

**WINDSOR HOSPITAL CORPORATION
(d/b/a MT. ASCUTNEY HOSPITAL AND
HEALTH CENTER) AND SUBSIDIARIES**

**Consolidated Financial Statements
and
Independent Auditors' Report**

As of and for the Years Ended
September 30, 2018 and 2017



**Mt. Ascutney Hospital
and Health Center**
Dartmouth-Hitchcock

WINDSOR HOSPITAL CORPORATION
(d/b/a MT. ASCUTNEY HOSPITAL AND HEALTH CENTER)
AND SUBSIDIARIES

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Independent Auditors' Report

To the Board of Trustees of
Windsor Hospital Corporation (d/b/a Mt. Ascutney Hospital and Health Center)
and Subsidiaries:

We have audited the accompanying consolidated financial statements of Windsor Hospital Corporation (d/b/a Mt. Ascutney Hospital and Health Center) (a nonprofit health care entity) and Subsidiaries (Organization), 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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 Windsor Hospital Corporation (d/b/a Mt. Ascutney Hospital and Health Center) and Subsidiaries 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 accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary consolidating information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Lebanon, New Hampshire
_____, 2018

Registration No. 92-545

WINDSOR HOSPITAL CORPORATION
(d/b/a MT. ASCUTNEY HOSPITAL AND HEALTH CENTER)
AND SUBSIDIARIES

Consolidated Balance Sheets

As of September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 7,135,250	\$ 6,099,611
Restricted cash	119,482	119,620
Short-term investments	174,261	172,467
Patient accounts receivable, net	5,816,466	5,725,139
Current portion of pledges receivable, net	41,948	141,992
Other receivables, net	851,396	569,939
Inventories	459,566	478,194
Prepaid expenses	495,638	597,272
Total current assets	<u>15,094,007</u>	<u>13,904,234</u>
Assets whose use is limited or restricted		
Investments	18,282,936	16,319,196
Charitable remainder trust	215,068	196,436
Beneficial interest in perpetual trusts	1,672,956	1,659,614
Total assets whose use is limited or restricted	<u>20,170,960</u>	<u>18,175,246</u>
Property and equipment, net	19,775,149	18,878,717
Pledges receivable, less current portion shown above	27,179	64,541
Other assets	263,704	207,260
Total assets	<u>\$ 55,330,999</u>	<u>\$ 51,229,998</u>
Liabilities		
Current liabilities		
Accounts payable and accrued expense	\$ 3,427,931	\$ 2,029,789
Construction payable	259,332	108,000
Accrued salaries and wages	2,221,968	2,005,703
Accrued earned time off	1,463,568	1,405,555
Other current liabilities	1,436,050	1,088,562
Estimated settlements with third-party payors	1,396,395	1,133,202
Current portion of long-term debt	25,600	57,100
Current portion of capital leases	194,616	186,708
Total current liabilities	<u>10,425,460</u>	<u>8,014,619</u>
Long-term debt, less current portion shown above	11,165,897	11,186,913
Capital leases, less current portion shown above	372,994	567,240
Post-retirement benefit obligation	4,573,284	5,687,334
Other liabilities	240,470	230,469
Total liabilities	<u>26,778,105</u>	<u>25,686,575</u>
Commitments and contingencies (See Notes)	-	-
Net assets		
Unrestricted	21,306,927	18,320,180
Temporarily restricted	1,354,615	1,345,233
Permanently restricted	5,891,352	5,878,010
Total net assets	<u>28,552,894</u>	<u>25,543,423</u>
Total liabilities and net assets	<u>\$ 55,330,999</u>	<u>\$ 51,229,998</u>

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

WINDSOR HOSPITAL CORPORATION
(d/b/a MT. ASCUTNEY HOSPITAL AND HEALTH CENTER)
AND SUBSIDIARIES

Consolidated Statements of Operations

For the 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)	\$ 51,617,817	\$ 49,978,768
Less provision for doubtful accounts	1,541,879	1,725,743
Net patient service revenue	<u>50,075,938</u>	<u>48,253,025</u>
Other operating revenue	4,989,087	4,977,291
OneCare Vermont	732,703	-
Net assets released from restrictions used for operations	29,954	53,654
Total unrestricted revenues, gains and other support	<u>55,827,682</u>	<u>53,283,970</u>
Expenses		
Salaries and wages	25,847,004	24,767,436
Employee benefits	7,395,025	6,417,552
Purchased services	9,727,765	8,807,562
Supplies and expenses	7,665,603	7,778,121
Vermont provider tax	1,762,965	1,617,571
Interest	231,119	223,998
Depreciation	2,189,583	2,206,353
Total expenses	<u>54,819,064</u>	<u>51,818,593</u>
Income from operations	<u>1,008,618</u>	<u>1,465,377</u>
Nonoperating revenues (expenses)		
Net investment income	554,990	422,494
Contributions	257,144	202,678
Gain (loss) on sale of property and equipment	7,378	(47,465)
Endowment net assets released from restrictions used for operations	187,437	184,785
Other components of net periodic benefit cost	185,694	141,188
Total nonoperating revenues (expenses)	<u>1,192,643</u>	<u>903,680</u>
Excess of revenues, gains and other support over expenses and nonoperating revenues (expenses)	2,201,261	2,369,057
Unrealized gain on investments	143,376	721,144
Net assets released from restrictions used for acquisition of property and equipment	145,754	499,041
Transfer of net assets from Dartmouth-Hitchcock Health	-	1,315,000
Change in net assets to recognize funded status of post-retirement plans	<u>496,356</u>	<u>986,472</u>
Increase in unrestricted net assets	<u>\$ 2,986,747</u>	<u>\$ 5,890,714</u>

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

WINDSOR HOSPITAL CORPORATION
(d/b/a MT. ASCUTNEY HOSPITAL AND HEALTH CENTER)
AND SUBSIDIARIES

Consolidated Statements of Changes in Net Assets
For the Years Ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Unrestricted net assets		
Excess of revenues over expenses	\$ 2,201,261	\$ 2,369,057
Net assets released from restrictions for capital expenditures	145,754	499,041
Change in net assets to recognize funded status of pension plan	496,356	986,472
Change in market valuation on investments	143,376	721,144
Transfer of net assets from Dartmouth-Hitchcock Health	-	1,315,000
Change in unrestricted net assets	<u>2,986,747</u>	<u>5,890,714</u>
Temporarily restricted net assets		
Contributions	63,873	115,014
Unrealized appreciation (depreciation) in charitable remainder trust	18,632	(2,816)
Net assets released from restrictions used for operations	(217,391)	(238,439)
Net assets released from restrictions used for capital expenditures	(145,754)	(499,041)
Endowment investment income	239,864	182,515
Endowment change in market valuation on investments	50,158	292,941
Change in temporarily restricted net assets	<u>9,382</u>	<u>(149,826)</u>
Permanently restricted net assets		
Unrealized appreciation in beneficial interest in perpetual trusts	13,342	27,939
Change in permanently restricted net assets	<u>13,342</u>	<u>27,939</u>
Change in net assets	3,009,471	5,768,827
Net assets, beginning of year	<u>25,543,423</u>	<u>19,774,596</u>
Net assets, end of year	<u>\$ 28,552,894</u>	<u>\$ 25,543,423</u>

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

WINDSOR HOSPITAL CORPORATION
(d/b/a MT. ASCUTNEY HOSPITAL AND HEALTH CENTER)
AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the Years Ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Change in net assets	\$ 3,009,471	\$ 5,768,827
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	2,189,583	2,206,353
Amortization reflected as interest	4,584	4,584
Provision for bad debts	1,541,879	1,725,743
Net change in unrealized gain on investments	(193,534)	(1,014,085)
Realized gain on investments, net	(636,971)	(479,716)
(Gain) loss on sale of property and equipment	(7,378)	47,465
Unrealized (appreciation) depreciation in charitable remainder trusts	(18,632)	2,816
Unrealized appreciation in beneficial interest in perpetual trusts	(13,342)	(27,939)
Contributions restricted for capital expenditures	(138,483)	(555,476)
Provision for uncollectible pledges	3,239	9,797
Net present value allowance on pledges receivable	3,631	22,567
Change in net assets to recognize funded status of retirement plans	(496,356)	(986,472)
(Increase) decrease in the following assets:		
Patient accounts receivable, net	(1,633,206)	(2,297,767)
Inventories, prepaid expenses and other assets	63,818	(238,977)
Other receivables	(281,457)	14,747
Pledges receivable	130,536	412,940
Increase (decrease) in the following liabilities:		
Accounts payable, accrued expenses and other liabilities	2,181,241	503,862
Due to third-party payors	263,193	308,958
Liability for pension benefits	(617,694)	(522,076)
Net cash provided by operating activities	<u>5,354,122</u>	<u>4,906,151</u>
Cash flows from investing activities		
Purchases of property and equipment	(3,100,337)	(1,118,460)
Proceeds from sale of property and equipment	21,700	-
Proceeds from sale of investments	3,105,746	130,945
Purchases of investments	(4,240,775)	(440,220)
Net cash used in investing activities	<u>(4,213,666)</u>	<u>(1,427,735)</u>

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

WINDSOR HOSPITAL CORPORATION
(d/b/a MT. ASCUTNEY HOSPITAL AND HEALTH CENTER)
AND SUBSIDIARIES

Consolidated Statements of Cash Flows (continued)

For the Years Ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from financing activities		
Contributions restricted for capital expenditures	138,483	555,476
Payments on line of credit	-	(1,550,000)
Payments on long-term debt obligation	(57,100)	(57,100)
Payments on capital lease obligation	(186,338)	(90,034)
Net cash used in financing activities	<u>(104,955)</u>	<u>(1,141,658)</u>
Net increase in cash and cash equivalents	1,035,501	2,336,758
Cash, cash equivalents and restricted cash, beginning of year	<u>6,219,231</u>	<u>3,882,473</u>
Cash, cash equivalents and restricted cash, end of year	<u>\$ 7,254,732</u>	<u>\$ 6,219,231</u>
Reconciliation of cash:		
Cash and cash equivalents	\$ 7,135,250	\$ 6,099,611
Restricted cash	<u>119,482</u>	<u>119,620</u>
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	<u>\$ 7,254,732</u>	<u>\$ 6,219,231</u>
<u>Supplemental Disclosures of Cash Flow Information</u>		
Interest paid	<u>\$ 226,535</u>	<u>\$ 219,414</u>

Supplemental Disclosures of Non-Cash Transactions

During 2017, the Organization entered into a capital lease agreement for equipment in the amount of \$565,522.

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

WINDSOR HOSPITAL CORPORATION **(d/b/a MT. ASCUTNEY HOSPITAL AND HEALTH CENTER)** **AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

As of and for the Years Ended September 30, 2018 and 2017

Organization

The Windsor Hospital Corporation (d/b/a Mt. Ascutney Hospital and Health Center) (Hospital) is a Vermont not-for-profit corporation which provides facilities for twenty-five (25) critical access hospital beds and ten (10) rehabilitation beds in the Windsor, Vermont area.

Effective July 1, 2014, the Hospital became a subsidiary of Dartmouth-Hitchcock Health (D-HH). Dartmouth-Hitchcock Health is also the parent company of Mary Hitchcock Memorial Hospital (MHMH) and the Dartmouth-Hitchcock Clinic and was formed as an integrated health system designed to efficiently coordinate resources, expand access to specialized services and research and enhance the value and quality of care in communities throughout Vermont and New Hampshire. In accordance with Accounting Standards Update No. 2010-07, *Not-for-Profit Entities: Mergers and Acquisitions*, the assets and liabilities of the Hospital were accounted for at fair value as of the date of the acquisition at the subsidiary level.

The Hospital is the sole corporate member of Historic Homes of Runnemedede, Inc. (Historic Homes), which is a not-for-profit Vermont corporation operating in Windsor, Vermont. Historic Homes' activities include recreational, educational and residential care services for the aging. Additional programs such as transportation, nutrition, social services and life enrichment are provided.

The Hospital is the sole corporate member of Mt. Ascutney Hospital Community Health Foundation, Inc. (Foundation), which is a not-for-profit Vermont corporation operating in Windsor, Vermont. The Foundation provides health education and health promotion programs and services aimed at improving the health status of the Windsor community. On April 4, 2016, the Board of Trustees approved the transfer of Foundation to the Hospital in order to utilize the Hospital as the primary driver of community health and placing the Foundation on hold until a time that its structure is needed. All assets and liabilities of the Foundation were transferred to the Hospital at this time.

1. Summary of Significant Accounting Policies:

Principles of Consolidation – The consolidated financial statements include the accounts of the Hospital and its subsidiaries (collectively, the Organization). All significant intercompany balances have been eliminated in consolidation.

Basis of Presentation – Net assets are classified into permanently restricted, temporarily restricted and unrestricted net assets, when appropriate, to properly disclose the nature and amount of significant resources that have been restricted in accordance with specified objectives.

The Organization's financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. Under FASB ASC 958, all not-for-profit organizations are required to provide a balance sheet, a statement of operations and a statement of cash flows. The ASC requires reporting amounts for the Organization's total assets, liabilities and net assets in a balance sheet; reporting the change in its net assets in a statement of operations; and reporting the change in its cash and cash equivalents in a statement of cash flows.

WINDSOR HOSPITAL CORPORATION
(d/b/a MT. ASCUTNEY HOSPITAL AND HEALTH CENTER)
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Notes to Consolidated Financial Statements

As of and for the Years Ended September 30, 2018 and 2017

1. Summary of Significant Accounting Policies (continued):

ASC 958 also requires net assets and its revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of the three classes of net assets—permanently restricted, temporarily restricted and unrestricted—be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of changes in net assets.

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 money market funds and highly liquid debt instruments with a maturity of less than one year when purchased. Cash and cash equivalents exclude assets whose use is limited by the Board of Trustees. The Organization maintains its cash in deposit accounts which, at times, may exceed federal depository insurance limits. Management believes credit risk related to these investments is minimal. The Organization has not experienced any losses in such accounts.

Restricted Cash – The Organization classifies cash held on behalf of other not-for-profit organizations and residents of Historic Homes as restricted cash.

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 individual accounts and historical adjustments. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to the provision for doubtful accounts and a credit to accounts receivable.

In evaluating the collectability of accounts receivable, the Hospital analyzes past results and identifies trends for each major payor source of revenue for the purposes of estimating the appropriate amounts of the allowance for doubtful accounts and the provision for doubtful accounts. Data in each major payor source are regularly reviewed to evaluate the adequacy of the allowance for doubtful accounts. Specifically, for receivables relating to services provided to patients having third-party coverage, an allowance for doubtful accounts and a corresponding provision for doubtful accounts are established at varying levels based on the age of the receivables and payor source. For receivables relating to self-pay patients, a provision for doubtful accounts is made in the period services are rendered based on experience indicating the inability or unwillingness of patients to pay amounts for which they are financially responsible. Actual write-offs are charged against the provision for doubtful accounts.

Inventories – Inventories are stated at the lower of cost (determined by the first-in, first-out method) or net realizable value.

Assets Limited as to Use and Investments – Assets limited as to use include donor-restricted investments and designated assets set aside by the Board of Trustees for future capital improvements, over which the Board retains control and may, at its discretion, use for other purposes.

WINDSOR HOSPITAL CORPORATION
(d/b/a MT. ASCUTNEY HOSPITAL AND HEALTH CENTER)
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Notes to Consolidated Financial Statements

As of and for the Years Ended September 30, 2018 and 2017

1. Summary of Significant Accounting Policies (continued):

The Organization records its investment securities at fair value. 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 as of the measurement date. Investment gains and income are reported as increases to unrestricted, temporarily or permanently restricted net assets depending on the existence or absence of donor restrictions.

Unrestricted investment income and gains and losses from all other investments are reported as nonoperating revenue. Unrealized gains and losses on investments are excluded from the excess of revenues, gains and other support over expenses and nonoperating revenue, and reported as an increase in net assets, except that declines that are considered other than temporary are reported within excess of revenues and gains over expenses.

Employee Fringe Benefits – The Organization has an “earned time” plan to provide certain fringe benefits for its employees. Under this plan, each employee “earns” paid leave for each payroll period. Accumulated hours may be used for vacations, holidays or illnesses. Hours earned, but not used, vest with the employees up to established limits. The Organization accrues the cost of these benefits as they are earned.

Property and Equipment – Property and equipment acquisitions are recorded at cost or, if contributed, at fair market value determined at the date of donation. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method.

Effective July 1, 2014, property and equipment was adjusted to fair value as described under Organization related to business combination transaction. Property and equipment acquisitions subsequent to this date are recorded at cost.

Gifts of long-lived assets such as land, buildings or equipment are reported as unrestricted support, and are excluded from the excess of revenues, gains and other support over expenses and nonoperating revenue, 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.

The Organization reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. The factors considered by management in performing this assessment include current operating results, trends and prospects, as well as the effects of obsolescence, demand, competition and other economic factors.

Bond Issuance Costs – The costs incurred to obtain financing for the Organization’s construction programs are amortized over the repayment period of the bonds and are included in long-term debt, net of amortization on the balance sheets.

Nonoperating Revenue – Activities, other than in connection with providing health care services, are considered to be nonoperating. Nonoperating revenue consist primarily of income on invested funds, other than temporary declines on investments.

WINDSOR HOSPITAL CORPORATION
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Notes to Consolidated Financial Statements

As of and for the Years Ended September 30, 2018 and 2017

1. Summary of Significant Accounting Policies (continued):

Excess of Revenues, Gains and Other Support Over Expenses and Nonoperating Revenues (Expenses) – The statements of operations include excess of revenues, gains and other support over expenses and nonoperating revenues (expenses). Changes in unrestricted net assets, which are excluded from this measure, consistent with industry practice, include unrealized gains on investments, contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets) and changes in net assets to recognize funded status of pension plan.

Net Patient Service Revenue – The Organization has agreements with third-party payors that provide for payments to the Organization at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, discounted charges and per diem rates. 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, except for amounts received under the agreement with OneCare Vermont Accountable Care Organization, LLC (footnote 21). 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.

Temporarily and Permanently Restricted Net Assets – Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specific time period or purpose. When a donor restriction expires, 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 and changes in net assets as either net assets released from restrictions used for operations or net assets released from restrictions used for capital acquisition.

Permanently restricted net assets have been restricted by donors to be maintained by the Hospital in perpetuity. Generally, income earned on permanently restricted net assets, including net realized appreciation (depreciation) on investments, is included in temporarily restricted net assets until appropriated by the Board. Appreciation (depreciation) on perpetual trusts is included within permanently restricted net assets.

Grant Revenue – Grant revenue is classified as unrestricted, as it is recognized as revenue in the period in which the expenses are incurred. Grant revenues are recorded in accordance with the provisions of the applicable award amounts. Deferred revenue represents unexpended grant monies under the terms of those agreements. Accordingly, the Organization is subject to the regulations and reporting requirements of the applicable governmental and grantor agencies.

Charity Care – The Organization provides care to patients who meet criteria under its charity care policy without charge, or at amounts less than its established rates. Because the Organization does not pursue collections of amounts determined to qualify as charity care, they are not reported as revenue.

Donor-Restricted Gifts – Unconditional promises to give cash and other assets to the Organization 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.

WINDSOR HOSPITAL CORPORATION
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Notes to Consolidated Financial Statements

As of and for the Years Ended September 30, 2018 and 2017

1. Summary of Significant Accounting Policies (continued):

Income Taxes – The Organization’s parent company and subsidiaries are exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. However, the Organization is subject to federal income tax on any unrelated business taxable income.

ASC Subtopic 740-10, *Accounting for Uncertainty in Income Taxes*, addresses the accounting uncertainty of income taxes recognized in an enterprise’s financial statements and prescribes a threshold of “more-likely-than-not” for recognition and derecognition of tax positions taken or expected to be taken in a tax return. Subtopic 740-10 also provides guidance on measurement classification, interest and penalties and disclosure. The Organization has determined that the provisions of Subtopic 740-10 do not have a material effect on the Organization’s financial statements. The Organization believes it is no longer subject to examinations for fiscal years prior to 2015.

Reclassifications – Certain reclassifications have been made to the 2017 financial statements to conform to the 2018 presentation.

Recent Accounting Pronouncements – In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows - Restricted Cash*. This ASU requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The update is effective for financial statements issued for fiscal years beginning after December 15, 2018, with early adoption permitted and requires that it be applied retrospectively. The Hospital has opted to early adopt the provisions of ASU 2016-18 effective for fiscal year 2018. Restricted cash of \$119,620 has been reclassified from cash and cash equivalents to restricted cash in the 2017 consolidated balance sheet.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities*. This ASU changes the current three classes of net assets to two classes, net assets with donor restrictions and net assets without donor restrictions; continues to allow the use of either the direct or indirect method of reporting the statement of cash flows; requires entities to report investment return net of external and direct internal investment expenses and no longer requires disclosure of those netted expenses; and eliminates the option to release donor-imposed restrictions on long-lived assets over the estimated useful life of the acquired asset. It also enhances the disclosures regarding: board designations, composition of net assets with donor restrictions, how a not-for-profit will meet its cash needs for general expenditures within one year of the balance sheet date, amounts of expenses by both their natural and functional classification, method used to allocate costs among program and support functions and underwater endowment funds. The update is effective for financial statements issued for fiscal years beginning after December 15, 2017, with early adoption permitted and requires that it be applied retrospectively. The Hospital has not elected early adoption of the provisions of ASU 2016-14.

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1. Summary of Significant Accounting Policies (continued):

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, at the conclusion of a joint effort with the International Accounting Standards Board to create common revenue recognition guidance in accordance with accounting principles generally accepted in the United States of America and International Accounting Standards. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services, by allocating transaction price to identified performance obligations, and recognizing that revenue as performance obligations are satisfied. Qualitative and quantitative disclosures will be required to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The original standard was effective for fiscal years beginning after December 15, 2017; however, in July 2015, the FASB approved a one-year deferral of this standard, with a new effective date for fiscal years beginning after December 15, 2018 or fiscal year 2020 for the Organization. The Organization is evaluating the impact this will have on the consolidated financial statements.

2. Net Patient Service Revenue and Patient Accounts Receivable:

Net Patient Service Revenue – Net patient service revenue is reported net of contractual allowances and other discounts as follows for the years ended September 30:

	<u>2018</u>	<u>2017</u>
Gross patient service revenue		
Inpatient	\$ 27,266,941	\$ 24,183,400
Outpatient (including physician practices)	<u>70,101,666</u>	<u>64,250,031</u>
	97,368,607	88,433,431
Plus Medicaid disproportionate share hospital receipts	683,877	541,427
Less contractual allowances	45,484,925	38,262,680
Less charity care	<u>949,742</u>	<u>733,410</u>
Patient service revenue (net of contractual allowances and discounts)	51,617,817	49,978,768
Less provision for doubtful accounts	<u>1,541,879</u>	<u>1,725,743</u>
Net patient service revenue	\$ <u>50,075,938</u>	\$ <u>48,253,025</u>

Patient Accounts Receivable – Patient accounts receivable is stated net of estimated allowances for contractals and allowances for doubtful accounts as of September 30:

	<u>2018</u>	<u>2017</u>
Patient accounts receivable	\$ 12,376,517	\$ 11,824,922
Less estimated allowance for contractual adjustments	4,102,565	3,725,790
Less estimated allowance for doubtful accounts	<u>2,457,486</u>	<u>2,373,993</u>
Patient accounts receivable, net	\$ <u>5,816,466</u>	\$ <u>5,725,139</u>

The Hospital's allowance for doubtful accounts fully reserves for self-pay patients at September 30, 2018 and 2017. The Hospital increased its estimate in the allowance for doubtful accounts relating to self-pay patients from \$2,023,993 to \$2,157,486 and decreased such estimate from \$350,000 to \$300,000 for doubtful accounts relating to third-party payors. In addition, the Hospital's self-pay write-offs net of recoveries decreased from \$1,522,297 for 2017 to \$1,458,386 for 2018. Such increases and decreases resulted from changes in the collection amounts from self-pay patients and third-party payors.

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2. Net Patient Service Revenue and Patient Accounts Receivable (continued):

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

Medicare – The Hospital is a Critical Access Hospital (CAH). As a CAH, the Hospital is reimbursed 101% of reasonable allowable cost for its inpatient acute, swing bed and outpatient services, provided to Medicare patients. The Hospital is reimbursed at tentative rates for cost reimbursable items with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. Final settlements have been determined for all years through September 30, 2014.

The Hospital's rehabilitation unit is licensed as a rehabilitation distinct part unit and is paid under the inpatient rehabilitation facility prospective payment system rather than under the CAH allowable cost program.

Medicaid – Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed at determined prospective rates. There is no retroactive settlement process for Medicaid.

Commercial – The Hospital 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.

Revenue from the Medicare and Medicaid programs accounted for approximately 57% and 12%, respectively, of the Hospital's gross patient revenue for the year ended 2018, and 57% and 11%, respectively, of the Hospital's gross patient revenue for the year ended 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. Adjustments to net patient service revenue were made in order to recognize revised or new information obtained, subsequent to initial estimates. Those adjustments increased net patient service revenue approximately \$348,000 in 2018 and increased approximately \$508,000 in 2017.

On March 1, 2013, certain provisions of the Federal Government's Budget Control Act of 2011 went into effect. Among these are mandatory payment reductions under the Medicare program known as sequestration. Under these provisions, Medicare reimbursement was reduced by two percent on all claims with dates-of-service or dates-of-discharge on or after April 1, 2013. The continuation of these payment cuts for an extended period of time will have an adverse effect on the operating results of the Hospital.

The Hospital recognizes patient service revenue relating to services rendered to patients having third-party payor coverage on the basis of contractual rates for such services. For services rendered to self-pay or uninsured patients, revenue is recognized on the basis of standard or negotiated discounted rates. At the time services are rendered to self-pay patients, a provision for uncollectible accounts is recorded based on experience and the effects of newly-identified circumstances and trends in pay rates. Patient service revenue, net of contractual allowances and discounts, but before the provision for uncollectible accounts, recognized during 2018 totaled \$51,617,817 of which \$50,489,999 was revenue from third-party payors and \$1,127,818 was revenue from self-pay patients. Patient service revenue, net of contractual allowances and discounts, but before the provision for uncollectible accounts, recognized during 2017 totaled \$49,978,768, of which \$48,793,775 was revenue from third-party payors and \$1,184,993 was revenue from self-pay patients.

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3. Charity Care and Community Services:

Consistent with its tax-exempt status and community service responsibility, the Hospital provides services at no charge or at discounted rates to patients who are uninsured or underinsured that meet certain criteria. The criteria for charity care consider family income, net worth and extent of financial obligations, including health care costs.

The net cost of charity care provided was \$785,000 and \$608,000 in 2018 and 2017, respectively, based on the overall ratio of cost to charges from the most recent Medicare cost report.

In 2018, the Hospital provided 437 patients charity care assistance. In 2017, 395 patients received charity care. The largest portion of services provided on a charity basis for 2018 and 2017 was for emergency department services.

The determination of eligibility for community care is granted on a sliding fee basis. Patients with family income less than the 225% of the Department of Health and Human Services Income Poverty Guidelines shall not be responsible for the balance of their account for services rendered at the Organization. Those with family income at least equal to 226% but not exceeding 250% of the guidelines, shall be responsible for 25% of the remaining balance of their accounts. Those with family income at least equal to 251%, but not exceeding 275% of the guidelines, will be responsible for 50% of the remaining balance of their accounts. Those with family income at least equal to 276%, but not exceeding 300% of the guidelines, will be responsible for 75% of the remaining balance of their accounts.

4. Inventories:

The major classes of inventories consisted of the following as of September 30:

	<u>2018</u>	<u>2017</u>
Pharmacy	\$ 272,130	\$ 310,686
Operating room	77,880	71,373
Lab	50,245	42,547
Other	<u>59,311</u>	<u>53,588</u>
	\$ <u>459,566</u>	\$ <u>478,194</u>

5. Donor Restricted Endowment Net Assets:

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment net assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period(s), as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce long-term returns while assuming a moderate level of investment risk.

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5. Donor Restricted Endowment Net Assets (continued):

Spending Policy

The Organization's policy is to appropriate for distribution each year 4 percent of its endowment net assets' rolling three-year average market value.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a weighted ratio on equity-based and fixed income investments to achieve its long-term return objectives within prudent risk constraints.

Uniform Prudent Management of Institutional Funds Act

On May 5, 2009, the Governor of Vermont signed the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as regulation over the donor-restricted endowment funds. UPMIFA requires investment of donor restricted funds in a prudent and reasonable manner, and related fees and other costs be reasonable and appropriate. Under UPMIFA, subject to the intent of the donor, the Organization may appropriate for expenditure or accumulate in the fund what the Organization determines is prudent for the uses, benefits, purposes and duration for which the fund is established. The act further provides criteria to guide the Organization in its expenditure decisions. In general, the amount of original gift and any required accumulations by the donor are not expendable. However, the market value of the fund may fall below that amount depending on current financial conditions in the underlying investments.

Endowment Net Asset Composition by Type of Fund as of September 30, 2018

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ 841,903	\$ 4,218,396	\$ 5,060,299
Total funds	<u>\$ 841,903</u>	<u>\$ 4,218,396</u>	<u>\$ 5,060,299</u>
Endowment net assets, beginning of year	<u>\$ 739,846</u>	<u>\$ 4,218,396</u>	<u>\$ 4,958,242</u>
Investment return:			
Investment gain	43,778	-	43,778
Net appreciation (realized and unrealized)	<u>245,716</u>	<u>-</u>	<u>245,716</u>
Total investment return	<u>289,494</u>	<u>-</u>	<u>289,494</u>
Contributions	<u>-</u>	<u>-</u>	<u>-</u>
Appropriation of endowment assets for expenditure	<u>(187,437)</u>	<u>-</u>	<u>(187,437)</u>
Endowment net assets, end of year	841,903	4,218,396	<u>\$ 5,060,299</u>
Donor contributions restricted for health care services	443,585		
Pledges and contributions restricted for capital improvements	<u>69,127</u>		
Temporarily restricted net assets	<u>\$ 1,354,615</u>		
Beneficial interest in perpetual trusts		<u>1,672,956</u>	
Permanently restricted net assets		<u>\$ 5,891,352</u>	

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5. Donor Restricted Endowment Net Assets (continued):

Endowment Net Asset Composition by Type of Fund as of September 30, 2017

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ 739,846	\$ 4,218,396	\$ 4,958,242
Total funds	<u>\$ 739,846</u>	<u>\$ 4,218,396</u>	<u>\$ 4,958,242</u>
Endowment net assets, beginning of year	\$ 449,175	4,218,396	\$ 4,667,571
Investment return:			
Investment gain	30,377	-	30,377
Net appreciation (realized and unrealized)	445,079	-	445,079
Total investment return	<u>475,456</u>	<u>-</u>	<u>475,456</u>
Contributions	<u>-</u>	<u>-</u>	<u>-</u>
Appropriation of endowment assets for expenditure	<u>(184,785)</u>	<u>-</u>	<u>(184,785)</u>
Endowment net assets, end of year	739,846	4,218,396	<u>\$ 4,958,242</u>
Donor contributions restricted for health care services	398,854		
Pledges and contributions restricted for capital improvements	<u>206,533</u>		
Temporarily restricted net assets	<u>\$ 1,345,233</u>		
Beneficial interest in perpetual trusts		1,659,614	
Permanently restricted net assets		<u>\$ 5,878,010</u>	

6. Pledges Receivable:

The Organization's pledges receivable consist of unconditional promises receivable as follows:

	<u>2018</u>	<u>2017</u>
Pledges receivable – gross	\$ 71,948	\$ 216,224
Less: Net present value allowance	<u>1,558</u>	<u>5,189</u>
	70,390	211,035
Less: Allowance for doubtful accounts	<u>1,263</u>	<u>4,502</u>
	<u>\$ 69,127</u>	<u>\$ 206,533</u>

Pledges receivable were calculated at net present value using a rate of 2.40%.

Pledges receivable are due as follows:

	<u>2018</u>	<u>2017</u>
Due in less than one year	\$ 41,948	\$ 141,992
Due in one to five years	<u>27,179</u>	<u>64,541</u>
	<u>\$ 69,127</u>	<u>\$ 206,533</u>

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7. Other Receivables:

Other receivables consisted of the following at September 30:

	<u>2018</u>	<u>2017</u>
Grants receivable	\$ 623,180	\$ 396,745
Resident receivable, net of allowance	52,910	23,779
Other	<u>175,306</u>	<u>149,415</u>
	<u>\$ 851,396</u>	<u>\$ 569,939</u>

8. Investments:

The Hospital owns approximately 2.46% of the Dartmouth-Hitchcock Master Investment Program of Pooled Investment Accounts partnership. This is a pooled/commingled investment fund where shares or units are owned of pooled funds rather than the underlying securities in that fund. These pooled/commingled funds make underlying investments in securities from the asset classes listed below and totaled \$17,206,629 and \$15,281,709 as of September 30, 2018 and 2017, respectively. The Hospital also directly owns cash that is classified as short-term investments on the consolidated balance sheet of \$174,261 and \$172,467 as of September 30, 2018 and 2017, respectively.

Historic Homes directly owns the investments in securities from the asset classes listed below in the amount of \$1,076,307 and \$1,037,487 as of September 30, 2018 and 2017, respectively.

Investments are accounted for using the fair value method of accounting and are reported at what the Organization believes to be the amount that the Organization would expect to receive if it liquidated its investments at the balance sheet date on a nondistressed basis.

The following tables summarize the investments by asset classes, as of September 30, 2018 and 2017. Accounting standards require disclosure of additional information for the securities accounted for using the fair value method, as shown in Note 19.

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8. Investments (continued):

	2018		
	Hospital Fair Value	Historic Homes Fair Value	Total
Cash and cash equivalents	\$ 278,052	\$ 29,280	\$ 307,332
Mutual funds			
Bond	-	50,015	50,015
Fixed income	-	235,952	235,952
Total mutual funds	-	285,967	285,967
Exchange traded products			
Equities	-	314,777	314,777
Fixed income	-	146,049	146,049
Total exchange traded products	-	460,826	460,826
Equities			
Domestic	3,926,418	5,112	3,931,530
International	2,784,928	-	2,784,928
Industrials	-	35,772	35,772
Consumer discretionary	-	20,464	20,464
Consumer staples	-	21,815	21,815
Emerging markets	603,265	-	603,265
Energy	-	34,161	34,161
Financials	-	47,318	47,318
Health care	-	41,922	41,922
Private	1,586,087	-	1,586,087
Real estate	-	15,026	15,026
Utilities	-	12,066	12,066
Telecommunication services	-	5,944	5,944
Information technology	-	60,634	60,634
Total equities	8,900,698	300,234	9,200,932
Debt securities			
Domestic debt securities	2,825,807	-	2,825,807
Global debt securities	3,132,609	-	3,132,609
Total debt securities	5,958,416	-	5,958,416
U.S. government securities	1,385,647	-	1,385,647
Hedge funds	858,077	-	858,077
Total investments	\$ 17,380,890	\$ 1,076,307	\$ 18,457,197

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8. Investments (continued):

	2017		
	Hospital Fair Value	Historic Homes Fair Value	Total
Cash and cash equivalents	\$ 318,653	\$ 46,013	\$ 364,666
Mutual funds			
Bond	-	20,000	20,000
Fixed income	-	233,374	233,374
Total mutual funds	-	253,374	253,374
Exchange traded products			
Equities	-	280,361	280,361
Fixed income	-	178,076	178,076
Total exchange traded products	-	458,437	458,437
Equities			
Domestic	3,268,642	-	3,268,642
International	2,473,814	-	2,473,814
Industrials	-	40,005	40,005
Consumer discretionary	-	25,619	25,619
Consumer staples	-	22,480	22,480
Emerging markets	945,343	-	945,343
Energy	-	20,921	20,921
Financials	-	30,551	30,551
Health care	-	36,916	36,916
Private	1,112,551	-	1,112,551
Real estate	-	19,159	19,159
Utilities	-	12,413	12,413
Telecommunication services	-	10,693	10,693
Information technology	-	60,906	60,906
Total equities	7,800,350	279,663	8,080,013
Debt securities			
Domestic debt securities	2,622,940	-	2,622,940
Global debt securities	2,874,689	-	2,874,689
Total debt securities	5,497,629	-	5,497,629
U.S. government securities	1,094,518	-	1,094,518
Hedge funds	743,026	-	743,026
Total investments	\$ 15,454,176	\$ 1,037,487	\$ 16,491,663

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9. Beneficial Interest in Trusts:

The Organization is the beneficiary of various trusts for which it is not the trustee, valued at \$1,672,956 and \$1,659,614 in irrevocable perpetual trusts and \$215,068 and \$196,436 in a charitable remainder trust at September 30, 2018 and 2017, respectively. The Organization has reflected as assets in the balance sheets the fair value of the underlying investments in the trusts. Adjustments to the irrevocable perpetual trusts to reflect changes in the fair value are reflected in the statement of changes in net assets as unrealized appreciation (depreciation) in beneficial interest in perpetual trusts as a change in permanently restricted net assets. Adjustments to the charitable remainder trust to reflect changes in the fair value are reflected in the statement of changes in net assets as unrealized appreciation (depreciation) in charitable remainder trust as a change in temporarily restricted net assets.

10. Property and Equipment:

The major categories of property and equipment are as follows as of September 30:

	<u>2018</u>	<u>2017</u>
Buildings and improvements	\$ 30,846,978	\$ 30,119,139
Major moveable equipment	14,504,419	13,025,266
Land and land improvements	<u>2,107,294</u>	<u>1,989,723</u>
	47,458,691	45,134,128
Less accumulated depreciation	<u>28,360,035</u>	<u>26,535,309</u>
	19,098,656	18,598,819
Construction in progress	<u>676,493</u>	<u>279,898</u>
Total property and equipment	<u>\$ 19,775,149</u>	<u>\$ 18,878,717</u>

Construction in progress consisted of the following at September 30, 2018:

	<u>Total Costs</u> <u>to Date</u>	<u>Estimated</u> <u>Total Project</u> <u>Costs</u>	<u>Estimated</u> <u>Date of</u> <u>Completion</u>
CIP Transformer Project	\$ 26,839	\$ 28,000	Fall 2018
CIP Chilled Water Project	6,000	15,000	Spring 2019
CIP Rehab Pool Renovations	257,500	268,000	Fall 2018
CIP Operating Room Roof Top Units Replacement	303,957	750,000	Fall 2018
CIP Nurse Call System	7,750	200,000	Fall 2019
CIP Meaningful Use Phase 3	19,800	49,600	Spring 2019
CIP Coag Analyzer and Interface	44,125	48,250	Spring 2019
CIP Sidewalks Front of Hospital	8,000	10,000	Fall 2018
Helie's Carpet - purchase of roll of carpet	<u>2,522</u>	5,000	Spring 2019
	<u>\$ 676,493</u>		

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11. Borrowings:

Line of Credit – The Organization entered into an agreement with Mary Hitchcock Memorial Hospital and Dartmouth-Hitchcock Health in the amount of \$2,000,000. This line bears interest at current LIBOR plus 55 basis points (2.17% as of September 30, 2018). The Organization has an outstanding balance under the lines of credit of \$0 as of September 30, 2018 and 2017.

Long-Term Debt – Long-term debt consisted of the following at September 30:

	<u>2018</u>	<u>2017</u>
Note payable to Mary Hitchcock Memorial Hospital and Dartmouth-Hitchcock Health due in semiannual interest payments from July 2016 through February 2042, with an interest rate of 1.78%. Beginning in February 2042, semi-annual principal payments through February 2046 ranging from \$2,085,000 to \$2,305,000.	\$ 10,970,000	\$ 10,970,000
Non-interest bearing mortgage with the Town of Windsor, Vermont; collateralized by property and equipment. Annual principal payments of \$21,600 through 2022.	86,400	108,000
Interest-free note payable to Vermont Housing and Conservation Board (VHCB), no monthly payments, entire principal due June 2029; collateralized by land and building.	206,350	206,350
Interest-free note payable to VHCB, entire principal due June 2034; collateralized by land and buildings.	56,000	60,000
Interest free note payable to Town of Windsor, due in annual principal installments of \$31,500 from September 2014 through 2018; collateralized by land and buildings. Paid off in 2018.	-	31,500
	11,318,750	11,375,850
Less current portion	25,600	57,100
Less unamortized bond closing costs	127,253	131,837
Long-term debt, net of current portion	\$ <u>11,165,897</u>	\$ <u>11,186,913</u>

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11. Borrowings (continued):

Maturities on long-term debt for fiscal years subsequent to September 30, 2018 are as follows:

2019 (included in current liabilities)	\$ 25,600
2020	25,600
2021	25,600
2022	25,600
2023	4,000
Thereafter	<u>11,212,350</u>
	\$ <u>11,318,750</u>

The Organization is a member of the Dartmouth-Hitchcock Obligated Group (DHOG). MHMH established the DHOG in 1993 for the original purpose of issuing bonds financed through New Hampshire Health and Education Facilities Authority (NHHEFA). Other members of DHOG include MHMH, Dartmouth-Hitchcock Clinic, The Cheshire Medical Center and New London Hospital Association. Dartmouth-Hitchcock Health is designated as the obligated group agent.

Revenue bonds issued by members of the DHOG are administered through notes registered in the name of the Bond Trustee and in accordance with the terms of a Master Trust Indenture. The Master Trust Indenture contains provisions permitting the addition, withdrawal or consolidation of members of the DHOG under certain conditions. The notes constitute a joint and several obligation of the members of the DHOG (and any future members of the DHOG) and are equally and ratably collateralized by a pledge of the members' gross receipts. The Organization's note payable to MHMH and Dartmouth-Hitchcock Health was issued by NHHEFA through the DHOG. The Organization does not expect to pay any additional amounts on behalf of its co-obligors.

Capital Leases – The Hospital entered into capital leases for certain equipment. The terms of all three leases are for five years with two leases expiring during 2020 and the third expiring during 2022. The cost of the assets under capital lease as of September 30, 2018 and 2017 was \$1,040,740. Accumulated amortization on assets under capital lease at September 30, 2018 and 2017 was \$538,378 and \$332,974, respectively, and the total depreciation expense on the leases was \$205,404 and \$110,696 for 2018 and 2017, respectively.

The following is a schedule, by year, of the future minimum lease payments under capital leases as of September 30:

2019	\$ 215,075
2020	155,216
2021	125,435
2022	<u>114,982</u>
Total minimum lease payments	610,708
Less: Amount representing interest	<u>43,098</u>
Present value of minimum lease payments	567,610
Less: Current portion	<u>194,616</u>
Long-term capital lease obligations	\$ <u>372,994</u>

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12. Net Asset Composition:

The Organization's net assets were comprised of the following as of September 30, 2018:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Detail of net assets:				
Operating	\$ 3,058,821	\$ 228,518	\$ -	\$ 3,287,339
Other receivables, net	851,396	69,127	-	920,523
Property and equipment, net	19,775,149	-	-	19,775,149
Other long-term assets	263,704	-	-	263,704
Investments	13,222,638	841,902	4,218,396	18,282,936
Charitable remainder trust	-	215,068	-	215,068
Beneficial interest in perpetual interest	-	-	1,672,956	1,672,956
Long-term debt	(11,191,497)	-	-	(11,191,497)
Post-retirement benefit obligation	(4,573,284)	-	-	(4,573,284)
Total net assets	<u>\$ 21,406,927</u>	<u>\$ 1,354,615</u>	<u>\$ 5,891,352</u>	<u>\$ 28,652,894</u>

The Organization's net assets were comprised of the following as of September 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Detail of net assets:				
Operating	\$ 4,234,657	\$ 202,418	\$ -	\$ 4,437,075
Other receivables, net	569,939	206,533	-	776,472
Property and equipment, net	18,878,717	-	-	18,878,717
Other long-term assets	207,260	-	-	207,260
Investments	11,360,954	739,846	4,218,396	16,319,196
Charitable remainder trust	-	196,436	-	196,436
Beneficial interest in perpetual interest	-	-	1,659,614	1,659,614
Long-term debt	(11,244,013)	-	-	(11,244,013)
Post-retirement benefit obligation	(5,687,334)	-	-	(5,687,334)
Total net assets	<u>\$ 18,320,180</u>	<u>\$ 1,345,233</u>	<u>\$ 5,878,010</u>	<u>\$ 25,543,423</u>

13. Temporarily and Permanently Restricted Net Assets:

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

	<u>2018</u>	<u>2017</u>
Health care services	\$ 443,586	\$ 398,854
Pledges and gifts for capital improvements	69,127	206,533
Endowment accumulated earnings	<u>841,902</u>	<u>739,846</u>
	<u>\$ 1,354,615</u>	<u>\$ 1,345,233</u>

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13. Temporarily and Permanently Restricted Net Assets (continued):

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

	<u>2018</u>	<u>2017</u>
Investments to be held in perpetuity, the income from which is expendable for		
Health care services	\$ 4,130,714	\$ 4,130,714
Health care services to the indigent	86,365	86,365
Alcohol/drug rehabilitation programs	1,317	1,317
Interest in perpetual trust, the income from which is expendable for		
Health care services	1,101,743	1,073,727
Purchases of medical equipment	<u>571,213</u>	<u>585,887</u>
	<u>\$ 5,891,352</u>	<u>\$ 5,878,010</u>

14. Functional Expenses:

The Organization provides general health care services to resident within its geographic location. Expenses related to providing these services are as follows:

	<u>2018</u>	<u>2017</u>
Health care services	\$ 43,643,606	\$ 41,355,264
General and administrative	10,682,179	10,086,814
Fundraising	<u>307,585</u>	<u>235,327</u>
	<u>54,633,370</u>	<u>51,677,405</u>
Other components of net periodic benefit cost	<u>185,694</u>	<u>141,188</u>
Total operating expenses	<u>\$ 54,819,064</u>	<u>\$ 51,818,593</u>

15. Related Party Transactions:

Mount Ascutney Professional Center Owners Association – The Mount Ascutney Professional Center Owners Association (Association) is a Vermont C-Corporation Organization. The Organization owns 12 of the 13 units in the Association and leases the remaining unit. There are three members on the Board, two of which are employees of the Organization. The Organization pays all condo fees during the year. For the years ended September 30, 2018 and 2017, condo fees were approximately \$77,000 and \$72,000, respectively.

Dartmouth Hitchcock Related Organizations – Effective July 1, 2014, D-HH became the sole corporate member of the Organization through an affiliation agreement. The new affiliation is intended to strengthen the clinical services offered by the Organization, continue to improve population health in the region and reduce overall healthcare spending.

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15. Related Party Transactions (continued):

During the ordinary course of business, the Organization receives services from New England Alliance for Health (NEAH), an LLC owned and managed by MHMH, which totaled approximately \$439,000 and \$667,000 for the years ended September 30, 2018 and 2017, respectively. As of September 30, 2018 and 2017, the amount payable to NEAH was approximately \$24,500 and \$27,000, respectively.

Through NEAH, the Organization is provided professional and general liability insurance on a claims-made basis through Hamden Assurance Risk Retention Group, Inc. (RRG), a VT captive insurance company. RRG reinsures the majority of this risk to Hamden Assurance Company Limited (HAC), a captive insurance company domiciled in Bermuda and to a variety of commercial reinsurers. Dartmouth Hitchcock has ownership interests in both HAC and RRG.

The Organization contracts with Dartmouth-Hitchcock Clinic for management advisory services and other services in the ordinary course of business, which totaled approximately \$3,165,000 and \$3,215,000 for the years ended September 30, 2018 and 2017, respectively. The Organization's former and interim chief executive officers were employed by Dartmouth-Hitchcock Clinic and the Organization contracted for those services. The Organization's chief executive officer is employed by the Hospital as of January 2017. The Organization's current Chief Nursing Officer is employed by Dartmouth-Hitchcock Clinic and the Organization contracts for those services. As of September 30, 2018 and 2017, the amounts payable to Dartmouth-Hitchcock Clinic were approximately \$567,000 and \$544,000, respectively.

During the ordinary course of business, the Organization receives services from MHMH which totaled approximately \$348,000 and \$114,000 for the years ended September 30, 2018 and 2017, respectively. As of September 30, 2018 and 2017, the amount payable to MHMH was approximately \$47,000 and \$31,500, respectively.

The Organization pays interest to MHMH for the line of credit and note payable, which totaled approximately \$198,000 and \$209,000 for the years ended September 30, 2018 and 2017, respectively.

During 2017, Dartmouth-Hitchcock Health transferred \$1,315,000 of unrestricted net assets to the Organization in the form of cash to help support the Organization.

16. Commitments and Contingencies:

Litigation – The health care industry is subject to numerous laws and regulations of federal, state and local governments. Government activity is ongoing with respect to investigations and allegations concerning possible violations by health care providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Compliance with such laws and regulations can be subject to future government review and interpretations, as well as regulatory actions unknown or unasserted at this time. Management believes that the Hospital is in substantial compliance with current laws and regulations.

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16. Commitments and Contingencies (continued):

Investment Risk – The Organization invests in a combination of investment vehicles. Investments are exposed to various risks such as interest rate, market and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in the values of investments in the near term could materially affect the amounts reported in the statements of financial position.

Workers' Compensation – The Organization's high deductible workers' compensation plan ended June 1, 2010 and had accrued liabilities of approximately \$0 at September 30, 2018 and 2017.

Self-Insurance – During 2012, the Hospital 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 the plan individually of \$125,000 and the aggregate limit is determined by the greater of \$2,600,000, or a multiplication of the enrollment and the single and family factors assigned to the aggregate stop loss. Additionally, Dartmouth Hitchcock covers costs at the individual level that are greater than \$125,000, up to a maximum of \$750,000. The accompanying financial statements include an accrual for management's estimate of claims incurred, but not reported, of approximately \$342,000 and \$295,000 as of September 30, 2018 and 2017, respectively. The total cost of the health insurance plan was approximately \$4,066,000 and \$3,219,000 for the years ended September 30, 2018 and 2017, respectively.

Professional Liability Insurance and Litigation – 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. generally accepted accounting principles 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 a separate asset. The Hospital has evaluated its exposure to losses arising from potential claims and has accrued an additional \$240,470 and \$230,469 for the years ended September 30, 2018 and 2017, respectively, which is included in other liabilities on the consolidated balance sheet.

The Organization is involved in litigation and investigations arising in the normal course of business. After consultation with legal counsel, management estimates that these investigations are within insurance coverage limits and those matters will be resolved without a material adverse effect on the Organization's future financial position or results from operations. Management has not recorded any liabilities related to these investigations.

Operating Leases – The Organization has leases for medical care space and has various leases for medical and office equipment with original terms through December 2026.

Future minimum payments under these leases are as follows:

Years ending September 30,	
2019	\$ 584,820
2020	533,909
2021	462,426
2022	458,442
2023	472,195

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16. Commitments and Contingencies (continued):

Lease expense for the years ended September 30, 2018 and 2017 was approximately \$725,000 and \$719,000, respectively.

17. Concentrations of Credit Risk:

The Organization grants credit without collateral to their patients, most of whom are local residents and are insured under third-party payor agreements. The mix of accounts receivable from patients and third-party payors, exclusive of estimated settlements, was as follows as of September 30:

	<u>2018</u>	<u>2017</u>
Medicare	51%	52%
Medicaid	9	7
Blue Cross	14	15
Other third-party payers	21	20
Patients	<u>5</u>	<u>6</u>
	<u>100%</u>	<u>100%</u>

The Organization maintains its cash in bank deposits which may at times exceed federally insured limits. The Organization has not experienced any losses in such accounts. Management believes the Organization is not exposed to any significant risk on cash and cash equivalents.

18. Benefit Plans:

403(b) Savings Plan – The Organization has a 403(b) savings plan under which eligible employees may contribute a percentage of their annual salaries to the savings plan. The Organization may make discretionary matching contributions as well as discretionary contributions. The Organization made a 4% match on salaries for the 2017 calendar plan year and had accrued \$959,091 at September 30, 2017 and will make up to a 4% match on salaries for the 2018 calendar plan year and has accrued \$1,007,076 at September 30, 2018.

Defined Benefit Pension Plan and Retiree Medical Plan – The Board of Trustees voted to curtail benefits under the defined benefit plan, effective December 31, 2012. All benefits for active employees became fully vested at that time. The projected benefit obligation at September 30, 2013 has been adjusted to reflect a curtailment gain of \$1,785,782, which is primarily due to the elimination of deferred losses. There are no immediate plans to fund a full payoff of the benefit obligation; however, the Hospital is proceeding in reducing the obligation with other strategies.

In addition to providing pension benefits, the Organization provides health care benefits for retired employees and their spouses. The Organization has not funded the health care plan other than to pay current benefits. Retirees are required to make partial contributions if they choose to participate and if they elect to have their dependents covered. The Organization’s contributions made in 2018 and 2017 were \$47,106 and \$43,556, respectively.

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18. Benefit Plans (continued):

The following tables set forth the funded status of the plans and the amounts recognized in the Organization's financial statements as of and for the years ended September 30:

	<u>2018</u>	<u>2017</u>
Change in benefit obligation		
Projected benefit obligation, beginning of year	\$ 18,001,656	\$ 18,901,263
Service costs	150,000	150,000
Interest costs	715,599	738,511
Liability gain	(657,562)	(444,803)
Expenses paid	(170,263)	(172,142)
Settlements	(843,720)	-
Benefits paid	<u>(818,114)</u>	<u>(1,171,173)</u>
Projected benefit obligation at September 30	\$ <u>16,377,596</u>	\$ <u>18,001,656</u>
Accumulated benefit obligation	\$ <u>16,377,596</u>	\$ <u>18,001,656</u>
Change in plan assets		
Fair value of plan assets, beginning of year	\$ 12,314,322	\$ 11,705,381
Actual return on plan assets	692,981	1,244,800
Employer contributions	629,106	707,456
Expenses paid	(170,263)	(172,142)
Settlements	(843,720)	-
Benefits paid	<u>(818,114)</u>	<u>(1,171,173)</u>
Fair value of plan assets at September 30	\$ <u>11,804,312</u>	\$ <u>12,314,322</u>
Funded status at September 30, accrued liability	\$ <u>(4,573,284)</u>	\$ <u>(5,687,334)</u>
Actuarial loss not yet reflected in net periodic benefit cost and included in change in net assets	\$ <u>1,102,961</u>	\$ <u>1,709,423</u>

Net postretirement benefit cost for fiscal years 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Service costs	\$ <u>150,000</u>	\$ <u>150,000</u>
Interest costs	715,599	738,511
Recognized net actuarial loss	<u>(901,293)</u>	<u>(879,699)</u>
Other components of net periodic benefit cost	<u>(185,694)</u>	<u>(141,188)</u>
Total postretirement benefit cost	\$ <u>(35,694)</u>	\$ <u>(8,812)</u>

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18. Benefit Plans (continued):

The prior service costs and net loss for the plans that are expected to be amortized from unrestricted net assets in net postretirement benefit cost over the next fiscal year are \$3,629.

The weighted average assumptions used in the measurement of the Hospital's benefit obligation at September 30 are shown in the following table:

	<u>2018</u>	<u>2017</u>
Discount rate	4.20%	4.20%
Rate of compensation increase	-	-

The weighted average assumption used in the measurement of the Hospital's net periodic postretirement cost for the years ended September 30 are shown in the following table:

	<u>2018</u>	<u>2017</u>
Discount rate	4.20%	4.00%
Expected long-term return on plan assets	7.50%	7.75%
Rate of compensation increase	-	-

The Organization considers various factors in estimating the expected long-term rate of return on plan assets. Among the factors considered are the historical long-term returns on plan assets, the current and expected allocation of plan assets, input from actuaries and investment consultants and long-term inflation assumptions. The expected allocation of plan assets is based on a diversified portfolio consisting of domestic and international equity and fixed income securities.

The health care costs have been based on health care coverage for plan retirees. A 1% point change in health care cost trends would have the following effects as of September 30, 2018:

	<u>1% Point</u> <u>Decrease</u>	<u>1% Point</u> <u>Increase</u>
Service and interest costs	\$ 25,198	\$ 30,456
Postretirement benefit obligation	549,082	651,794

Plan Assets – Under the policy of the Organization, the pension assets are invested conservatively with the intent of providing a predictable stream of funding to the plan. The Organization invests in life insurance annuities, equity mutual funds, bond mutual funds and money market investments to achieve its long-term return objectives within limited risk constraints. Actual returns in any year may vary from budgeted amounts due to market fluctuations. The Organization's postretirement plan asset allocations at September 30 are as follows:

<u>Asset Category</u>	<u>2018</u>	<u>2017</u>
Equity securities	56%	56%
Debt securities	43	43
Cash equivalents	0	0
Other	<u>1</u>	<u>1</u>
Total	<u>100%</u>	<u>100%</u>

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18. Benefit Plans (continued):

Cash Flows – The Organization funds the Plan annually by making a contribution of at least the minimum amount required by applicable regulations and as recommended by the Plan’s actuary. However, the Organization may also fund the Plan in excess of the minimum required amount. The Organization expects to contribute approximately \$380,000 in fiscal year 2019.

Cash contributions in subsequent years will depend on a number of factors including performance of Plan assets.

Projected benefit payments	
2019	\$ 831,651
2020	895,103
2021	947,781
2022	994,773
2023	1,028,177
2024-2028	5,339,511

Risks – The Plan 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 changes could materially affect the amounts reported.

19. Fair Value Measurements:

FASB ASC 820 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. 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.

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19. Fair Value Measurements (continued):

Assets and liabilities measured at fair value on a recurring basis are summarized below. Fair values were primarily determined using market and income approaches.

Fair Value Measurements at September 30, 2018

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Cash and cash equivalents	\$ 307,332	\$ -	\$ -	\$ 307,332
Mutual funds				
Bond	50,015	-	-	50,015
Fixed income	235,952	-	-	235,952
Total mutual funds	285,967	-	-	285,967
Exchange traded products				
Equities	314,777	-	-	314,777
Fixed income	146,049	-	-	146,049
Total exchange traded products	460,826	-	-	460,826
Equities				
Domestic	3,474,499	-	-	3,474,499
International	897,787	-	-	897,787
Industrials	35,772	-	-	35,772
Consumer discretionary	20,464	-	-	20,464
Consumer staples	21,815	-	-	21,815
Energy	34,161	-	-	34,161
Financials	47,318	-	-	47,318
Health care	41,922	-	-	41,922
Real estate	15,026	-	-	15,026
Utilities	12,066	-	-	12,066
Telecommunication services	5,944	-	-	5,944
Information technology	60,634	-	-	60,634
Total equities	4,667,408	-	-	4,667,408
Debt securities				
Global debt securities	808,936	239,745	-	1,048,681
Domestic debt securities	725,797	543,534	-	1,269,331
Total debt securities	1,534,733	783,279	-	2,318,012
U.S. Government securities	1,385,647	-	-	1,385,647
Beneficial interest in perpetual trusts	-	-	1,672,956	1,672,956
Charitable remainder trust	-	-	215,068	215,068
	\$ 8,641,913	\$ 783,279	\$ 1,888,024	\$ 11,313,216
Investments measured at net asset value				9,032,005
Total assets				\$ 20,345,221

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19. Fair Value Measurements (continued):

Fair Value Measurements at September 30, 2018

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments held by defined benefit pension plan:				
Cash and cash equivalents	\$ 172,201	\$ -	\$ -	\$ 172,201
Equity mutual funds				
Real estate	357,176	-	-	357,176
Small cap	822,061	-	-	822,061
Emerging markets	320,621	-	-	320,621
Growth	3,807,968	-	-	3,807,968
Foreign stock	1,160,809	-	-	1,160,809
Total equity mutual funds	<u>6,468,635</u>	<u>-</u>	<u>-</u>	<u>6,468,635</u>
Fixed income mutual funds				
Emerging markets	428,292	-	-	428,292
U.S. fixed income	3,031,489	-	-	3,031,489
Global	829,125	-	-	829,125
Total fixed income mutual funds	<u>4,288,906</u>	<u>-</u>	<u>-</u>	<u>4,288,906</u>
U.S. Treasury obligations	400,859	-	-	400,859
U.S. Government agencies	149,299	-	-	149,299
Corporate and Foreign bonds	324,412	-	-	324,412
Total investments held by				

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19. Fair Value Measurements (continued):

Fair Value Measurements at September 30, 2017

Fair Value Measurements at September 30, 2017				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Cash and cash equivalents	\$ 364,666	\$ -	\$ -	\$ 364,666
Mutual funds				
Bond	20,000	-	-	20,000
Fixed income	233,374	-	-	233,374
Total mutual funds	253,374	-	-	253,374
Exchange traded products				
Equities	280,361	-	-	280,361
Fixed income	178,076	-	-	178,076
Total exchange traded products	458,437	-	-	458,437
Equities				
Domestic	2,944,690	-	-	2,944,690
Industrials	40,005	-	-	40,005
Consumer discretionary	25,619	-	-	25,619
Consumer staples	22,480	-	-	22,480
Energy	20,921	-	-	20,921
Financials	30,551	-	-	30,551
Health care	36,916	-	-	36,916
Real estate	19,159	-	-	19,159
Utilities	12,413	-	-	12,413
Telecommunication services	10,693	-	-	10,693
Information technology	60,906	-	-	60,906
Total equities	3,224,353	-	-	3,224,353
Debt securities				
Global debt securities	665,956	212,954	-	878,910
Domestic debt securities	1,424,097	485,162	-	1,909,259
Total debt securities	2,090,053	698,116	-	2,788,169
U.S. Government securities	1,094,518	-	-	1,094,518
Beneficial interest in perpetual trusts	-	-	1,659,614	1,659,614
Charitable remainder trust	-	-	196,436	196,436
	\$ 7,485,401	\$ 698,116	\$ 1,856,050	10,039,567

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19. Fair Value Measurements (continued):

Fair Value Measurements at September 30, 2017

Investments measured at net asset value				8,308,146
Total assets				\$ <u>18,347,713</u>
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments held by defined benefit pension plan:				
Cash and cash equivalents	\$ 148,898	\$ -	\$ -	\$ 148,898
Equity mutual funds				
Real estate	370,689	-	-	370,689
Small cap	887,449	-	-	887,449
Emerging markets	381,558	-	-	381,558
Growth	4,248,063	-	-	4,248,063
Foreign stock	931,050	-	-	931,050
Total equity mutual funds	<u>6,818,809</u>	<u>-</u>	<u>-</u>	<u>6,818,809</u>
Fixed income mutual funds				
Emerging markets	470,223	-	-	470,223
U.S. fixed income	3,143,385	-	-	3,143,385
Global	827,263	-	-	827,263
Total fixed income mutual funds	<u>4,440,871</u>	<u>-</u>	<u>-</u>	<u>4,440,871</u>
U.S. Treasury obligations	<u>442,969</u>	<u>-</u>	<u>-</u>	<u>442,969</u>
U.S. Government agencies	<u>110,705</u>	<u>-</u>	<u>-</u>	<u>110,705</u>

The Organization's other financial instruments consist of cash and cash equivalents, trade accounts receivable and payable, estimated third-party payor settlements and long-term debt. The carrying values of these financial instruments approximate their fair values.

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AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of and for the Years Ended September 30, 2018 and 2017

19. Fair Value Measurements (continued):

The following table summarizes Level 3 instruments measured at fair value on a recurring basis as of September 30, 2018:

	Beneficial Interest in Perpetual <u>Trusts</u>	Charitable Remainder <u>Trust</u>
Balance at September 30, 2017	\$ 1,659,614	\$ 196,436
Unrealized appreciation	<u>13,342</u>	<u>18,632</u>
Balance at September 30, 2018	<u>\$ 1,672,956</u>	<u>\$ 215,068</u>

The following table summarizes Level 3 instruments measured at fair value on a recurring basis as of September 30, 2017:

	Beneficial Interest in Perpetual <u>Trusts</u>	Charitable Remainder <u>Trust</u>
Balance at September 30, 2016	\$ 1,631,675	\$ 199,252
Unrealized appreciation	27,939	22,527
Net assets released from restrictions used for operations	<u>-</u>	<u>(25,343)</u>
Balance at September 30, 2017	<u>\$ 1,659,614</u>	<u>\$ 196,436</u>

The fair value of Level 2 assets is primarily based on quoted market prices of underlying assets, comparable securities, interest rates, and credit risk. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Level 3 investments are valued using discounted cash flow methodologies.

20. Meaningful Use Revenues:

The Medicare and Medicaid electronic health record (EHR) incentive programs provide a financial incentive for achieving “meaningful use” of certified EHR technology. The criteria for meaningful use was staged in three steps from fiscal year 2013 through 2016. The meaningful use attestation is subject to audit by CMS in future years. As part of this process, a final settlement amount for the incentive payments could be established that differs from the initial calculation and could result in return of a portion or all of the incentive payments received by the Hospital.

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Notes to Consolidated Financial Statements

As of and for the Years Ended September 30, 2018 and 2017

20. Meaningful Use Revenues (continued):

The Medicaid program will provide incentive payments to hospitals and eligible professionals as they adopt, implement, upgrade or demonstrate meaningful use in the first year of participation and demonstrate meaningful use for up to five remaining participation years.

For the years ended September 30, 2018 and 2017, the Hospital recorded meaningful use revenue from the Medicaid and Medicare EHR programs for \$290,689 and \$10,000, respectively. Revenue from the programs is included in other operating revenue.

21. OneCare Vermont:

The Hospital entered into an agreement with OneCare Vermont Accountable Care Organization, LLC to participate in the Vermont Medicaid Next Generation Model effective January 1, 2018 through December 31, 2021. The agreement can be extended for additional one-year terms. This is an alternative payment and population health management program with Medicaid. Under the program, the Hospital receives fixed monthly payments to provide care for their number of attributable lives, but per the agreement, the Hospital is still required to submit actual patient service claims. Therefore, the revenue associated with the actual patient services is included in gross patient service revenue and contractual allowances for the year ended September 30, 2018. To the extent patient service claims have not yet been processed to inform the Hospital the patient is covered under this program, there are patient accounts receivable included on the consolidated balance sheet as of September 30, 2018.

As the actual payments received under the agreement are from a risk-based contract, the actual earned payments are reported separately from patient service revenue and was \$732,703 and \$0 for the years ended September 30, 2018 and 2017, respectively.

Included in estimated settlements with third-party payors on the consolidated balance sheets is an estimated settlement for the program of \$55,750 and \$0 as of September 30, 2018 and 2017, respectively.

22. Subsequent Events:

The Organization has reviewed events occurring after September 30, 2018 through _____, 2018, the date management accepted the final draft of the financial statements and made them available to be issued. The Organization has not reviewed events occurring after the report date, _____, 2018, for their potential impact on the information contained in these consolidated financial statements.

WINDSOR HOSPITAL CORPORATION
(d/b/a MT. ASCUTNEY HOSPITAL AND HEALTH CENTER) AND SUBSIDIARIES
Consolidating Balance Sheets – Assets
As of September 30, 2018

	<u>Mt. Ascutey Hospital and Health Center</u>	<u>Historic Homes of Runnemedede, Inc.</u>	<u>Eliminations</u>	<u>Consolidated</u>
Assets				
Current assets				
Cash and cash equivalents	\$ 7,053,318	\$ 81,932	\$ -	\$ 7,135,250
Restricted cash	116,888	2,594	-	119,482
Short-term investments	174,261	-	-	174,261
Patient accounts receivable, net	5,816,466	-	-	5,816,466
Current portion of pledges receivable, net	41,948	-	-	41,948
Other receivables, net	811,062	52,910	(12,576)	851,396
Inventories	459,566	-	-	459,566
Prepaid expenses	472,047	23,591	-	495,638
Total current assets	<u>14,945,556</u>	<u>161,027</u>	<u>(12,576)</u>	<u>15,094,007</u>
Assets whose use is limited or restricted				
Investments	17,206,629	1,076,307	-	18,282,936
Charitable remainder trust	215,068	-	-	215,068
Beneficial interest in perpetual trusts	1,672,956	-	-	1,672,956
Total assets whose use is limited or restricted	<u>19,094,653</u>	<u>1,076,307</u>	<u>-</u>	<u>20,170,960</u>
Property and equipment, net	18,085,242	1,689,907	-	19,775,149
Pledges receivable, less current portion shown above	27,179	-	-	27,179
Other assets	2,692,351	-	(2,428,647)	263,704
Total assets	<u>\$ 54,844,981</u>	<u>\$ 2,927,241</u>	<u>\$ (2,441,223)</u>	<u>\$ 55,330,999</u>

WINDSOR HOSPITAL CORPORATION
(d/b/a MT. ASCUTNEY HOSPITAL AND HEALTH CENTER) AND SUBSIDIARIES
Consolidating Balance Sheets – Liabilities and Net Assets
As of September 30, 2018

	<u>Mt. Ascutney Hospital and Health Center</u>	<u>Historic Homes of Runnemeade, Inc.</u>	<u>Eliminations</u>	<u>Consolidated</u>
Liabilities				
Current liabilities				
Accounts payable and accrued expense	\$ 3,342,226	\$ 98,281	\$ (12,576)	\$ 3,427,931
Construction payable	259,332	-	-	259,332
Accrued salaries and wages	2,172,810	49,158	-	2,221,968
Accrued earned time off	1,463,568	-	-	1,463,568
Other current liabilities	1,433,645	2,405	-	1,436,050
Estimated settlements with third-party payors	1,396,395	-	-	1,396,395
Current portion of long-term debt	-	25,600	-	25,600
Current portion of capital leases	194,616	-	-	194,616
Total current liabilities	<u>10,262,592</u>	<u>175,444</u>	<u>(12,576)</u>	<u>10,425,460</u>
Long-term debt, less current portion shown above	10,842,747	323,150	-	11,165,897
Capital leases, less current portion shown above	372,994	-	-	372,994
Post-retirement benefit obligation	4,573,284	-	-	4,573,284
Other liabilities	240,470	-	-	240,470
Total liabilities	<u>26,292,087</u>	<u>498,594</u>	<u>(12,576)</u>	<u>26,778,105</u>
Net assets				
Unrestricted	21,306,927	2,428,647	(2,428,647)	21,306,927
Temporarily restricted	1,354,615	-	-	1,354,615
Permanently restricted	5,891,352	-	-	5,891,352
Total net assets	<u>28,552,894</u>	<u>2,428,647</u>	<u>(2,428,647)</u>	<u>28,552,894</u>
Total liabilities and net assets	<u>\$ 54,844,981</u>	<u>\$ 2,927,241</u>	<u>\$ (2,441,223)</u>	<u>\$ 55,330,999</u>

WINDSOR HOSPITAL CORPORATION
(d/b/a MT. ASCUTNEY HOSPITAL AND HEALTH CENTER) AND SUBSIDIARIES
Consolidating Balance Sheets – Assets
As of September 30, 2017

	<u>Mt. Ascutney Hospital and Health Center</u>	<u>Historic Homes of Runnemede, Inc.</u>	<u>Eliminations</u>	<u>Consolidated</u>
Assets				
Current assets				
Cash and cash equivalents	\$ 5,978,940	\$ 120,671	\$ -	\$ 6,099,611
Restricted cash	115,957	3,663	-	119,620
Short-term investments	172,467	-	-	172,467
Patient accounts receivable, net	5,725,139	-	-	5,725,139
Current portion of pledges receivable, net	141,992	-	-	141,992
Other receivables, net	560,273	23,779	(14,113)	569,939
Inventories	478,194	-	-	478,194
Prepaid expenses	581,355	15,917	-	597,272
Total current assets	<u>13,754,317</u>	<u>164,030</u>	<u>(14,113)</u>	<u>13,904,234</u>
Assets whose use is limited or restricted				
Investments	15,281,709	1,037,487	-	16,319,196
Charitable remainder trust	196,436	-	-	196,436
Beneficial interest in perpetual trusts	1,659,614	-	-	1,659,614
Total assets whose use is limited or restricted	<u>17,137,759</u>	<u>1,037,487</u>	<u>-</u>	<u>18,175,246</u>
Property and equipment, net	17,135,210	1,743,507	-	18,878,717
Pledges receivable, less current portion shown above	64,541	-	-	64,541
Other assets	2,604,059	-	(2,396,799)	207,260
Total assets	<u>\$ 50,695,886</u>	<u>\$ 2,945,024</u>	<u>\$ (2,410,912)</u>	<u>\$ 51,229,998</u>

WINDSOR HOSPITAL CORPORATION
(d/b/a MT. ASCUTNEY HOSPITAL AND HEALTH CENTER) AND SUBSIDIARIES
Consolidating Balance Sheets – Liabilities and Net Assets
As of September 30, 2017

	<u>Mt. Ascutney Hospital and Health Center</u>	<u>Historic Homes of Runnemedede, Inc.</u>	<u>Eliminations</u>	<u>Consolidated</u>
Liabilities				
Current liabilities				
Accounts payable and accrued expense	\$ 1,947,935	\$ 95,967	\$ (14,113)	\$ 2,029,789
Construction payable	108,000	-	-	108,000
Accrued salaries and wages	1,961,700	44,003	-	2,005,703
Accrued earned time off	1,405,555	-	-	1,405,555
Other current liabilities	1,086,157	2,405	-	1,088,562
Estimated settlements with third-party payors	1,133,202	-	-	1,133,202
Current portion of long-term debt	-	57,100	-	57,100
Current portion of capital leases	186,708	-	-	186,708
Total current liabilities	<u>7,829,257</u>	<u>199,475</u>	<u>(14,113)</u>	<u>8,014,619</u>
Long-term debt, less current portion shown above	10,838,163	348,750	-	11,186,913
Capital leases, less current portion shown above	567,240	-	-	567,240
Post-retirement benefit obligation	5,687,334	-	-	5,687,334
Other liabilities	230,469	-	-	230,469
Total liabilities	<u>25,152,463</u>	<u>548,225</u>	<u>(14,113)</u>	<u>25,686,575</u>
Net assets				
Unrestricted	18,320,180	2,396,799	(2,396,799)	18,320,180
Temporarily restricted	1,345,233	-	-	1,345,233
Permanently restricted	5,878,010	-	-	5,878,010
Total net assets	<u>25,543,423</u>	<u>2,396,799</u>	<u>(2,396,799)</u>	<u>25,543,423</u>
Total liabilities and net assets	<u>\$ 50,695,886</u>	<u>\$ 2,945,024</u>	<u>\$ (2,410,912)</u>	<u>\$ 51,229,998</u>

WINDSOR HOSPITAL CORPORATION
(d/b/a MT. ASCUTNEY HOSPITAL AND HEALTH CENTER) AND SUBSIDIARIES
Consolidating Statement of Operations
For the Year Ended September 30, 2018

	Mt. Ascutney Hospital and Health Center	Historic Homes of Runnemedede, Inc.	Eliminations	Consolidated
Unrestricted revenues, gains and other support				
Patient service revenue (net of contractual allowances and discounts)	\$ 51,617,817	\$ -	\$ -	\$ 51,617,817
Less provision for doubtful accounts	1,541,879	-	-	1,541,879
Net patient service revenue	<u>50,075,938</u>	<u>-</u>	<u>-</u>	<u>50,075,938</u>
Other operating revenue	3,655,509	1,520,400	(186,822)	4,989,087
One Care Vermont	732,703	-	-	732,703
Net assets released from restrictions used for operations	29,954	-	-	29,954
Total unrestricted revenues, gains and other support	<u>54,494,104</u>	<u>1,520,400</u>	<u>(186,822)</u>	<u>55,827,682</u>
Expenses				
Salaries and wages	25,103,785	743,219	-	25,847,004
Employee benefits	7,242,147	188,796	(35,918)	7,395,025
Purchased services	9,712,926	150,809	(135,970)	9,727,765
Supplies and expenses	7,324,212	356,325	(14,934)	7,665,603
Vermont provider tax	1,762,965	-	-	1,762,965
Interest	231,119	-	-	231,119
Depreciation	2,072,075	117,508	-	2,189,583
Total expenses	<u>53,449,229</u>	<u>1,556,657</u>	<u>(186,822)</u>	<u>54,819,064</u>
Income (loss) from operations	<u>1,044,875</u>	<u>(36,257)</u>	<u>-</u>	<u>1,008,618</u>
Nonoperating revenue (expense)				
Net investment income	523,627	31,363	-	554,990
Contributions	252,994	4,150	-	257,144
Gain on sale of property and equipment	7,378	-	-	7,378
Endowment net assets released from restrictions used for operations	187,437	-	-	187,437
Other components of net periodic benefit cost	185,694	-	-	185,694
Total nonoperating revenue	<u>1,157,130</u>	<u>35,513</u>	<u>-</u>	<u>1,192,643</u>
Excess of revenues, gains, and other support over (under) expenses and nonoperating revenue	2,202,005	(744)	-	2,201,261
Unrealized gain on investments	110,784	32,592	-	143,376
Net assets released from restrictions used for acquisition of property and equipment	145,754	-	-	145,754
Equity in income of subsidiaries	31,848	-	(31,848)	-
Change in net assets to recognize funded status of post-retirement plans	496,356	-	-	496,356
Increase in unrestricted net assets	<u>\$ 2,986,747</u>	<u>\$ 31,848</u>	<u>\$ (31,848)</u>	<u>\$ 2,986,747</u>

WINDSOR HOSPITAL CORPORATION
(d/b/a MT. ASCUTNEY HOSPITAL AND HEALTH CENTER) AND SUBSIDIARIES
Consolidating Statement of Operations
For the Year Ended September 30, 2017

	<u>Mt. Ascutey Hospital and Health Center</u>	<u>Historic Homes of Runnemedede, Inc.</u>	<u>Eliminations</u>	<u>Consolidated</u>
Unrestricted revenues, gains and other support				
Patient service revenue (net of contractual allowances and discounts)	\$ 49,978,768	\$ -	\$ -	\$ 49,978,768
Less provision for doubtful accounts	1,725,743	-	-	1,725,743
Net patient service revenue	<u>48,253,025</u>	-	-	<u>48,253,025</u>
Other operating revenue	3,559,549	1,570,493	(152,751)	4,977,291
Net assets released from restrictions used for operations	53,654	-	-	53,654
Total unrestricted revenues, gains and other support	<u>51,866,228</u>	<u>1,570,493</u>	<u>(152,751)</u>	<u>53,283,970</u>
Expenses				
Salaries and wages	24,032,701	734,735	-	24,767,436
Employee benefits	6,257,323	194,953	(34,724)	6,417,552
Purchased services	8,764,326	158,219	(114,983)	8,807,562
Supplies and expenses	7,432,214	348,951	(3,044)	7,778,121
Vermont provider tax	1,617,571	-	-	1,617,571
Interest	223,998	-	-	223,998
Depreciation	2,100,247	106,106	-	2,206,353
Total expenses	<u>50,428,380</u>	<u>1,542,964</u>	<u>(152,751)</u>	<u>51,818,593</u>
Income from operations	<u>1,437,848</u>	<u>27,529</u>	<u>-</u>	<u>1,465,377</u>
Nonoperating revenue (expense)				
Net investment income	392,515	29,979	-	422,494
Contributions	192,388	10,290	-	202,678
Loss on sale of property and equipment	(47,465)	-	-	(47,465)
Endowment net assets released from restrictions used for operations	184,785	-	-	184,785
Other components of net periodic benefit cost	141,188	-	-	141,188
Total nonoperating revenue	<u>863,411</u>	<u>40,269</u>	<u>-</u>	<u>903,680</u>
Excess of revenue, gains and other support over (under) expenses and nonoperating revenue and before discontinued operations	2,301,259	67,798	-	2,369,057
Unrealized gain on investments	678,333	42,811	-	721,144
Net assets released from restrictions used for acquisition of property and equipment	499,041	-	-	499,041
Equity in income of subsidiaries	110,609	-	(110,609)	-
Transfer of net assets from Dartmouth Hitchcock-Health	1,315,000	-	-	1,315,000
Change in net assets to recognize funded status of post-retirement plans	986,472	-	-	986,472
Increase in unrestricted net assets	<u>\$ 5,890,714</u>	<u>\$ 110,609</u>	<u>\$ (110,609)</u>	<u>\$ 5,890,714</u>