BerryDunn

NORTHWESTERN MEDICAL CENTER, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

with

SUPPLEMENTARY INFORMATION

September 30, 2019 and 2018

With Independent Auditor's Report

BerryDunn

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Northwestern Medical Center, Inc. and Subsidiaries

We have audited the accompanying consolidated financial statements of Northwestern Medical Center, Inc. and Subsidiaries (Hospital), which comprise the consolidated balance sheets as of September 30, 2019 and 2018, 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 Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Northwestern Medical Center, Inc. and Subsidiaries as of September 30, 2019 and 2018, and the results of their operations, changes in their net assets and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Board of Directors
Northwestern Medical Center, Inc. and Subsidiaries

Report on Consolidating Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information contained in Schedule 1 is presented for purposes of additional analysis, rather than to present the financial position of the individual entities, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Emphasis of Matter

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, during 2019 the Hospital adopted new accounting guidance, Financial Accounting Standards Board Accounting Standards Update No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*. Our opinion is not modified with respect to this matter.

Berry Dunn McNeil & Parker, LLC

Manchester, New Hampshire
December 20, 2019
Registration No. 92-0000278

NORTHWESTERN MEDICAL CENTER, INC.
AND SUBSIDIARIES

Consolidated Balance Sheets

September 30, 2019 and 2018

ASSETS

	2019	2018
Current assets		
Cash and cash equivalents	$ 7,337,136	$ 6,600,858
Patient accounts receivable, net	10,203,751	9,004,130
Contributions receivable, net	269,470	388,831
Short-term investments	9,195,885	11,244,196
Other current assets	9,960,802	4,574,499
Total current assets	36,967,044	31,812,514
Assets limited as to use	24,902,881	23,214,513
Investments	39,534,239	49,273,723
Property and equipment, net	68,886,164	68,301,008
Other long-term assets	149,928	147,890
Interest rate swaps	-	854,045
Total assets	$ 170,440,256	$ 173,603,693

LIABILITIES AND NET ASSETS

	2019	2018
Current liabilities		
Accounts payable	$ 3,869,293	$ 3,796,890
Salaries, wages and payroll taxes	3,717,581	3,617,976
Other accrued expenses	5,985,820	1,101,640
Estimated third-party settlements	2,237,975	3,119,075
Current portion of long-term debt	1,536,621	1,499,069
Total current liabilities	17,347,290	13,134,650
Deferred compensation	3,133,318	2,830,582
Long-term debt, net of current portion and unamortized bond issuance costs	29,733,225	31,258,049
Interest rate swaps	1,312,413	-
Total liabilities	51,526,246	47,223,281
Net assets		
Without donor restrictions	114,259,357	122,752,719
With donor restrictions	4,654,653	3,627,693
Total net assets	118,914,010	126,380,412
Total liabilities and net assets	$ 170,440,256	$ 173,603,693

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

NORTHWESTERN MEDICAL CENTER, INC.
AND SUBSIDIARIES

Consolidated Statements of Operations

Years Ended September 30, 2019 and 2018

	2019	2018
Revenues, gains, and other support without donor restrictions		
Patient service revenue (net of contractual allowances and discounts)	**$ 94,958,265**	$ 96,589,491
Less provision for bad debts	**6,899,922**	6,470,850
Net patient service revenue	**88,058,343**	90,118,641
Other operating revenue	**2,452,006**	3,125,487
Fixed prospective revenue	**18,592,593**	14,656,494
Net assets released from restriction used for operations	**1,347,930**	3,031,066
Total revenues, gains and other support without donor restrictions	**110,450,872**	110,931,688
Expenses		
Salaries and wages	**56,737,225**	54,291,258
Employee benefits	**13,817,361**	12,204,498
Supplies	**12,271,017**	13,138,452
Contracted services	**16,643,372**	17,246,141
Depreciation	**5,696,513**	5,099,464
Travelers' expense	**607,900**	210,117
Health care improvement tax	**6,345,312**	6,169,059
Other operating	**6,839,608**	6,296,338
Interest	**770,957**	705,043
Total expenses	**119,729,265**	115,360,370
Loss from operations	**(9,278,393)**	(4,428,682)
Nonoperating gains (losses)		
Net investment income	**4,123,759**	3,608,207
Unrealized (losses) gains on interest rate swaps	**(2,166,458)**	1,287,308
Unrealized losses on investments	**(1,709,051)**	(19,647)
Other	**536,781**	171,505
Nonoperating gains, net	**785,031**	5,047,373
(Deficit) excess of revenues over expenses and (decrease) increase in net assets without donor restrictions	**$ (8,493,362)**	$ 618,691

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

NORTHWESTERN MEDICAL CENTER, INC.
AND SUBSIDIARIES

Consolidated Statements of Changes in Net Assets

Years Ended September 30, 2019 and 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Balances, October 1, 2017	$122,134,028	$ 4,209,277	$126,343,305
Excess of revenues over expenses	618,691	-	618,691
Contributions	-	2,415,162	2,415,162
Appreciation in beneficial interest in perpetual trusts	-	25,778	25,778
Net investment gain	-	8,542	8,542
Net assets released from restriction used for operations	-	(3,031,066)	(3,031,066)
Net increase (decrease) in net assets	618,691	(581,584)	37,107
Balances, September 30, 2018	122,752,719	3,627,693	126,380,412
Deficit of revenues over expenses	**(8,493,362)**	**-**	**(8,493,362)**
Contributions	**-**	**2,380,659**	**2,380,659**
Appreciation in beneficial interest in perpetual trusts	**-**	**1,334**	**1,334**
Net investment loss	**-**	**(7,103)**	**(7,103)**
Net assets released from restriction used for operations	**-**	**(1,347,930)**	**(1,347,930)**
Net (decrease) increase in net assets	**(8,493,362)**	**1,026,960**	**(7,466,402)**
Balances, September 30, 2019	**$114,259,357**	**$ 4,654,653**	**$118,914,010**

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

NORTHWESTERN MEDICAL CENTER, INC.
AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years Ended September 30, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Change in net assets	**$ (7,466,402)**	$ 37,107
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities		
Depreciation	**5,696,513**	5,099,464
Provision for bad debts	**6,899,922**	6,470,850
Gain on disposal of property and equipment	**(27,741)**	(31,535)
Net realized and unrealized gains on investments	**(978,709)**	(2,257,868)
Net change in beneficial interest in perpetual trusts	**(1,334)**	(25,778)
Contributions restricted to long-term purposes	**-**	(362,160)
Unrealized loss (gain) on interest rate swaps	**2,166,458**	(1,287,308)
Decrease (increase) in		
Patient accounts receivable, net	**(8,099,543)**	(4,646,593)
Contributions receivable	**(200)**	343,059
Other assets	**(5,388,341)**	(360,536)
Increase (decrease) in		
Accounts payable and accrued expenses	**5,056,188**	542,778
Estimated third-party settlements	**(881,100)**	1,207,226
Net cash (used) provided by operating activities	**(3,024,289)**	4,728,706
Cash flows from investing activities		
Purchase of property and equipment	**(6,350,805)**	(12,666,572)
Net proceeds from sale of property and equipment	**96,877**	80,000
Purchase of investments	**(1,102,736)**	(1,408,753)
Proceeds from sale of investments	**12,484,942**	10,524,412
Net cash provided (used) by investing activities	**5,128,278**	(3,470,913)
Cash flows from financing activities		
Contributions received for long-term purposes	**119,561**	402,960
Principal payments on long-term debt	**(1,487,272)**	(1,014,317)
Net cash used by financing activities	**(1,367,711)**	(611,357)
Net increase in cash and cash equivalents	**736,278**	646,436
Cash and cash equivalents, beginning of year	**6,600,858**	5,954,422
Cash and cash equivalents, end of year	**$ 7,337,136**	$ 6,600,858
Supplemental disclosures of cash flow information		
Cash paid for interest	**$ 770,957**	$ 702,851

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

Organization

Northwestern Medical Center, Inc. (Hospital or NMC) is a 70-bed, not-for-profit hospital in St. Albans, Vermont. The Hospital is the sole-owning member of Northwestern Occupational Health, LLC (NOH), a for-profit entity that provides medical rehabilitative and urgent care services. On April 1, 2018, the operations of the medical rehabilitative and urgent care services were transferred from NOH to NMC. As such, there was no activity related to NOH in the 2019 statement of operations. In 2020, NOH anticipates transferring the remaining assets and liabilities to the Hospital. The consolidated financial statements also include the accounts of the Northwestern Medical Center Auxiliary, Inc. (Auxiliary) which is organized specifically for the promotion and support of the Hospital. Auxiliary volunteers provide the Hospital approximately 25,100 hours of support annually, as well as financial support.

The Hospital and Auxiliary are tax-exempt corporations pursuant to Section 501(c)(3) of the Internal Revenue Code (Code) and, as such, are not subject to certain income and property taxes. As a single member LLC, NOH is considered a disregarded tax entity and its results of operations are consolidated with the Hospital.

1. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Hospital and its subsidiaries, NOH and Auxiliary (collectively, Organization). All significant intercompany transactions have been eliminated in consolidation.

Basis of Presentation

Net assets and revenues, expenses, and gains are classified based on the existence or absence of donor-imposed restrictions in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic (ASC) 958, *Not-For-Profit Entities*, as described below. Under FASB ASC 958 and FASB ASC 954, *Health Care Entities*, all not-for-profit healthcare organizations are required to provide a balance sheet, a statement of operations, a statement of changes in net assets, and a statement of cash flows. FASB ASC 954 requires reporting amounts for an organization's total assets, liabilities, and net assets in a balance sheet; reporting the change in an organization's net assets in statements of operations and changes in net assets; and reporting the change in its cash and cash equivalents in a statement of cash flows.

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Hospital. These net assets may be used at the discretion of the Hospital's management and the Board of Directors (Board).

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Hospital or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the consolidated statements of operations and 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 equivalents include money market funds with a maturity of three months or less when purchased. The Hospital 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 Hospital has not experienced any losses in such accounts.

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 that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to patient accounts receivable.

In evaluating the collectibility of accounts receivable, the Hospital analyzes past results and identifies trends for each major payor source of revenue for the purpose of estimating the appropriate amounts of the allowance for doubtful accounts and the provision for bad debts. Data in each major payor source are regularly reviewed to evaluate the adequacy of the allowance for doubtful accounts. For receivables relating to services provided to patients having third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a corresponding provision for bad debts at varying levels based on the age of the receivables and the payor source. For receivables relating to self-pay patients (which includes both patients without insurance and patients with deductibles, and copayment balances due for which third-party coverage exists for part of the bills), the Hospital records a provision for bad debts in the period of service based on past experience which indicates patients are unable or unwilling to pay amounts for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or eligible) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged against the allowance for doubtful accounts.

Short-Term Investments, Assets Limited as to Use, and Investments

Short-term investments include money market funds, certificates of deposit and highly liquid debt instruments with a maturity of one year or less when purchased. These funds represent excess cash from operations that are available for day-to-day operational needs, as required.

Assets limited as to use include donor-restricted investments, cash collateralizing property financed by bank loans, bond proceeds to be used for capital projects, deferred compensation plan assets and designated assets set aside by the Board for future capital improvements, over which the Board retains control and which it may, at its discretion, use for other purposes.

Investments represent donations without donor restrictions received over the years, as well as excess funds generated from the operations of the Hospital. These funds, collectively, may only be used upon Board approval. While these funds are identified and referred to as the Hospital's endowment, they are not endowment funds as defined by the Uniform Prudent Management of Institutional Funds Act (UPMIFA) or U.S. GAAP and are not subject to any donor limitations or guidelines with respect to withdrawals.

Investments also include the non-current portion of short-term investments.

Investments in equity securities are reported at readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. The Hospital has adopted FASB ASC Topic 825, *Financial Instruments*, and has elected the fair value option relative to its investments which consolidates all investment performance activity within the excess of revenues over expenses in the consolidated statements of operations to simplify the presentation of these amounts.

Investment income or loss on investments without donor restrictions, including realized gains and losses on investments, unrealized gains and losses on investments, and interest and dividends is included in nonoperating gains (losses), unless the income or loss is restricted by donor or law.

Employee Fringe Benefits

The Hospital has an "earned time" plan to provide certain fringe benefits for its employees; however, certain employees are not eligible for this plan. 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 Hospital 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.

Gifts of long-lived assets such as land, buildings, or equipment are reported as net assets without donor restrictions, and are excluded from the excess (deficit) of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as net assets with donor restrictions. Absent explicit donor stipulations about how 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 Hospital 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.

Interest Rate Swaps

The Hospital uses interest rate swap contracts to mitigate the cash flow exposure of interest rate movements on variable-rate debt. The Hospital has adopted FASB ASC 815, *Derivatives and Hedging*, to account for its interest rate swap contracts. The interest rate swaps do not qualify as cash flow hedges. Gains and losses on derivative financial instruments that do not qualify as hedges are required to be included in the performance indicator. As a result, the unrealized gains on the interest rate swaps for 2019 and 2018 have been included in the excess (deficit) of revenues over expenses.

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively-determined rates per discharge, reimbursed costs, 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. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge, or at amounts less than its established rates. Because the Hospital 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 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 and the conditions are met. The gifts are reported as net assets with donor restrictions 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, the net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statements of operations as net assets released from restriction. Donor-restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restrictions in the accompanying consolidated financial statements.

Recently Adopted Accounting Pronouncement

In August 2016, FASB issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*, which makes targeted changes to the not-for-profit financial reporting model. The new ASU marks the completion of the first phase of a larger project aimed at improving not-for-profit financial reporting. Under the new ASU, net asset reporting is streamlined and clarified. The existing three category classification of net assets is replaced with a simplified model that combines temporarily restricted and permanently restricted into a single category called “net assets with donor restrictions.” The guidance for classifying deficiencies in endowment funds and on accounting for the lapsing of restrictions on gifts to acquire property, plant, and equipment has also been simplified and clarified. New disclosures highlight restrictions on the use of resources that make otherwise liquid assets unavailable for meeting near-term financial requirements. The ASU also imposes several new requirements related to reporting expenses. The Organization has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

Subsequent Events

For purposes of the preparation of these consolidated financial statements in conformity with U.S. GAAP, the Organization has considered transactions of events occurring through December 20, 2019, the date the consolidated financial statements were available for issuance.

2. Availability and Liquidity of Financial Assets

The Organization maintains a general operating account that has average days (based on normal expenditures) cash and cash equivalents on hand of 23 and 22 at September 30, 2019 and 2018, respectively. In addition, the Organization has working capital of $19,619,754 and $18,677,864 at September 30, 2019 and 2018, respectively.

Financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, scheduled principal payments on debt, and capital construction costs not financed with debt, were as follows as of September 30:

	2019	2018
Cash and cash equivalents	$ 7,337,136	$ 6,600,858
Patient accounts receivable, net	10,203,751	9,004,130
Other receivables, net	1,177,150	562,907
Investments	48,730,124	60,517,919
Financial assets available at year end for current use	$ 67,448,161	$ 76,685,814

The Organization has short-term and long-term investments which are available for general expenditure within one year in the normal course of operations with Board approval. Accordingly, these assets have been included in the quantitative information above. The Organization also has assets limited as to use that are designated for future capital acquisition of $17,204,380 and $16,882,332 as of September 30, 2019 and 2018, respectively, which are more fully described in Note 8, that have not been included in the quantitative information above. These assets limited as to use are not available for general expenditure within the next year; however, the amounts could be made available if necessary.

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to optimize the investment of its available funds. The Organization reports monthly to the Finance Committee and Board of Directors the days cash on hand, estimated cost report settlements to Medicare and Medicaid and estimated settlement due to a third-party payor who pays the Organization under a Prospective Interim Payment system. The Hospital's goal is generally to maintain financial assets to meet 200 days of operating expenses.

3. Net Patient Service Revenue

Patient service revenue, contractual allowances and other discounts, and the provision for bad debts are as follows for the years ended September 30:

	2019	2018
Gross patient service revenue		
Inpatient services	$ 41,192,126	$ 42,001,084
Outpatient services	169,847,061	158,954,657
	211,039,187	200,955,741
Less contractual allowances and discounts	116,080,922	104,366,250
Patient service revenue (net of contractual allowances and discounts)	94,958,265	96,589,491
Less provision for bad debts	(6,899,922)	(6,470,850)
Net patient service revenue	$ 88,058,343	$ 90,118,641

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

Medicare

Due to its geographic location, the Hospital is deemed to be a sole community hospital. Under this designation, it is reimbursed at a prospectively-determined rate per inpatient discharge based upon its historical costs from a base period. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

Outpatient services rendered to Medicare program beneficiaries are paid at prospectively-determined rates. These rates vary according to an ambulatory payment classification system that is based on clinical, diagnostic, and other factors. Final settlements have been determined for all years through September 30, 2014.

Medicaid

Inpatient services rendered to Medicaid program beneficiaries are reimbursed at acuity-based prospectively-determined rates per discharge. Outpatient services rendered to Medicaid program beneficiaries are paid at prospectively-determined rates. The Hospital's Medicaid cost reports have been audited by the fiscal intermediary through September 30, 2013.

Blue Cross and Commercial

Inpatient and outpatient services rendered to Blue Cross and MVP Health Care subscribers are reimbursed at submitted charges less a discount. Physician professional fees are reimbursed on a fee schedule. The amounts paid to the Hospital are not subject to any retroactive adjustments.

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 29% and 8%, respectively, of the Hospital's patient revenue (net of contractual allowances and discounts) for the year ended 2019, and 28% and 13%, respectively, of the Hospital's patient revenue (net of contractual allowances and discounts) for the year ended 2018. 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. In 2019 and 2018, net patient service revenue increased approximately \$425,000 and \$547,000, respectively, due to differences in retroactive adjustments compared to amounts previously estimated.

The Organization recognizes patient service revenue relating to services rendered to patients who have third-party payor coverage on the basis of contractual rates for such services. For uninsured patients that do not qualify for charity care, the Organization recognizes revenue on the basis of its standard rates less established discounts promulgated by the Patient Protection and Affordable Care Act. Based on historical trends, a significant portion of the Organization's uninsured patients will be unable or unwilling to pay for the services rendered. Thus, the Organization records a provision for bad debts related to uninsured patients in the period the services are rendered. Patient service revenue, net of contractual allowances and discounts, but before the provision for bad debts, recognized from these major payor sources is as follows:

	2019	2018
Revenue from third-party payors	**$ 90,537,062**	$ 93,443,861
Revenue from self-pay patients	**4,421,203**	3,145,630
	$ 94,958,265	$ 96,589,491

4. Patient Accounts Receivable and Estimated Allowance for Doubtful Accounts

Patient accounts receivable is stated net of estimated contractual allowances and the allowance for doubtful accounts as follows as of September 30:

	2019	2018
Patient accounts receivable	**$ 27,438,969**	$ 26,365,365
Estimated contractual allowances	**(11,296,595)**	(11,920,479)
Estimated allowance for doubtful accounts	**(5,938,623)**	(5,440,756)
Patient accounts receivable, net	**$ 10,203,751**	$ 9,004,130

Activity in the allowance for doubtful accounts was a follows for the years ended September 30:

	2019	2018
Estimated allowance for doubtful accounts, beginning of year	**$ 5,440,756**	$ 4,228,152
Self-pay write-offs, net	**(6,402,055)**	(5,258,246)
Provision for bad debts	**6,899,922**	6,470,850
Estimated allowance for doubtful accounts, end of year	**$ 5,938,623**	$ 5,440,756

The allowance for doubtful accounts increased approximately $498,000 from 2018 to 2019 which is consistent with the increase in self-pay patient accounts receivable, which increased from approximately $5,682,000 at September 30, 2018 to $6,961,000 at September 30, 2019. Self-pay write-offs include charges from uninsured patients, as well as co-pays and deductibles from insured patients that are unwilling or unable to meet their financial responsibility.

5. 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 and meet certain criteria. The criteria for charity care consider family income, net worth, and extent of financial obligations, including healthcare costs.

The net cost of charity care provided was $521,083 in 2019 and $558,187 in 2018. The total cost estimate is based on the Hospital's cost accounting system. The cost accounting system derives a cost estimate by allocating expense at a detail charge level.

As part of its mission, the Hospital underwrites a number of healthcare related programs that may not be otherwise available to the community. These activities directly align with the Community Health Needs Assessment, targeting the priorities both directly and indirectly.

Some examples of healthcare related programs are described below:

- NMC staff co-chair, facilitate, and participate in the “Community Committee on Healthy Lifestyles,” a broad multi-disciplinary grassroots effort to address pressing community health concerns through wellness and prevention. In 2014, the “RISE VT” initiative was created to bring aggressive wellness programming and initiatives throughout the region. A major grant was secured to supplement resources that the Hospital has already committed to this effort.

- The Healthy Hearts community health fair focuses on improved cardiovascular health with free screenings, educational booths, opportunities to try fitness activities, engaging kids’ activities, healthy snacks, and opportunities to discuss screening results and health questions with providers.

- NMC’s Lifestyle Medicine Department offers various community wellness and prevention programming, including media pieces, special events, smoking cessation activities, public lectures, and health related support groups.

- NMC invests staff time and production costs to dedicate space in hospital publications, paid advertising, proactive traditional media, and social media to raise awareness of health issues, prevention efforts, wellness activities, and supportive offerings put forth by the Hospital as well as community providers, who often lack the staff or resources to fully communicate these important messages to the target audiences in the community.

- NMC underwrites of, and voluntarily participates in, local United Way programs and outreach with a focus on health, education, and income, all of which contribute to improved quality of life and overall community health.

6. Contributions Receivable

Contributions receivable represent donors' unconditional promises to give to the master facility redesign capital campaign that started during 2016. Contributions receivable are as follows:

	2019	2018
Contributions receivable	**$ 359,293**	$ 518,441
Less allowance for uncollectible contributions	**(89,823)**	(129,610)
Contributions receivable, net	**$ 269,470**	$ 388,831

7. Property and Equipment

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

	2019	2018
Land	**$ 1,020,530**	$ 1,020,529
Land improvements	**3,887,209**	3,887,209
Buildings	**83,390,077**	81,778,071
Major moveable equipment	**40,495,353**	38,172,451
	128,793,169	124,858,260
Less accumulated depreciation	**63,099,139**	57,720,696
	65,694,030	67,137,564
Construction-in-progress	**3,192,134**	1,163,444
	$ 68,886,164	$ 68,301,008

8. Assets Limited as to Use and Investments

The composition of assets limited as to use and investments as of September 30 is as follows:

	2019	2018
Assets Limited as to Use		
Internally designated for capital acquisition		
Cash equivalents	**$ 9,533**	$ 52,221
Equities	**10,537,582**	10,552,985
Fixed income	**4,417,015**	4,127,384
Alternative investment - hedge funds	**2,240,250**	2,149,742
	17,204,380	16,882,332
Donor-restricted		
Cash equivalents	**2,799,433**	1,714,452
Equities	**372,152**	375,169
Fixed income	**271,666**	271,519
Beneficial interest in perpetual trusts	**941,932**	940,598
	4,385,183	3,301,738
Held by bank as collateral on property		
Cash equivalents	**180,000**	199,861
Other investments		
Deferred compensation	**3,133,318**	2,830,582
	$ 24,902,881	$ 23,214,513
Investments		
Cash equivalents	**$ 1,228,770**	$ 1,857,087
Certificates of deposit with maturity dates exceeding twelve months	**161,666**	145,197
Fixed income	**14,546,913**	17,043,820
Equities	**30,421,154**	39,124,935
Alternative investment - hedge funds	**2,371,621**	2,346,880
Total	**48,730,124**	60,517,919
Less short-term investments	**9,195,885**	11,244,196
Long-term investments	**$ 39,534,239**	$ 49,273,723

Investment income and gains and losses without donor restrictions for assets limited as to use and investments are comprised of the following:

	2019	2018
Interest and dividend income	**$ 1,435,999**	$ 1,330,692
Realized gains	**2,687,760**	2,277,515
	4,123,759	3,608,207
Unrealized losses	**(1,709,051)**	(19,647)
	$ 2,414,708	$ 3,588,560

On May 5, 2009, the Governor of Vermont signed UPMIFA as regulation over donor-restricted endowment funds. Under UPMIFA, the amount of the original gifts is not expendable, although the value of the investments purchased may occasionally fall below that amount. UPMIFA describes "historic dollar value" as the amount that is not expendable. Income not specifically restricted by donors is reported as net assets with donor restrictions until appropriated by the Board of Directors and expended.

9. Beneficial Interest in Perpetual Trusts

The Hospital is the beneficiary of various trusts for which it is not the trustee, consisting of $941,932 and $940,598 in irrevocable perpetual trusts at September 30, 2019 and 2018, respectively. The Hospital has reflected as assets in the balance sheets, included in donor-restricted assets limited as to use, its share of the fair value of the underlying investments in the trusts. Receipts of income are included as investment income without donor restrictions when received. Receipts from the trusts were approximately $27,100 and $35,400 for the years ended September 30, 2019 and 2018, respectively, and were recorded in net investment income.

10. Borrowings

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

	2019	2018
Vermont Educational and Health Building Finance Agency (VEHBFA) Hospital Revenue Bonds 2016 Series A, currently held by People's United Bank, interest, at a variable rate, 2.14% at September 30, 2019, plus principal are paid monthly; due through June 1, 2036; collateralized by substantially all of the Hospital's assets	**$ 31,440,939**	$ 32,929,215
Capital lease payable, with interest at 3.0%, due in monthly installments of $980, including interest, through 2022	**26,478**	37,270
Long-term debt before unamortized bond issuance costs	**31,467,417**	32,966,485
Less: unamortized bond issuance costs	**197,571**	209,367
Long-term debt, net of unamortized bond issuance costs	**31,269,846**	32,757,118
Less: current portion	**1,536,621**	1,499,069
Long-term debt, net of current portion and unamortized bond issuance costs	**$ 29,733,225**	$ 31,258,049

Maturities on long-term debt, before unamortized debt issuance costs, for fiscal years subsequent to September 30, 2019 are as follows:

2020	$ 1,536,621
2021	1,578,179
2022	1,609,617
2023	1,646,860
2024	1,688,338
Thereafter	23,407,802
	$ 31,467,417

Effective June 1, 2016, the Hospital entered into a loan agreement with VEHBFA issuing $35 million in bonds. The new issue (Series 2016A) was used to refinance the Hospital's Series 2012A bonds, to provide funds for capital projects, and to pay bond issuance costs. Interest on the Series 2016A bonds is payable monthly at a variable rate based on 75% of the one-month LIBOR rate plus 0.71%, which equaled 2.14% at September 30, 2019 and 2018.

The 2016A bond issue requires the Hospital to meet certain covenants. As of September 30, 2019, the Hospital was not in compliance with certain of those covenants. As a result the Hospital is required to engage a consultant to make recommendations to achieve compliance within the next 12 months.

Interest Rate Swaps

The Hospital has entered into three swap agreements. During 2019 and 2018, the interest rate swap agreements did not qualify for hedge accounting.

The Hospital is required to include the fair value of the swaps in the balance sheet, and annual changes, if any, in the fair value of the swaps in the statement of operations. For example, during the Bonds' holding period, the annually calculated value of the swaps will be reported as assets if expected interest rates increase above those expected on the date the swaps were entered into (and as an unrealized gain in the statement of operations), which will generally be indicative that the net fixed rate the Hospital is paying is below market expectations of rates during the remaining term of the swap. The swaps will be reported as a liability (and as an unrealized loss in the statement of operations) if expected interest rates decrease below those expected on the date the swaps were entered into, which will generally be indicative that the net fixed rate the Hospital is paying on the swap is above market expectations of rates during the remaining term of the swap. These annual accounting adjustments of value changes in the swap transaction are non-cash recognition requirements. The Hospital retains the sole right to terminate the swap agreements should the need arise; however, such termination may result in a payment or receipt based on interest rate expectations at that time. The Hospital recorded the swaps at their liability position of $1,312,413 at September 30, 2019 and at their asset position of $854,045 at September 30, 2018. The interest rate swap contract disclosures are summarized as follows:

Fixed Rate Paid	Variable Rate Received	Current Notional Amount	Fair Value as of September 30, 2019	Fair Value as of September 30, 2018	Termination Date	Counterparty
1.2075%	1.4282%	$ 23,965,939	$ (383,866)	$ 1,370,765	06/01/2028	People's United Bank
2.056%	1.3980%	1,320,000	(22,452)	(23,514)	10/01/2021	Morgan Stanley
3.228%	1.4453%	6,155,000	(906,095)	(493,206)	10/01/2030	Deutsche Bank AG
			$ (1,312,413)	$ 854,045		

The variable rate for the interest rate swaps is based on 68% of the one-month USD-LIBOR-BBA rate.

11. Retirement Plans

The Hospital sponsors a 403(b) retirement plan for its employees. To be eligible to participate in the 403(b) plan, an employee must meet certain requirements as specified in the Plan documents. The Hospital matches 1% if the employee contributes 2% or 3% of their annual salary and the Hospital contributes 2% if the employee contributes 4% or more of their annual salary. Total expense under the 403(b) retirement plan was $973,429 and $919,049 in 2019 and 2018, respectively.

The Hospital sponsors a Money Purchase Pension Plan covering substantially all of its employees. The Hospital's contributions are determined for, and allocated to, eligible participants based on a predetermined percent of compensation paid. Individual benefits at retirement are the amounts which can be provided by the sums contributed to each participant's account. The plan, which may be terminated at any time by the Board of Directors, provides for employee vesting over a six-year period. Retirement plan expenses charged to operations were $1,407,451 and $975,194 in 2019 and 2018, respectively.

The Hospital has a nonqualified deferred compensation plan established under Section 457 of the Code. The plan permits certain management and highly compensated employees to defer portions of their compensation based on Internal Revenue Service guidelines. The Hospital has cumulatively recorded $3,133,318 and $2,830,582 at September 30, 2019 and 2018, respectively, related to this plan. The related investments are segregated in a separate account and reported in the balance sheet along with the Hospital's related liability to the employees.

12. Commitments and Contingencies

Leases

The Hospital has leases for medical care space, and has various leases for medical and office equipment with expiration dates through 2035. Certain of these leases have renewal options and contain an annual Consumer Price Index increase provision. Future minimum payments under these leases are as follows:

Years ending September 30,	
2020	$ 296,000
2021	224,000
2022	139,000
2023	142,000
2024	145,000
Thereafter	1,779,000
	$ 2,725,000

Rental expense for the years ended September 30, 2019 and 2018 was $952,048 and $831,075, 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, would be uninsured. The Hospital intends to renew its coverage on a claims-made basis and has no reason to believe that it may be prevented from renewing such coverage.

The Hospital is subject to complaints, claims and litigation due to potential claims which arise in the normal course of business. U.S. GAAP require 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. Amounts accured under this provision are included in other current assets and other accrued expenses in the consolidated balance sheets.

The Hospital at various times during the year may be involved in other legal proceedings of a nature considered normal to its business. The Hospital has evaluated its exposure to losses arising from potential claims and has recorded a $150,000 accrual and a $150,000 insurance recovery as of September 30, 2019. No amounts were recorded as of September 30, 2018.

QHR, LLC

The Hospital contracts with QHR, LLC for management advisory services. Total expenses related to the QHR, LLC contract, and charged to operations, were $1,336,983 and $1,065,443 for the years ended September 30, 2019 and 2018, respectively.

Self-Funded Health Insurance

The Hospital maintains a self-funded health insurance plan. A reserve of $403,258 and $493,690 in 2019 and 2018, respectively, has been established to allow for incurred but not reported claims for healthcare services based on claim history. The self-funded policy had an individual stop loss of $125,000 in 2019 and 2018. The Hospital's aggregate stop loss coverage begins at 125% of expected claims, excluding claim amounts which are paid under the individual stop loss coverage.

OneCare Vermont, LLC

The Hospital is a participant in OneCare Vermont, LLC (OneCare), a statewide Accountable Care Organization (ACO). Beginning January 1, 2017, the Hospital entered into a risk bearing arrangement through the Vermont Medicaid program. Beginning January 1, 2018, the Hospital accepted additional risk as a member of OneCare by participating in the Medicare Next Generation Model and Blue Cross/Blue Shield of Vermont. Under the Medicare Next Generation Model, Blue Cross/Blue Shield of Vermont, and Vermont Medicaid program, the Hospital receives monthly fixed prospective payments for services provided to attributed members. The ACO is responsible for both the cost and quality of care for each attributed member. This is true whether that person uses little or no care or whether they require services consistently throughout the year. The Hospital recognizes its share of annual contract settlements as an increase or decrease to fixed prospective revenue in the statement of operations.

13. Health Care Improvement Tax

A health care improvement tax is imposed on hospitals, nursing homes, and home health agencies as part of a program to upgrade services in Vermont. Hospitals in Vermont are assessed as a percentage of net patient revenue which is determined annually by the General Assembly. The Hospital tax rate was 6% in 2019 and 2018.

14. Concentration of Credit Risk

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

	2019	2018
Medicare	**25 %**	29 %
Medicaid	**14**	12
Blue Cross	**12**	15
Other third-party payors	**23**	23
Patients	**26**	21
	100 %	100 %

15. Functional Expenses

The statements of operations reports certain expense categories that are attributable to both healthcare services and support functions. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Employee benefits are allocated based on salaries and occupancy costs are allocated by square footage. Expenses related to healthcare and support services for the year ended September 30 are as follows:

2019	**Healthcare Services**	**Support Services**	**Total**
Salaries and wages	**$ 38,887,694**	**$ 17,849,531**	**$ 56,737,225**
Employee benefits	**9,470,419**	**4,346,942**	**13,817,361**
Supplies	**8,410,555**	**3,860,462**	**12,271,017**
Contracted services	**11,407,367**	**5,236,005**	**16,643,372**
Depreciation	**3,904,390**	**1,792,123**	**5,696,513**
Travelers' expense	**416,655**	**191,245**	**607,900**
Health care improvement tax	**6,345,312**	**-**	**6,345,312**
Other operating	**4,687,867**	**2,151,741**	**6,839,608**
Interest	**528,414**	**242,543**	**770,957**
	$ 84,058,673	**$ 35,670,592**	**$ 119,729,265**

2018	Healthcare Services	Support Services	Total
Salaries and wages	$ 37,211,228	$ 17,080,030	$ 54,291,258
Employee benefits	8,364,963	3,839,535	12,204,498
Supplies	9,005,095	4,133,357	13,138,452
Contracted services	11,820,505	5,425,636	17,246,141
Depreciation	3,495,173	1,604,291	5,099,464
Travelers' expense	144,014	66,103	210,117
Health care improvement tax	6,169,059	-	6,169,059
Other operating	4,315,510	1,980,828	6,296,338
Interest	483,236	221,807	705,043
	$ 81,008,783	$ 34,351,587	$ 115,360,370

16. Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes for the years ended September 30 are as follows:

	2019	2018
Purpose restricted		
Community wellness initiatives	**$ 2,926,624**	$ 1,902,562
Capital expenditures	**188,128**	188,128
Education assistance	**47,447**	46,530
Free care assistance	**93,286**	102,073
Other community programs	**253,705**	244,271
	3,509,190	2,483,564
Perpetual in nature		
Beneficial Interest in Trusts, the income is without donor restrictions	**941,932**	940,598
Sowles Memorial Fund, the income to be used for charity care	**203,531**	203,531
	1,145,463	1,144,129
	$ 4,654,653	$ 3,627,693

Net assets without donor restrictions are available for the following purposes:

	2019	2018
Internally designated for capital acquisition	**$ 17,204,380**	$ 16,882,332
Undesignated	**97,054,977**	105,870,387
	$ 114,259,357	$ 122,752,719

17. Fair Value Measurements

FASB ASC 820, *Fair Value Measurement*, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC Topic 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.

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in certain instances, there are no quoted market prices for the Hospital's various financial instruments included in Level 2.

The Hospital's hedge fund alternative investments are valued based on the net asset values (NAV) in accordance with U.S. GAAP as a practical expedient. The Hospital invests in the hedge funds, which calculate NAV per share in accordance with FASB guidance relative to investment companies, and these investments are reported at fair value based on the NAV per share as reported by the investee. In accordance with U.S. GAAP, the investments for which fair value is measured at fair value using the practical expedient have not been categorized in the fair value hierarchy.

Assets and liabilities measured at fair value at September 30, 2019 are summarized below:

	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
Assets:				
Assets limited as to use				
Cash equivalents	$ 2,988,966	$ -	$ -	$ 2,988,966
Fixed income	4,559,643	129,038	-	4,688,681
Equities	10,909,734	-	-	10,909,734
Deferred compensation plan assets	3,133,318	-	-	3,133,318
Beneficial interest in perpetual trusts	-	-	941,932	941,932
	$ 21,591,661	$ 129,038	$ 941,932	22,662,631
Alternative investment - hedge funds				2,240,250
Total assets limited as to use				$ 24,902,881
Investments				
Cash equivalents	$ 1,228,770	$ -	$ -	$ 1,228,770
Certificates of deposit with maturity dates exceeding twelve months	161,666	-	-	161,666
Fixed income	9,930,704	4,616,209	-	14,546,913
Equities	30,421,154	-	-	30,421,154
	$ 41,742,294	$ 4,616,209	$ -	46,358,503
Alternative investment - hedge funds				2,371,621
Total investments				$ 48,730,124
Liabilities:				
Interest rate swaps	-	$ 1,312,413	-	$ 1,312,413

Assets measured at fair value at September 30, 2018 are summarized below:

	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
Assets:				
Assets limited as to use				
Cash equivalents	$ 1,966,534	$ -	$ -	$ 1,966,534
Fixed income	4,265,607	133,296	-	4,398,903
Equities	10,928,154	-	-	10,928,154
Deferred compensation plan assets	2,830,582	-	-	2,830,582
Beneficial interest in perpetual trusts	-	-	940,598	940,598
	$ 19,990,877	$ 133,296	$ 940,598	21,064,771
Alternative investment - hedge funds				2,149,742
Total assets limited as to use				$ 23,214,513
Investments				
Cash equivalents	$ 1,857,087	$ -	$ -	$ 1,857,087
Certificates of deposit with maturity dates exceeding twelve months	145,197	-	-	145,197
Fixed income	12,744,717	4,299,103	-	17,043,820
Equities	39,124,935	-	-	39,124,935
	$ 53,871,936	$ 4,299,103	$ -	58,171,039
Alternative investment - hedge funds				2,346,880
Total investments				$ 60,517,919
Interest rate swaps	$ -	854,045	-	$ 854,045

The fair value of the interest rate swap agreements is based on the income approach using a discounted cash flow analysis of the future cash inflows and cash outflows based on the notional amount of the interest rate swap agreement, market expectations regarding the variable rate as outlined in the Series 2016A bonds, and the fixed interest rate of the swap agreement.

The hedge fund investment primarily invests in limited partnerships and similar pooled investment vehicles often referred to as portfolio funds. These funds are managed by independent portfolio managers that employ diverse alternative investment strategies across a variety of asset classes. The alternative investment involves certain risks due to a lack of a public market and certain time restrictions on withdrawals such as lock-up periods which can be two years or longer. After expiration of the lock-up period, withdrawals typically are permitted only on a limited basis, such as monthly, quarterly, semi-annually, or annually.

Because the Hospital will never receive the assets held in the perpetual trusts, the beneficial interest in the perpetual trusts has been categorized as a Level 3 measurement. The fair value of the perpetual trusts is based on an estimate of the Hospital's portion of the fair value of the assets held by the perpetual trusts. The fair value of the assets held by the perpetual trusts is based on the market value of the underlying assets. Due to the level of risk associated with the fair value of the underlying securities and the level of uncertainty related to changes in their value, it is at least reasonably possible that changes in risks in the near term would materially affect the amounts reported in the balance sheets.

Changes in the beneficial interest in perpetual trusts are comprised of the following for the years ended September 30:

	2019	2018
Fair value, beginning of year	**$940,598**	$ 914,820
Net appreciation	**1,334**	25,778
Fair value, end of year	**$941,932**	$940,598

SUPPLEMENTARY INFORMATION

Schedule 1

NORTHWESTERN MEDICAL CENTER, INC.
AND SUBSIDIARIES

Consolidating Balance Sheet

September 30, 2019
(With Comparative Totals for September 30, 2018)

ASSETS

	2019				2018
	NMC	NOH	Eliminations	**Total**	Total
Current assets					
Cash and cash equivalents	$ 5,836,338	$ 1,500,798	$ -	**$ 7,337,136**	$ 6,600,858
Patient accounts receivable, net	10,203,751	-	-	**10,203,751**	9,004,130
Contributions receivable, net	269,470	-	-	**269,470**	388,831
Short-term investments	9,195,885	-	-	**9,195,885**	11,244,196
Other current assets	10,653,191	-	(692,389)	**9,960,802**	4,574,499
Total current assets	36,158,635	1,500,798	(692,389)	**36,967,044**	31,812,514
Assets limited as to use	24,902,881	-	-	**24,902,881**	23,214,513
Investments	39,534,239	-	-	**39,534,239**	49,273,723
Property and equipment, net	68,211,295	674,869	-	**68,886,164**	68,301,008
Other long-term assets	1,666,544	-	(1,516,616)	**149,928**	147,890
Interest rate swaps	-	-	-	**-**	854,045
Total assets	$170,473,594	$ 2,175,667	$(2,209,005)	**$170,440,256**	$173,603,693

LIABILITIES AND NET ASSETS

	NMC	NOH	Eliminations	**Total**	2018 Total
Current liabilities					
Accounts payable	$ 3,902,631	$ 629,825	$ (663,163)	**$ 3,869,293**	$ 3,796,890
Salaries, wages and payroll taxes	3,717,581	-	-	**3,717,581**	3,617,976
Other accrued expenses	5,985,820	-	-	**5,985,820**	1,101,640
Estimated third-party settlements	2,237,975	-	-	**2,237,975**	3,119,075
Current portion of long-term debt	1,536,621	29,226	(29,226)	**1,536,621**	1,499,069
Total current liabilities	17,380,628	659,051	(692,389)	**17,347,290**	13,134,650
Deferred compensation	3,133,318	-	-	**3,133,318**	2,830,582
Long-term debt, net	29,733,225	553,965	(553,965)	**29,733,225**	31,258,049
Interest rate swaps	1,312,413	-	-	**1,312,413**	-
Total liabilities	51,559,584	1,213,016	(1,246,354)	**51,526,246**	47,223,281
Net assets					
Without donor restrictions	114,259,357	-	-	**114,259,357**	122,752,719
Member's equity	-	962,651	(962,651)	**-**	-
With donor restrictions	4,654,653	-	-	**4,654,653**	3,627,693
Total net assets	118,914,010	962,651	(962,651)	**118,914,010**	126,380,412
Total liabilities and net assets	$170,473,594	$ 2,175,667	$(2,209,005)	**$170,440,256**	$173,603,693