



FINANCIAL STATEMENTS

September 30, 2018 and 2017

With Independent Auditor's Report





INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Northeastern Vermont Regional Hospital, Inc.

We have audited the accompanying financial statements of Northeastern Vermont Regional Hospital, Inc., a subsidiary of Northeastern Vermont Regional Corporation, which comprise the balance sheets as of September 30, 2018 and 2017, and the related statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northeastern Vermont Regional Hospital, Inc. as of September 30, 2018 and 2017, and the results of its operations, changes in its net assets and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Berry Dunn McNeil & Parker, LLC

Portland, Maine
November 29, 2018
Registration No. 92-0000278

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Balance Sheets

September 30, 2018 and 2017

ASSETS

	<u>2018</u>	<u>2017</u>
Current assets		
Cash and cash equivalents	\$ 7,110,877	\$ 7,385,232
Patient accounts receivable, net of allowances for doubtful accounts and contractual allowances of \$11,777,305 in 2018 and \$6,550,038 in 2017	8,187,451	7,926,658
Supplies	1,342,746	1,325,186
Prepaid expenses	585,619	555,079
Other accounts receivable	<u>1,332,808</u>	<u>1,138,756</u>
Total current assets	<u>18,559,501</u>	<u>18,330,911</u>
Assets limited as to use		
Restricted or internally designated for		
Capital acquisitions	14,549,807	13,986,502
Funded depreciation	3,710,563	3,567,295
Donor restricted	<u>355,941</u>	<u>354,564</u>
Total assets limited as to use	<u>18,616,311</u>	<u>17,908,361</u>
Property and equipment, net	23,141,657	21,321,344
Due from Parent	3,152,145	4,044,960
Beneficial interest in net assets of Parent	1,301,600	1,424,425
Other long-term assets	<u>1,046,812</u>	<u>918,642</u>
Total assets	<u>\$ 65,818,026</u>	<u>\$ 63,948,643</u>

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

LIABILITIES AND NET ASSETS

	<u>2018</u>	<u>2017</u>
Current liabilities		
Current portion of long-term debt	\$ 755,384	\$ 738,741
Accounts payable and accrued expenses	7,841,877	7,594,034
Estimated third-party payor settlements	5,151,420	4,470,101
Other current liabilities	<u>292,292</u>	<u>416,736</u>
Total current liabilities	14,040,973	13,219,612
Long-term debt, excluding current portion	9,931,828	10,674,402
Other long-term liabilities	<u>946,912</u>	<u>918,642</u>
Total liabilities	<u>24,919,713</u>	<u>24,812,656</u>
Net assets		
Unrestricted	39,037,435	37,151,871
Temporarily restricted	1,420,133	1,541,980
Permanently restricted	<u>440,745</u>	<u>442,136</u>
Total net assets	<u>40,898,313</u>	<u>39,135,987</u>
Total liabilities and net assets	<u>\$ 65,818,026</u>	<u>\$ 63,948,643</u>

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Statements of Operations

Years Ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Unrestricted revenues, gains, and other support		
Patient service revenue (net of contractual allowances and discounts)	\$ 81,491,143	\$ 80,181,836
Less provision for bad debts	<u>3,046,071</u>	<u>3,387,319</u>
Net patient service revenue	78,445,072	76,794,517
Other revenues	6,252,908	3,473,935
Meaningful use revenues	<u>-</u>	<u>243,220</u>
Total unrestricted revenues, gains, and other support	<u>84,697,980</u>	<u>80,511,672</u>
Expenses		
Salaries and benefits	50,772,775	48,098,937
Supplies and other	27,737,011	26,554,702
Insurance	1,245,690	1,043,008
Depreciation	3,247,848	3,056,967
Interest	<u>264,392</u>	<u>280,685</u>
Total expenses	<u>83,267,716</u>	<u>79,034,299</u>
Operating income	<u>1,430,264</u>	<u>1,477,373</u>
Nonoperating (losses) gains		
Realized gains on sales of investments	370,740	226,176
Income from assets limited as to use	283,211	274,847
Contribution expense	<u>(150,113)</u>	<u>(158,400)</u>
Nonoperating gains, net	<u>503,838</u>	<u>342,623</u>
Excess of revenues, gains, and other support over expenses and losses	1,934,102	1,819,996
Net unrealized (losses) gains on investments	(48,538)	666,766
Transfer to Parent	<u>-</u>	<u>(2,000,000)</u>
Increase in unrestricted net assets	<u>\$ 1,885,564</u>	<u>\$ 486,762</u>

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

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Statements of Changes in Net Assets

Years Ended September 30, 2018 and 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balances October 1, 2016	\$ <u>36,665,109</u>	\$ <u>1,454,018</u>	\$ <u>441,929</u>	\$ <u>38,561,056</u>
Excess of revenues, gains, and other support over expenses and losses	1,819,996	-	-	1,819,996
Change in net unrealized gains on investments	666,766	-	-	666,766
Change in beneficial interest in net assets of Parent	-	87,558	-	87,558
Restricted investment income	-	404	207	611
Transfer to Parent	<u>(2,000,000)</u>	<u>-</u>	<u>-</u>	<u>(2,000,000)</u>
Change in net assets	<u>486,762</u>	<u>87,962</u>	<u>207</u>	<u>574,931</u>
Balances September 30, 2017	<u>37,151,871</u>	<u>1,541,980</u>	<u>442,136</u>	<u>39,135,987</u>
Excess of revenues, gains, and other support over expenses and losses	1,934,102	-	-	1,934,102
Change in net unrealized losses on investments	(48,538)	-	-	(48,538)
Change in beneficial interest in net assets of Parent	-	(122,825)	-	(122,825)
Restricted investment income (loss)	<u>-</u>	<u>978</u>	<u>(1,391)</u>	<u>(413)</u>
Change in net assets	<u>1,885,564</u>	<u>(121,847)</u>	<u>(1,391)</u>	<u>1,762,326</u>
Balances September 30, 2018	<u>\$ 39,037,435</u>	<u>\$ 1,420,133</u>	<u>\$ 440,745</u>	<u>\$ 40,898,313</u>

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

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Statements of Cash Flows

Years Ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Change in net assets	\$ 1,762,326	\$ 574,931
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	3,260,643	3,069,762
Provision for bad debts	3,046,071	3,387,319
Transfer to Parent	-	2,000,000
Realized and unrealized gains on investments	(322,202)	(892,942)
Change in beneficial interest in net assets of Parent	122,825	(87,558)
(Increase) decrease in		
Patient accounts receivable	(3,306,864)	(2,816,027)
Due from Parent	892,815	(266,563)
Supplies	(17,560)	552
Prepaid expenses	(30,540)	(81,788)
Other accounts receivable	(194,052)	(71,495)
Increase (decrease) in		
Accounts payable and accrued expenses	247,843	973,286
Estimated third-party payor settlements	681,319	(90,695)
Other current liabilities	(124,444)	(610,958)
Net cash provided by operating activities	<u>6,018,180</u>	<u>5,087,824</u>
Cash flows from investing activities		
Purchases of property and equipment	(5,068,161)	(3,287,298)
Purchases of investments	(10,553,451)	(5,813,144)
Proceeds from sales of investments	10,167,703	5,436,776
Increase in other long-term assets	(99,900)	-
Net cash used by investing activities	<u>(5,553,809)</u>	<u>(3,663,666)</u>
Cash flows from financing activities		
Payments on long-term debt	(738,726)	(722,464)
Net cash used by financing activities	<u>(738,726)</u>	<u>(722,464)</u>
Net (decrease) increase in cash and cash equivalents	(274,355)	701,694
Cash and cash equivalents, beginning of year	<u>7,385,232</u>	<u>6,683,538</u>
Cash and cash equivalents, end of year	\$ <u>7,110,877</u>	\$ <u>7,385,232</u>
Supplemental disclosures of cash flow information		
Cash paid for interest	\$ <u>263,392</u>	\$ <u>267,890</u>

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

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2018 and 2017

Organization

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

1. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less, except for money market funds included with investments in assets limited as to use or temporarily or permanently restricted net assets.

Patient Accounts Receivable

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

Supplies

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

Investments and Investment Income

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

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2018 and 2017

Assets Limited as to Use

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

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Hospital are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

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

Accrued Self-Insurance

The Hospital has established a self-insured health care plan for substantially all of its employees. The Hospital has obtained reinsurance coverage to limit the Hospital's exposure associated with this plan of \$100,000 per individual occurrence. The balance sheets include an accrual in other current liabilities for management's estimate of claims incurred, but not reported, of approximately \$1,238,000 and \$1,370,000 as of September 30, 2018 and 2017, respectively.

Benefit Plans

The Hospital sponsors a defined contribution retirement plan covering substantially all of its employees. Under this plan, the Hospital contributes a non-elective contribution of 3% of a participant's eligible compensation and a matching contribution equal to 100% of a participant's elective deferral, up to 1.5% of the participant's eligible compensation. Retirement plan expenses charged to operations were \$1,640,917 and \$1,483,344 for the years ended September 30, 2018 and 2017, respectively.

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2018 and 2017

The Hospital provides the opportunity for certain members of management and employed physicians to contribute to a deferred compensation plan established under Section 457 of the Internal Revenue Code (Code). Contributions are voluntary on the part of qualifying employees and no contributions are made by the Hospital on their behalf. Contributions are recorded as other long-term assets and corresponding other long-term liabilities in the balance sheets and totaled \$946,912 and \$918,642 as of September 30, 2018 and 2017, respectively.

Temporarily and Permanently Restricted Net Assets

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

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity Care

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

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

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

Income Taxes

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

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2018 and 2017

Functional Expenses

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

	<u>2018</u>	<u>2017</u>
Healthcare services	\$73,084,074	\$69,313,080
General and administrative	<u>10,183,642</u>	<u>9,721,219</u>
	<u>\$83,267,716</u>	<u>\$79,034,299</u>

Subsequent Events

For purposes of the preparation of these financial statements, the Hospital has considered transactions or events occurring through November 29, 2018, which was the date that the financial statements were issued.

In October 2018, the Hospital entered into a purchase and sale agreement for the acquisition of a local physical therapy practice in Lyndonville, Vermont. The purchase price is \$2,000,000, which will be funded through operations. The assets acquired consist of \$800,000 of real estate, \$1,200,000 of other assets including equipment, and intangible assets such as patient list, medical records and goodwill. The Hospital is expected to close on this transaction on or before November 30, 2018 at which time a final allocation of the purchase price will be determined.

2. Net Patient Service Revenue

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

	<u>2018</u>	<u>2017</u>
Patient services		
Inpatient	\$ 35,366,945	\$ 33,000,440
Outpatient	<u>125,731,069</u>	<u>124,054,659</u>
Gross patient service revenue	<u>161,098,014</u>	<u>157,055,099</u>
Less contractual allowances	76,683,438	74,207,295
Less charity care and other discounts	<u>2,923,433</u>	<u>2,665,968</u>
	<u>79,606,871</u>	<u>76,873,263</u>
Patient service revenue (net of contractual allowances and discounts)	81,491,143	80,181,836
Less provision for bad debts	<u>3,046,071</u>	<u>3,387,319</u>
Net patient service revenue	<u>\$ 78,445,072</u>	<u>\$ 76,794,517</u>

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2018 and 2017

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

Medicare

As a Critical Access Hospital, the Hospital is reimbursed allowable cost for its inpatient and outpatient services provided to Medicare patients. The Hospital is reimbursed for cost reimbursable items at tentative rates, with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2014.

Medicaid

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

Blue Cross

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

Revenue from the Medicare and Medicaid programs accounted for approximately 38% and 17%, respectively, of the Hospital's net patient service revenue for the year ended September 30, 2018, and 34% and 16%, respectively, of the Hospital's net patient service revenue for the year ended September 30, 2017. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue increased approximately \$1,462,100 and \$850,600 during 2018 and 2017, respectively, due to settlements in excess of amounts previously estimated.

The Hospital recognizes patient service revenue associated with services rendered to patients who have third-party payor coverage on the basis of contractual rates for such services. For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates (or on the basis of discounted rates, if negotiated or provided by policy). Based on historical trends, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services rendered. Thus, the Hospital records a provision for bad debts related to uninsured patients in the period the services are rendered. Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized during fiscal years ended September 30, 2018 and 2017 totaled \$81,491,143 and \$80,181,836,

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2018 and 2017

respectively, of which \$78,055,307 and \$76,490,826, respectively, were revenues from third-party payors and approximately \$3,435,836 and \$3,691,010, respectively, were revenues from self-pay patients.

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

During 2018, self-pay accounts receivable increased significantly. This resulted in the Hospital increasing its estimate of the allowance for doubtful accounts related to self-pay patients from \$3,578,034 to \$7,287,919. During 2018, the Hospital's self-pay writeoffs increased from \$2,436,604 to \$2,438,883 as a result of trends experienced in the collection of amounts from self-pay patients.

Effective January 1, 2019, the Hospital will participate in the State of Vermont's alternative payment model (all-payor system). Under this model, the Hospital will enter into a risk-bearing agreement with OneCare Vermont, LLC for the Vermont Medicaid attributed lives in the Hospital's service area. This is a capitated-based payment agreement with pre-established risk corridors.

3. Charity Care

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies, and equivalent service statistics. The following information measures the level of charity care provided for the years ended September 30:

	<u>2018</u>	<u>2017</u>
Charges foregone, based on established rates	<u>\$ 2,923,433</u>	<u>\$ 2,665,968</u>
Estimated costs incurred to provide charity care	<u>\$ 1,511,000</u>	<u>\$ 1,342,000</u>
Equivalent percentage of charity care services to all services	<u>1.81%</u>	<u>1.70%</u>

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

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2018 and 2017

4. Assets Limited as to Use

The composition of assets limited as to use as of September 30, 2018 and 2017 is set forth in the following table. Investments are stated at fair value.

	<u>2018</u>	<u>2017</u>
Restricted or internally designated for capital acquisitions		
Cash and short-term investments	\$ 185,107	\$ 116,200
Restricted cash and short-term investments	236,817	236,710
U.S. Treasury securities and other government securities	314,779	434,599
Mortgage securities	317,335	444,913
Mutual funds	7,358,923	7,215,782
Equities	<u>6,136,846</u>	<u>5,538,298</u>
	<u>14,549,807</u>	<u>13,986,502</u>
Internally designated to fund depreciation		
Cash and short-term investments	109,126	97,044
U.S. Treasury securities and other government securities	80,306	110,796
Mortgage securities	81,049	113,350
Mutual funds	1,876,776	1,834,902
Equities	<u>1,563,306</u>	<u>1,411,203</u>
	<u>3,710,563</u>	<u>3,567,295</u>
Restricted by donor - Cash and short-term investments	<u>355,941</u>	<u>354,564</u>
	<u>\$ 18,616,311</u>	<u>\$ 17,908,361</u>

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

	<u>2018</u>	<u>2017</u>
Unrestricted income		
Interest and dividend income	\$ 561,097	\$ 520,137
Realized gains on sales of securities	370,740	226,176
Investment management fees	<u>(104,461)</u>	<u>(96,974)</u>
	<u>\$ 827,376</u>	<u>\$ 649,339</u>
Other changes in unrestricted net assets		
Change in net unrealized (losses) gains	<u>\$ (48,538)</u>	<u>\$ 666,766</u>
Other changes in restricted net assets		
Investment (loss) income	<u>\$ (413)</u>	<u>\$ 611</u>

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2018 and 2017

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

	<u>2018</u>	<u>2017</u>
Other revenues	\$ 173,425	\$ 148,316
Nonoperating gains	<u>653,951</u>	<u>501,023</u>
	<u>\$ 827,376</u>	<u>\$ 649,339</u>

Total gross unrealized losses sustained for less than twelve months and twelve months or longer were approximately \$354,000 and \$654,000, respectively, on investments held at September 30, 2018. In the opinion of management, no individual unrealized loss as of September 30, 2018 represents an other-than-temporary impairment. The Hospital has both the intent and the ability to hold these securities for the time necessary to recover their cost.

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

5. Fair Value Measurements

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

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

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

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

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2018 and 2017

Assets measured at fair value on a recurring basis are all considered level 1.

Fair Value Measurements at September 30:

	<u>2018</u>		<u>2017</u>
Assets:			
Cash and cash equivalents	\$ 886,991	\$	804,518
U.S. Treasury obligations and government securities	395,085		545,395
Mortgage securities	398,384		558,263
Mutual funds	9,235,699		9,050,684
Equities	<u>7,700,152</u>		<u>6,949,501</u>
 Total assets limited as to use	 <u>18,616,311</u>		 <u>17,908,361</u>
 Investments to fund deferred compensation			
Mutual funds	<u>946,912</u>		<u>918,642</u>
 Total assets	 <u>\$ 19,563,223</u>	\$	 <u>18,827,003</u>

6. Property and Equipment

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

	<u>2018</u>		<u>2017</u>
Land and land improvements	\$ 1,661,069	\$	1,651,402
Buildings and improvements	32,591,815		29,639,277
Fixed equipment	2,324,457		2,324,457
Major moveable equipment	<u>27,269,424</u>		<u>25,062,903</u>
	63,846,765		58,678,039
Less accumulated depreciation	<u>41,142,342</u>		<u>38,153,958</u>
	22,704,423		20,524,081
Construction in progress	<u>437,234</u>		<u>797,263</u>
Property and equipment, net	<u>\$ 23,141,657</u>	\$	<u>21,321,344</u>

Depreciation expense for the years ended September 30, 2018 and 2017 amounted to \$3,247,848 and \$3,056,967, respectively.

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2018 and 2017

7. Borrowings

Long-Term Debt

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

	<u>2018</u>	<u>2017</u>
VEHBFA Hospital Revenue Bonds 2016 Series A Bonds, bearing interest of 2.23% until March 2026, thereafter variable, due April 2031. Principal payments are due in annual installments, ranging from \$755,384 to \$965,133 in 2030.	\$ 10,848,214	\$ 11,586,939
Unamortized deferred issuance costs	<u>(161,002)</u>	<u>(173,796)</u>
Total long-term debt	10,687,212	11,413,143
Less current portion	<u>(755,384)</u>	<u>(738,741)</u>
Long-term debt, excluding current portion	<u>\$ 9,931,828</u>	<u>\$ 10,674,402</u>

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

<u>Fiscal Year Ending</u>	
2019 (included in current liabilities)	\$ 755,384
2020	771,798
2021	789,790
2022	807,584
2023	825,778
Thereafter	<u>6,897,880</u>
	<u>\$ 10,848,214</u>

The Hospital incurred various costs in connection with the 2016 bond issuance totaling \$191,922. These amounts are being amortized over the life of the bond on a straight-line basis. Accumulated amortization as of September 30, 2018 and 2017 was \$30,920 and \$18,126, respectively.

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2018 and 2017

Line of Credit

The Hospital has available \$500,000 in an unsecured line of credit with a bank with interest at the Wall Street Journal prime rate adjusted monthly (5.25% at September 30, 2018). The line expires December 31, 2018. As of September 30, 2018 and 2017, there was no balance outstanding on the line.

8. Temporarily and Permanently Restricted Net Assets

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

	<u>2018</u>	<u>2017</u>
Plant replacement, included in assets limited as to use	\$ 236,817	\$ 236,710
Special purpose, included in cash and cash equivalents	231,716	230,845
Beneficial interest in net assets of Parent	<u>951,600</u>	<u>1,074,425</u>
	<u>\$ 1,420,133</u>	<u>\$ 1,541,980</u>

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

	<u>2018</u>	<u>2017</u>
Investments to be held in perpetuity, included in cash and cash equivalents	\$ 92,406	\$ 92,136
Beneficial interest in net assets of Parent	<u>348,339</u>	<u>350,000</u>
	<u>\$ 440,745</u>	<u>\$ 442,136</u>

9. Concentrations of Credit Risk

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

	<u>2018</u>	<u>2017</u>
Medicare	28 %	41 %
Medicaid	16	14
Blue Cross	10	10
Commercial	21	23
Self pay	<u>25</u>	<u>12</u>
	<u>100 %</u>	<u>100 %</u>

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

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2018 and 2017

10. Commitments and Contingencies

Medical Malpractice Claims

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

Operating Leases

The Hospital leases equipment under operating leases that expire in September 2023. Total rental expense for the years ended September 30, 2018 and 2017 was approximately \$840,521 and \$609,855, respectively.

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

	<u>Amount</u>
Year ending September 30,	
2019	\$ 773,575
2020	571,749
2021	425,092
2022	311,356
2023	<u>275,835</u>
	<u>\$ 2,357,607</u>

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2018 and 2017

11. Related Party Transactions

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

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

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

As of September 30, 2018 and 2017, the total amounts due from NVRC were \$3,152,122 and \$4,044,959, respectively. NVRC intends to repay amounts due to the Hospital from a \$4,000,000 capital campaign as well as rent due from the Hospital to NVRC.

12. Fair Value of Financial Instruments

The Hospital's financial instruments consist of cash and cash equivalents, marketable securities, trade accounts receivable and payable, estimated third-party payor settlements, due from Parent, beneficial interest in net assets of Parent and debt. The fair values of all financial instruments approximate their carrying values at September 30, 2018.