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NORTHEASTERN VERMONT REGIONAL HOSPITAL

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FINANCIAL STATEMENTS

September 30, 2017 and 2016

With Independent Auditor's Report

BerryDunn

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Northeastern Vermont Regional Hospital, Inc.

We have audited the accompanying financial statements of Northeastern Vermont Regional Hospital, Inc., a subsidiary of Northeastern Vermont Regional Corporation, which comprise the balance sheets as of September 30, 2017 and 2016, and the related statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northeastern Vermont Regional Hospital, Inc. as of September 30, 2017 and 2016, and the results of its operations, changes in its net assets and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Berry Dunn McNeil & Parker, LLC

Portland, Maine
December 1, 2017
Registration No. 92-0000278

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Balance Sheets

September 30, 2017 and 2016

ASSETS

	2017	2016
Current assets		
Cash and cash equivalents	**$ 7,385,232**	$ 6,683,538
Patient accounts receivable, net of allowances for doubtful accounts and contractual allowances of $6,550,038 in 2017 and $6,466,527 in 2016	**7,926,658**	8,497,950
Supplies	**1,325,186**	1,325,738
Prepaid expenses	**555,079**	473,291
Other accounts receivable	**1,138,756**	1,067,261
Total current assets	**18,330,911**	18,047,778
Assets limited as to use		
Restricted or internally designated for		
Capital acquisitions	**13,986,502**	12,973,540
Funded depreciation	**3,567,295**	3,311,627
Donor restricted	**354,564**	353,884
Total assets limited as to use	**17,908,361**	16,639,051
Property and equipment, net	**21,321,344**	21,091,013
Due from Parent	**4,044,960**	5,778,397
Beneficial interest in net assets of Parent	**1,424,425**	1,336,867
Other long-term assets	**918,642**	639,267
Total assets	**$ 63,948,643**	$ 63,532,373

The accompanying notes are an integral part of these financial statements.

LIABILITIES AND NET ASSETS

	2017	2016
Current liabilities		
Current portion of long-term debt	**$ 738,741**	$ 722,464
Accounts payable and accrued expenses	**7,594,034**	6,620,748
Estimated third-party payor settlements	**4,470,101**	4,560,796
Other current liabilities	**416,736**	1,027,694
Total current liabilities	**13,219,612**	12,931,702
Long-term debt, excluding current portion	**10,674,402**	11,400,348
Other long-term liabilities	**918,642**	639,267
Total liabilities	**24,812,656**	24,971,317
Net assets		
Unrestricted	**37,151,871**	36,665,109
Temporarily restricted	**1,541,980**	1,454,018
Permanently restricted	**442,136**	441,929
Total net assets	**39,135,987**	38,561,056
Total liabilities and net assets	**$ 63,948,643**	$ 63,532,373

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Statements of Operations

Years Ended September 30, 2017 and 2016

	2017	2016
Unrestricted revenues, gains, and other support		
Patient service revenue (net of contractual allowances and discounts)	**$ 80,181,836**	$ 75,029,703
Less provision for bad debts	**3,387,319**	3,443,154
Net patient service revenue	**76,794,517**	71,586,549
Other revenues	**3,473,984**	3,682,267
Meaningful use revenues	**243,220**	26,114
Total unrestricted revenues, gains, and other support	**80,511,721**	75,294,930
Expenses		
Salaries and benefits	**48,098,937**	44,618,239
Supplies and other	**26,554,751**	25,138,268
Insurance	**1,043,008**	966,132
Depreciation	**3,056,967**	2,799,452
Interest	**280,685**	327,021
Total expenses	**79,034,348**	73,849,112
Operating income	**1,477,373**	1,445,818
Nonoperating (losses) gains		
Realized gains (losses) on sales of investments	**226,176**	(184,946)
Realized gain on interest rate swap	**-**	65,572
Income from assets limited as to use	**274,847**	331,091
Loss on refinancing of debt	**-**	(121,038)
Contribution expense	**(158,400)**	(157,380)
Nonoperating gains (losses), net	**342,623**	(66,701)
Excess of revenues, gains, and other support over expenses and losses	**1,819,996**	1,379,117
Net unrealized gains on investments	**666,766**	1,015,238
Transfer to Parent	**(2,000,000)**	-
Increase in unrestricted net assets	**$ 486,762**	$ 2,394,355

The accompanying notes are an integral part of these financial statements.

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Statements of Changes in Net Assets

Years Ended September 30, 2017 and 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balances October 1, 2015	$ 34,270,754	$ 1,170,646	$ 441,818	$ 35,883,218
Excess of revenues, gains, and other support over expenses and losses	1,379,117	-	-	1,379,117
Change in net unrealized gains on investments and interest rate swap	1,015,238	-	-	1,015,238
Change in beneficial interest in net assets of Parent	-	282,993	-	282,993
Restricted investment income	-	379	111	490
Change in net assets	2,394,355	283,372	111	2,677,838
Balances September 30, 2016	36,665,109	1,454,018	441,929	38,561,056
Excess of revenues, gains, and other support over expenses and losses	**1,819,996**	**-**	**-**	**1,819,996**
Change in net unrealized gains on investments	**666,766**	**-**	**-**	**666,766**
Change in beneficial interest in net assets of Parent	**-**	**87,558**	**-**	**87,558**
Restricted investment income	**-**	**404**	**207**	**611**
Transfer to Parent	**(2,000,000)**	**-**	**-**	**(2,000,000)**
Change in net assets	**486,762**	**87,962**	**207**	**574,931**
Balances September 30, 2017	**$ 37,151,871**	**$ 1,541,980**	**$ 442,136**	**$ 39,135,987**

The accompanying notes are an integral part of these financial statements.

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Statements of Cash Flows

Years Ended September 30, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Change in net assets	**$ 574,931**	$ 2,677,838
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	**3,069,762**	2,815,698
Provision for bad debts	**3,387,319**	3,443,154
Transfer to Parent	**2,000,000**	-
Realized and unrealized gains on investments	**(892,942)**	(830,292)
Realized gain on interest rate swap	**-**	(65,572)
Change in beneficial interest in net assets of Parent	**(87,558)**	(282,993)
Loss on refinancing of debt	**-**	121,038
(Increase) decrease in		
Patient accounts receivable	**(2,816,027)**	(3,835,758)
Due from Parent	**(266,563)**	(554,082)
Supplies	**552**	122,030
Prepaid expenses	**(81,788)**	(47,899)
Other accounts receivable	**(71,495)**	56,807
Increase (decrease) in		
Accounts payable and accrued expenses	**973,286**	(669,163)
Estimated third-party payor settlements	**(90,695)**	2,244,063
Other current liabilities	**(610,958)**	(578,210)
Net cash provided by operating activities	**5,087,824**	4,616,659
Cash flows from investing activities		
Purchases of property and equipment	**(3,287,298)**	(4,084,701)
Purchases of investments	**(5,813,144)**	(5,058,254)
Proceeds from sales of investments	**5,436,776**	5,154,345
Net cash used by investing activities	**(3,663,666)**	(3,988,610)
Cash flows from financing activities		
Payments on long-term debt	**(722,464)**	(800,597)
Payment of bond issuance costs	**-**	(96,922)
Payment to terminate interest rate swap	**-**	(296,565)
Net cash used by financing activities	**(722,464)**	(1,194,084)
Net increase (decrease) in cash and cash equivalents	**701,694**	(566,035)
Cash and cash equivalents, beginning of year	**6,683,538**	7,249,573
Cash and cash equivalents, end of year	**$ 7,385,232**	$ 6,683,538
Supplemental disclosures of cash flow information		
Cash paid for interest	**$ 267,890**	$ 316,051
Proceeds from issuance of 2016 Series A bonds used for retirement of 2004 Series A bonds and 2009 Series A bonds and to fund related bond issuance costs	**$ -**	$ 12,605,000
Transfer of building to NVRC	**$ -**	$ 1,707,111

The accompanying notes are an integral part of these financial statements.

Organization

Northeastern Vermont Regional Hospital, Inc. (Hospital) is a Critical Access Hospital located in St. Johnsbury, Vermont. The Hospital is controlled by Northeastern Vermont Regional Corp. (NVRC or Parent). A tax-exempt holding company, NVRC is the sole member of the Hospital.

1. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (U.S. 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 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 certain investments in highly liquid debt instruments with original maturities of three months or less, except for money market funds included with investments in assets limited as to use or temporarily or permanently restricted net assets.

Patient Accounts Receivable

Patient accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to operations and a credit to a valuation allowance based on its assessment of payor mix, aged accounts receivable and historical adjustments. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to patient accounts receivable.

Supplies

Supplies are carried at the lower of cost (average cost method) or market.

Investments and Investment Income

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheets. Investment income or loss (including realized gains and losses on investments, other than temporary losses on investments, interest, and dividends) is included in the excess of revenues, gains, and other support over expenses and losses unless the income or loss is restricted by donor or law. Unrealized gains and temporary unrealized losses on investments are excluded from this measure. The cost of securities sold is based on the specific identification method.

Assets Limited as to Use

Assets limited as to use include assets designated by the Board of Trustees (Board) for future capital improvements, over which the Board retains control and which it may, at its discretion, subsequently use for other purposes.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Hospital 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 either temporarily or permanently restricted support 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, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from the excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Interest Rate Swap

In 2008, the Hospital entered into an interest rate swap agreement. The interest rate swap agreement was designated as a cash flow hedge, used to offset the variability of expected future cash flows due to the variable interest rate of the Hospital's 2004 bonds. The swap had an initial notional amount of $7,500,000. The Hospital paid a fixed rate of 2.874% and received a variable rate based on 68% of the 1-month USD-LIBOR-BBA Index.

In March 2016, both parties mutually agreed to terminate the interest rate swap contract for $296,565 and a realized gain of $65,572 was recorded.

Accrued Self-Insurance

The Hospital has established a self-insured health care plan for substantially all of its employees. The Hospital has obtained reinsurance coverage to limit the Hospital's exposure associated with this plan of $100,000 per individual occurrence. The balance sheets include an accrual in other current liabilities for management's estimate of claims incurred, but not reported, of approximately $1,370,000 and $1,037,200 as of September 30, 2017 and 2016, respectively.

Benefit Plans

The Hospital sponsors a defined contribution retirement plan covering substantially all of its employees. Under this plan, the Hospital contributes a non-elective contribution of 3% of a participant's eligible compensation and a matching contribution equal to 100% of a participant's elective deferral, up to 1.5% of the participant's eligible compensation. Retirement plan expenses charged to operations were $1,483,344 and $1,329,958 for the years ended September 30, 2017 and 2016, respectively.

The Hospital provides the opportunity for certain members of management and employed physicians to contribute to a deferred compensation plan established under Section 457 of the Internal Revenue Code (Code). Contributions are voluntary on the part of qualifying employees and no contributions are made by the Hospital on their behalf. Contributions are recorded as other long-term assets and corresponding other long-term liabilities in the balance sheets and totaled $918,642 and $639,267 as of September 30, 2017 and 2016, respectively.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Hospital have been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Hospital in perpetuity.

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.

Charity Care

The Hospital provides services without charge, or at amounts less than its established rates, to patients who meet the criteria of its charity care policy. The criteria for charity care consider such factors as family income and net worth. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue.

Excess of Revenues, Gains, and Other Support Over Expenses and Losses

The statements of operations include excess of revenues, gains, and other support over expenses and losses. Changes in unrestricted net assets which are excluded from this measure, consistent with industry practice, include net unrealized gains and temporary unrealized losses on investments and permanent transfers of assets to or from NVRC.

Income Taxes

The Hospital is exempt from federal income taxes under Code Section 501(c)(3) whereby only unrelated business income, as defined by Section 512(a)(1) of the Code, is subject to federal income tax.

Functional Expenses

The Hospital provides general healthcare services to residents within its geographic location. Expenses related to providing these services were as follows for the years ended September 30:

	2017	2016
Healthcare services	**$69,313,123**	$64,389,041
General and administrative	**9,721,225**	9,460,071
	$79,034,348	$73,849,112

Subsequent Events

For purposes of the preparation of these financial statements, the Hospital has considered transactions or events occurring through December 1, 2017, which was the date that the financial statements were issued.

2. Net Patient Service Revenue

Patient service revenue and contractual and other allowances consisted of the following for the years ended September 30:

	2017	2016
Patient services		
Inpatient	**$ 33,000,440**	$ 31,575,786
Outpatient	**124,054,659**	114,490,968
Gross patient service revenue	**157,055,099**	146,066,754
Less Medicare and Medicaid allowances	**64,421,674**	59,407,460
Less other contractual allowances	**9,785,621**	8,954,585
Less charity care and other discounts	**2,665,968**	2,675,006
	76,873,263	71,037,051
Patient service revenue (net of contractual allowances and discounts)	**80,181,836**	75,029,703
Less provision for bad debts	**3,387,319**	3,443,154
Net patient service revenue	**$ 76,794,517**	$ 71,586,549

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

Medicare

As a Critical Access Hospital, the Hospital is reimbursed allowable cost for its inpatient and outpatient services provided to Medicare patients. The Hospital is reimbursed for cost reimbursable items at tentative rates, with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2013.

Medicaid

Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors and are not subject to retroactive adjustment. The Hospital's Medicaid cost reports have been audited by the fiscal intermediary through September 30, 2015.

Blue Cross

Inpatient and outpatient services rendered to Blue Cross subscribers are reimbursed at submitted charges less a negotiated discount. The amounts paid to the Hospital are not subject to any retroactive adjustments.

Revenue from the Medicare and Medicaid programs accounted for approximately 35% and 16%, respectively, of the Hospital's net patient service revenue for the year ended September 30, 2017, and 35% and 17%, respectively, of the Hospital's net patient service revenue for the year ended September 30, 2016. Laws and regulations governing the Medicare and Medicaid programs 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. Net patient service revenue increased approximately $850,600 and $77,700 during 2017 and 2016, respectively, due to settlements less than and in excess of amounts previously estimated.

The Hospital recognizes patient service revenue associated with services rendered to patients who have third-party payor coverage on the basis of contractual rates for such services. For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates (or on the basis of discounted rates, if negotiated or provided by policy). Based on historical trends, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services rendered. Thus, the Hospital records a provision for bad debts related to uninsured patients in the period the services are rendered. Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized during fiscal years ended September 30, 2017 and 2016 totaled $80,181,836 and $75,029,703, respectively, of which $76,490,826 and $72,181,303, respectively, were revenues from third-party payors and approximately $3,691,010 and $2,848,400, respectively, were revenues from self-pay patients.

In evaluating the collectibility of accounts receivable, the Hospital analyzes past results 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 in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a provision for bad debts in the period of service based on past experience, which indicates that many patients are unable or unwilling to pay amounts for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or eligible) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged against the allowance for doubtful accounts.

During 2017, the Hospital increased its estimate of the allowance for doubtful accounts relating to self-pay patient from $2,539,460 to $3,578,034. In addition, the Hospital's self-pay writeoffs increased from $1,663,734 to $2,436,604 in 2017. Both increases were the result of trends experienced in the collection of amounts from self-pay patients.

3. Charity Care

The Hospital 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. The following information measures the level of charity care provided for the years ended September 30:

	2017	2016
Charges foregone, based on established rates	**$ 2,665,968**	$ 2,675,006
Estimated costs incurred to provide charity care	**$ 1,361,000**	$ 1,352,000
Equivalent percentage of charity care services to all services	**1.70%**	1.83%

Costs of providing charity care services have been estimated based on the relationship of charges for those services to total expenses.

4. Assets Limited as to Use

The composition of assets limited as to use as of September 30, 2017 and 2016 is set forth in the following table. Investments are stated at fair value.

	2017	2016
Restricted or internally designated for capital acquisitions		
Cash and short-term investments	**$ 116,200**	$ 174,444
Restricted cash and short-term investments	**236,710**	236,667
U.S. Treasury securities and other government securities	**434,599**	354,207
Mortgage securities	**444,913**	335,325
Mutual funds	**7,215,782**	6,606,461
Equities	**5,538,298**	5,266,436
	13,986,502	12,973,540
Internally designated to fund depreciation		
Cash and short-term investments	**97,044**	100,319
U.S. Treasury securities and other government securities	**110,796**	90,766
Mortgage securities	**113,350**	86,523
Mutual funds	**1,834,902**	1,688,898
Equities	**1,411,203**	1,345,121
	3,567,295	3,311,627
Restricted by donor		
Cash and short-term investments	**354,564**	353,884
	$ 17,908,361	$ 16,639,051

Investment income and gains (losses) on investments are comprised of the following for the years ended September 30:

	2017	2016
Unrestricted income		
Interest and dividend income	**$ 520,137**	$ 581,787
Realized gains (losses) on sales of securities	**226,176**	(184,946)
Investment management fees	**(96,974)**	(92,113)
	$ 649,339	$ 304,728
Other changes in unrestricted net assets		
Change in net unrealized gains	**$ 666,766**	$ 1,015,238
Other changes in restricted net assets		
Investment income	**$ 611**	$ 490

Unrestricted income on investments is reported as follows for the years ended September 30:

	2017	2016
Other revenues	$ 148,316	$ 158,583
Nonoperating gains	501,023	146,145
	$ 649,339	$ 304,728

Total gross unrealized losses sustained for less than twelve months and twelve months or longer were approximately $158,000 and $904,000, respectively, on investments held at September 30, 2017. In the opinion of management, no individual unrealized loss as of September 30, 2017 represents an other-than-temporary impairment. The Hospital has both the intent and the ability to hold these securities for the time necessary to recover their cost.

In 2009, Vermont law was amended to adopt the provisions of the Uniform Prudent Management of Institutional Funds Act. The Hospital has reviewed its policy to ensure compliance with the law, and there has been no material financial impact from this law.

5. Fair Value Measurements

FASB Accounting Standards Codification (ASC) 820, *Fair Value Measurement*, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Assets and liabilities measured at fair value on a recurring basis are summarized below.

	Fair Value Measurements at September 30, 2017			
	Total	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash and cash equivalents	$ 804,518	$ 804,518	$ -	$ -
U.S. Treasury obligations and government securities	545,395	545,395	-	-
Mortgage securities	558,263	558,263	-	-
Mutual funds				
Alternative investment	861,772	861,772	-	-
Asset allocation fund	689,493	689,493	-	-
Commodity fund	512,049	512,049	-	-
Debt fund	3,659,152	3,659,152	-	-
Equity fund	3,328,218	3,328,218	-	-
Total mutual funds	9,050,684	9,050,684	-	-
Equities				
Consumer	1,901,018	1,901,018	-	-
Diversified	31,842	31,842	-	-
Energy	726,043	726,043	-	-
Financials	1,119,885	1,119,885	-	-
Industrials	980,783	980,783	-	-
Information technology	636,396	636,396	-	-
Materials	344,496	344,496	-	-
Telecommunications	1,029,462	1,029,462	-	-
Utilities	179,576	179,576	-	-
Total equities	6,949,501	6,949,501	-	-
Total assets limited as to use	17,908,361	17,908,361	-	-
Investments to fund deferred compensation				
Mutual funds	918,642	918,642	-	-
Total assets	$ 18,827,003	$ 18,827,003	$ -	$ -

	Fair Value Measurements at September 30, 2016			
	Total	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash and cash equivalents	$ 865,314	$ 865,314	$ -	$ -
U.S. Treasury obligations				
and government securities	444,973	444,973	-	-
Mortgage securities	421,848	421,848	-	-
Mutual funds				
Alternative investment	751,477	751,477	-	-
Asset allocation fund	630,982	630,982	-	-
Commodity fund	487,803	487,803	-	-
Debt fund	3,404,753	3,404,753	-	-
Equity fund	3,020,344	3,020,344	-	-
Total mutual funds	8,295,359	8,295,359	-	-
Equities				
Consumer	1,790,383	1,790,383	-	-
Diversified	30,118	30,118	-	-
Energy	648,853	648,853	-	-
Financials	1,128,265	1,128,265	-	-
Industrials	894,882	894,882	-	-
Information technology	630,436	630,436	-	-
Materials	391,285	391,285	-	-
Telecommunications	920,629	920,629	-	-
Utilities	176,706	176,706	-	-
Total equities	6,611,557	6,611,557	-	-
Total assets limited as to use	16,639,051	16,639,051	-	-
Investments to fund deferred compensation				
Mutual funds	639,267	639,267	-	-
Total assets	$ 17,278,318	$ 17,278,318	$ -	$ -

6. Property and Equipment

A summary of property and equipment follows as of September 30:

	2017	2016
Land and land improvements	**$ 1,651,402**	$ 1,394,135
Buildings and improvements	**29,639,277**	29,163,157
Fixed equipment	**2,324,457**	2,324,457
Major moveable equipment	**25,062,903**	22,842,582
	58,678,039	55,724,331
Less accumulated depreciation	**38,153,958**	35,097,345
	20,524,081	20,626,986
Construction in progress	**797,263**	464,027
Property and equipment, net	**$ 21,321,344**	$ 21,091,013

Depreciation expense for the years ended September 30, 2017 and 2016 amounted to $3,056,967 and $2,799,452, respectively.

In November 2017, the Hospital began renovations of the birthing center. Renovations are expected to be complete in June 2018 and total cost are estimated to be $2,500,000. The project will be funded through operations and an ongoing capital campaign. The Hospital has filed a $3,052,000 Certificate of Need to purchase a new MRI and expand the diagnostic imaging department to accommodate the new equipment. If approved, the project will be financed along with certain other capital equipment needs in 2018.

7. Borrowings

Long-Term Debt

In April 2016, the Vermont Educational and Health Buildings Financing Agency (VEHBFA) issued $12,605,000 of tax-exempt variable rate demand bonds (Northeastern Vermont Regional Hospital Project 2016 Series A Bonds), collateralized by the gross receipts of the Hospital. The bonds were issued for the purpose of providing funds to repay the balances of the 2009 and 2004 Series A Bonds and to pay certain expenses incurred in connection with issuance of the bonds. The 2009 and 2004 Series A bonds were issued to fund certain capital expenditures and expenses incurred in connection with the issuance of the bonds.

Long-term debt consists of the following as of September 30:

	2017	2016
VEHBFA Hospital Revenue Bonds 2016 Series A Bonds, bearing interest of 2.23% until March 2026, thereafter variable, due April 2031. Principal payments are due in annual installments, ranging from $738,741 to $965,133 in 2030.	**$ 11,586,939**	$ 12,309,403
Unamortized deferred issuance costs	**(173,796)**	(186,591)
Total long-term debt	**11,413,143**	12,122,812
Less current portion	**(738,741)**	(722,464)
Long-term debt, excluding current portion	**$ 10,674,402**	$ 11,400,348

Scheduled principal repayments on long-term debt are as follows:

Fiscal Year Ending	
2018 (included in current liabilities)	$ 738,741
2019	755,384
2020	771,798
2021	789,790
2022	807,584
Thereafter	7,723,642
	$ 11,586,939

The Hospital incurred various costs in connection with the 2016 bond issuance totaling $191,922. These amounts are being amortized over the life of the bond on a straight-line basis. Accumulated amortization as of September 30, 2017 and 2016 was $18,126 and $5,331, respectively.

Line of Credit

The Hospital has available $1,500,000 in an unsecured line of credit with a bank with interest at the Wall Street Journal prime rate adjusted monthly (4.25% at September 30, 2017). The line expires December 31, 2017. As of September 30, 2017 and 2016, there was no balance outstanding on the line.

8. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes as of September 30:

	2017	2016
Plant replacement, included in assets limited as to use	**$ 236,710**	$ 236,667
Special purpose, included in cash and cash equivalents	**230,845**	230,484
Beneficial interest in net assets of Parent	**1,074,425**	986,867
	$ 1,541,980	$ 1,454,018

Permanently restricted net assets are available for the following purposes as of September 30:

	2017	2016
Investments to be held in perpetuity, included in cash and cash equivalents	**$ 92,136**	$ 91,929
Beneficial interest in net assets of Parent	**350,000**	350,000
	$ 442,136	$ 441,929

9. Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows as of September 30:

	2017	2016
Medicare	**41 %**	34 %
Medicaid	**14**	23
Blue Cross	**10**	10
Commercial	**23**	25
Self pay	**12**	8
	100 %	100 %

The Hospital maintains its cash balances at several financial institutions located in Vermont that, at times, may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes it is not exposed to any significant risk on cash and cash equivalents.

10. Commitments and Contingencies

Medical Malpractice Claims

The Hospital carries malpractice insurance coverage under a claims-made policy. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured. The Hospital intends to renew its coverage on a claims-made basis and has no reason to believe that it may be prevented from renewing such coverage. The Hospital is subject to complaints, claims and litigation due to potential claims which arise in the normal course of business. U.S. GAAP requires the Hospital to accrue the ultimate cost of malpractice claims when the incident that gives rise to the claim occurs, without consideration of insurance recoveries. Expected recoveries are presented as an asset. Amounts accrued under this provision are included in other accounts receivable and accounts payable and accrued expenses in the balance sheets.

Operating Leases

The Hospital leases equipment under operating leases that expire in November 2022. Total rental expense for the years ended September 30, 2017 and 2016 was approximately $609,855 and $563,794, respectively.

The following is a schedule by year of future minimum lease payments under operating leases as of September 30, that have initial or remaining lease terms in excess of one year.

	Amount
Year ending September 30,	
2018	$ 598,017
2019	386,666
2020	218,466
2021	144,534
2022	91,163
	$ 1,438,846

11. Related Party Transactions

NVRC supports the activities and charitable purposes of the Hospital. NVRC holds funds for purposes of the Hospital, which are reflected in these financial statements as "Beneficial interest in net assets of Parent."

NVRC leases office space to the Hospital under a continuing lease in the amount of $58,448 per annum.

During 2005, the Hospital transferred a building with a net book value of $2,063,710 to NVRC. Space in that building was subsequently leased to Dartmouth Hitchcock Medical Center primarily as a cancer treatment center. During 2016, the Hospital transferred $1,707,111 in cost for renovation and expansion of the building that houses St. Johnsbury Pediatrics and the Physical Therapy Practice. The cost of renovating the building was incurred by the Hospital and is payable by NVRC. During 2017, an equity transfer of $2,000,000 was made to reduce the amount payable by NVRC to the Hospital.

As of September 30, 2017 and 2016, the total amounts due from NVRC were $4,044,959 and $5,778,397, respectively. NVRC intends to repay amounts due to the Hospital from a $4,000,000 capital campaign as well as rent due from the Hospital to NVRC.

12. Fair Value of Financial Instruments

The Hospital's financial instruments consist of cash and cash equivalents, marketable securities, trade accounts receivable and payable, estimated third-party payor settlements, due from Parent, beneficial interest in net assets of Parent and debt. The fair values of all financial instruments approximate their carrying values at September 30, 2017.