

North Country Health Systems, Inc.

Independent Auditor's Report and Consolidated Financial Statements

September 30, 2018 and 2017

North Country Health Systems, Inc.
September 30, 2018 and 2017

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Independent Auditor's Report

Board of Trustees
North Country Health Systems, Inc.
Newport, Vermont

We have audited the accompanying consolidated financial statements of North Country Health Systems, Inc., which comprise the consolidated balance sheets as of September 30, 2018 and 2017, and the related consolidated statements of operations, 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 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.

Auditor's 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 auditor's 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 North Country Health Systems, Inc. as of September 30, 2018 and 2017, and the results of its operations, the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Springfield, Missouri
January 14, 2019

North Country Health Systems, Inc.
Consolidated Balance Sheets
September 30, 2018 and 2017

Assets

	2018	2017
Current Assets		
Cash and cash equivalents	\$ 1,743,941	\$ 2,139,045
Patient accounts receivable, net of allowance; 2018 – \$6,100,000, 2017 – \$5,000,000	8,483,759	7,253,308
Other receivables	288,487	463,314
Supplies	2,628,696	2,433,240
Estimated amounts due from third-party payers	219,803	100,955
Prepaid expenses and other	904,974	1,201,045
Total current assets	14,269,660	13,590,907
 Assets Limited As To Use		
Internally designated	41,682,287	39,075,746
Externally restricted by donors	4,485,883	4,245,448
Held by trustee		
Under deferred compensation arrangements	3,400,829	3,049,789
	49,568,999	46,370,983
 Property and Equipment, At Cost		
	78,906,793	76,870,423
Less accumulated depreciation	54,961,044	51,636,817
	23,945,749	25,233,606
 Other Assets		
	81,286	30,267
Total assets	\$ 87,865,694	\$ 85,225,763

Liabilities and Net Assets

	<u>2018</u>	<u>2017</u>
Current Liabilities		
Line of credit agreement	\$ 1,001,134	\$ -
Current maturities of long-term debt	1,074,420	1,099,637
Accounts payable	3,555,421	2,630,733
Accrued expenses	4,329,048	4,261,427
Resident personal funds payable	176	599
Due to affiliate	16,297	13,047
Estimated amounts due to third-party payers	1,916,912	1,791,945
	<hr/>	<hr/>
Total current liabilities	11,893,408	9,797,388
Deferred Compensation and Other	3,493,102	3,136,839
Long-Term Debt	16,952,467	17,968,122
Interest Rate Swap Agreements	633,275	1,445,525
	<hr/>	<hr/>
Total liabilities	32,972,252	32,347,874
	<hr/>	<hr/>
Net Assets		
Unrestricted net assets attributable to the Health System	50,308,765	48,573,554
Unrestricted net assets attributable to noncontrolling interest	176,258	174,168
	<hr/>	<hr/>
Total unrestricted net assets	50,485,023	48,747,722
Temporarily restricted	3,613,560	3,335,308
Permanently restricted	794,859	794,859
	<hr/>	<hr/>
Total net assets	54,893,442	52,877,889
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 87,865,694</u>	<u>\$ 85,225,763</u>

North Country Health Systems, Inc.
Consolidated Statements of Operations
Years Ended September 30, 2018 and 2017

	2018	2017
Unrestricted Revenues, Gains and Other Support		
Net patient service revenue (net of contractual discounts and allowances)	\$ 77,309,930	\$ 78,952,663
Provision for uncollectible accounts	(3,164,467)	(1,751,358)
Net patient service revenue less provision for uncollectible accounts	74,145,463	77,201,305
Fixed prospective revenue	4,330,490	-
Other	5,544,597	7,627,756
Net assets released from restriction used for operations	85,621	124,779
Total unrestricted revenues, gains and other support	84,106,171	84,953,840
Expenses and Losses		
Salaries	40,202,368	39,687,953
Employee benefits	11,309,775	11,606,058
Supplies and other	29,744,985	30,194,808
Depreciation and amortization	4,292,801	4,677,579
Interest	663,912	733,912
Total expenses and losses	86,213,841	86,900,310
Operating Loss	(2,107,670)	(1,946,470)
Other Income (Expense)		
Contributions received	207,780	240,052
Investment return	1,748,162	1,224,970
Investment return – change in fair value of investments accounted for under the fair value option of FASB ASC Topic 825	(446,543)	(149,243)
Other	19,148	72,571
Total other income	1,528,547	1,388,350
Deficiency of Revenues Over Expenses	(579,123)	(558,120)
Investment return – change in unrealized gains and losses on other than trading securities	1,443,174	2,490,245
Change in fair value of interest rate swap agreements	812,250	1,034,307
Net assets released from restriction used for property and equipment	61,000	81,440
Distributions to noncontrolling interest	-	(40,000)
Increase in Unrestricted Net Assets	\$ 1,737,301	\$ 3,007,872

North Country Health Systems, Inc.
Consolidated Statements of Changes in Net Assets
Years Ended September 30, 2018 and 2017

	2018	2017
Unrestricted Net Assets Attributable to the Health System		
Deficiency of revenues over expenses	\$ (581,213)	\$ (638,260)
Investment return – change in unrealized gains and losses on other than trading securities	1,443,174	2,490,245
Change in fair value of interest rate swap agreement	812,250	1,034,307
Net assets released from restriction used for property and equipment	61,000	81,440
Increase in unrestricted net assets attributable to the Health System	1,735,211	2,967,732
Unrestricted Net Assets Attributable to Noncontrolling Interest		
Excess of revenues over expenses	2,090	80,140
Distributions to noncontrolling interest	-	(40,000)
Increase in unrestricted net assets attributable to noncontrolling interest	2,090	40,140
Increase in unrestricted net assets	1,737,301	3,007,872
Temporarily Restricted Net Assets		
Contributions received	148,467	102,096
Investment return – change in unrealized gains and losses on other than trading securities	276,406	466,076
Net assets released from restriction	(146,621)	(206,219)
Increase in temporarily restricted net assets	278,252	361,953
Permanently Restricted Net Assets		
Contributions received	-	150
Increase in permanently restricted net assets	-	150
Change in Net Assets	2,015,553	3,369,975
Net Assets, Beginning of Year	52,877,889	49,507,914
Net Assets, End of Year	\$ 54,893,442	\$ 52,877,889

North Country Health Systems, Inc.
Consolidated Statements of Cash Flows
Years Ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Activities		
Change in net assets	\$ 2,015,553	\$ 3,369,975
Items not requiring (providing) cash		
Loss on disposal of property and equipment	65,113	22,136
Depreciation and amortization	4,292,801	4,677,579
Net gain on investments	(2,242,446)	(3,412,651)
Change in fair value of interest rate swap agreements	(812,250)	(1,034,307)
Restricted contributions received	(148,467)	(102,246)
Distributions to noncontrolling interest	-	40,000
Changes in		
Patient accounts receivable, net	(1,230,451)	(61,422)
Estimated amounts due to third-party payers	6,119	1,567,190
Accounts payable and accrued expenses	1,185,703	790,990
Other current assets and liabilities	232,473	1,366,633
	<u>3,364,148</u>	<u>7,223,877</u>
Investing Activities		
Proceeds from disposition of assets limited as to use	14,023,799	7,703,978
Purchases of assets limited as to use	(14,628,329)	(12,632,572)
Purchase of property and equipment	(3,261,883)	(2,297,772)
Proceeds from sale of property and equipment	20,170	45,059
	<u>(3,846,243)</u>	<u>(7,181,307)</u>
Financing Activities		
Distributions to noncontrolling interest	-	(40,000)
Proceeds from restricted contributions	148,467	102,246
Borrowings under line of credit agreement	1,001,134	-
Principal payments on long-term debt	(1,062,610)	(1,204,864)
	<u>86,991</u>	<u>(1,142,618)</u>
Decrease in Cash and Cash Equivalents	<u>(395,104)</u>	<u>(1,100,048)</u>
Cash and Cash Equivalents, Beginning of Year	<u>2,139,045</u>	<u>3,239,093</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,743,941</u>	<u>\$ 2,139,045</u>
Supplemental Cash Flows Information		
Interest paid	\$ 663,912	\$ 733,717
Property and equipment in accounts payable	\$ 312,287	\$ 113,670
Capital lease obligations incurred for property and equipment	\$ -	\$ 163,819

North Country Health Systems, Inc.
Notes to Consolidated Financial Statements
September 30, 2018 and 2017

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

North Country Health Systems, Inc. and its subsidiaries collectively do business as North Country Health System.

North Country Health Systems, Inc. (Health System) is the parent holding company for its wholly owned subsidiaries, which include North Country Hospital and Health Center, Inc. (Hospital), North Country Health Services, Inc., d/b/a Derby Green (Derby Green).

North Country Hospital and Health Center, Inc. operates a 25-bed acute care hospital facility in Newport, Vermont. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in Newport, Vermont, and the surrounding area. The Hospital also operates a number of physician clinics in the same geographic area.

Derby Green operates a 23-bed nursing home located in Derby, Vermont.

North Country Hospital and Health Center, Inc. is the majority general shareholder of Northeast Kingdom Healthcare Collaborative, LLC (NEK), which is a limited liability corporation. The Hospital controls Northeast Kingdom Healthcare Collaborative, LLC through its 60 percent majority interest of the general partnership membership units. The noncontrolling interest represents the proportionate share of Northeast Kingdom Healthcare Collaborative, LLC equity owned by a third party.

Principles of Consolidation

The consolidated financial statements include the financial statements of North Country Health Systems, Inc., its wholly owned subsidiaries, North Country Hospital and Health Center, Inc., North Country Health Services, d/b/a Derby Green and the majority owned Northeast Kingdom Healthcare Collaborative, LLC (collectively, NCHS). All significant intercompany accounts and transactions have been eliminated in consolidation.

Noncontrolling Interest

Noncontrolling interest represents the third-party member's equity contribution and the proportionate share of income or loss in NEK. Income passes through to its members and any associated income taxes are paid by the members under their respective income tax status.

Use of Estimates

The preparation of 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

North Country Health Systems, Inc.
Notes to Consolidated Financial Statements
September 30, 2018 and 2017

Cash and Cash Equivalents

NCHS considers all liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2018 and 2017, cash equivalents consisted primarily of repurchase agreements in sweep accounts with financial institutions.

At September 30, 2018, NCHS had approximately \$456,000 of cash accounts in excess of FDIC limits that were not fully collateralized.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Investments in hedge funds are carried at fair value pursuant to the provisions of ASC Topic 825. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments. NCHS recognizes an impairment loss when an impairment is deemed other than temporary. For the years ended September 30, 2018 and 2017, respectively, NCHS did not record any other-than-temporary impairment.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the consolidated statements of operations and changes in net assets as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

Assets Limited as to Use

Assets limited as to use include (1) assets held by trustees under bond indentures and deferred compensation agreements, (2) assets restricted by donors and (3) assets set aside by the Board of Trustees for future capital improvements and debt service over which the Board retains control and may at its discretion subsequently use for other purposes. Amounts required to meet current liabilities of NCHS are included in current assets.

Patient Accounts Receivable

Accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectability of accounts receivable, NCHS analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for uncollectible accounts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts.

North Country Health Systems, Inc.
Notes to Consolidated Financial Statements
September 30, 2018 and 2017

For receivables associated with services provided to patients who have third-party coverage, NCHS analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for uncollectible accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely).

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), NCHS records a significant provision for uncollectible accounts 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 uncollectible accounts.

NCHS's allowance for uncollectible accounts for self-pay patients increased from 67 percent of self-pay accounts receivable at September 30, 2017, to 87 percent of self-pay accounts receivable at September 30, 2018. NCHS's write-offs decreased approximately \$622,000 from approximately \$2,616,000 for the year ended September 30, 2017, to approximately \$1,994,000 for the year ended September 30, 2018.

Supplies

NCHS states supply inventories at the lower of cost, determined using the first-in, first-out method, or market.

Property and Equipment

Property and equipment acquisitions are recorded at cost and are depreciated using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations are depreciated over the shorter of the lease term or their respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Land improvements	5 – 25 years
Buildings	10 – 40 years
Fixed equipment	5 – 20 years
Moveable equipment	3 – 20 years
Vehicles	4 years
Equipment under capital lease	4 – 5 years

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

North Country Health Systems, Inc.
Notes to Consolidated Financial Statements
September 30, 2018 and 2017

Long-Lived Asset Impairment

NCHS evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended September 30, 2018 and 2017.

Debt Issuance Costs

Debt issuance costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the straight-line method and are included as a component of long-term debt on the consolidated balance sheets.

Temporarily and Permanently Restricted Net Assets

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

Net Patient Service Revenue

The Hospital and Derby Green have agreements with third-party payers that provide for payments at amounts different from their established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Fixed Prospective Revenue

Beginning January 1, 2018, the Hospital began to receive monthly fixed prospective payments for services provided by hospitals and hospital-owned physician practices participating in the Vermont Medicaid next Generation Accountable Care Organization (ACO) Pilot Program. This is a monthly, per member payment received in advance of the services being performed and is recognized as revenue in the month to which it relates.

Medicaid fee-for service payments continue for all other nonhospital providers in the ACO, for all providers who are not part of the ACO, and for all services that are not in the fixed prospective payment. The ACO is responsible for both the cost and the quality of care for each attributed member, regardless of individual member's utilization. The Hospital is subject to an annual contracted maximum risk corridor, of which for calendar 2018 is a maximum potential gain or loss of \$385,000. As of September 30, 2018, the Hospital has recorded a liability related to this risk corridor of \$290,000, which is recorded within estimated amounts due to third-party payers.

North Country Health Systems, Inc.
Notes to Consolidated Financial Statements
September 30, 2018 and 2017

Charity Care

NCHS provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Contributions

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Gifts received with donor stipulations are reported as either temporarily or permanently restricted support. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified and reported as an increase in unrestricted net assets. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions. Conditional contributions are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor.

Professional Liability Claims

The Hospital recognizes an accrual for claim liabilities based on estimated ultimate losses and costs associated with settling claims and a receivable to reflect the estimated insurance recoveries, if any. Professional liability claims are described more fully in *Note 6*.

Estimated Self-Insurance Costs

NCHS accrues estimated liabilities for self-insurance losses associated with employee health insurance, employee unemployment claims and workers' compensation claims by estimating the ultimate costs for both reported claims and claims incurred but not reported. NCHS has purchased insurance that limits its exposure for individual claims.

Income Taxes

NCHS and its subsidiaries have been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, NCHS and its subsidiaries are subject to federal income tax on any unrelated business taxable income.

NCHS files tax returns in the U.S. federal jurisdiction. With a few exceptions, NCHS is no longer subject to U.S. federal examinations by tax authorities for years before 2015.

North Country Health Systems, Inc.

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

Deficiency of Revenues Over Expenses

The consolidated statements of operations include deficiency of revenues over expenses. Changes in unrestricted net assets which are excluded from deficiency of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, the change in fair value of interest rate swap agreements and distributions to noncontrolling interest.

Contract Pharmacy Program

NCHS participates in the 340B outpatient drug discount program administered by the Office of Pharmacy Affairs of the Health Resources and Services Administration (HRSA). NCHS contracts with local retail pharmacies under the program, which resulted in significant additional revenues and discounts of outpatient pharmaceuticals. In 2018 and 2017, net revenue from this program was approximately \$2,465,000 and \$2,740,000, respectively, greater than the cost of operating the program. The benefits from this program allow NCHS to continue to provide, improve and expand access to health care services in the surrounding communities. Laws and regulations surrounding the 340B drug program are complex and are subject to interpretation and change.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Critical access hospitals (CAHs) are eligible to receive incentive payments in the cost reporting period beginning in the federal fiscal year in which meaningful use criteria have been met. The Medicare incentive payment is for qualifying costs of the purchase of certified EHR technology multiplied by the Hospital's Medicare share fraction, which includes a 20 percent incentive. This payment is an acceleration of amounts that would have been received in future periods based on reimbursable costs incurred, including depreciation. If meaningful use criteria are not met in future periods, the Hospital is subject to penalties that would reduce future payments for services. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on the hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

NCHS has recognized the incentive payment revenue received for qualified EHR technology expenditures during 2018 and 2017, respectively, which was the period during which management was reasonably assured meaningful use was achieved and the earnings process was complete. Management believes the incentive payments reflect a change in how "allowable costs" are determined in paying CAHs for providing services to Medicare beneficiaries. In 2018 and 2017, NCHS recorded approximately \$0 and \$255,000, respectively, of revenue related to the meaningful use programs which is recorded in other operating revenue.

North Country Health Systems, Inc.
Notes to Consolidated Financial Statements
September 30, 2018 and 2017

Transfers Between Fair Value Hierarchy Levels

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the period ending date.

Subsequent Events

Subsequent events have been evaluated through January 14, 2019, which is the date the consolidated financial statements were issued.

Reclassifications

Certain reclassifications have been made to the 2017 consolidated financial statements to conform to the 2018 financial statement presentation. These reclassifications had no effect on the change in net assets.

Note 2: Net Patient Service Revenue

NCHS recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, NCHS recognizes revenue on the basis of its standard rates for services. On the basis of historical experience, a significant portion of NCHS' uninsured patients will be unable or unwilling to pay for the services provided. Thus, NCHS records a significant provision for uncollectible accounts related to uninsured patients in the period the services are provided. This provision for uncollectible accounts is presented on the consolidated statements of operations as a component of net patient service revenue.

The Hospital and Derby Green have agreements with third-party payers that provide for payments at amounts different from its established rates. These payment arrangements include:

Medicare. The Hospital is designated as a critical access hospital and is paid based on cost formulas for most inpatient and outpatient services from the Medicare program.

Skilled nursing services rendered to Medicare program beneficiaries at Derby Green are paid at prospectively determined per diem rates.

The Hospital and Derby Green are reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and Derby Green and audits thereof by the Medicare Administrative Contractor. The most recent Hospital cost report audited by the Medicare Administrative Contractor is for the period ended September 30, 2014.

The 2018 and 2017 net patient service revenue increased approximately \$500,000 and \$300,000, respectively, due to settlements in excess of amounts previously estimated.

Medicaid. Inpatient, outpatient and skilled nursing services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates.

North Country Health Systems, Inc.
Notes to Consolidated Financial Statements
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Blue Cross. Inpatient and outpatient services rendered to Blue Cross subscribers are reimbursed at submitted charges less a contractually determined discount.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the years ended September 30, 2018 and 2017, respectively, was approximately:

	2018	2017
Medicare	\$ 31,272,859	\$ 26,756,925
Medicaid	5,524,954	10,680,561
Other third-party payers	18,798,922	22,809,014
Blue Cross	20,628,130	17,845,532
Self-pay	1,085,065	860,631
	<hr/>	<hr/>
Total	<u>\$ 77,309,930</u>	<u>\$ 78,952,663</u>

Note 3: Concentration of Credit Risk

NCHS grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of net receivables from patients and third-party payers at September 30, 2018 and 2017, is:

	2018	2017
Medicare	31%	36%
Medicaid	5%	10%
Other third-party payers	28%	20%
Blue Cross	20%	19%
Self-pay	16%	15%
	<hr/>	<hr/>
	<u>100%</u>	<u>100%</u>

North Country Health Systems, Inc.
Notes to Consolidated Financial Statements
September 30, 2018 and 2017

Note 4: Investments and Investment Return

Assets Limited as to Use

Assets limited as to use, at September 30, 2018 and 2017, include:

	2018	2017
Cash and cash equivalents	\$ 2,497,622	\$ 1,955,503
U.S. Treasury securities	1,526,879	1,898,337
Government agency securities	223,301	249,749
Corporate fixed income securities	6,079,274	5,614,272
Equities		
Consumer discretionary industry	3,243,473	2,997,505
Consumer staples industry	2,646,995	2,570,990
Energy industry	2,165,965	2,034,648
Financial industry	4,498,349	4,169,830
Health care industry	3,179,881	3,325,779
Industrial industry	3,820,026	3,396,739
Information technology industry	5,683,784	5,633,296
Materials and manufacturing industry	979,450	531,915
Telecommunications industry	3,159,070	1,996,649
Utilities industry	1,254,407	1,171,770
Real estate industry	3,279,670	3,434,448
Other industries	10,955	-
Mutual funds – equities	979,837	891,590
Exchange-traded funds	92,095	140,805
Alternative investments	1,505,203	1,951,746
Life insurance policies and deferred compensation arrangements	2,742,763	2,405,412
	<u>\$ 49,568,999</u>	<u>\$ 46,370,983</u>

The alternative investments were acquired to balance the investment portfolio risks associated with the volatility of fluctuations in the financial market through diversification and, as such, are subject to varying degrees of market and credit risks.

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Total investment return is comprised of the following:

	2018	2017
Interest and dividend income	\$ 778,753	\$ 619,397
Realized and unrealized gains and losses on other than trading securities	2,242,446	3,412,651
	\$ 3,021,199	\$ 4,032,048

Total investment return is reflected in the consolidated statements of operations and changes in net assets as follows:

	2018	2017
Unrestricted net assets		
Other nonoperating income	\$ 1,748,162	\$ 1,224,970
Change in fair value of investments accounted for under the fair value option of FASB ASC Topic 825	(446,543)	(149,243)
Change in unrealized gains and losses on other than trading securities	1,443,174	2,490,245
Temporarily restricted net assets		
Change in unrealized gains and losses on other than trading securities	276,406	466,076
	\$ 3,021,199	\$ 4,032,048

Unrealized Losses on Investments

Certain investments in debt and marketable equity securities are reported in the financial statements at an amount less than their historical cost. Total fair value of these investments at September 30, 2018 and 2017, was \$12,662,946 and \$9,085,353, which is approximately 26 percent and 20 percent, respectively, of NCHS' assets limited as to use. These declines primarily resulted from recent increases in market interest rates, failure of certain investments to maintain consistent credit quality ratings, changes in the market's perception of the current risks or failure to meet projected earnings targets.

Management believes the declines in fair value for these securities are temporary.

Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified.

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NCHS' investments in marketable equity securities consist primarily of investments in companies in various industries in domestic and international markets. NCHS routinely conducts periodic reviews to identify and evaluate each investment security to determine whether an other-than-temporary impairment has occurred. For each security in the investment portfolio (including but not limited to those whose fair value is less than their amortized cost basis), an extensive, regular review is conducted to determine if an other-than-temporary impairment has occurred. Various inputs to the economic models are used to determine if an unrealized loss is other than temporary such as severity of loss, length of time in a loss position and other significant factors.

No other-than-temporary impairment losses were recorded during the years ended September 30, 2018 and 2017.

The following table shows NCHS' investments' gross unrealized losses and fair value for investments in a loss position for which other-than-temporary impairment has not been taken as of year end, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2018 and 2017:

Description of Securities	Less than 12 Months		September 30, 2018 12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities	\$ 3,448,783	\$ 80,491	\$ 1,784,345	\$ 68,283	\$ 5,233,128	\$ 148,774
Equity securities	4,578,041	586,988	2,851,777	628,643	7,429,818	1,215,631
Total temporarily impaired securities	<u>\$ 8,026,824</u>	<u>\$ 667,479</u>	<u>\$ 4,636,122</u>	<u>\$ 696,926</u>	<u>\$ 12,662,946</u>	<u>\$ 1,364,405</u>

Description of Securities	Less than 12 Months		September 30, 2017 12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities	\$ 2,774,594	\$ 32,198	\$ 681,717	\$ 31,632	\$ 3,456,311	\$ 63,830
Equity securities	3,634,550	298,442	1,994,492	300,801	5,629,042	599,243
Total temporarily impaired securities	<u>\$ 6,409,144</u>	<u>\$ 330,640</u>	<u>\$ 2,676,209</u>	<u>\$ 332,433</u>	<u>\$ 9,085,353</u>	<u>\$ 663,073</u>

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Alternative Investments

The fair value of alternative investments that have been estimated using the net asset value per share as a practical expedient consist of the following at September 30:

	September 30, 2018 Fair Value	September 30, 2017 Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Multistrategy hedge funds (A)	\$ 1,505,203	\$ 1,951,746	\$ -	Quarterly	65 days' written notice

(A) This category includes investments in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. For the investment, the Funds' primary investment objective is to provide capital appreciation consistent with the return characteristics of alternative investment portfolios of larger endowments through investments in the six asset classes of Opportunistic Equity, Enhanced Fixed Income, Absolute Return, Real Estate, Private Equity and Energy and Natural Resources.

Note 5: Property and Equipment

Property and equipment are stated at cost. A summary of cost by category follows:

	2018	2017
Land	\$ 486,559	\$ 435,921
Land improvements	2,076,440	1,781,495
Buildings	44,792,083	44,247,974
Fixed equipment	1,777,108	1,781,029
Moveable equipment	27,577,495	25,662,721
Vehicles	54,850	54,850
Equipment under capital lease	1,792,941	1,792,941
Construction in progress	349,317	1,113,492
	<u>\$ 78,906,793</u>	<u>\$ 76,870,423</u>

Construction in progress at September 30, 2018, primarily consists of several smaller projects which the anticipated costs of completion combined are approximately \$320,625 and are anticipated to be completed during fiscal year 2019.

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Note 6: Contingent Liabilities

Professional Liability Claims

NCHS purchases medical malpractice insurance under a claims made policy. Under such a policy, only claims made and reported to the insurer during the policy term, regardless of when the incidents giving rise to the claims occurred, are covered. NCHS also purchases excess umbrella liability coverage, which provides additional coverage above the basic policy limits up to the amount specified in the umbrella policy.

Based upon the claims experience, no such accrual had been made for NCHS' estimated medical malpractice costs, including costs associated with litigating or settling claims, under its malpractice insurance policy, as of September 30, 2018 and 2017. It is reasonably possible that this estimate could change materially in the near term.

Self-Insurance

NCHS is self-insured for employee health and workers' compensation claims and has accrued an estimate of the ultimate costs for reported claims and claims incurred but not reported. Actual results could differ from these estimates. Effective October 1, 2013, NCHS purchased a commercial workers' compensation policy and is no longer self-insured for claims after September 30, 2013.

NCHS is self-insured for employee unemployment insurance benefits. The accrual for self-insurance is evaluated periodically throughout the fiscal year for adequacy based on staffing changes. Actual results could differ from these estimates.

Note 7: Line of Credit

The Hospital has a \$2,000,000 revolving bank line of credit which the term is the shorter of twelve months or March 1, 2020. At September 30, 2018 and 2017, there was \$1,001,134 and \$0, respectively, borrowed against this line. The line is collateralized by substantially all of the Hospital's assets. Interest varies with the bank's prime rate, with a 1 percent margin added to the prime rate, with a minimum rate of 4.25 percent. At September 30, 2018, the interest rate was 6.25 percent.

The Hospital has a \$200,000 revolving bank line of credit which expires in December 2019. At September 30, 2018 and 2017, there was \$0 borrowed against this line. The line is collateralized by substantially all of the Hospital's assets and has an interest rate of 8.25 percent at September 30, 2018.

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Note 8: Long-Term Debt

	<u>2018</u>	<u>2017</u>
Hospital Revenue Bonds, Series 2016 (A)	\$ 17,027,790	\$ 17,806,674
Note payable (B)	214,196	238,446
Note payable (C)	326,392	342,090
Capital lease obligations (D)	626,976	870,754
	<u>18,195,354</u>	<u>19,257,964</u>
Less unamortized debt issuance costs	168,467	190,205
Less current maturities	<u>1,074,420</u>	<u>1,099,637</u>
	<u><u>\$ 16,952,467</u></u>	<u><u>\$ 17,968,122</u></u>

- (A) Vermont Educational and Health Buildings Financing Agency Revenue Refunding Bond (North Country Hospital Project), Series 2016 A in the original amount of \$18,743,131 dated June 1, 2016, which bear interest at a variable rate equal to the sum of 68 percent of one-month LIBOR plus 78.2 basis points per annum (2.21 percent and 1.62 percent at September 30, 2018 and 2017, respectively), and are due in graduated installments through October 2034 with a due on demand clause June 1, 2026, and thereafter. Proceeds from the bonds were used to repay the outstanding debt from the Series 2007 bonds. The Bonds are collateralized by equipment, personal property, hardware, supplies and inventory of the Hospital. The Hospital is subject to certain financial covenants related to this bond issue. Unamortized debt issuance costs associated with the borrowing are \$168,467 and \$190,205 at September 30, 2018 and 2017, respectively.
- (B) Note payable to Vermont Economic Development Authority for assistance with development of renal dialysis services. Principal on the note is due annually and the rate of interest on this loan is 0 percent. The note is collateralized by an interest in the gross receipts of the Hospital.
- (C) Note payable originally issued in the amount of \$400,000 for capital improvements. Principal on the note is due monthly and the rate of interest on this loan is 4.00 percent until September 2023, with the interest rate varying thereafter. The note is collateralized by real estate at Derby Green.
- (D) Capital lease obligations at varying rates of imputed interest from 1.3 percent to 12.4 percent, collateralized by leased equipment expiring at various dates through 2022. Property and equipment include the following equipment under capital leases:

	<u>2018</u>	<u>2017</u>
Moveable equipment	\$ 1,792,941	\$ 1,792,941
Less accumulated depreciation	<u>1,335,703</u>	<u>1,023,185</u>
	<u><u>\$ 457,238</u></u>	<u><u>\$ 769,756</u></u>

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Aggregate annual maturities and sinking fund requirements of long-term debt and payments on capital lease obligations at September 30, 2018, are:

	Long-Term Debt Excluding Capital Lease Obligations	Capital Lease Obligations
	<u> </u>	<u> </u>
2019	\$ 846,821	\$ 288,859
2020	874,882	237,129
2021	906,074	93,689
2022	936,468	44,751
2023	968,550	-
Thereafter	<u>13,035,583</u>	<u>-</u>
	<u><u>\$ 17,568,378</u></u>	<u>664,428</u>
Less amount representing interest		<u>37,452</u>
Present value of future minimum lease payments		<u>626,976</u>
Less current maturities		<u>227,599</u>
Noncurrent portion		<u><u>\$ 399,377</u></u>

Note 9: Derivative Financial Instrument

2007 Interest Rate Swap

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, NCHS entered into an interest rate swap agreement for \$15,466,750 of the outstanding Hospital Revenue Bonds, Series 2007, in December 2007. During the year ended September 30, 2016, the Hospital paid in full the Hospital Revenue Bonds, Series 2007 and entered into a new financing arrangement with the issuance of the Hospital Revenue Bonds, Series 2016 A. Upon execution of the Hospital Revenue Bonds, Series 2016 A the Hospital elected to continue its strategy to limit its exposure to interest rate risk by applying this swap agreement to the 2016 debt.

The agreement provides for NCHS to receive interest from the counterparty of 68 percent of LIBOR and to pay interest to the counterparty at a fixed rate of 3.285 percent on notional amounts of \$11,394,500 and \$11,878,750 at September 30, 2018 and 2017, respectively. Under the agreement, NCHS pays or receives the net interest amount monthly, with the monthly settlements included in interest expense. The interest rate swap agreement terminates on November 1, 2027. This swap is valued at \$(913,356) and \$(1,548,240) at September 30, 2018 and 2017, respectively.

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2016 Interest Rate Swap

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, NCHS entered into an interest rate swap agreement for \$6,396,381 of the outstanding Hospital Revenue Bonds, Series 2016, in June 2016.

The agreement provides for NCHS to receive interest from the counterparty of 68 percent of LIBOR and to pay interest to the counterparty at a fixed rate of 1.12 percent on a notional amount of \$6,396,381 and \$5,927,924 at September 30, 2018 and 2017, respectively. Under the agreement, NCHS pays or receives the net interest amount monthly, with the monthly settlements included in interest expense. The interest rate swap agreement terminates on June 1, 2026. The swap is valued at \$280,381 and \$102,715 at September 30, 2018 and 2017, respectively.

Management has designated the interest rate swap agreements as cash flow hedging instruments. For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of unrestricted net assets and reclassified into excess revenues over expenses in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current excess revenues over expenses.

The table below presents certain information regarding NCHS' interest rate swap agreements designated as cash flow hedges. NCHS did not have any derivative instruments at September 30, 2018 and 2017, that were not designated as hedging instruments.

	2018	2017
Other Liabilities		
Fair value of interest rate swap agreements	\$ (633,275)	\$ (1,445,525)
Changes in Unrestricted Net Assets		
Change in interest rate swap agreements	812,250	1,034,307
Interest Expense		
Loss reclassified from unrestricted net assets into deficiency of revenues over expenses	247,016	200,900

Note 10: Deferred Compensation

During the year ended September 30, 2002, the Hospital established the North Country Hospital Executive and Physician Stock Option Plan. This plan provides options as a form of compensation for a select group of management, physicians or highly compensated employees of the Hospital and its affiliates. The balance in this plan was \$658,066 and \$644,377 at September 30, 2018 and 2017, respectively. At September 30, 2003, this plan was frozen and no more employee contributions will be put into the plan.

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During the year ended September 30, 2003, the Hospital established the Split Dollar Insurance and Death Benefit Only Programs to certain key employees of the Hospital and its affiliates. Eligible employees may elect to have a minimum of \$10,000 withheld from their compensation, up to a maximum of 75 percent of annual gross compensation. At September 30, 2018 and 2017, three employees were participating in this plan, with a balance of \$360,569 and \$ 265,843 at September 30, 2018 and 2017, respectively.

The Hospital has established a 457(b) deferred compensation plan eligible to certain key employees of the Hospital and its affiliates. At September 30, 2018 and 2017, four employees were participating in this plan with a balance of \$2,382,194 and \$2,139,569, respectively.

Note 11: Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purpose or periods:

	2018	2017
Healthcare services	\$ 2,005,179	\$ 1,780,475
Purchase of equipment	1,413,156	1,358,927
Nursing scholarships	195,225	195,906
	\$ 3,613,560	\$ 3,335,308

During 2018 and 2017, net assets were released from donor restriction by incurring expenses satisfying the restricted purposes in the amount of \$85,621 and \$124,779, respectively. During 2018 and 2017, net assets of \$61,000 and \$81,440, respectively, were released to purchase equipment.

Permanently restricted net assets are restricted to:

	2018	2017
Investments to be held in perpetuity, the income is expendable to support		
Purchases of equipment	\$ 402,631	\$ 402,631
Health care services	392,228	392,228
	\$ 794,859	\$ 794,859

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Note 12: Endowments

NCHS' endowment consists of various individual funds established for a variety of purposes. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

NCHS' governing body has interpreted the State of Vermont Prudent Management of Institutional Funds Act (SPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, NCHS classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment. The remaining portion of donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Hospital in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Hospital considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of NCHS and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the NCHS
7. Investment policies of the NCHS

The composition of net assets by type of endowment fund and changes in net assets for the years ended September 30, 2018 and 2017, were:

	2018			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-Restricted Endowment Funds				
Endowment net assets, beginning of the year	\$ -	\$ 2,453,120	\$ 794,859	\$ 3,247,979
Investment return	-	210,355	-	210,355
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 2,663,475</u>	<u>\$ 794,859</u>	<u>\$ 3,458,334</u>
	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds				
Endowment net assets, beginning of the year	\$ -	\$ 2,060,979	\$ 794,859	\$ 2,855,838
Investment return	-	392,141	-	392,141
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 2,453,120</u>	<u>\$ 794,859</u>	<u>\$ 3,247,979</u>

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NCHS has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Under NCHS' policies, the primary investment goal is growth in the endowment accounts. NCHS expects its endowment funds to provide an average rate of return that exceeds benchmark returns indicated for various asset classes. Actual returns in any given year may vary.

To satisfy its long-term rate of return objectives, the NCHS relies on a strategy in which investment returns are achieved through both current yield and capital appreciation (both realized and unrealized). NCHS invests in a variety of securities to achieve its long-term return objectives within prudent risk constraints.

NCHS has a spending policy of appropriating amounts for expenditure that do not exceed the temporarily restricted net assets for an individual purpose. The original amount of the permanently restricted net assets is not to be spent by NCHS.

Note 13: Charity Care

The costs of charity care provided under NCHS' charity care policy were approximately \$618,000 and \$615,000 for 2018 and 2017, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

Note 14: Functional Expenses

NCHS provides health care services primarily to residents within its geographic area. Expenses related to providing these services are as follows:

	2018	2017
Health care services	\$ 68,819,955	\$ 71,489,906
General and administrative	17,393,886	15,410,404
	\$ 86,213,841	\$ 86,900,310

Note 15: Pension Plan

The Hospital has a 403(b) defined contribution pension plan covering substantially all employees. Employee contributions, which are at the discretion of the employee, are matched by NCHS at a maximum of 50 percent of the employee's contributions not exceeding 5 percent of an employee's gross salary. Additional contributions are made to the plan based on amounts determined annually by the Board of Trustees. Pension expense was \$1,370,000 and \$1,155,000 for 2018 and 2017, respectively.

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Note 16: Disclosures About Fair Value of Financial Instruments

Fair value is 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. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities.
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities.

Recurring Measurements

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2018 and 2017:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2018				
Investments				
Money market funds	\$ 2,190,020	\$ 2,190,020	\$ -	\$ -
Mutual funds – equity	979,837	979,837	-	-
Equity securities	33,922,025	33,922,025	-	-
Exchange traded funds	92,095	92,095	-	-
U.S. Treasury securities	1,526,879	-	1,526,879	-
Government agencies securities	223,301	-	223,301	-
Corporate fixed income securities	6,079,274	-	6,079,274	-
Alternative investment measured at net asset value (A)	<u>1,505,203</u>			
Total investments	<u>46,518,634</u>			
Interest rate swap agreements	<u>(633,275)</u>	-	(633,275)	-
Total fair value of recurring measurements	<u>\$ 45,885,359</u>			

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	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2017				
Investments				
Money market funds	\$ 1,471,613	\$ 1,471,613	\$ -	\$ -
Mutual funds - equity	891,590	891,590	-	-
Equity securities	31,263,569	31,263,569	-	-
Exchange traded funds	140,805	140,805	-	-
U.S. Treasury securities	1,898,337	-	1,898,337	-
Government agencies securities	249,749	-	249,749	-
Corporate fixed income securities	5,614,272	-	5,614,272	-
Alternative investment measured at net asset value (A)	<u>1,951,746</u>	-	-	-
Total investments	43,481,681			
Interest rate swap agreements	<u>(1,445,525)</u>	-	(1,445,525)	-
Total fair value of recurring measurements	<u>\$ 42,036,156</u>			

(A) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the balance sheets.

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended September 30, 2018.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. At September 30, 2018 and 2017, there were no securities classified as Level 3 within the hierarchy.

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Interest Rate Swap Agreements

The fair value is estimated using forward-looking interest rate curves and discounted cash flows that are observable or can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

Note 17: The Fair Value Option

As permitted by Topic 825, NCHS has elected to measure its hedge fund investment at fair value. Management has elected the fair value option for these items because it more accurately reflects the portfolio returns and financial position of NCHS. The fair value of the hedge investments at September 30, 2018 and 2017, is \$1,505,203 and \$1,951,746, respectively.

See *Note 4* for additional disclosures regarding fair value of the hedge fund listed in the preceding paragraph.

Changes in Fair Value

Changes in fair value for items for which the fair value option has been elected are reported as investment return in other income (expense) in the financial statements. The change for 2018 and 2017 was a decrease of \$446,543 and \$149,243, respectively, which reflects all investment return from the hedge fund investment.

Note 18: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in *Notes 1* and *2*.

Contingencies

Estimates related to the accrual for medical malpractice claims, employee health insurance, workers' compensation and employee unemployment insurance are described in *Notes 1* and *6*.

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Litigation

In the normal course of business, NCHS is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the NCHS' self-insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. NCHS evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Interest Rate Swap Agreements

As discussed in *Note 9*, NCHS has recorded a liability representing estimated fair value of the interest rate swap agreement.

Asset Retirement Obligation

As discussed in *Note 19*, NCHS has recorded a liability for its conditional asset retirement obligations related to asbestos abatement.

Investments

The Hospital invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying consolidated balance sheets.

Note 19: Asset Retirement Obligation

Accounting principles generally accepted in the United States of America require that an asset retirement obligation (ARO) associated with the retirement of a tangible long-lived asset be recognized as a liability in the period in which it is incurred or becomes determinable (as defined by the standard). NCHS' conditional asset retirement obligations primarily relate to asbestos contained in buildings that the NCHS owns. Environmental regulations exist that require NCHS to handle and dispose of asbestos in a special manner if a building undergoes major renovations or is demolished. A liability of \$92,273 and \$87,050 has been recognized in the accompanying 2018 and 2017 financial statements, respectively, for the portion of the liability that can be reasonably estimated.

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Note 20: Other Information

Contractual Obligation

NCHS entered into a one-year agreement, with automatic optional renewal provisions, with a national information technology vendor to provide electronic medical records, billing and clinical information systems. NCHS has agreed to pay a 2.67 percent service fee based on total net patient service revenue.

Note 21: Future Changes in Accounting Principles

Revenue Recognition

The Financial Accounting Standards Board amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The Health System has adopted this standard as of October 1, 2018, with a full retrospective transition method. The Health System expects no significant changes to its previously reported net patient service revenue as a result of this adoption; however, the disclosures within the annual consolidated financial statements will be significantly expanded.

In connection with the revenue recognition accounting standard update above, Financial Accounting Standards Board recently clarified grants and contract guidance for not-for-profit entities. Based upon the updated guidance, the Health System expects many of its grants to be considered contributions when effective, as commensurate value is not received by the resource provider. The Health System has adopted this standard as of October 1, 2018.

Presentation of Financial Statements for Not-for-Profit Entities

The Financial Accounting Standards Board recently issued guidance which changes reporting and disclosure requirements for the financial statements of not-for-profit (NFP) entities. The Health System has adopted this standard as of October 1, 2018. The significant impacts on the financial statements are as follows:

- Previously reported unrestricted, temporarily restricted and permanently restricted net assets will be changed to net assets with donor-imposed restrictions and those without.

North Country Health Systems, Inc.
Notes to Consolidated Financial Statements
September 30, 2018 and 2017

- Expenses are reported by both nature and function in one location (either an additional statement or within the footnotes).
- Expanded disclosures regarding liquidity and cash flows available to meet operating expenses for one year from the balance sheet date.
- Amounts and purposes of governing board designations and appropriations as of the end of the period.

Restricted Cash

The Financial Accounting Standards Board clarified its standard related to the presentation of restricted cash on the consolidated statements of cash flows to remove diversity in practice. The Health System, which presents cash and cash equivalents with restrictions in multiple line items on the consolidated balance sheets, will now report these items as cash and cash equivalents for the consolidated statements of cash flows, and will disclose the location of its the cash and cash equivalents to reconcile the two statements for each period presented. The Health System has adopted this standard as of October 1, 2018.

Accounting for Leases

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual and interim periods beginning after December 15, 2018. The Health System is evaluating the impact the standard will have on the consolidated financial statements.

Accounting for Financial Instruments – Credit Losses

The Financial Accounting Standards Board amended its standards related to the accounting for credit losses on financial instruments. This amendment introduces new guidance for accounting for credit losses on instruments including trade receivables and finance receivables. The new standard is effective for annual and interim periods beginning after December 15, 2019. The Health System is in the process of evaluating the impact the amendment will have on the consolidated financial statements.

Supplementary Information

North Country Health Systems, Inc.
Consolidating Schedule – Balance Sheet Information
September 30, 2018

	North Country Hospital and Health Center	Northeast Kingdom Healthcare Collaborative, LLC	Eliminations	Consolidated North Country Hospital and Health Center	North Country Health Systems	Derby Green	Eliminations	Consolidated Total
Current Assets								
Cash and cash equivalents	\$ 865,123	\$ 358,839	\$ -	\$ 1,223,962	\$ 336,773	\$ 183,206	\$ -	\$ 1,743,941
Patient accounts receivable, net of allowance	8,252,015	87,793	-	8,339,808	-	143,951	-	8,483,759
Other receivables	336,327	-	(47,840)	288,487	-	-	-	288,487
Due from affiliate	419,159	-	-	419,159	-	-	(419,159)	-
Supplies	2,628,596	-	-	2,628,596	-	100	-	2,628,696
Estimated amounts due from third-party payers	219,803	-	-	219,803	-	-	-	219,803
Prepaid expenses and other	887,834	-	-	887,834	721	16,419	-	904,974
Total current assets	<u>13,608,857</u>	<u>446,632</u>	<u>(47,840)</u>	<u>14,007,649</u>	<u>337,494</u>	<u>343,676</u>	<u>(419,159)</u>	<u>14,269,660</u>
Assets Limited As To Use								
Internally designated	41,302,964	-	-	41,302,964	-	379,323	-	41,682,287
Externally restricted by donors Held by trustee	3,455,519	-	-	3,455,519	1,030,364	-	-	4,485,883
Under deferred compensation arrangements	3,400,829	-	-	3,400,829	-	-	-	3,400,829
	<u>48,159,312</u>	<u>-</u>	<u>-</u>	<u>48,159,312</u>	<u>1,030,364</u>	<u>379,323</u>	<u>-</u>	<u>49,568,999</u>
Property and Equipment, At Cost	77,302,397	87,517	-	77,389,914	-	1,516,879	-	78,906,793
Less accumulated depreciation	53,899,039	28,090	-	53,927,129	-	1,033,915	-	54,961,044
	<u>23,403,358</u>	<u>59,427</u>	<u>-</u>	<u>23,462,785</u>	<u>-</u>	<u>482,964</u>	<u>-</u>	<u>23,945,749</u>
Other Assets								
Interest in net assets of North Country Health Systems, Inc.	950,085	-	-	950,085	-	-	(950,085)	-
Other	293,674	-	(264,388)	29,286	52,000	-	-	81,286
	<u>1,243,759</u>	<u>-</u>	<u>(264,388)</u>	<u>979,371</u>	<u>52,000</u>	<u>-</u>	<u>(950,085)</u>	<u>81,286</u>
Total assets	<u>\$ 86,415,286</u>	<u>\$ 506,059</u>	<u>\$ (312,228)</u>	<u>\$ 86,609,117</u>	<u>\$ 1,419,858</u>	<u>\$ 1,205,963</u>	<u>\$ (1,369,244)</u>	<u>\$ 87,865,694</u>

North Country Health Systems, Inc.
Consolidating Schedule – Balance Sheet Information
September 30, 2018

	North Country Hospital and Health Center	Northeast Kingdom Healthcare Collaborative, LLC	Eliminations	Consolidated North Country Hospital and Health Center	North Country Health Systems	Derby Green	Eliminations	Consolidated Total
Current Liabilities								
Line of credit agreement	\$ 1,001,134	\$ -	\$ -	\$ 1,001,134	\$ -	\$ -	\$ -	\$ 1,001,134
Current maturities of long-term debt	1,058,034	-	-	1,058,034	-	16,386	-	1,074,420
Accounts payable	3,508,611	47,848	(47,840)	3,508,619	4,218	42,584	-	3,555,421
Accrued expenses	4,309,270	79	-	4,309,349	-	19,699	-	4,329,048
Resident personal funds payable	-	-	-	-	-	176	-	176
Due to affiliate	-	17,486	-	17,486	8,605	409,365	(419,159)	16,297
Estimated amounts due to third-party payers	1,916,912	-	-	1,916,912	-	-	-	1,916,912
Total current liabilities	11,793,961	65,413	(47,840)	11,811,534	12,823	488,210	(419,159)	11,893,408
Deferred Compensation and Other	3,493,102	-	-	3,493,102	-	-	-	3,493,102
Long-Term Debt	16,642,461	-	-	16,642,461	-	310,006	-	16,952,467
Interest Rate Swap Agreement	633,275	-	-	633,275	-	-	-	633,275
Total liabilities	32,562,799	65,413	(47,840)	32,580,372	12,823	798,216	(419,159)	32,972,252
Net Assets								
Unrestricted net assets attributable to the Health System	49,444,068	264,388	(264,388)	49,444,068	456,950	407,747	-	50,308,765
Unrestricted net assets attributable to noncontrolling interest	-	176,258	-	176,258	-	-	-	176,258
Total unrestricted net assets	49,444,068	440,646	(264,388)	49,620,326	456,950	407,747	-	50,485,023
Temporarily restricted	3,613,560	-	-	3,613,560	950,085	-	(950,085)	3,613,560
Permanently restricted	794,859	-	-	794,859	-	-	-	794,859
Total net assets	53,852,487	440,646	(264,388)	54,028,745	1,407,035	407,747	(950,085)	54,893,442
Total liabilities and net assets	\$ 86,415,286	\$ 506,059	\$ (312,228)	\$ 86,609,117	\$ 1,419,858	\$ 1,205,963	\$ (1,369,244)	\$ 87,865,694

North Country Health Systems, Inc.
Consolidating Schedule – Statement of Operations Information
Year Ended September 30, 2018

	North Country Hospital and Health Center	Northeast Kingdom Healthcare Collaborative, LLC	Eliminations	Consolidated North Country Hospital and Health Center	North Country Health Systems	Derby Green	Eliminations	Consolidated Total
Unrestricted Revenues, Gains and Other Support								
Net patient service revenue (net of contractual discounts and allowances)	\$ 74,786,020	\$ 745,706	\$ -	\$ 75,531,726	\$ -	\$ 1,778,204	\$ -	\$ 77,309,930
Provision for uncollectible accounts	(3,089,396)	(69,859)	-	(3,159,255)	-	(5,212)	-	(3,164,467)
Net patient service revenue less provision for uncollectible accounts	71,696,624	675,847	-	72,372,471	-	1,772,992	-	74,145,463
Fixed prospective revenue	4,330,490	-	-	4,330,490	-	-	-	4,330,490
Other	5,522,221	-	-	5,522,221	-	22,376	-	5,544,597
Net assets released from restriction used for operations	-	-	-	-	85,621	-	-	85,621
Total unrestricted revenues, gains and other support	81,549,335	675,847	-	82,225,182	85,621	1,795,368	-	84,106,171
Expenses and Losses								
Salaries	39,152,295	-	-	39,152,295	-	1,050,073	-	40,202,368
Employee benefits	10,795,974	-	-	10,795,974	-	513,801	-	11,309,775
Supplies and other	28,528,112	666,115	-	29,194,227	250,575	384,633	(84,450)	29,744,985
Depreciation and amortization	4,240,897	4,509	-	4,245,406	-	47,395	-	4,292,801
Interest	650,516	-	-	650,516	-	13,396	-	663,912
Total expenses and losses	83,367,794	670,624	-	84,038,418	250,575	2,009,298	(84,450)	86,213,841
Operating Income (Loss)	(1,818,459)	5,223	-	(1,813,236)	(164,954)	(213,930)	84,450	(2,107,670)
Other Income (Expense)								
Contributions received	84,450	-	-	84,450	207,780	-	(84,450)	207,780
Investment return and other-than-temporary losses	1,722,937	4	-	1,722,941	-	25,221	-	1,748,162
Investment return - change in fair value of investments accounted for under the fair value option of FASB ASC Topic 825	(446,543)	-	-	(446,543)	-	-	-	(446,543)
Gain on investments in equity investee	3,137	-	(3,137)	-	-	-	-	-
Other	26,552	-	-	26,552	-	(7,404)	-	19,148
Total other income (expense)	1,390,533	4	(3,137)	1,387,400	207,780	17,817	(84,450)	1,528,547
Excess (Deficiency) of Revenues Over Expenses	\$ (427,926)	\$ 5,227	\$ (3,137)	\$ (425,836)	\$ 42,826	\$ (196,113)	\$ -	\$ (579,123)

North Country Health Systems, Inc.
Consolidating Schedule – Statement of Changes in Net Assets Information
Year Ended September 30, 2018

	North Country Hospital and Health Center	Northeast Kingdom Healthcare Collaborative, LLC	Eliminations	Consolidated North Country Hospital and Health Center	North Country Health Systems	Derby Green	Eliminations	Consolidated Total
Unrestricted Net Assets Attributable to the Health System								
Excess (deficiency) of revenues over expenses	\$ (427,926)	\$ 3,137	\$ (3,137)	\$ (427,926)	\$ 42,826	\$ (196,113)	\$ -	\$ (581,213)
Investment return - change in unrealized gains and losses on other than trading securities	1,428,071	-	-	1,428,071	-	15,103	-	1,443,174
Change in fair value of interest rate swap agreements	812,250	-	-	812,250	-	-	-	812,250
Net assets released from restriction used for property, plant and equipment, net	-	-	-	-	61,000	-	-	61,000
Increase (decrease) in unrestricted net assets attributable to the Health System	<u>1,812,395</u>	<u>3,137</u>	<u>(3,137)</u>	<u>1,812,395</u>	<u>103,826</u>	<u>(181,010)</u>	<u>-</u>	<u>1,735,211</u>
Unrestricted Net Assets Attributable to Noncontrolling Interest								
Excess of revenues over expenses	-	2,090	-	2,090	-	-	-	2,090
Increase in unrestricted net assets attributable to noncontrolling interest	-	2,090	-	2,090	-	-	-	2,090
Increase (decrease) in unrestricted net assets	<u>1,812,395</u>	<u>5,227</u>	<u>(3,137)</u>	<u>1,814,485</u>	<u>103,826</u>	<u>(181,010)</u>	<u>-</u>	<u>1,737,301</u>
Temporarily Restricted Net Assets								
Contributions received	-	-	-	-	148,467	-	-	148,467
Change in interest in net assets of North Country Health Systems, Inc.	67,897	-	-	67,897	-	-	(67,897)	-
Investment return - change in unrealized gains and losses on other than trading securities	210,355	-	-	210,355	66,051	-	-	276,406
Net assets released from restriction	-	-	-	-	(146,621)	-	-	(146,621)
Increase (decrease) in temporarily restricted net assets	<u>278,252</u>	<u>-</u>	<u>-</u>	<u>278,252</u>	<u>67,897</u>	<u>-</u>	<u>(67,897)</u>	<u>278,252</u>
Change in Net Assets	<u>2,090,647</u>	<u>5,227</u>	<u>(3,137)</u>	<u>2,092,737</u>	<u>171,723</u>	<u>(181,010)</u>	<u>(67,897)</u>	<u>2,015,553</u>
Net Assets, Beginning of Year	<u>51,761,840</u>	<u>435,419</u>	<u>(261,251)</u>	<u>51,936,008</u>	<u>1,235,312</u>	<u>588,757</u>	<u>(882,188)</u>	<u>52,877,889</u>
Net Assets, End of Year	<u>\$ 53,852,487</u>	<u>\$ 440,646</u>	<u>\$ (264,388)</u>	<u>\$ 54,028,745</u>	<u>\$ 1,407,035</u>	<u>\$ 407,747</u>	<u>\$ (950,085)</u>	<u>\$ 54,893,442</u>

North Country Health Systems, Inc.
Consolidating Schedule – Balance Sheet Information
September 30, 2017

	North Country Hospital and Health Center	Northeast Kingdom Healthcare Collaborative, LLC	Eliminations	Consolidated North Country Hospital and Health Center	North Country Health Systems	Derby Green	Eliminations	Consolidated Total
Current Assets								
Cash and cash equivalents	\$ 1,567,456	\$ 304,034	\$ -	\$ 1,871,490	\$ 237,880	\$ 29,675	\$ -	\$ 2,139,045
Patient accounts receivable, net of allowance	7,016,024	94,226	-	7,110,250	-	143,058	-	7,253,308
Other receivables	510,081	-	(46,767)	463,314	-	-	-	463,314
Due from affiliate	182,907	77,145	(77,145)	182,907	-	-	(182,907)	-
Supplies	2,433,140	-	-	2,433,140	-	100	-	2,433,240
Estimated amounts due from third-party payers	100,955	-	-	100,955	-	-	-	100,955
Prepaid expenses and other	1,176,800	-	-	1,176,800	710	23,535	-	1,201,045
Total current assets	<u>12,987,363</u>	<u>475,405</u>	<u>(123,912)</u>	<u>13,338,856</u>	<u>238,590</u>	<u>196,368</u>	<u>(182,907)</u>	<u>13,590,907</u>
Assets Limited As To Use								
Internally designated	38,599,398	-	-	38,599,398	-	476,348	-	39,075,746
Externally restricted by donors	3,247,828	-	-	3,247,828	997,620	-	-	4,245,448
Held by trustee								
Under deferred compensation arrangements	3,049,789	-	-	3,049,789	-	-	-	3,049,789
	<u>44,897,015</u>	<u>-</u>	<u>-</u>	<u>44,897,015</u>	<u>997,620</u>	<u>476,348</u>	<u>-</u>	<u>46,370,983</u>
Property and Equipment, At Cost	75,320,123	44,094	-	75,364,217	-	1,506,206	-	76,870,423
Less accumulated depreciation	50,622,197	23,581	-	50,645,778	-	991,039	-	51,636,817
	<u>24,697,926</u>	<u>20,513</u>	<u>-</u>	<u>24,718,439</u>	<u>-</u>	<u>515,167</u>	<u>-</u>	<u>25,233,606</u>
Other Assets								
Interest in net assets of North Country Health Systems, Inc.	882,188	-	-	882,188	-	-	(882,188)	-
Other	286,518	-	(261,251)	25,267	5,000	-	-	30,267
	<u>1,168,706</u>	<u>-</u>	<u>(261,251)</u>	<u>907,455</u>	<u>5,000</u>	<u>-</u>	<u>(882,188)</u>	<u>30,267</u>
Total assets	<u>\$ 83,751,010</u>	<u>\$ 495,918</u>	<u>\$ (385,163)</u>	<u>\$ 83,861,765</u>	<u>\$ 1,241,210</u>	<u>\$ 1,187,883</u>	<u>\$ (1,065,095)</u>	<u>\$ 85,225,763</u>

North Country Health Systems, Inc.
Consolidating Schedule – Balance Sheet Information
September 30, 2017

	North Country Hospital and Health Center	Northeast Kingdom Healthcare Collaborative, LLC	Eliminations	Consolidated North Country Hospital and Health Center	North Country Health Systems	Derby Green	Eliminations	Consolidated Total
Current Liabilities								
Current maturities of long-term debt	\$ 1,083,889	\$ -	\$ -	\$ 1,083,889	\$ -	\$ 15,748	\$ -	\$ 1,099,637
Accounts payable	2,564,388	47,452	(46,767)	2,565,073	3,376	62,284	-	2,630,733
Accrued expenses	4,247,659	-	-	4,247,659	-	13,768	-	4,261,427
Resident personal funds payable	-	-	-	-	-	599	-	599
Due to affiliate	77,145	13,047	(77,145)	13,047	2,522	180,385	(182,907)	13,047
Estimated amounts due to third-party payers	1,791,945	-	-	1,791,945	-	-	-	1,791,945
Total current liabilities	9,765,026	60,499	(123,912)	9,701,613	5,898	272,784	(182,907)	9,797,388
Deferred Compensation and Other	3,136,839	-	-	3,136,839	-	-	-	3,136,839
Long-Term Debt	17,641,780	-	-	17,641,780	-	326,342	-	17,968,122
Interest Rate Swap Agreement	1,445,525	-	-	1,445,525	-	-	-	1,445,525
Total liabilities	31,989,170	60,499	(123,912)	31,925,757	5,898	599,126	(182,907)	32,347,874
Net Assets								
Unrestricted net assets attributable to the Health System	47,631,673	261,251	(261,251)	47,631,673	353,124	588,757	-	48,573,554
Unrestricted net assets attributable to noncontrolling interest	-	174,168	-	174,168	-	-	-	174,168
Total unrestricted net assets	47,631,673	435,419	(261,251)	47,805,841	353,124	588,757	-	48,747,722
Temporarily restricted	3,335,308	-	-	3,335,308	882,188	-	(882,188)	3,335,308
Permanently restricted	794,859	-	-	794,859	-	-	-	794,859
Total net assets	51,761,840	435,419	(261,251)	51,936,008	1,235,312	588,757	(882,188)	52,877,889
Total liabilities and net assets	\$ 83,751,010	\$ 495,918	\$ (385,163)	\$ 83,861,765	\$ 1,241,210	\$ 1,187,883	\$ (1,065,095)	\$ 85,225,763

North Country Health Systems, Inc.
Consolidating Schedule – Statement of Operations Information
Year Ended September 30, 2017

	North Country Hospital and Health Center	Northeast Kingdom Healthcare Collaborative, LLC	Eliminations	Consolidated North Country Hospital and Health Center	North Country Health Systems	Derby Green	Eliminations	Consolidated Total
Unrestricted Revenues, Gains and Other Support								
Net patient service revenue (net of contractual discounts and allowances)	\$ 76,523,614	\$ 726,171	\$ -	\$ 77,249,785	\$ -	\$ 1,702,878	\$ -	\$ 78,952,663
Provision for uncollectible accounts	(1,738,501)	(12,857)	-	(1,751,358)	-	-	-	(1,751,358)
Net patient service revenue less provision for uncollectible accounts	74,785,113	713,314	-	75,498,427	-	1,702,878	-	77,201,305
Other	7,556,184	50,545	-	7,606,729	-	21,027	-	7,627,756
Net assets released from restriction used for operations	-	-	-	-	124,779	-	-	124,779
Total unrestricted revenues, gains and other support	82,341,297	763,859	-	83,105,156	124,779	1,723,905	-	84,953,840
Expenses and Losses								
Salaries	38,756,651	-	-	38,756,651	-	931,302	-	39,687,953
Employee benefits	11,158,426	-	-	11,158,426	-	447,632	-	11,606,058
Supplies and other	28,918,280	557,721	-	29,476,001	304,508	414,299	-	30,194,808
Depreciation and amortization	4,625,613	5,789	-	4,631,402	-	46,177	-	4,677,579
Interest	719,901	-	-	719,901	-	14,011	-	733,912
Total expenses and losses	84,178,871	563,510	-	84,742,381	304,508	1,853,421	-	86,900,310
Operating Income (Loss)	(1,837,574)	200,349	-	(1,637,225)	(179,729)	(129,516)	-	(1,946,470)
Other Income (Expense)								
Contributions received	108,524	-	-	108,524	131,528	-	-	240,052
Investment return and other-than-temporary losses	1,213,650	-	-	1,213,650	-	11,320	-	1,224,970
Investment return - change in fair value of investments accounted for under the fair value option of FASB ASC Topic 825	(149,243)	-	-	(149,243)	-	-	-	(149,243)
Gain on investments in equity investee	120,209	-	(120,209)	-	-	-	-	-
Other	73,140	-	-	73,140	-	(569)	-	72,571
Total other income (expense)	1,366,280	-	(120,209)	1,246,071	131,528	10,751	-	1,388,350
Excess (Deficiency) of Revenues Over Expenses	\$ (471,294)	\$ 200,349	\$ (120,209)	\$ (391,154)	\$ (48,201)	\$ (118,765)	\$ -	\$ (558,120)

North Country Health Systems, Inc.
Consolidating Schedule – Statement of Changes in Net Assets Information
Year Ended September 30, 2017

	North Country Hospital and Health Center	Northeast Kingdom Healthcare Collaborative, LLC	Eliminations	Consolidated North Country Hospital and Health Center	North Country Health Systems	Derby Green	Eliminations	Consolidated Total
Unrestricted Net Assets Attributable to the Health System								
Excess (deficiency) of revenues over expenses	\$ (471,294)	\$ 120,209	\$ (120,209)	\$ (471,294)	\$ (48,201)	\$ (118,765)	\$ -	\$ (638,260)
Investment return - change in unrealized gains and losses on other than trading securities	2,471,189	-	-	2,471,189	-	19,056	-	2,490,245
Change in fair value of interest rate swap agreement	1,034,307	-	-	1,034,307	-	-	-	1,034,307
Net assets released from restriction used for property, plant and equipment, net	-	-	-	-	81,440	-	-	81,440
Distributions	-	(60,000)	60,000	-	-	-	-	-
Increase (decrease) in unrestricted net assets attributable to the Health System	<u>3,034,202</u>	<u>60,209</u>	<u>(60,209)</u>	<u>3,034,202</u>	<u>33,239</u>	<u>(99,709)</u>	<u>-</u>	<u>2,967,732</u>
Unrestricted Net Assets Attributable to Noncontrolling Interest								
Excess of revenues over expenses	-	80,140	-	80,140	-	-	-	80,140
Distributions to noncontrolling interest	-	(40,000)	-	(40,000)	-	-	-	(40,000)
Increase in unrestricted net assets attributable to noncontrolling interest	<u>-</u>	<u>40,140</u>	<u>-</u>	<u>40,140</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>40,140</u>
Increase in unrestricted net assets	<u>3,034,202</u>	<u>100,349</u>	<u>(60,209)</u>	<u>3,074,342</u>	<u>33,239</u>	<u>(99,709)</u>	<u>-</u>	<u>3,007,872</u>
Temporarily Restricted Net Assets								
Contributions received	-	-	-	-	102,096	-	-	102,096
Change in interest in net assets of North Country Health Systems, Inc.	(30,188)	-	-	(30,188)	-	-	30,188	-
Investment return - change in unrealized gains and losses on other than trading securities	392,141	-	-	392,141	73,935	-	-	466,076
Net assets released from restriction	-	-	-	-	(206,219)	-	-	(206,219)
Increase in temporarily restricted net assets	<u>361,953</u>	<u>-</u>	<u>-</u>	<u>361,953</u>	<u>(30,188)</u>	<u>-</u>	<u>30,188</u>	<u>361,953</u>
Permanently Restricted Net Assets								
Contributions received	150	-	-	150	-	-	-	150
Increase in permanently restricted net assets	<u>150</u>	<u>-</u>	<u>-</u>	<u>150</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>150</u>
Change in Net Assets	<u>3,396,305</u>	<u>100,349</u>	<u>(60,209)</u>	<u>3,436,445</u>	<u>3,051</u>	<u>(99,709)</u>	<u>30,188</u>	<u>3,369,975</u>
Net Assets, Beginning of Year	<u>48,365,535</u>	<u>335,070</u>	<u>(201,042)</u>	<u>48,499,563</u>	<u>1,232,261</u>	<u>688,466</u>	<u>(912,376)</u>	<u>49,507,914</u>
Net Assets, End of Year	<u>\$ 51,761,840</u>	<u>\$ 435,419</u>	<u>\$ (261,251)</u>	<u>\$ 51,936,008</u>	<u>\$ 1,235,312</u>	<u>\$ 588,757</u>	<u>\$ (882,188)</u>	<u>\$ 52,877,889</u>