BAKER
NEWMAN
NOYES

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

Audited Consolidated Financial Statements and Other Financial Information

Years Ended September 30, 2017 and 2016
With Independent Auditors' Report

Baker Newman & Noyes LLC
MAINE | MASSACHUSETTS | NEW HAMPSHIRE
800.244.7444 | www.bnncpa.com

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

Audited Consolidated Financial Statements
and Other Financial Information

September 30, 2017 and 2016

Table of Contents

BAKER NEWMAN NOYES

Baker Newman & Noyes LLC
MAINE | MASSACHUSETTS | NEW HAMPSHIRE
800.244.7444 | www.bnncpa.com

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, 2017 and 2016, and 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.

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, 2017 and 2016, 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.

Baker Newman & Noyes LLC

Manchester, New Hampshire
April 18, 2018

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

CONSOLIDATED BALANCE SHEETS

September 30, 2017 and 2016

ASSETS

	2017	2016
Current assets:		
Cash and cash equivalents	$ 67,498	$ 195,586
Accounts receivable, less allowance for doubtful accounts of $792,367 in 2017 and $520,629 in 2016	2,017,796	2,290,712
Estimated third-party payor settlements receivable	149,450	146,490
Meaningful use receivable	85,000	85,000
Other receivables	209	10,075
Inventories	1,465,293	1,386,942
Prepaid expenses	209,215	145,467
Total current assets	3,994,461	4,260,272
Property and equipment, net	3,395,151	3,453,926
Assets whose use is limited or restricted:		
Restricted cash and cash equivalents	715,660	561,817
Investments	5,274,128	4,770,931
Contributions receivable from charitable remainder trusts	35,068	33,817
Beneficial interest in perpetual trust	1,690,978	1,563,537
Deposits with trustee	57,166	56,340
Total assets whose use is limited or restricted	7,773,000	6,986,442
Total assets	$15,162,612	$14,700,640

LIABILITIES AND NET ASSETS

	2017	2016
Current liabilities:		
Lines of credit	$ 1,317,298	$ 1,458,544
Accounts payable	1,303,839	1,025,389
Accrued compensated absences	550,818	534,631
Accrued expenses	1,108,666	1,011,141
Current portion of charitable gift annuities liability	18,244	18,994
Current portion of long-term debt and capital lease obligations	339,578	326,722
Total current liabilities	4,638,443	4,375,421
Charitable gift annuities liability, less current portion	67,038	74,357
Long-term debt and capital lease obligations, less current portion	1,360,181	1,695,500
Total liabilities	6,065,662	6,145,278
Net assets:		
Unrestricted net assets	5,777,158	5,514,651
Temporarily restricted net assets	600,476	455,728
Permanently restricted net assets	2,719,316	2,584,983
Total net assets	9,096,950	8,555,362
Total liabilities and net assets	$15,162,612	$14,700,640

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, 2017 and 2016

	2017	2016
Unrestricted revenue and other support:		
Patient service revenue (net of contractual allowances and discounts)	$18,078,456	$17,890,188
Provision for bad debts	(845,290)	(659,139)
Net patient service revenue less provision for bad debts	17,233,166	17,231,049
Other revenue	4,356,122	4,523,198
Meaningful use revenue	106,250	85,000
Net assets released from restrictions for operations	449,615	444,872
Total unrestricted revenue and other support	22,145,153	22,284,119
Expenses:		
Salaries and benefits	14,679,909	14,454,223
Supplies and other	7,150,605	7,612,285
State provider taxes	648,299	621,491
Depreciation and amortization	636,003	739,178
Interest	131,906	150,863
Total expenses	23,246,722	23,578,040
Loss from operations	(1,101,569)	(1,293,921)
Nonoperating gains (losses):		
Investment income	81,916	86,042
Net realized and unrealized changes in the fair value of investments	393,518	349,271
Unrestricted contributions and program support	375,124	345,766
Other nonoperating losses	(8,341)	(88,067)
Nonoperating gains, net	842,217	693,012
Deficiency of revenue, gains and other support over expenses	(259,352)	(600,909)

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, 2017 and 2016

	2017	2016
Deficiency of revenue, gains and other support over expenses	$ (259,352)	$ (600,909)
Net assets released from restrictions for capital purchases	521,859	204,375
Increase (decrease) in unrestricted net assets	262,507	(396,534)
Temporarily restricted net assets:		
Contributions	1,114,971	683,977
Net assets released from restrictions for operations	(449,615)	(444,872)
Net assets released from restrictions for capital purchases	(521,859)	(204,375)
Net change in charitable remainder trusts	1,251	1,642
Increase in temporarily restricted net assets	144,748	36,372
Permanently restricted net assets:		
Contributions	6,892	5,832
Change in beneficial interest in perpetual trust	127,441	71,069
Increase in permanently restricted net assets	134,333	76,901
Increase (decrease) in net assets	541,588	(283,261)
Net assets, beginning of year	8,555,362	8,838,623
Net assets, end of year	$ 9,096,950	$ 8,555,362

See accompanying notes.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended September 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	$ 541,588	$ (283,261)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	636,003	739,178
Provision for bad debts	845,290	659,139
Net realized and unrealized changes in the fair value of investments	(393,518)	(349,271)
Debt issuance cost amortization	4,021	4,021
Gain on disposal of property and equipment	(1,000)	–
Increase in charitable remainder trusts	(1,251)	(1,642)
Increase in beneficial interest in perpetual trust	(127,441)	(71,069)
Restricted contributions	(1,121,863)	(689,809)
Changes in operating assets and liabilities:		
Accounts receivable	(572,374)	(817,652)
Estimated third-party payor settlements	(2,960)	157,768
Other receivables	9,866	(7,781)
Meaningful use receivable	–	38,250
Inventories	(78,351)	57,977
Prepaid expenses	(63,748)	(6,044)
Accounts payable	278,450	10,801
Accrued compensated absences	16,187	16,179
Accrued expenses	97,525	353,817
Net cash provided (used) by operating activities	66,424	(189,399)
Cash flows from investing activities:		
Purchases of property and equipment	(577,228)	(404,875)
Proceeds from sale of property and equipment	1,000	–
Proceeds from sale and maturities of investments	1,806,582	3,212,173
Purchases of investments	(1,916,261)	(3,254,666)
Change in restricted cash	(153,843)	(69,863)
Deposits with trustee	(826)	1,006
Net cash used by investing activities	(840,576)	(516,225)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	–	406,900
Net (payments on) proceeds from lines of credit	(141,246)	213,523
Payments on long-term debt and capital lease obligations	(326,484)	(509,573)
Restricted contributions and pledge receipts	1,121,863	689,809
Change in charitable gift annuities	(8,069)	84,630
Net cash provided by financing activities	646,064	885,289
Net (decrease) increase in cash and cash equivalents	(128,088)	179,665
Cash and cash equivalents at beginning of year	195,586	15,921
Cash and cash equivalents at end of year	$ 67,498	$ 195,586

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

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Years Ended September 30, 2017 and 2016

	2017	2016
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 127,885	$ 146,842

Supplemental disclosure of noncash investing and financing activities:
During 2016, the Organization entered into capital lease obligations to finance certain equipment totaling $129,700.
During 2016, $500,000 outstanding under a line of credit was converted into a note payable.

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.

Classification of Net Assets

Gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of donated assets. Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specific time period or purpose. When a donor restriction expires (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 statement of operations as either net assets released from restrictions for operations (for noncapital related items) or as net assets released from restrictions for capital purchases (capital related items). Permanently restricted net assets 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.

Funds Held by Trustee Under Revenue Bond Agreements

Funds held by 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 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 in temporarily or permanently restricted net assets.

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.

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.

Earned Time

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 of revenue, gains and other support over expenses. Changes in unrestricted net assets which are excluded from deficiency 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 2017 and 2016, net patient service revenue in the accompanying statements of operations increased approximately $1,900 and $20,000, 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 $240,000 and $211,000 for the years ended September 30, 2017 and 2016, 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 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.

Advertising Expense

Advertising costs are expensed as incurred and totaled approximately $188,000 and $208,000 in 2017 and 2016, respectively.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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, 2018. ASU 2014-09 permits the use of either the retrospective or cumulative effect transition method. The Organization is evaluating the impact of the pending adoption of ASU 2014-09 on the Organization's consolidated financial statements and related disclosures.

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

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* (ASU 2016-02). Under ASU 2016-02, at the commencement of a long-term lease, lessees will recognize a liability equivalent to the discounted payments due under the lease agreement, as well as an offsetting right-of-use asset. ASU 2016-02 is effective for the Organization on October 1, 2019, with early adoption permitted. Lessees (for capital and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees may not apply a full retrospective transition approach. The Organization is currently evaluating the impact of the pending adoption of ASU 2016-02 on the Organization's consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities (Topic 958)* (ASU 2016-14). Under ASU 2016-14, the existing three-category classification of net assets (i.e., unrestricted, temporarily restricted and permanently restricted) will be replaced with a simplified model that combines temporarily restricted and permanently restricted into a single category called "net assets with donor restrictions". ASU 2016-14 also enhances certain disclosures regarding board designations, donor restrictions and qualitative information regarding management of liquid resources. In addition to reporting expenses by functional classifications, ASU 2016-14 will also require the financial statements to provide information about expenses by their nature, along with enhanced disclosures about the methods used to allocate costs among program and support functions. ASU 2016-14 is effective for the Organization's fiscal year ending September 30, 2019, with early adoption permitted. The Organization is currently evaluating the impact of the pending adoption of ASU 2016-14 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 with early adoption permitted. The Organization is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements.

Subsequent Events

Management of the Organization evaluated events occurring between the end of its fiscal year and April 18, 2018, 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:

	2017	2016
Patient accounts receivable	$3,436,923	$3,520,047
Estimated contractual allowances	(626,760)	(708,706)
Estimated allowance for doubtful accounts	(792,367)	(520,629)
Net patient accounts receivable	$2,017,796	$2,290,712

The Organization's allowance for doubtful accounts for self-pay patients was 94% and 74% of self-pay accounts receivable at September 30, 2017 and 2016, respectively. The Organization's bad debt writeoffs (net of recoveries) decreased $32,682 from $602,538 for fiscal year 2016 to $569,856 for fiscal year 2017. 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 cost 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, 2015.

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, 2015.

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 2017 and 2016 was $648,299 and $621,491, respectively.

3. Estimated Third-Party Settlements (Continued)

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 14% of OHCC's gross patient service revenues for the years ended September 30, 2017 and 2016.

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.

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 68% and 70% of OHCC's gross patient service revenues for the years ended September 30, 2017 and 2016, 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 $52,000 and $44,000 in 2017 and 2016, respectively. The following information measures the level of charity care provided during the years ended September 30:

	2017	2016
Charges foregone, based on established rates (Note 1)	$112,000	$130,000
Estimated costs incurred to provide charity care	$ 81,000	$ 94,000
Equivalent percentage of charity care services to all services	0.4%	0.5%

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, 2017. The Organization's investments consist of diversified securities and, while subject to market risk, do not represent any significant concentrations in any sectors.

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, 2017 and 2016 was as follows:

	2017	2016
Medicare	43%	42%
Medicaid	7	11
Blue Cross	6	9
Other third-party payors	19	18
Patients	25	20
	100%	100%

6. Assets Whose Use is Limited or Restricted

Investments included in assets whose use is limited or restricted at September 30, 2017 and 2016 consist of the following:

	Cost 2017	Fair Value 2017	Cost 2016	Fair Value 2016
Cash and cash equivalents	$ 284,747	$ 284,747	$ 203,697	$ 203,697
Brokered certificates of deposit	323,985	324,387	299,185	303,893
Mutual funds	1,353,885	1,529,268	1,318,914	1,359,026
Government and municipal bonds	244,754	246,866	75,204	80,635
Corporate bonds	875,847	873,369	890,068	909,410
Common stock	1,413,734	2,015,491	1,468,668	1,914,270
	$4,496,952	$5,274,128	$4,255,736	$4,770,931

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

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:

	2017	2016
Unrestricted:		
Investment income	$ 81,916	$ 86,042
Net realized gains on sales of securities	131,537	81,919
Net unrealized gains on investments	261,981	267,352
	$475,434	$435,313

The endowment includes both endowment funds permanently restricted from expenditure by donors (accounted for in permanently restricted net assets) 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 unrestricted net assets. Gains on donor established endowments are, absent donor stipulations, included in temporarily restricted net assets until appropriated for expenditure by the governing board. Should the value of investments related to a donor established endowment fall below the original donor contribution, the resulting deficit is included in unrestricted net assets.

The changes in the Organization's endowment funds, including quasi endowments restricted by the Board, for the years ended September 30, 2017 and 2016 are as follows:

	Unrestricted	Permanently Restricted
Endowment funds, September 30, 2015	$2,287,332	$1,015,614
Contributions	–	5,832
Investment income	11,117	–
Net appreciation (realized and unrealized)	252,067	–
Endowment funds, September 30, 2016	2,550,516	1,021,446
Contributions	100,000	6,892
Investment income	9,306	–
Net appreciation (realized and unrealized)	189,656	–
Endowment funds, September 30, 2017	$2,849,478	$1,028,338

In 2017 and 2016, all unrestricted investment income and gains (losses) including unrealized gains (losses) are included as part of nonoperating gains (losses) in the consolidated statements of operations.

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

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 unrestricted use. Assets held in charitable remainder trusts totaled $35,068 and $33,817 as of September 30, 2017 and 2016, 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 $1,690,978 and $1,563,537 as of September 30, 2017 and 2016, respectively. Increases and decreases in the carrying value of this asset are included in permanently restricted net assets.

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.

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.

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

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
2017				
Cash and cash equivalents	$1,057,864	$ –	$ –	$1,057,864
Brokered certificates of deposit	–	324,387	–	324,387
Mutual funds:				
Fixed income	512,516	–	–	512,516
Equity	988,342	–	–	988,342
Real assets	63,187	–	–	63,187
Government and municipal bonds	–	246,866	–	246,866
Corporate bonds	–	873,369	–	873,369
Common stock:				
Materials	17,942	–	–	17,942
Real estate	69,486	–	–	69,486
Industrials	281,557	–	–	281,557
Consumer discretionary	215,785	–	–	215,785
Consumer staples	130,808	–	–	130,808
Energy	143,762	–	–	143,762
Financial institutions	262,048	–	–	262,048
Healthcare	302,308	–	–	302,308
Utilities	76,189	–	–	76,189
Information technology	453,105	–	–	453,105
Telecommunication services	62,501	–	–	62,501
Beneficial interest in trust	–	–	1,690,978	1,690,978
	$4,637,400	$1,444,622	$1,690,978	$7,773,000
2016				
Cash and cash equivalents	$ 822,263	$ –	$ –	$ 822,263
Brokered certificates of deposit	–	303,893	–	303,893
Mutual funds:				
Fixed income	492,574	–	–	492,574
Equity	846,602	–	–	846,602
Real assets	53,258	–	–	53,258
Government and municipal bonds	–	80,635	–	80,635
Corporate bonds	–	909,410	–	909,410
Common stock:				
Materials	18,948	–	–	18,948
Industrials	225,793	–	–	225,793
Consumer discretionary	208,809	–	–	208,809
Consumer staples	170,609	–	–	170,609
Energy	145,161	–	–	145,161
Financial institutions	250,716	–	–	250,716
Healthcare	326,351	–	–	326,351
Utilities	81,674	–	–	81,674
Information technology	419,901	–	–	419,901
Telecommunication services	66,308	–	–	66,308
Beneficial interest in trust	–	–	1,563,537	1,563,537
	$4,128,967	$1,293,938	$1,563,537	$6,986,442

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

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.

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

	Beneficial Interest in Trust	
	2017	2016
Balance, beginning of period	$ 1,563,537	$ 1,492,468
Net increase in beneficial interest in perpetual trust	127,441	71,069
Balance, end of period	$ 1,690,978	$ 1,563,537

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, 2017 and 2016.

7. Property and Equipment

Property and equipment consists of the following at September 30:

	2017	2016
Land and land improvements	$ 254,806	$ 214,343
Building and building improvements	6,969,472	6,905,742
Fixed equipment	680,617	680,617
Major movable equipment	4,420,504	4,257,198
Minor equipment	648,119	653,270
Vehicles	84,765	84,765
Other equipment	3,239,891	3,183,061
Construction in progress	280,610	27,711
	16,578,784	16,006,707
Less accumulated depreciation	(13,183,633)	(12,552,781)
	$ 3,395,151	$ 3,453,926

Depreciation expense for the years ended September 30, 2017 and 2016 amounted to $636,003 and $739,178, 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 $85,282 and $93,351 at September 30, 2017 and 2016, 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. Lines of Credit

The Organization has a revolving line of credit with a bank with maximum borrowings of $1,500,000. The outstanding balance of the line of credit was $1,317,298 and $1,458,544 at September 30, 2017 and 2016, respectively. Interest on the line of credit is assessed at the prime rate with a minimum of 4.0% (4.25% as of September 30, 2017), and this line is secured by investments. The line of credit had a maturity date of March 30, 2018 and was subsequently extended through May 29, 2018.

On March 31, 2015, the Hospital entered into a second revolving line of credit with a bank with a maximum borrowing availability of $1,000,000. The purpose of this line was to provide a short term working capital loan to pay for the Medicare cost report settlement owed at September 30, 2014. The line of credit matured May 1, 2016 and the outstanding balance on this date of $500,000 was converted to a note payable. See Note 10.

10. Long-Term Obligations

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

	2017	2016
Vermont Educational and Health Buildings Financing Agency (VEHBFA) Hospital Revenue Bonds Series 1997-1, variable interest rate (1.15% as of September 30, 2017) with principal maturing in varying annual amounts ranging from $140,000 in 2018 to $190,000 in 2022; secured by property and business assets of OHCC and the letter of credit as described below	$ 800,000	$ 935,000
Note payable to a bank (converted from line of credit – see Note 9), variable interest with a minimum interest rate of 4.0% (4.25% as of September 30, 2017); due in monthly installments totaling $11,304 through May 2020; secured by substantially all business assets	342,162	461,356
Note payable to United States Department of Agriculture (USDA), with interest fixed at 3.125%; due in monthly installments $2,283 through February 2036; secured by substantially all business assets	383,119	398,275
Capital lease obligations	194,903	252,037
	1,720,184	2,046,668
Less current portion	(339,578)	(326,722)
Less unamortized debt issuance costs	(20,425)	(24,446)
	$1,360,181	$ 1,695,500

Under the terms of the revenue bond indenture, OHCC is required to maintain certain deposits with a trustee. Such deposits totaled $57,166 and $56,340 at September 30, 2017 and 2016, 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, 2017 and 2016.

As of September 30, 2017 and 2016, OHCC has a standby letter of credit for $882,871 and $948,833, respectively, which expires on June 20, 2018. 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 $192,681 and $253,314 at September 30, 2017 and 2016, respectively, with accumulated amortization of $110,484 and $49,851, 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, 2017 are as follows:

Total remaining payments	$214,162
Less amounts representing interest	(19,259)
Less current portion of capital lease obligations	(60,230)
Long-term obligations under capital leases	$134,673

10. Long-Term Obligations (Continued)

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

2018	$ 339,578
2019	352,757
2020	316,169
2021	203,824
2022	207,716
Thereafter	300,140
	$1,720,184

11. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods at September 30:

	2017	2016
Capital acquisition and improvements at OHCC	$565,408	$421,911
Contributions receivable from charitable remainder trusts	35,068	33,817
	$600,476	$455,728

Permanently restricted net assets at September 30 are restricted to:

	2017	2016
Investments to be held in perpetuity, the income of which is expendable to support operations	$1,028,338	$1,021,446
Beneficial interest in perpetual trust	1,690,978	1,563,537
	$2,719,316	$2,584,983

12. Net Patient Service Revenue

An estimated breakdown of patient service revenue, net of contractual allowances, discounts and provision for bad debts recognized in 2017 and 2016 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
2017					
Third-party insurance (includes coinsurance and deductibles)	$ 3,720,269	$ (1,017,148)	$ (1,775)	$ (90,419)	$ 2,610,927
Blue Cross	3,597,386	(1,702,561)	(20,195)	(76,541)	1,798,089
Medicaid	3,641,618	(2,331,408)	(68)	(11,494)	1,298,648
Medicare	14,090,885	(2,870,480)	(45,619)	(37,323)	11,137,463
Self-pay	1,063,698	(1,697)	(44,449)	(629,513)	388,039
	$26,113,856	$(7,923,294)	$(112,106)	$(845,290)	$17,233,166
2016					
Third-party insurance (includes coinsurance and deductibles)	$ 3,592,140	$ (901,991)	$ (4,567)	$(158,925)	$ 2,526,657
Blue Cross	3,440,894	(1,390,166)	(13,084)	(184,317)	1,853,327
Medicaid	4,216,172	(2,727,661)	(3,646)	(13,159)	1,471,706
Medicare	13,719,500	(2,792,922)	(29,131)	(153,506)	10,743,941
Self-pay	864,633	–	(79,983)	(149,232)	635,418
	$25,833,339	$(7,812,740)	$(130,411)	$(659,139)	$17,231,049

13. Electronic Health Record Incentive Payments

The Centers for Medicare and Medicaid Services (CMS) Electronic Health Records (EHR) incentive programs provide a financial incentive for the "meaningful use" of certified EHR technology to achieve health and efficiency goals. To qualify for incentive payments, eligible organizations must successfully demonstrate meaningful use of certified EHR technology through various stages as defined by CMS. Revenue totaling $106,250 in 2017 and $85,000 associated with these meaningful use attestations was recorded as meaningful use revenues for the years ended September 30, 2017 and 2016, respectively. Meaningful use receivables of $85,000 at September 30, 2017 and 2016 are recorded in the accompanying consolidated balance sheets.

The meaningful use attestation is subject to review/audit by CMS in future years. As part of this process, a final settlement amount for the incentive payments could be established that differs from the initial calculations, and could result in return of a portion or all of the incentive payments received by the Organization. Management has determined that no allowance is needed against the established meaningful use receivables at September 30, 2017 and 2016.

14. 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, 2017, 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

Effective January 1, 2016, 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, 2017 and 2016, have been recorded as a liability of approximately $285,000 and $279,000, respectively, and are reflected within accrued expenses in the accompanying consolidated balance sheets.

Grant Award

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 2017, the Organization received and expended $340,000 and $269,542, respectively, related to this grant. During 2016, the Organization received and expended $290,000 and $254,873, respectively, related to this grant. No other amounts related to this grant are reflected within the accompanying financial statements given the contingencies related to the grant payments.

15. Volunteer Services (Unaudited)

In 2017 and 2016, total volunteer service hours received by OHCC were approximately 6,700 and 7,000, respectively. The volunteers provide nonspecialized services to OHCC, none of which have been recognized as revenue or expense in the consolidated statements of operations.

16. 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 years ended September 30:

	2017	2016
Health care services	$20,201,881	$ 20,423,269
General and administrative	2,276,932	2,264,730
Depreciation and amortization	636,003	739,178
Interest	131,906	150,863
	$23,246,722	$ 23,578,040

BAKER
NEWMAN
NOYES

Baker Newman & Noyes LLC
MAINE | MASSACHUSETTS | NEW HAMPSHIRE
800.244.7444 | www.bnncpa.com

**INDEPENDENT AUDITORS' REPORT
ON OTHER FINANCIAL INFORMATION**

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

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating information is presented for purposes of additional analysis rather than to present the financial position and results of operations 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
April 18, 2018

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

CONSOLIDATING BALANCE SHEETS

September 30, 2017 and 2016

ASSETS

	Carlos G. Otis Health Care Center, Inc.		Grace Cottage Foundation		Eliminations		Consolidated	
	2017	2016	2017	2016	2017	2016	2017	2016
Current assets:								
Cash and cash equivalents	$ 67,498	$ 195,586	$ –	$ –	$ –	$ –	$ 67,498	$ 195,586
Accounts receivable, net	2,017,796	2,290,712	–	–	–	–	2,017,796	2,290,712
Estimated third-party payor settlements receivable	149,450	146,490	–	–	–	–	149,450	146,490
Meaningful use receivable	85,000	85,000	–	–	–	–	85,000	85,000
Other receivables	789	10,075	2,937	8,405	(3,517)	(8,405)	209	10,075
Inventories	1,465,293	1,386,942	–	–	–	–	1,465,293	1,386,942
Prepaid expenses	209,215	145,467	–	–	–	–	209,215	145,467
Total current assets	3,995,041	4,260,272	2,937	8,405	(3,517)	(8,405)	3,994,461	4,260,272
Property and equipment, net	3,395,151	3,453,926	–	–	–	–	3,395,151	3,453,926
Assets whose use is limited or restricted:								
Restricted cash and cash equivalents	–	–	715,660	561,817	–	–	715,660	561,817
Investments	–	–	5,274,128	4,770,931	–	–	5,274,128	4,770,931
Contributions receivable from charitable remainder trusts	–	–	35,068	33,817	–	–	35,068	33,817
Beneficial interest in perpetual trust	–	–	1,690,978	1,563,537	–	–	1,690,978	1,563,537
Deposits with trustee	57,166	56,340	–	–	–	–	57,166	56,340
Beneficial interest in net assets of Grace Cottage Foundation	7,632,909	6,845,156	–	–	(7,632,909)	(6,845,156)	–	–
Total assets whose use is limited or restricted	7,690,075	6,901,496	7,715,834	6,930,102	(7,632,909)	(6,845,156)	7,773,000	6,986,442
Total assets	$15,080,267	$14,615,694	$ 7,718,771	$ 6,938,507	$ (7,636,426)	$ (6,853,561)	$15,162,612	$14,700,640

LIABILITIES AND NET ASSETS

	Carlos G. Otis Health Care Center, Inc.		Grace Cottage Foundation		Eliminations		Consolidated	
	2017	2016	2017	2016	2017	2016	2017	2016
Current liabilities:								
Lines of credit	$ 1,317,298	$ 1,458,544	$ –	$ –	$ –	$ –	$ 1,317,298	$ 1,458,544
Accounts payable	1,306,776	1,033,794	580	–	(3,517)	(8,405)	1,303,839	1,025,389
Accrued compensated absences	550,818	534,631	–	–	–	–	550,818	534,631
Accrued expenses	1,108,666	1,011,141	–	–	–	–	1,108,666	1,011,141
Current portion of charitable gift annuities liability	–	–	18,244	18,994	–	–	18,244	18,994
Current portion of long-term debt and capital lease obligations	339,578	326,722	–	–	–	–	339,578	326,722
Total current liabilities	4,623,136	4,364,832	18,824	18,994	(3,517)	(8,405)	4,638,443	4,375,421
Charitable gift annuities liability, less current portion	–	–	67,038	74,357	–	–	67,038	74,357
Long-term debt and capital lease obligations, less current portion	1,360,181	1,695,500	–	–	–	–	1,360,181	1,695,500
Total liabilities	5,983,317	6,060,332	85,862	93,351	(3,517)	(8,405)	6,065,662	6,145,278
Net assets:								
Unrestricted net assets	5,777,158	5,514,651	4,313,117	3,804,445	(4,313,117)	(3,804,445)	5,777,158	5,514,651
Temporarily restricted net assets	600,476	455,728	600,476	455,728	(600,476)	(455,728)	600,476	455,728
Permanently restricted net assets	2,719,316	2,584,983	2,719,316	2,584,983	(2,719,316)	(2,584,983)	2,719,316	2,584,983
Total net assets	9,096,950	8,555,362	7,632,909	6,845,156	(7,632,909)	(6,845,156)	9,096,950	8,555,362
Total liabilities and net assets	$15,080,267	$14,615,694	$ 7,718,771	$ 6,938,507	$ (7,636,426)	$ (6,853,561)	$15,162,612	$14,700,640

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

CONSOLIDATING STATEMENTS OF OPERATIONS

Years Ended September 30, 2017 and 2016

	Carlos G. Otis Health Care Center, Inc.		Grace Cottage Foundation		Eliminations		Consolidated	
	2017	2016	2017	2016	2017	2016	2017	2016
Unrestricted revenue and other support:								
Net patient service revenue, less provision for bad debts	$17,233,166	$17,231,049	$ –	$ –	$ –	$ –	$17,233,166	$17,231,049
Other revenue	4,584,664	4,760,155	54,888	49,319	(283,430)	(286,276)	4,356,122	4,523,198
Meaningful use revenue	106,250	85,000	–	–	–	–	106,250	85,000
Net assets released from restrictions for operations	–	–	449,615	444,872	–	–	449,615	444,872
Total unrestricted revenue and other support	21,924,080	22,076,204	504,503	494,191	(283,430)	(286,276)	22,145,153	22,284,119
Expenses:								
Salaries and benefits	14,679,909	14,454,223	–	–	–	–	14,679,909	14,454,223
Supplies and other	7,100,764	7,564,826	49,841	47,459	–	–	7,150,605	7,612,285
State provider taxes	648,299	621,491	–	–	–	–	648,299	621,491
Transfers to parent	–	–	1,024,553	697,077	(1,024,553)	(697,077)	–	–
Depreciation and amortization	636,003	739,178	–	–	–	–	636,003	739,178
Interest	131,906	150,863	–	–	–	–	131,906	150,863
Total expenses	23,196,881	23,530,581	1,074,394	744,536	(1,024,553)	(697,077)	23,246,722	23,578,040
Loss from operations	(1,272,801)	(1,454,377)	(569,891)	(250,345)	741,123	410,801	(1,101,569)	(1,293,921)
Nonoperating gains (losses):								
Investment income	60	215	81,856	85,827	–	–	81,916	86,042
Net realized and unrealized changes in the fair value of investments	–	–	393,518	349,271	–	–	393,518	349,271
Unrestricted contributions and program support	1,024,553	697,077	375,124	345,766	(1,024,553)	(697,077)	375,124	345,766
Other nonoperating (losses) gains	2,023	5,261	(10,364)	(93,328)	–	–	(8,341)	(88,067)
Nonoperating gains, net	1,026,636	702,553	840,134	687,536	(1,024,553)	(697,077)	842,217	693,012
(Deficiency) excess of revenue, gains and other support over expenses	(246,165)	(751,824)	270,243	437,191	(283,430)	(286,276)	(259,352)	(600,909)
Increase in unrestricted net assets of Foundation	508,672	355,290	–	–	(508,672)	(355,290)	–	–
Net transfers to affiliate	–	–	(283,430)	(286,276)	283,430	286,276	–	–
Net assets released from restrictions for capital purchases	–	–	521,859	204,375	–	–	521,859	204,375
Increase (decrease) in unrestricted net assets	$ 262,507	$ (396,534)	$ 508,672	$ 355,290	$ (508,672)	$(355,290)	$ 262,507	$ (396,534)

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

SCHEDULE OF OPERATING INCOME (LOSS)

Year Ended September 30, 2017

	Grace Cottage Hospital	Messenger Valley Pharmacy	Grace Cottage Family Health	Corporate	Total
Revenue:					
Gross patient service revenue	$ 21,703,960	$ –	$4,409,896	$ –	$ 26,113,856
Contractual allowances	(6,953,365)	(41,672)	(928,257)	–	(7,923,294)
Charity care	(85,804)	(1,847)	(24,455)	–	(112,106)
Provision for bad debts	(713,770)	(2,893)	(128,627)	–	(845,290)
Net patient service revenue less provision for bad debts	13,951,021	(46,412)	3,328,557	–	17,233,166
Other revenue	1,343,037	2,963,935	238,490	39,202	4,584,664
Meaningful use revenue	106,250	–	–	–	106,250
Total unrestricted revenues and other support	15,400,308	2,917,523	3,567,047	39,202	21,924,080
Expenses:					
Salaries and benefits	10,204,414	714,532	3,760,963	–	14,679,909
Supplies and other and state provider taxes	5,223,079	2,187,841	271,667	66,476	7,749,063
Depreciation and amortization	599,378	33,431	3,194	–	636,003
Interest	–	–	–	131,906	131,906
Total expenses	16,026,871	2,935,804	4,035,824	198,382	23,196,881
Loss from operations	$ (626,563)	$ (18,281)	$ (468,777)	$ (159,180)	$ (1,272,801)

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

SCHEDULE OF OPERATING INCOME (LOSS)

Year Ended September 30, 2016

	Grace Cottage Hospital	Messenger Valley Pharmacy	Grace Cottage Family Health	Corporate	Total
Revenue:					
Gross patient service revenue	$ 21,656,631	$ –	$4,176,708	$ –	$ 25,833,339
Contractual allowances	(7,056,831)	(30,807)	(725,102)	–	(7,812,740)
Charity care	(104,960)	(3,799)	(21,652)	–	(130,411)
Provision for bad debts	(598,013)	(2,581)	(58,545)	–	(659,139)
Net patient service revenue less provision for bad debts	13,896,827	(37,187)	3,371,409	–	17,231,049
Other revenue	1,249,346	3,251,787	228,897	30,125	4,760,155
Meaningful use revenue	85,000	–	–	–	85,000
Total unrestricted revenues and other support	15,231,173	3,214,600	3,600,306	30,125	22,076,204
Expenses:					
Salaries and benefits	10,115,983	749,392	3,588,848	–	14,454,223
Supplies and other and state provider taxes	5,247,855	2,485,684	377,291	75,487	8,186,317
Depreciation and amortization	702,553	33,431	3,194	–	739,178
Interest	–	–	–	150,863	150,863
Total expenses	16,066,391	3,268,507	3,969,333	226,350	23,530,581
Loss from operations	$ (835,218)	$ (53,907)	$ (369,027)	$(196,225)	$ (1,454,377)