preserving principal while providing reasonable returns.

The goal of the endowment funds is to provide a source of financial support to the Organization's patient care activities. The Organization appropriates the earnings from the endowment funds to offset the costs of patient care activities according to the intent of the donor. The endowment funds are invested in a prudent manner with regard to preserving principal while providing reasonable returns.

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation and current yield. The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objective within prudent risk constraints.

The Organization has adopted a formal spending policy on its endowment fund of 4% per fiscal year of the average fair value of the endowment fund for the trailing twelve quarters.

Assets Whose Use is Limited or Restricted

Assets whose use is limited or restricted include assets held by trustees under indenture agreements, quasi-endowment funds, designated assets set aside by the Board of Trustees over which the Board retains control and may, at its discretion, subsequently use for other purposes, and donor-restricted investments, including certain cash and cash equivalents.

Property and Equipment

Property and equipment is stated at cost or, if donated, at fair value at the date of donation, less accumulated depreciation. The Organization's policy is to capitalize expenditures for major improvements and charge maintenance and repairs currently for expenditures which do not extend the life of the related assets. When assets are retired or disposed of, the assets and related accumulated depreciation are eliminated from the accounts and any resulting gain or loss is reflected in the accompanying consolidated statements of operations.

Depreciation is computed using the straight-line method in a manner intended to amortize the cost of the assets over their estimated useful lives.

1. Description of Organization and Summary of Significant Accounting Policies (Continued)

Deferred Financing Costs

Costs incurred in obtaining long-term financing are being amortized to interest expense using the straight-line method, which approximates the effective interest method, over the repayment period of the related debt obligation. Debt issuance costs are presented as a reduction of long-term debt.

Compensated Absences

The Organization provides and accrues for paid time off for vacation, holiday and sick leave under an earned time system. Hours earned, but not used, are capped and vested with the employee.

Performance Indicator

For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenues and expenses. Peripheral transactions are reported as nonoperating gains or losses.

The consolidated statements of operations include (deficiency) excess of revenue, gains and other support over expenses. Changes in net assets without donor restrictions which are excluded from (deficiency) excess of revenue, gains and other support over expenses, consistent with industry practice, include net assets released from restrictions for capital purchases.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Changes in these estimates are reflected in the accompanying consolidated financial statements in the year in which they occur. During 2019 and 2018, net patient service revenue in the accompanying statements of operations (decreased) increased approximately $(17,000) and $46,000, respectively, due to changes in prior year estimates. Services rendered to individuals from whom payment is expected and ultimately not received is written off and included as part of the provision for bad debts.

The Organization recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. On the basis of historical experience, a significant portion of the Organization's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Organization records a significant provision for bad debts related to uninsured patients in the period the services are provided.

Activities directly associated with services related to acute and ancillary care services are considered to be operating activities and are included as patient service revenue. Revenue which is not related to patient medical care and which is normal to the day-to-day operations of the Organization is included in other revenue.

1. Description of Organization and Summary of Significant Accounting Policies (Continued)

Retirement Plan

The Organization has a defined contribution 401(k) plan covering substantially all of its employees. Employees who have completed one year of service, in which they were employed at least 1,000 hours, and have attained age 21 are eligible to participate in the plan. The plan provides for an automatic deferral provision. The Organization may make discretionary matching contributions that are allocated to all employees eligible to participate in the plan, in proportion to their eligible earnings compared to the eligible earnings of the other employees who will also share in the contributions. The Organization's matching contributions to the plan, charged to operations, were approximately $249,000 and $251,000 for the years ended September 30, 2019 and 2018, respectively.

Charity Care

OHCC provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Because OHCC does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue. OHCC determines the costs associated with providing charity care by calculating a ratio of expenses to gross charges, and then multiplying that ratio by the gross uncompensated charges associated with providing care to patients eligible for free care. See Note 4.

Income Taxes

OHCC and the Foundation are tax-exempt corporations as described in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code. In addition, the Foundation qualifies for the charitable contribution deduction under Section 170(b)(1)(a) and had been classified as an organization that is not a private foundation under Section 509(a)(3). Management evaluated the Organization's tax positions and concluded the Organization has maintained its tax-exempt status, does not have any significant unrelated business income and had taken no uncertain tax positions that require adjustment to or disclosure in the accompanying consolidated financial statements.

Functional Expense Allocation

The costs of providing program services and other activities have been summarized on a functional basis in Note 15. Accordingly, costs have been allocated among program services and supporting services benefitted.

Advertising Expense

Advertising costs are expensed as incurred and totaled approximately $85,000 and $70,000 in 2019 and 2018, respectively.

1. Description of Organization and Summary of Significant Accounting Policies (Continued)

Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities (Topic 958)* (ASU 2016-14). The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. ASU 2016-14 is effective for the Organization for the year ended September 30, 2019. The Organization has adjusted the presentation of these consolidated financial statements and related footnotes accordingly. The ASU has been applied retrospectively to all periods presented. The adoption of ASU 2016-14 had no impact to changes in net assets or total net assets in 2019 or 2018.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), which requires revenue to be recognized when promised goods or services are transferred to customers in amounts that reflect the consideration to which the Organization expects to be entitled in exchange for those goods and services. ASU 2014-09 will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. ASU 2014-09 is effective for the Organization on October 1, 2019. ASU 2014-09 permits the use of either the retrospective or cumulative effect transition method. The Organization is evaluating the impact that ASU 2014-09 will have on its revenue recognition policies, but does not expect the new pronouncement will have a material impact on its consolidated financial statements.

In January 2016, the FASB issues ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* (ASU 2016-01. The amendments in ASU 2016-01 address certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 is effective for the Organization for the year ended September 30, 2020. The Organization is evaluating the impact that ASU 2016-01 will have on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires that lease arrangements longer than twelve months result in an entity recognizing an asset and liability. The pronouncement is effective for the Organization on October 1, 2021. Early adoption is permitted and the guidance may be adopted retrospectively. Management is currently evaluating the impact this guidance will have on the Organization's consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*, which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. ASU 2016-18 will be effective for the Organization beginning on October 1, 2019. ASU 2016-18 must be applied using a retrospective transition method. The Organization is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements. Although management's analysis is not complete, the adoption of ASU 2016-18 is not expected to have a material effect on the consolidated financial statements.

1. Description of Organization and Summary of Significant Accounting Policies (Continued)

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08). Due to diversity in practice, ASU 2018-08 clarifies the definition of an exchange transaction as well as the criteria for evaluating whether contributions are unconditional or conditional. ASU 2018-08 is effective for the Organization on October 1, 2019. The Organization is currently evaluating the impact that ASU 2018-08 will have on its consolidated financial statements. Although management's analysis is not complete, the adoption of ASU 2014-09 is not expected to have a material effect on the consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement* ASU 2018-13. The amendments in this ASU modify the disclosure requirements for fair value measurements for Level 3 assets and liabilities, and eliminate the requirement to disclose transfers between Levels 1 and 2 of the fair value hierarchy, among other modifications. ASU 2018-13 is effective for the Organization on October 1, 2020, with early adoption permitted. The Organization is currently evaluating the impact that ASU 2018-13 will have on its consolidated financial statements.

Reclassifications

Certain 2018 amounts have been reclassified to permit comparison with the 2019 consolidated financial statements presentation format.

Subsequent Events

Management of the Organization evaluated events occurring between the end of its fiscal year and March 16, 2020, the date the consolidated financial statements were available to be issued.

2. Accounts Receivable

Accounts receivable are stated net of estimated contractual allowances and allowances for doubtful accounts. Accounts receivable consists of the following at September 30:

	2019	2018
Patient accounts receivable	$3,202,679	$3,447,130
Estimated contractual allowances	(736,657)	(711,017)
Estimated allowance for doubtful accounts	(548,036)	(652,388)
Net patient accounts receivable	$1,917,986	$2,083,725

The Organization's allowance for doubtful accounts for self-pay patients was 83% and 89% of self-pay accounts receivable at September 30, 2019 and 2018, respectively. The Organization's bad debt writeoffs (net of recoveries) decreased $18,438 from $689,101 for fiscal year 2018 to $670,663 for fiscal year 2019 . The decrease in bad debt writeoffs was primarily related to collection trends.

3. Estimated Third-Party Settlements

OHCC has agreements with third-party payors that provide for payments to OHCC at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare

OHCC was granted critical access hospital (CAH) designation on December 1, 2000. Under CAH, OHCC is primarily reimbursed allowable costs for its inpatient and outpatient services provided to Medicare patients.

OHCC is reimbursed for cost reimbursable items at tentative rates, with final settlement determined after submission of annual cost reports by OHCC and audits thereof by the Medicare fiscal intermediary. OHCC's Medicare cost reports have been settled by the Medicare Administrative Contractor (MAC) through September 30, 2016.

Medicaid

Inpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates per day of hospitalization. The prospectively determined per-diem rates are not subject to retroactive adjustment. Outpatient services rendered to Medicaid program beneficiaries are reimbursed under a fee schedule methodology. OHCC's Medicaid cost reports have been settled by the fiscal intermediary through September 30, 2017.

The State of Vermont imposes a health care provider tax (State provider taxes) based on the net patient service revenues of the Organization. The amount of tax incurred by the Organization for fiscal 2019 and 2018 was $631,409 and $620,394, respectively.

Blue Cross

Inpatient and outpatient services rendered to Blue Cross subscribers are reimbursed at submitted charges less a discount withholding or through a per diem or fee schedule. The amounts paid to OHCC are not subject to any retroactive adjustments. Revenue from Blue Cross accounted for approximately 11% and 12% of OHCC's gross patient service revenues for the years ended September 30, 2019 and 2018, respectively.

Physicians Clinics

Physicians clinics represent primary care and other specialty physician services provided to patients at OHCC. The clinics are reimbursed either on a cost reimbursement or fee schedule basis.

3. Estimated Third-Party Settlements (Continued)

Other

The Organization has also entered into payment agreements with certain commercial insurance carriers and health maintenance organizations. The basis for payment to the Organization under these agreements includes prospectively determined rates per discharge, discounts from established charges and capitated payments.

Revenues from the Medicare and Medicaid programs accounted for approximately 69% and 68% of OHCC's gross patient service revenues for the years ended September 30, 2019 and 2018, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. OHCC believes that it is in compliance with all applicable laws and regulations, and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medicaid programs.

4. Charity Care

OHCC maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies, and equivalent service statistics. Funds received from gifts and grants to subsidize uncompensated care were approximately $55,000 and $49,000 in 2019 and 2018, respectively. The following information measures the level of charity care provided during the years ended September 30:

	2019	2018
Charges foregone, based on established rates (Note 1)	$221,000	$159,000
Estimated costs incurred to provide charity care	$150,000	$108,000
Equivalent percentage of charity care services to all services	0.7%	0.6%

5. Concentration of Credit Risk

Financial instruments which subject the Organization to credit risk consist of cash equivalents, accounts and other receivables and certain investments. The risk with respect to cash equivalents is minimized by the Organization's policy of investing in financial instruments with short-term maturities issued by highly rated financial institutions. The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant risk at September 30, 2019. The Organization's investments consist of diversified securities and, while subject to market risk, do not represent any significant concentrations in any sectors.

5. Concentration of Credit Risk (Continued)

OHCC grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of gross patient accounts receivable at September 30, 2019 and 2018 was as follows:

	2019	2018
Medicare	44%	40%
Medicaid	9	7
Blue Cross	6	8
Other third-party payors	20	24
Patients	21	21
	100%	100%

6. Assets Whose Use is Limited or Restricted

Investments included in assets whose use is limited or restricted at September 30, 2019 and 2018 consist of the following:

	Cost 2019	Fair Value 2019	Cost 2018	Fair Value 2018
Cash and cash equivalents	$ 176,730	$ 176,730	$ 130,777	$ 130,777
Brokered certificates of deposit	164,445	165,187	323,985	321,625
Mutual funds	1,585,203	1,728,334	1,530,872	1,678,950
Government and municipal bonds	785,804	804,847	424,491	416,000
Corporate bonds	797,913	826,809	929,004	883,892
Common stock	1,558,422	2,266,533	1,583,748	2,294,732
	$5,068,517	$5,968,440	$4,922,877	$5,725,976

Investment income, net realized gains and the net unrealized gains on assets whose use is limited or restricted, cash and cash equivalents, and other investments are as follows at September 30:

	2019	2018
Without donor restrictions:		
Investment income	$ 97,347	$ 93,033
Net realized gains on sales of securities	189,882	253,247
Net unrealized gains on investments	96,824	25,923
	$384,053	$372,203

6. Assets Whose Use is Limited or Restricted (Continued)

The endowment includes both endowment funds restricted in perpetuity from expenditure by donors (accounted for in net assets with donor restrictions) and other funds for which the governing board or state regulations require that such funds be treated in a manner similar to endowments. These other funds are accounted for in net assets without donor restrictions. Gains on donor established endowments are, absent donor stipulations, included in net assets with donor restrictions until appropriated for expenditure by the governing board.

The endowment funds, including quasi endowments restricted by the Board, as of September 30, 2019 and 2018 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
2019			
Board-designated endowment funds	$2,738,245	$ –	$2,738,245
Donor-restricted endowment funds:			
Original donor-restricted gift amounts and amounts required to be maintained in perpetuity by donor	–	1,041,966	1,041,966
Accumulated investment gains	349,679	–	349,679
	$3,087,924	$1,041,966	$4,129,890
2018			
Board-designated endowment funds	$2,745,416	$ –	$2,745,416
Donor-restricted endowment funds:			
Original donor-restricted gift amounts and amounts required to be maintained in perpetuity by donor	–	1,034,355	1,034,355
Accumulated investment gains	301,904	–	301,904
	$3,047,320	$1,034,355	$4,081,675

The changes in the Organization's endowment funds for the years ended September 30, 2019 and 2018 are as follows:

	Without Donor Restrictions	With Donor Restrictions
Endowment funds, September 30, 2017	$2,849,478	$1,028,338
Contributions	–	6,017
Investment return, net	197,842	–
Endowment funds, September 30, 2018	3,047,320	1,034,355
Contributions	–	7,611
Investment return, net	225,528	–
Amounts released under spending policy	(184,924)	–
Endowment funds, September 30, 2019	$3,087,924	$1,041,966

6. Assets Whose Use is Limited or Restricted (Continued)

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Organization has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At September 30, 2019 and 2018, the Organization had no underwater endowments.

The Organization is the beneficiary of two remainder trusts. The charitable remainder trusts provide for certain distributions to designated beneficiaries over the trusts' term. At the end of the term, the income and the remaining assets are available for the Organization's use without donor restrictions. Assets held in charitable remainder trusts totaled $33,726 and $34,016 as of September 30, 2019 and 2018, respectively. The Organization's interest in charitable remainder trusts is recognized as an asset based on the fair value of the underlying assets.

The Organization is the beneficiary of a perpetual trust fund, which is administered by Bank of America. The terms of the perpetual trust require that income or a percentage of income be paid to the Organization in perpetuity. The Organization's interest in the perpetual trust is recognized as an asset based on the fair value of the underlying assets, which approximates the net present value of the future income stream, and totaled $1,706,934 and $1,717,123 as of September 30, 2019 and 2018, respectively. Changes in the carrying value of this asset are included in net assets with donor restrictions.

Fair value of a financial instrument is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Organization uses various methods including market, income and cost approaches. Based on these approaches, the Organization often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Organization utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Organization is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.

Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

6. Assets Whose Use is Limited or Restricted (Continued)

In determining the appropriate levels, the Organization performs a detailed analysis of the assets and liabilities that are subject to the fair value guidance. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

The following presents the balances of assets whose use is limited or restricted measured at fair value on a recurring basis at September 30:

	Level 1	Level 2	Level 3	Total
2019				
Cash and cash equivalents	$ 829,841	$ –	$ –	$ 829,841
Brokered certificates of deposit	–	165,187	–	165,187
Mutual funds:				
Fixed income	482,742	–	–	482,742
Equity	1,205,699	–	–	1,205,699
Real assets	73,066	–	–	73,066
Government and municipal bonds	–	804,847	–	804,847
Corporate bonds	–	826,809	–	826,809
Common stock:				
Materials	79,902	–	–	79,902
Real estate	52,714	–	–	52,714
Industrials	196,451	–	–	196,451
Consumer discretionary	251,781	–	–	251,781
Consumer staples	188,857	–	–	188,857
Energy	158,515	–	–	158,515
Financial institutions	354,487	–	–	354,487
Healthcare	335,348	–	–	335,348
Utilities	127,493	–	–	127,493
Information technology	80,130	–	–	80,130
Telecommunication services	440,855	–	–	440,855
Beneficial interest in trust	–	–	1,706,934	1,706,934
	$4,857,881	$1,796,843	$1,706,934	$8,361,658

6. Assets Whose Use is Limited or Restricted (Continued)

	Level 1	Level 2	Level 3	Total
2018				
Cash and cash equivalents	$ 619,063	$ –	$ –	$ 619,063
Brokered certificates of deposit	–	321,625	–	321,625
Mutual funds:				
Fixed income	540,782	–	–	540,782
Equity	1,104,784	–	–	1,104,784
Real assets	67,108	–	–	67,108
Government and municipal bonds	–	416,000	–	416,000
Corporate bonds	–	883,892	–	883,892
Common stock:				
Materials	48,230	–	–	48,230
Real estate	42,511	–	–	42,511
Industrials	274,794	–	–	274,794
Consumer discretionary	209,349	–	–	209,349
Consumer staples	165,880	–	–	165,880
Energy	227,879	–	–	227,879
Financial institutions	356,698	–	–	356,698
Healthcare	343,824	–	–	343,824
Utilities	76,973	–	–	76,973
Information technology	516,559	–	–	516,559
Telecommunication services	32,035	–	–	32,035
Beneficial interest in trust	–	–	1,717,123	1,717,123
	$4,626,469	$1,621,517	$1,717,123	$7,965,109

Cash and cash equivalents, mutual funds and common stock are based upon quoted prices in active markets for identical assets and are reflected as Level 1.

Brokered certificates of deposit and municipal and corporate bonds were determined based upon market information from less active markets, including broker or dealer quotations, external pricing providers, or alternative pricing sources with reasonable levels of transparency, and have been included in Level 2.

The Organization's Level 3 investments consist of a beneficial interest in trust. The Organization's legal interest is in its pro rata portion of the trust and not the trust's underlying assets. The Organization's interest is valued based upon its pro rata ownership of the total trust. As the actual assets are not readily available to the Organization, the asset is considered to be Level 3.

Investments, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. As such, it is reasonably possible that changes in the fair value of investments will occur in the near term and that such changes could materially affect the amounts reported in the accompanying consolidated balance sheets and statements of operations.

6. Assets Whose Use is Limited or Restricted (Continued)

The following table presents the change in Level 3 instruments for the year ended September 30:

	Beneficial Interest in Trust	
	2019	2018
Balance, beginning of period	$1,717,123	$1,690,978
Net change in beneficial interest in perpetual trust	(10,189)	26,145
Balance, end of period	$1,706,934	$1,717,123

Other financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses, estimated third-party payor settlements and lines of credit. The fair value of these financial instruments approximates their relative book values as these financial instruments have short-term maturities. The charitable gift annuities liability is reported at estimated fair value based on the life expectancy of the beneficiaries and the present value of expected cash flows using a discount rate at the time of the gift. The fair value of the Organization's long-term obligations is estimated using discounted cash flow analyses, based on the Organization's current incremental borrowing rates for similar types of borrowing arrangements. There was no significant difference in the carrying value and fair value of long-term obligations at September 30, 2019 and 2018.

7. Property and Equipment

Property and equipment consists of the following at September 30:

	2019	2018
Land and land improvements	$ 254,806	$ 254,806
Building and building improvements	7,661,880	7,609,650
Fixed equipment	719,112	757,126
Major movable equipment	3,200,829	4,404,747
Minor equipment	648,119	648,119
Vehicles	37,926	84,765
Other equipment	3,157,215	3,135,932
Construction in progress	66,726	50,785
	15,746,613	16,945,930
Less accumulated depreciation	(12,563,703)	(13,581,503)
	$ 3,182,910	$ 3,364,427

Depreciation expense for the years ended September 30, 2019 and 2018 amounted to $644,180 and $612,930, respectively.

8. Charitable Gift Annuities

The Organization administers various charitable gift annuities. Under these charitable gift annuity agreements, the donor contributes assets to the Organization in exchange for distributions of a fixed amount to the donor or other designated beneficiaries for their remaining lives. The assets contributed are recorded at fair value on the date the agreement is recognized and are available for the Organization's use for various purposes as determined by the donor. On a quarterly basis, the Organization makes distributions to the designated beneficiaries, the liability for which is calculated based on actuarial assumptions. The Organization's liability of $42,849 and $80,837 at September 30, 2019 and 2018, respectively, is based on the present value of the estimated future payments, and calculated using a discount rate ranging from 1.20% to 7.40% and applicable mortality rates.

9. Line of Credit

The Organization has a revolving line of credit with a bank with maximum borrowings as of September 30, 2019 of $2,000,000. The outstanding balance of the line of credit was $1,946,913 and $1,078,501 at September 30, 2019 and 2018, respectively. Interest on the line of credit is assessed at the prime rate with a minimum of 4.0% (5.00% as of September 30, 2019), and this line is secured by investments. The line of credit had a maturity date of March 28, 2020. Subsequent to year end, the maturity date was extended to March 27, 2021 and the maximum borrowing amount was reduced from $2,000,000 to $1,500,000. In conjunction with the reduction in the line of credit, the Organization entered into a $1,000,000 commercial term loan with the same bank. The proceeds of the commercial loan were used to paydown a portion of the line of credit, as well as the then outstanding balance of the note payable to bank described in note 10 below. The term loan calls for principal and interest payments of $18,788 through January 27, 2025. The interest rate is variable with a minimum of 4.0%.

10. Long-Term Obligations

Long-term obligations consist of the following at September 30:

	2019	2018
Vermont Educational and Health Buildings Financing Agency (VEHBFA) Hospital Revenue Bonds Series 1997-1, variable interest rate (1.83% as of September 30, 2019) with principal maturing in varying annual amounts ranging from $155,000 in 2020 to $190,000 in 2022; secured by property and business assets of OHCC and the letter of credit as described below	$ 515,000	$ 660,000
Note payable to a bank, variable interest with a minimum interest rate of 4.0% (5.00% as of September 30, 2019); due in monthly installments totaling $11,304 through May 2020; secured by substantially all business assets	101,117	218,968
Note payable to United States Department of Agriculture (USDA), with interest fixed at 3.125%; due in monthly installments of $2,283 through February 2036; secured by substantially all business assets	351,350	367,482
Capital lease obligations	219,387	134,993
	1,186,854	1,381,443
Less current portion	(356,490)	(352,757)
Less unamortized debt issuance costs	(12,383)	(16,404)
	$ 817,981	$ 1,012,282

10. Long-Term Obligations (Continued)

Under the terms of the revenue bond indenture, OHCC is required to maintain certain deposits with a trustee. Such deposits totaled $56,618 and $63,437 at September 30, 2019 and 2018, respectively. The revenue bond indenture also places limits on the incurrence of additional borrowings, and requires that OHCC satisfy certain measures of financial performance as long as the bonds are outstanding. OHCC was in compliance with financial covenants for the years ended September 30, 2019 and 2018.

As of September 30, 2019 and 2018, OHCC has a standby letter of credit for $522,619 and $669,764, respectively, which expires on June 20, 2020. The letter of credit was subsequently extended to June 20, 2021. The letter of credit is part of the bond agreements and is available to make principal and interest payments on the respective bonds.

The Organization leases equipment under leases which have been capitalized and are included in property and equipment. The assets recorded under the capital leases have a net book value of $219,969 and $132,048 at September 30, 2019 and 2018, respectively, with accumulated amortization of $239,569 and $171,117, respectively. Annual amortization has been included in depreciation expense. The capital lease obligations have been recorded as a long-term obligation. Future minimum lease payments under the capital lease obligations at September 30, 2019 are as follows:

Total remaining payments	$251,520
Less amounts representing interest	(32,133)
Less current portion of capital lease obligations	(83,729)
Long-term obligations under capital leases	$135,658

Maturities for long-term obligations in subsequent fiscal years are as follows:

2020	$ 356,490
2021	238,441
2022	239,512
2023	52,058
2024	37,348
Thereafter	263,005
	$1,186,854

11. Net Assets With Donor Restrictions

Net assets with donor restrictions are available for the following purposes or periods at September 30:

	2019	2018
Purpose restrictions:		
Capital acquisition and improvement at OHCC	$ 362,176	$ 363,361
Provider recruitment	88,784	79,947
	450,960	443,308
Time restrictions:		
Contributions receivable from charitable remainder trusts	33,726	34,016
Grant (see note 13)	187,500	–
	221,226	34,016
Perpetual in nature:		
Investments to be held in perpetuity, the income from which is expendable to support operations	1,041,966	1,034,355
Beneficial interest in perpetual trust	1,706,934	1,717,123
	2,748,900	2,751,478
	$3,421,086	$3,228,802

12. Net Patient Service Revenue

An estimated breakdown of patient service revenue, net of contractual allowances, discounts and provision for bad debts recognized in 2019 and 2018 from these major payor sources, is as follows:

	Gross Patient Service Revenues	Contractual Allowances and Discounts	Charity Care	Provision for Bad Debts	Net Patient Services Revenues Less Provision for Bad Debts
2019					
Third-party insurance (includes coinsurance and deductibles)	$ 5,484,373	$ (1,694,793)	$ (22,165)	$(138,351)	$ 3,629,064
Blue Cross	3,161,675	(1,397,033)	(10,743)	(101,223)	1,652,676
Medicaid	3,973,740	(2,662,705)	(6,178)	(3,813)	1,301,044
Medicare	16,627,220	(4,527,855)	(56,706)	(107,042)	11,935,617
Self-pay	457,494	–	(125,530)	(221,194)	110,770
	$29,704,502	$(10,282,386)	$(221,322)	$(571,623)	$18,629,171

12. Net Patient Service Revenue (Continued)

	Gross Patient Service Revenues	Contractual Allowances and Discounts	Charity Care	Provision for Bad Debts	Net Patient Services Revenues Less Provision for Bad Debts
2018					
Third-party insurance (includes coinsurance and deductibles)	$ 4,846,146	$ (1,450,485)	$ (9,945)	$(141,117)	$ 3,244,599
Blue Cross	3,490,942	(1,475,110)	(14,220)	(153,136)	1,848,476
Medicaid	3,933,414	(2,600,759)	(6,740)	(31,042)	1,294,873
Medicare	15,421,271	(3,978,336)	(83,338)	(83,848)	11,275,749
Self-pay	702,281	–	(44,283)	(146,946)	511,052
	$28,394,054	$ (9,504,690)	$(158,526)	$(556,089)	$18,174,749

13. Commitments and Contingencies

Malpractice Insurance

The Organization insures its medical malpractice risks on a claims made basis. The Organization's claims made policy provides specific coverage for potential claims reported by the Organization during the policy term.

At September 30, 2019, there were no known malpractice claims outstanding which, in the opinion of management, will be settled for amounts in excess of insurance coverage. Additionally, there were no known unasserted claims or incidents which might require loss accrual for amounts in excess of insurance coverage. The Organization intends to renew coverage on a claims made basis and anticipates that such coverage will be available.

Litigation

The Organization is involved in litigation arising in the ordinary course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Organization's financial position, results of operations or cash flows.

Self-Insurance Program

The Organization self-insures a portion of its employee health benefits and estimates and accrues amounts to meet its expected obligations under the program. The plan is administered by an insurance company which will assist in determining the current funding requirements of participants under the terms of the plan and the liability for claims and assessments that would be payable at any given point in time. The Organization provides services to employees covered by the plan. Stop loss insurance coverage is in effect which mitigates the Organization's exposure to loss on an individual and aggregate basis. Estimated unpaid claims, and those claims incurred but not reported at September 30, 2019 and 2018, have been recorded as a liability of approximately $229,000 and $117,000, respectively, and are reflected within accrued expenses in the accompanying consolidated balance sheets.

13. Commitments and Contingencies (Continued)

Grant Awards

During fiscal year 2016, the Organization was awarded a grant totaling $1,310,000 to be paid over four years. The grant payments are subject to certain satisfactory compliance with pre-funding conditions and reporting requirements, as defined within the grant agreement. The grant award is to support the Organization's community health teams and provider recruitment program. During 2019, the Organization received and expended $340,000 and $251,216, respectively, related to this grant. During 2018, the Organization received and expended $340,000 and $260,053, respectively, related to this grant. No other amounts related to this grant are reflected within the accompanying consolidated financial statements given the contingencies related to the grant payments.

During fiscal year 2019, the Organization was awarded an additional grant totaling $1,000,000 to be paid over four years. The grant payments are subject to certain satisfactory compliance with prefunding conditions and reporting requirements, as defined within the grant agreement. The grant award is to support general operations of the Organization. During 2019, the Organization received and expended $250,000 and $62,500, respectively, related to the grant. No other amounts related to this grant are reflected within the accompanying consolidated financial statements given the contingencies related to the grant payments.

14. Volunteer Services (Unaudited)

In 2019 and 2018, total volunteer service hours received by OHCC were approximately 5,000 and 5,700, respectively. The volunteers provide nonspecialized services to OHCC, none of which have been recognized as revenue or expense in the consolidated statements of operations.

15. Functional Expenses

OHCC provides general health care services to residents within its geographic location. Expenses related to providing these services are as follows for the year ended September 30, 2019:

	Healthcare	General and Administrative	Fund-raising	Total
Salaries and benefits	$14,467,418	$1,627,307	$243,283	$16,338,008
Supplies and other	5,934,638	482,603	74,573	6,491,814
State provider taxes	631,409	–	–	631,409
Depreciation and amortization	644,180	–	–	644,180
Interest	126,442	29,358	–	155,800
	$21,804,087	$2,139,268	$317,856	$24,261,211

For the year ended September 30, 2018, OHCC provided $21,013,516 in health services expenses, $1,996,644 in general and administrative expenses and $323,327 in fundraising expenses.

15. Functional Expenses (Continued)

The consolidated financial statements report certain expense categories that are attributable to more than one healthcare service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, such as, depreciation and amortization, and interest, are allocated to a function based on square footage. Supporting activities that are not directly identifiable with one or more healthcare programs are classified as general and administrative. Specifically identifiable costs are assigned to the function which they are identified to.

16. Financial Assets and Liquidity Resources

As of September 30, 2019, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, scheduled principal payments on debt, and capital construction costs not financed with debt, consisted of the following:

Cash and cash equivalents	$ 199,022
Accounts receivable	1,917,986
	$2,117,008

To manage liquidity, the Organization maintains sufficient cash and cash equivalent balances to support daily operations throughout the year. Cash and cash equivalents include bank deposits, money market funds, and other similar vehicles that generate a return on cash and provide daily liquidity to the Organization. In addition, the Organization has board-designated assets without donor restrictions that can be utilized at the discretion of management to help fund both operational needs and/or capital projects. As of September 30, 2019, the balance in board-designated assets was approximately $3 million.

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INDEPENDENT AUDITORS' REPORT
ON OTHER FINANCIAL INFORMATION

Board of Trustees
Carlos G. Otis Health Care Center, Inc. and Subsidiary

We have audited the consolidated financial statements of Carlos G. Otis Health Care Center, Inc. and Subsidiary as of and for the years ended September 30, 2019 and 2018, and have issued our report thereon, which contains an unmodified opinion on those consolidated financial statements. See page 1. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for purposes of additional analysis rather than to present the financial position, results of operations and cash flows of the individual entities and is not a required part of the consolidated 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 consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Baker Newman & Noyes LLC

Manchester, New Hampshire
March 16, 2020

CARLOS G. OTIS HEALTH CARE CENTER, INC. AND SUBSIDIARY

CONSOLIDATING BALANCE SHEETS

September 30, 2019 and 2018

ASSETS

	Carlos G. Otis Health Care Center, Inc.		Grace Cottage Foundation		Eliminations		Consolidated	
	2019	2018	2019	2018	2019	2018	2019	2018
Current assets:								
Cash and cash equivalents	$ 199,022	$ 23,386	$ –	$ –	$ –	$ –	$ 199,022	$ 23,386
Accounts receivable, net	1,917,986	2,083,725	–	–	–	–	1,917,986	2,083,725
Estimated third-party settlement receivable	415,630	–	–	–	–	–	415,630	–
Meaningful use receivable	17,000	34,000	–	–	–	–	17,000	34,000
Other receivables	–	32	6,146	604	(6,146)	(604)	–	32
Inventories	1,847,467	1,715,794	–	–	–	–	1,847,467	1,715,794
Prepaid expenses	221,271	209,789	–	–	–	–	221,271	209,789
Total current assets	4,618,376	4,066,726	6,146	604	(6,146)	(604)	4,618,376	4,066,726
Property and equipment, net	3,182,910	3,364,427	–	–	–	–	3,182,910	3,364,427
Assets whose use is limited or restricted:								
Restricted cash and cash equivalents	–	–	595,940	424,557	–	–	595,940	424,557
Investments	–	–	5,968,440	5,725,976	–	–	5,968,440	5,725,976
Contributions receivable from charitable remainder trusts	–	–	33,726	34,016	–	–	33,726	34,016
Beneficial interest in perpetual trust	–	–	1,706,934	1,717,123	–	–	1,706,934	1,717,123
Deposits with trustee	56,618	63,437	–	–	–	–	56,618	63,437
Beneficial interest in net assets of Grace Cottage Foundation	8,268,337	7,821,439	–	–	(8,268,337)	(7,821,439)	–	–
Total assets whose use is limited or restricted	8,324,955	7,884,876	8,305,040	7,901,672	(8,268,337)	(7,821,439)	8,361,658	7,965,109
Total assets	$16,126,241	$15,316,029	$ 8,311,186	$ 7,902,276	$ (8,274,483)	$ (7,822,043)	$16,162,944	$15,396,262

LIABILITIES AND NET ASSETS

	Carlos G. Otis Health Care Center, Inc.		Grace Cottage Foundation		Eliminations		Consolidated	
	2019	2018	2019	2018	2019	2018	2019	2018
Current liabilities:								
Line of credit	$ 1,946,913	$ 1,078,501	$ –	$ –	$ –	$ –	$ 1,946,913	$ 1,078,501
Accounts payable	1,419,750	1,063,795	–	–	(6,146)	(604)	1,413,604	1,063,191
Accrued compensated absences	499,473	677,097	–	–	–	–	499,473	677,097
Accrued expenses	1,259,052	1,023,207	–	–	–	–	1,259,052	1,023,207
Estimated third-party payor settlements payable	–	321,147	–	–	–	–	–	321,147
Current portion of charitable gift annuities liability	–	–	9,351	18,244	–	–	9,351	18,244
Current portion of long-term debt and capital lease obligations	356,490	352,757	–	–	–	–	356,490	352,757
Total current liabilities	5,481,678	4,516,504	9,351	18,244	(6,146)	(604)	5,484,883	4,534,144
Charitable gift annuities liability, less current portion	–	–	33,498	62,593	–	–	33,498	62,593
Long-term debt and capital lease obligations, less current portion	817,981	1,012,282	–	–	–	–	817,981	1,012,282
Total liabilities	6,299,659	5,528,786	42,849	80,837	(6,146)	(604)	6,336,362	5,609,019
Net assets:								
Without donor restrictions	6,405,496	6,558,441	4,847,251	4,592,637	(4,847,251)	(4,592,637)	6,405,496	6,558,441
With donor restrictions	3,421,086	3,228,802	3,421,086	3,228,802	(3,421,086)	(3,228,802)	3,421,086	3,228,802
Total net assets	9,826,582	9,787,243	8,268,337	7,821,439	(8,268,337)	(7,821,439)	9,826,582	9,787,243
Total liabilities and net assets	$16,126,241	$15,316,029	$ 8,311,186	$ 7,902,276	$ (8,274,483)	$ (7,822,043)	$16,162,944	$15,396,262

CARLOS G. OTIS HEALTH CARE CENTER, INC. AND SUBSIDIARY

CONSOLIDATING STATEMENTS OF OPERATIONS

Years Ended September 30, 2019 and 2018

	Carlos G. Otis Health Care Center, Inc.		Grace Cottage Foundation		Eliminations		Consolidated	
	2019	2018	2019	2018	2019	2018	2019	2018
Revenue without donor restrictions and other support:								
Net patient service revenue, less provision for bad debts	$18,629,171	$18,174,749	$ –	$ –	$ –	$ –	$18,629,171	$18,174,749
Other revenue	4,211,630	4,363,870	51,851	55,061	(293,723)	(288,969)	3,969,758	4,129,962
Meaningful use revenue	–	42,500	–	–	–	–	–	42,500
Net assets released from restrictions for operations	–	–	526,951	430,497	–	–	526,951	430,497
Total revenue without donor restrictions and other support	22,840,801	22,581,119	578,802	485,558	(293,723)	(288,969)	23,125,880	22,777,708
Expenses:								
Salaries and benefits	16,338,008	15,664,670	–	–	–	–	16,338,008	15,664,670
Supplies and other	6,442,142	6,248,276	49,672	51,631	–	–	6,491,814	6,299,907
State provider taxes	631,409	620,394	–	–	–	–	631,409	620,394
Transfers to parent	–	–	977,268	1,208,206	(977,268)	(1,208,206)	–	–
Depreciation and amortization	644,180	612,930	–	–	–	–	644,180	612,930
Interest	155,800	135,586	–	–	–	–	155,800	135,586
Total expenses	24,211,539	23,281,856	1,026,940	1,259,837	(977,268)	(1,208,206)	24,261,211	23,333,487
Loss from operations	(1,370,738)	(700,737)	(448,138)	(774,279)	683,545	919,237	(1,135,331)	(555,779)
Nonoperating gains (losses):								
Investment return, net	666	76	383,387	372,127	–	–	384,053	372,203
Contributions and program support	977,268	1,208,206	334,251	524,600	(977,268)	(1,208,206)	334,251	524,600
Other nonoperating (losses) gains	(14,755)	(5,782)	31,569	(13,799)	–	–	16,814	(19,581)
Nonoperating gains, net	963,179	1,202,500	749,207	882,928	(977,268)	(1,208,206)	735,118	877,222
(Deficiency) excess of revenue, gains and other support over expenses	(407,559)	501,763	301,069	108,649	(293,723)	(288,969)	(400,213)	321,443
Increase in net assets without donor restrictions of Foundation	254,614	279,520	–	–	(254,614)	(279,520)	–	–
Net transfers to affiliate	–	–	(293,723)	(288,969)	293,723	288,969	–	–
Net assets released from restrictions for capital purchases	–	–	247,268	459,840	–	–	247,268	459,840
(Decrease) increase in net assets without donor restrictions	$ (152,945)	$ 781,283	$ 254,614	$ 279,520	$ (254,614)	$ (279,520)	$ (152,945)	$ 781,283

CARLOS G. OTIS HEALTH CARE CENTER, INC.
(Parent Company Only)

SCHEDULE OF OPERATING INCOME (LOSS)

Year Ended September 30, 2019

	Grace Cottage Hospital	Messenger Valley Pharmacy	Grace Cottage Family Health	Corporate	Total
Revenue:					
Gross patient service revenue	$ 25,048,045	$ –	$ 4,656,457	$ –	$ 29,704,502
Contractual allowances	(9,296,177)	(51,445)	(934,765)	–	(10,282,387)
Charity care	(189,300)	(1,138)	(30,883)	–	(221,321)
Provision for bad debts	(498,139)	(5,869)	(67,615)	–	(571,623)
Net patient service revenue less provision for bad debts	15,064,429	(58,452)	3,623,194	–	18,629,171
Other revenue	1,352,496	2,572,722	249,642	36,770	4,211,630
Total revenues without donor restrictions and other support	16,416,925	2,514,270	3,872,836	36,770	22,840,801
Expenses:					
Salaries and benefits	11,798,660	593,754	3,945,594	–	16,338,008
Supplies and other and state provider taxes	4,634,101	2,210,216	220,644	8,590	7,073,551
Depreciation and amortization	611,816	31,998	366	–	644,180
Interest	–	–	–	155,800	155,800
Total expenses	17,044,577	2,835,968	4,166,604	164,390	24,211,539
Loss from operations	$ (627,652)	$ (321,698)	$ (293,768)	$ (127,620)	$ (1,370,738)

CARLOS G. OTIS HEALTH CARE CENTER, INC.
(Parent Company Only)

SCHEDULE OF OPERATING INCOME (LOSS) (CONTINUED)

Year Ended September 30, 2018

	Grace Cottage Hospital	Messenger Valley Pharmacy	Grace Cottage Family Health	Corporate	Total
Revenue:					
Gross patient service revenue	$ 23,969,815	$ –	$ 4,424,239	$ –	$ 28,394,054
Contractual allowances	(8,765,831)	(52,019)	(686,840)	–	(9,504,690)
Charity care	(126,149)	(214)	(32,163)	–	(158,526)
Provision for bad debts	(493,713)	(7,146)	(55,230)	–	(556,089)
Net patient service revenue less provision for bad debts	14,584,122	(59,379)	3,650,006	–	18,174,749
Other revenue	1,320,951	2,778,769	222,949	41,201	4,363,870
Meaningful use revenue	42,500	–	–	–	42,500
Total revenues without donor restrictions and other support	15,947,573	2,719,390	3,872,955	41,201	22,581,119
Expenses:					
Salaries and benefits	11,361,574	647,429	3,655,667	–	15,664,670
Supplies and other and state provider taxes	4,545,397	2,057,606	237,739	27,928	6,868,670
Depreciation and amortization	580,294	32,147	489	–	612,930
Interest	–	–	–	135,586	135,586
Total expenses	16,487,265	2,737,182	3,893,895	163,514	23,281,856
Loss from operations	$ (539,692)	$ (17,792)	$ (20,940)	$(122,313)	$ (700,737)