

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

**Audited Consolidated Financial Statements  
and Other Financial Information**

*Years Ended September 30, 2018 and 2017  
With Independent Auditors' Report*

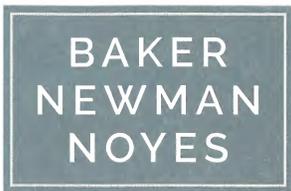
# CARLOS G. OTIS HEALTH CARE CENTER, INC. AND SUBSIDIARY

## Audited Consolidated Financial Statements and Other Financial Information

September 30, 2018 and 2017

### Table of Contents

Independent Auditors' Report	1
Audited Consolidated Financial Statements:	
Consolidated Balance Sheets	2
Consolidated Statements of Operations and Changes in Net Assets	4
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7
Other Financial Information:	
Independent Auditors' Report on Other Financial Information	25
Consolidating Balance Sheets	26
Consolidating Statements of Operations	28
Schedules of Operating Income (Loss) - Parent Company Only	29



## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Carlos G. Otis Health Care Center, Inc. and Subsidiary, which comprise the consolidated balance sheets as of September 30, 2018 and 2017, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditors' Responsibility*

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

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

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

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Carlos G. Otis Health Care Center, Inc. and Subsidiary as of September 30, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Baker Newman & Noyes LLC*

Manchester, New Hampshire  
April 12, 2019

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

**CONSOLIDATED BALANCE SHEETS**

September 30, 2018 and 2017

ASSETS

	<u>2018</u>	<u>2017</u>
Current assets:		
Cash and cash equivalents	\$ 23,386	\$ 67,498
Accounts receivable, less allowance for doubtful accounts of \$652,388 in 2018 and \$792,367 in 2017	2,083,725	2,017,796
Estimated third-party payor settlements receivable	-	149,450
Meaningful use receivable	34,000	85,000
Other receivables	32	209
Inventories	1,715,794	1,465,293
Prepaid expenses	<u>209,789</u>	<u>209,215</u>
Total current assets	4,066,726	3,994,461
Property and equipment, net	3,364,427	3,395,151
Assets whose use is limited or restricted:		
Restricted cash and cash equivalents	424,557	715,660
Investments	5,725,976	5,274,128
Contributions receivable from charitable remainder trusts	34,016	35,068
Beneficial interest in perpetual trust	1,717,123	1,690,978
Deposits with trustee	<u>63,437</u>	<u>57,166</u>
Total assets whose use is limited or restricted	7,965,109	7,773,000
Total assets	<u>\$15,396,262</u>	<u>\$15,162,612</u>

LIABILITIES AND NET ASSETS

	<u>2018</u>	<u>2017</u>
Current liabilities:		
Line of credit	\$ 1,078,501	\$ 1,317,298
Accounts payable	1,063,191	1,303,839
Accrued compensated absences	677,097	550,818
Accrued expenses	1,023,207	1,108,666
Estimated third-party payor settlements payable	321,147	-
Current portion of charitable gift annuities liability	18,244	18,244
Current portion of long-term debt and capital lease obligations	<u>352,757</u>	<u>339,578</u>
Total current liabilities	4,534,144	4,638,443
Charitable gift annuities liability, less current portion	62,593	67,038
Long-term debt and capital lease obligations, less current portion	<u>1,012,282</u>	<u>1,360,181</u>
Total liabilities	5,609,019	6,065,662
Net assets:		
Unrestricted net assets	6,558,441	5,777,158
Temporarily restricted net assets	477,324	600,476
Permanently restricted net assets	<u>2,751,478</u>	<u>2,719,316</u>
Total net assets	<u>9,787,243</u>	<u>9,096,950</u>
Total liabilities and net assets	<u>\$15,396,262</u>	<u>\$15,162,612</u>

See accompanying notes.

**CARLOS G. OTIS HEALTH CARE CENTER, INC. AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF OPERATIONS  
AND CHANGES IN NET ASSETS**

Years Ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Unrestricted revenue and other support:		
Patient service revenue (net of contractual allowances and discounts)	\$18,730,838	\$18,078,456
Provision for bad debts	<u>(556,089)</u>	<u>(845,290)</u>
Net patient service revenue less provision for bad debts	18,174,749	17,233,166
Other revenue	4,129,962	4,356,122
Meaningful use revenue	42,500	106,250
Net assets released from restrictions for operations	<u>430,497</u>	<u>449,615</u>
Total unrestricted revenue and other support	22,777,708	22,145,153
Expenses:		
Salaries and benefits	15,163,919	14,679,909
Supplies and other	6,800,658	7,150,605
State provider taxes	620,394	648,299
Depreciation and amortization	612,930	636,003
Interest	<u>135,586</u>	<u>131,906</u>
Total expenses	<u>23,333,487</u>	<u>23,246,722</u>
Loss from operations	(555,779)	(1,101,569)
Nonoperating gains (losses):		
Investment income	93,033	81,916
Net realized and unrealized changes in the fair value of investments	279,170	393,518
Unrestricted contributions and program support	524,600	375,124
Other nonoperating losses	<u>(19,581)</u>	<u>(8,341)</u>
Nonoperating gains, net	<u>877,222</u>	<u>842,217</u>
Excess (deficiency) of revenue, gains and other support over expenses	321,443	(259,352)

Continued next page.

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

**CONSOLIDATED STATEMENTS OF OPERATIONS  
AND CHANGES IN NET ASSETS (CONTINUED)**

Years Ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Excess (deficiency) of revenue, gains and other support over expenses	\$ 321,443	\$ (259,352)
Net assets released from restrictions for capital purchases	<u>459,840</u>	<u>521,859</u>
Increase in unrestricted net assets	781,283	262,507
Temporarily restricted net assets:		
Contributions	768,237	1,114,971
Net assets released from restrictions for operations	(430,497)	(449,615)
Net assets released from restrictions for capital purchases	(459,840)	(521,859)
Net change in charitable remainder trusts	<u>(1,052)</u>	<u>1,251</u>
(Decrease) increase in temporarily restricted net assets	(123,152)	144,748
Permanently restricted net assets:		
Contributions	6,017	6,892
Change in beneficial interest in perpetual trust	<u>26,145</u>	<u>127,441</u>
Increase in permanently restricted net assets	<u>32,162</u>	<u>134,333</u>
Increase in net assets	690,293	541,588
Net assets, beginning of year	<u>9,096,950</u>	<u>8,555,362</u>
Net assets, end of year	<u>\$ 9,787,243</u>	<u>\$ 9,096,950</u>

See accompanying notes.

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years Ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ 690,293	\$ 541,588
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	612,930	636,003
Provision for bad debts	556,089	845,290
Net realized and unrealized changes in the fair value of investments	(279,170)	(393,518)
Debt issuance cost amortization	4,021	4,021
Loss (gain) on disposal of property and equipment	11,764	(1,000)
Change in charitable remainder trusts	1,052	(1,251)
Change in beneficial interest in perpetual trust	(26,145)	(127,441)
Restricted contributions	(774,254)	(1,121,863)
Changes in operating assets and liabilities:		
Accounts receivable	(622,018)	(572,374)
Estimated third-party payor settlements	470,597	(2,960)
Other receivables	177	9,866
Meaningful use receivable	51,000	-
Inventories	(250,501)	(78,351)
Prepaid expenses	(574)	(63,748)
Accounts payable	(240,648)	278,450
Accrued compensated absences	126,279	16,187
Accrued expenses	<u>(85,459)</u>	<u>97,525</u>
Net cash provided by operating activities	245,433	66,424
Cash flows from investing activities:		
Purchases of property and equipment	(593,970)	(577,228)
Proceeds from sale of property and equipment	-	1,000
Proceeds from sale and maturities of investments	1,672,459	1,806,582
Purchases of investments	(1,845,137)	(1,916,261)
Change in restricted cash	291,103	(153,843)
Deposits with trustee	<u>(6,271)</u>	<u>(826)</u>
Net cash used by investing activities	(481,816)	(840,576)
Cash flows from financing activities:		
Net payments on line of credit	(238,797)	(141,246)
Payments on long-term debt and capital lease obligations	(338,741)	(326,484)
Restricted contributions and pledge receipts	774,254	1,121,863
Change in charitable gift annuities	<u>(4,445)</u>	<u>(8,069)</u>
Net cash provided by financing activities	<u>192,271</u>	<u>646,064</u>
Net decrease in cash and cash equivalents	(44,112)	(128,088)
Cash and cash equivalents at beginning of year	<u>67,498</u>	<u>195,586</u>
Cash and cash equivalents at end of year	\$ <u>23,386</u>	\$ <u>67,498</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ <u>131,565</u>	\$ <u>127,885</u>

See accompanying notes.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

### 1. Description of Organization and Summary of Significant Accounting Policies

#### Organization

Carlos G. Otis Health Care Center, Inc. (OHCC) is a not-for-profit organization located in Townshend, Vermont consisting of Grace Cottage Hospital (a Critical Access Hospital), Messenger Valley Pharmacy, and Grace Cottage Family Health (a Rural Health Clinic). The accompanying consolidated financial statements include the accounts of all these entities.

OHCC is the sole corporate member of Grace Cottage Foundation (the Foundation), a not-for-profit corporation, established to solicit contributions from the general public solely for the funding of health care services by OHCC.

The accounting policies that affect the more significant elements of the consolidated financial statements are summarized below:

#### Principles of Consolidation

The accompanying consolidated financial statements include the accounts of OHCC and its subsidiary organization, the Foundation (together the Organization). All significant intercompany accounts and transactions have been eliminated in consolidation.

#### Basis of Accounting

The accompanying consolidated financial statements have been prepared on an accrual basis of accounting.

#### Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Classification of Net Assets

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

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

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

#### Cash and Cash Equivalents

Cash and cash equivalents include all demand deposit accounts, investments with original maturities of three months or less when purchased and money market funds, excluding assets whose use is limited or restricted. Restricted cash and cash equivalents are limited as to use for long-term purposes by donor-imposed restrictions.

#### Accounts Receivable and the Allowance for Doubtful Accounts

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, the Organization analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Organization analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients, the Organization records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

#### Inventories

Inventories of supplies and pharmaceuticals are carried at the lower of cost (determined by the first-in, first-out method) or net realizable value.

#### Funds Held by Trustee Under Revenue Bond Agreements

Funds held by trustee under revenue bond agreements are recorded at fair value and are comprised of short-term investments and United States government obligations.

#### Investments and Investment Income

Investments are measured at fair value in the accompanying consolidated balance sheets. Investment income or loss (including realized and unrealized gains and losses on investments, and interest and dividends) is included in the excess (deficiency) of revenue, gains and other support over expenses as the Organization has elected to reflect changes in the fair value of investments and assets whose use is limited, including both increases and decreases in value whether realized or unrealized, in nonoperating gains or losses unless the income or loss is restricted by donor or law, in which case it is reported as an increase in temporarily or permanently restricted net assets.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

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

#### Endowment, Investment and Spending Policies

In accordance with the *Uniform Prudent Management of Institutional Funds Act* (UPMIFA), the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (a) the duration and preservation of the fund; (b) the purpose of the organization and the donor-restricted endowment fund; (c) general economic conditions; (d) the possible effect of inflation and deflation; (e) the expected total return from income and the appreciation of investments; (f) other resources of the organization; and (g) the investment policies of the organization.

The goal of the investments is to support the Organization's future capital expenditures and other major program needs, and to generally increase the financial strength of the Organization. In addition to occasional capital expenditures, board designated funds are invested in a prudent manner with regard to preserving principal while providing reasonable returns.

The goal of the endowment funds is to provide a source of financial support to the Organization's patient care activities. The Organization appropriates the earnings from the endowment funds to offset the costs of patient care activities according to the intent of the donor. The endowment funds are invested in a prudent manner with regard to preserving principal while providing reasonable returns.

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation and current yield. The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objective within prudent risk constraints.

#### Assets Whose Use is Limited or Restricted

Assets whose use is limited or restricted include assets held by trustees under indenture agreements, quasi-endowment funds, designated assets set aside by the Board of Trustees over which the Board retains control and may, at its discretion, subsequently use for other purposes, and donor-restricted investments, including certain cash and cash equivalents.

#### Property and Equipment

Property and equipment is stated at cost or, if donated, at fair value at the date of donation, less accumulated depreciation. The Organization's policy is to capitalize expenditures for major improvements and charge maintenance and repairs currently for expenditures which do not extend the life of the related assets. When assets are retired or disposed of, the assets and related accumulated depreciation are eliminated from the accounts and any resulting gain or loss is reflected in the accompanying consolidated statements of operations.

Depreciation is computed using the straight-line method in a manner intended to amortize the cost of the assets over their estimated useful lives.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

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

#### Deferred Financing Costs

Costs incurred in obtaining long-term financing are being amortized to interest expense using the straight-line method, which approximates the effective interest method, over the repayment period of the related debt obligation. Debt issuance costs are presented as a reduction of long-term debt.

#### Earned Time

The Organization provides and accrues for paid time off for vacation, holiday and sick leave under an earned time system. Hours earned, but not used, are capped and vested with the employee.

#### Performance Indicator

For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenues and expenses. Peripheral transactions are reported as nonoperating gains or losses.

The consolidated statements of operations include excess (deficiency) of revenue, gains and other support over expenses. Changes in unrestricted net assets which are excluded from excess (deficiency) of revenue, gains and other support over expenses, consistent with industry practice, include net assets released from restrictions for capital purchases.

#### Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Changes in these estimates are reflected in the accompanying consolidated financial statements in the year in which they occur. During 2018 and 2017, net patient service revenue in the accompanying statements of operations increased approximately \$46,000 and \$1,900, respectively, due to changes in prior year estimates. Services rendered to individuals from whom payment is expected and ultimately not received is written off and included as part of the provision for bad debts.

The Organization recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. On the basis of historical experience, a significant portion of the Organization's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Organization records a significant provision for bad debts related to uninsured patients in the period the services are provided.

Activities directly associated with services related to acute and ancillary care services are considered to be operating activities and are included as patient service revenue. Revenue which is not related to patient medical care and which is normal to the day-to-day operations of the Organization is included in other revenue.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

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

#### Retirement Plan

The Organization has a defined contribution 401(k) plan covering substantially all of its employees. Employees who have completed one year of service, in which they were employed at least 1,000 hours, and have attained age 21 are eligible to participate in the plan. The plan provides for an automatic deferral provision. The Organization may make discretionary matching contributions that are allocated to all employees eligible to participate in the plan, in proportion to their eligible earnings compared to the eligible earnings of the other employees who will also share in the contributions. The Organization's matching contributions to the plan, charged to operations, were approximately \$251,000 and \$240,000 for the years ended September 30, 2018 and 2017, respectively.

#### Charity Care

OHCC provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Because OHCC does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue. OHCC determines the costs associated with providing charity care by calculating a ratio of expenses to gross charges, and then multiplying that ratio by the gross uncompensated charges associated with providing care to patients eligible for free care. See Note 4.

#### Income Taxes

OHCC and the Foundation are tax-exempt corporations as described in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code. In addition, the Foundation qualifies for the charitable contribution deduction under Section 170(b)(1)(a) and had been classified as an organization that is not a private foundation under Section 509(a)(3). Management evaluated the Organization's tax positions and concluded the Organization has maintained its tax-exempt status, does not have any significant unrelated business income and had taken no uncertain tax positions that require adjustment to or disclosure in the accompanying consolidated financial statements.

#### Advertising Expense

Advertising costs are expensed as incurred and totaled approximately \$70,000 and \$71,000 in 2018 and 2017, respectively.

#### Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), which requires revenue to be recognized when promised goods or services are transferred to customers in amounts that reflect the consideration to which the Organization expects to be entitled in exchange for those goods and services. ASU 2014-09 will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. ASU 2014-09 is effective for the Organization on October 1, 2019. ASU 2014-09 permits the use of either the retrospective or cumulative effect transition method. The Organization is evaluating the impact of the pending adoption of ASU 2014-09 on the Organization's consolidated financial statements and related disclosures.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

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

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* (ASU 2016-02). Under ASU 2016-02, at the commencement of a long-term lease, lessees will recognize a liability equivalent to the discounted payments due under the lease agreement, as well as an offsetting right-of-use asset. ASU 2016-02 is effective for the Organization on October 1, 2020, with early adoption permitted. Lessees (for capital and operating leases) may apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees may not apply a full retrospective transition approach. The Organization is currently evaluating the impact of the pending adoption of ASU 2016-02 on the Organization's consolidated financial statements.

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

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*, which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. ASU 2016-18 will be effective for the Organization beginning on October 1, 2019. ASU 2016-18 must be applied using a retrospective transition method with early adoption permitted. The Organization is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08). Due to diversity in practice, ASU 2018-08 clarifies the definition of an exchange transaction as well as the criteria for evaluating whether contributions are unconditional or conditional. ASU 2018-08 is effective for the Organization on October 1, 2019, with early adoption permitted. The Organization is currently evaluating the impact that ASU 2018-08 will have on its consolidated financial statements.

#### Subsequent Events

Management of the Organization evaluated events occurring between the end of its fiscal year and April 12, 2019, the date the consolidated financial statements were available to be issued.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2018 and 2017

**2. Accounts Receivable**

Accounts receivable are stated net of estimated contractual allowances and allowances for doubtful accounts. Accounts receivable consists of the following at September 30:

	<u>2018</u>	<u>2017</u>
Patient accounts receivable	\$3,447,130	\$3,436,923
Estimated contractual allowances	(711,017)	(626,760)
Estimated allowance for doubtful accounts	<u>(652,388)</u>	<u>(792,367)</u>
Net patient accounts receivable	<u>\$2,083,725</u>	<u>\$2,017,796</u>

The Organization's allowance for doubtful accounts for self-pay patients was 89% and 94% of self-pay accounts receivable at September 30, 2018 and 2017, respectively. The Organization's bad debt writeoffs (net of recoveries) increased \$119,245 from \$569,856 for fiscal year 2017 to \$689,101 for fiscal year 2018. The increase in bad debt writeoffs was primarily related to collection trends.

**3. Estimated Third-Party Settlements**

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

Medicare

OHCC was granted critical access hospital (CAH) designation on December 1, 2000. Under CAH, OHCC is primarily reimbursed allowable costs for its inpatient and outpatient services provided to Medicare patients.

OHCC is reimbursed for cost reimbursable items at tentative rates, with final settlement determined after submission of annual cost reports by OHCC and audits thereof by the Medicare fiscal intermediary. OHCC's Medicare cost reports have been settled by the Medicare Administrative Contractor (MAC) through September 30, 2016.

Medicaid

Inpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates per day of hospitalization. The prospectively determined per-diem rates are not subject to retroactive adjustment. Outpatient services rendered to Medicaid program beneficiaries are reimbursed under a fee schedule methodology. OHCC's Medicaid cost reports have been settled by the fiscal intermediary through September 30, 2016.

The State of Vermont imposes a health care provider tax (State provider taxes) based on the net patient service revenues of the Organization. The amount of tax incurred by the Organization for fiscal 2018 and 2017 was \$620,394 and \$648,299, respectively.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2018 and 2017

**3. Estimated Third-Party Settlements (Continued)**

Blue Cross

Inpatient and outpatient services rendered to Blue Cross subscribers are reimbursed at submitted charges less a discount withholding or through a per diem or fee schedule. The amounts paid to OHCC are not subject to any retroactive adjustments. Revenue from Blue Cross accounted for approximately 12% and 14% of OHCC's gross patient service revenues for the years ended September 30, 2018 and 2017, respectively.

Physicians Clinics

Physicians clinics represent primary care and other specialty physician services provided to patients at OHCC. The clinics are reimbursed either on a cost reimbursement or fee schedule basis.

Other

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

Revenues from the Medicare and Medicaid programs accounted for approximately 68% of OHCC's gross patient service revenues for the years ended September 30, 2018 and 2017. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. OHCC believes that it is in compliance with all applicable laws and regulations, and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medicaid programs.

**4. Charity Care**

OHCC maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies, and equivalent service statistics. Funds received from gifts and grants to subsidize uncompensated care were approximately \$49,000 and \$52,000 in 2018 and 2017, respectively. The following information measures the level of charity care provided during the years ended September 30:

	<u>2018</u>	<u>2017</u>
Charges foregone, based on established rates (Note 1)	<u>\$159,000</u>	<u>\$112,000</u>
Estimated costs incurred to provide charity care	<u>\$108,000</u>	<u>\$ 81,000</u>
Equivalent percentage of charity care services to all services	<u>0.6%</u>	<u>0.4%</u>

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2018 and 2017

**5. Concentration of Credit Risk**

Financial instruments which subject the Organization to credit risk consist of cash equivalents, accounts and other receivables and certain investments. The risk with respect to cash equivalents is minimized by the Organization's policy of investing in financial instruments with short-term maturities issued by highly rated financial institutions. The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant risk at September 30, 2018. The Organization's investments consist of diversified securities and, while subject to market risk, do not represent any significant concentrations in any sectors.

OHCC grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of gross patient accounts receivable at September 30, 2018 and 2017 was as follows:

	<u>2018</u>	<u>2017</u>
Medicare	40%	43%
Medicaid	7	7
Blue Cross	8	6
Other third-party payors	24	19
Patients	<u>21</u>	<u>25</u>
	<u>100%</u>	<u>100%</u>

**6. Assets Whose Use is Limited or Restricted**

Investments included in assets whose use is limited or restricted at September 30, 2018 and 2017 consist of the following:

	Cost	Fair	Cost	Fair
	<u>2018</u>	<u>2018</u>	<u>2017</u>	<u>2017</u>
Cash and cash equivalents	\$ 130,777	\$ 130,777	\$ 284,747	\$ 284,747
Brokered certificates of deposit	323,985	321,625	323,985	324,387
Mutual funds	1,530,872	1,678,950	1,353,885	1,529,268
Government and municipal bonds	424,491	416,000	244,754	246,866
Corporate bonds	929,004	883,892	875,847	873,369
Common stock	<u>1,583,748</u>	<u>2,294,732</u>	<u>1,413,734</u>	<u>2,015,491</u>
	<u>\$4,922,877</u>	<u>\$5,725,976</u>	<u>\$4,496,952</u>	<u>\$5,274,128</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

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

Investment income, net realized gains and the net unrealized gains on assets whose use is limited or restricted, cash and cash equivalents, and other investments are as follows at September 30:

	<u>2018</u>	<u>2017</u>
Unrestricted:		
Investment income	\$ 93,033	\$ 81,916
Net realized gains on sales of securities	253,247	131,537
Net unrealized gains on investments	<u>25,923</u>	<u>261,981</u>
	<u>\$372,203</u>	<u>\$475,434</u>

The endowment includes both endowment funds permanently restricted from expenditure by donors (accounted for in permanently restricted net assets) and other funds for which the governing board or state regulations require that such funds be treated in a manner similar to endowments. These other funds are accounted for in unrestricted net assets. Gains on donor established endowments are, absent donor stipulations, included in temporarily restricted net assets until appropriated for expenditure by the governing board. Should the value of investments related to a donor established endowment fall below the original donor contribution, the resulting deficit is included in unrestricted net assets.

The changes in the Organization's endowment funds, including quasi endowments restricted by the Board, for the years ended September 30, 2018 and 2017 are as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>
Endowment funds, September 30, 2016	\$2,550,516	\$1,021,446
Contributions	100,000	6,892
Investment income	9,306	-
Net appreciation (realized and unrealized)	<u>189,656</u>	<u>-</u>
Endowment funds, September 30, 2017	2,849,478	1,028,338
Contributions	-	6,017
Investment income	11,211	-
Net appreciation (realized and unrealized)	<u>186,631</u>	<u>-</u>
Endowment funds, September 30, 2017	<u>\$3,047,320</u>	<u>\$1,034,355</u>

In 2018 and 2017, all unrestricted investment income and gains (losses) including unrealized gains (losses) are included as part of nonoperating gains (losses) in the consolidated statements of operations.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018 and 2017

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

The Organization is the beneficiary of two remainder trusts. The charitable remainder trusts provide for certain distributions to designated beneficiaries over the trusts' term. At the end of the term, the income and the remaining assets are available for the Organization's unrestricted use. Assets held in charitable remainder trusts totaled \$34,016 and \$35,068 as of September 30, 2018 and 2017, respectively. The Organization's interest in charitable remainder trusts is recognized as an asset based on the fair value of the underlying assets.

The Organization is the beneficiary of a perpetual trust fund, which is administered by Bank of America. The terms of the perpetual trust require that income or a percentage of income be paid to the Organization in perpetuity. The Organization's interest in the perpetual trust is recognized as an asset based on the fair value of the underlying assets, which approximates the net present value of the future income stream, and totaled \$1,717,123 and \$1,690,978 as of September 30, 2018 and 2017, respectively. Increases and decreases in the carrying value of this asset are included in permanently restricted net assets.

Fair value of a financial instrument is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Organization uses various methods including market, income and cost approaches. Based on these approaches, the Organization often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Organization utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Organization is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.

Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

In determining the appropriate levels, the Organization performs a detailed analysis of the assets and liabilities that are subject to the fair value guidance. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2018 and 2017

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

The following presents the balances of assets whose use is limited or restricted measured at fair value on a recurring basis at September 30:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>2018</u>				
Cash and cash equivalents	\$ 619,063	\$ —	\$ —	\$ 619,063
Brokered certificates of deposit	—	321,625	—	321,625
Mutual funds:				
Fixed income	540,782	—	—	540,782
Equity	1,104,784	—	—	1,104,784
Real assets	67,108	—	—	67,108
Government and municipal bonds	—	416,000	—	416,000
Corporate bonds	—	883,892	—	883,892
Common stock:				
Materials	48,230	—	—	48,230
Real estate	42,511	—	—	42,511
Industrials	274,794	—	—	274,794
Consumer discretionary	209,349	—	—	209,349
Consumer staples	165,880	—	—	165,880
Energy	227,879	—	—	227,879
Financial institutions	356,698	—	—	356,698
Healthcare	343,824	—	—	343,824
Utilities	76,973	—	—	76,973
Information technology	516,559	—	—	516,559
Telecommunication services	32,035	—	—	32,035
Beneficial interest in trust	—	—	<u>1,717,123</u>	<u>1,717,123</u>
	<u>\$4,626,469</u>	<u>\$1,621,517</u>	<u>\$1,717,123</u>	<u>\$7,965,109</u>
<u>2017</u>				
Cash and cash equivalents	\$1,057,864	\$ —	\$ —	\$1,057,864
Brokered certificates of deposit	—	324,387	—	324,387
Mutual funds:				
Fixed income	512,516	—	—	512,516
Equity	988,342	—	—	988,342
Real assets	63,187	—	—	63,187
Government and municipal bonds	—	246,866	—	246,866
Corporate bonds	—	873,369	—	873,369
Common stock:				
Materials	17,942	—	—	17,942
Real estate	69,486	—	—	69,486
Industrials	281,557	—	—	281,557
Consumer discretionary	215,785	—	—	215,785
Consumer staples	130,808	—	—	130,808
Energy	143,762	—	—	143,762
Financial institutions	262,048	—	—	262,048
Healthcare	302,308	—	—	302,308
Utilities	76,189	—	—	76,189
Information technology	453,105	—	—	453,105
Telecommunication services	62,501	—	—	62,501
Beneficial interest in trust	—	—	<u>1,690,978</u>	<u>1,690,978</u>
	<u>\$4,637,400</u>	<u>\$1,444,622</u>	<u>\$1,690,978</u>	<u>\$7,773,000</u>

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2018 and 2017

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

Cash and cash equivalents, mutual funds and common stock are based upon quoted prices in active markets for identical assets and are reflected as Level 1.

Brokered certificates of deposit and municipal and corporate bonds were determined based upon market information from less active markets, including broker or dealer quotations, external pricing providers, or alternative pricing sources with reasonable levels of transparency, and have been included in Level 2.

The Organization's Level 3 investments consist of a beneficial interest in trust. The Organization's legal interest is in its pro rata portion of the trust and not the trust's underlying assets. The Organization's interest is valued based upon its pro rata ownership of the total trust. As the actual assets are not readily available to the Organization, the asset is considered to be Level 3.

Investments, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. As such, it is reasonably possible that changes in the fair value of investments will occur in the near term and that such changes could materially affect the amounts reported in the accompanying consolidated balance sheets and statements of operations.

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

	<u>Beneficial Interest in Trust</u>	
	<u>2018</u>	<u>2017</u>
Balance, beginning of period	\$1,690,978	\$1,563,537
Net increase in beneficial interest in perpetual trust	<u>26,145</u>	<u>127,441</u>
Balance, end of period	<u>\$1,717,123</u>	<u>\$1,690,978</u>

Other financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses, estimated third-party payor settlements and lines of credit. The fair value of these financial instruments approximates their relative book values as these financial instruments have short-term maturities. The charitable gift annuities liability is reported at estimated fair value based on the life expectancy of the beneficiaries and the present value of expected cash flows using a discount rate at the time of the gift. The fair value of the Organization's long-term obligations is estimated using discounted cash flow analyses, based on the Organization's current incremental borrowing rates for similar types of borrowing arrangements. There was no significant difference in the carrying value and fair value of long-term obligations at September 30, 2018 and 2017.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2018 and 2017

**7. Property and Equipment**

Property and equipment consists of the following at September 30:

	<u>2018</u>	<u>2017</u>
Land and land improvements	\$ 254,806	\$ 254,806
Building and building improvements	7,609,650	6,969,472
Fixed equipment	757,126	680,617
Major movable equipment	4,404,747	4,420,504
Minor equipment	648,119	648,119
Vehicles	84,765	84,765
Other equipment	3,135,932	3,239,891
Construction in progress	<u>50,785</u>	<u>280,610</u>
	16,945,930	16,578,784
Less accumulated depreciation	<u>(13,581,503)</u>	<u>(13,183,633)</u>
	<u>\$ 3,364,427</u>	<u>\$ 3,395,151</u>

Depreciation expense for the years ended September 30, 2018 and 2017 amounted to \$612,930 and \$636,003, respectively.

**8. Charitable Gift Annuities**

The Organization administers various charitable gift annuities. Under these charitable gift annuity agreements, the donor contributes assets to the Organization in exchange for distributions of a fixed amount to the donor or other designated beneficiaries for their remaining lives. The assets contributed are recorded at fair value on the date the agreement is recognized and are available for the Organization's use for various purposes as determined by the donor. On a quarterly basis, the Organization makes distributions to the designated beneficiaries, the liability for which is calculated based on actuarial assumptions. The Organization's liability of \$80,837 and \$85,282 at September 30, 2018 and 2017, respectively, is based on the present value of the estimated future payments, and calculated using a discount rate ranging from 1.20% to 7.40% and applicable mortality rates.

**9. Line of Credit**

The Organization has a revolving line of credit with a bank with maximum borrowings of \$1,500,000. The outstanding balance of the line of credit was \$1,078,501 and \$1,317,298 at September 30, 2018 and 2017, respectively. Interest on the line of credit is assessed at the prime rate with a minimum of 4.0% (5.50% as of September 30, 2018), and this line is secured by investments. The line of credit had a maturity date of March 30, 2019 and was subsequently extended to March 28, 2020.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2018 and 2017

**10. Long-Term Obligations**

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

	<u>2018</u>	<u>2017</u>
Vermont Educational and Health Buildings Financing Agency (VEHBFA) Hospital Revenue Bonds Series 1997-1, variable interest rate (1.85% as of September 30, 2018) with principal maturing in varying annual amounts ranging from \$145,000 in 2019 to \$190,000 in 2022; secured by property and business assets of OHCC and the letter of credit as described below	\$ 660,000	\$ 800,000
Note payable to a bank, variable interest with a minimum interest rate of 4.0% (5.50% as of September 30, 2018); due in monthly installments totaling \$11,304 through May 2020; secured by substantially all business assets	218,968	342,162
Note payable to United States Department of Agriculture (USDA), with interest fixed at 3.125%; due in monthly installments of \$2,283 through February 2036; secured by substantially all business assets	367,482	383,119
Capital lease obligations	<u>134,993</u>	<u>194,903</u>
	1,381,443	1,720,184
Less current portion	(352,757)	(339,578)
Less unamortized debt issuance costs	<u>(16,404)</u>	<u>(20,425)</u>
	<u>\$1,012,282</u>	<u>\$ 1,360,181</u>

Under the terms of the revenue bond indenture, OHCC is required to maintain certain deposits with a trustee. Such deposits totaled \$63,437 and \$57,166 at September 30, 2018 and 2017, respectively. The revenue bond indenture also places limits on the incurrence of additional borrowings, and requires that OHCC satisfy certain measures of financial performance as long as the bonds are outstanding. OHCC was in compliance with financial covenants for the years ended September 30, 2018 and 2017.

As of September 30, 2018 and 2017, OHCC has a standby letter of credit for \$669,764 and \$882,871, respectively, which expires on June 20, 2020. The letter of credit is part of the bond agreements and is available to make principal and interest payments on the respective bonds.

The Organization leases equipment under leases which have been capitalized and are included in property and equipment. The assets recorded under the capital leases have a net book value of \$132,048 and \$192,681 at September 30, 2018 and 2017, respectively, with accumulated amortization of \$171,117 and \$110,484, respectively. Annual amortization has been included in depreciation expense. The capital lease obligations have been recorded as a long-term obligation. Future minimum lease payments under the capital lease obligations at September 30, 2018 are as follows:

Total remaining payments	\$146,864
Less amounts representing interest	(11,871)
Less current portion of capital lease obligations	<u>(62,468)</u>
Long-term obligations under capital leases	<u>\$ 72,525</u>

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2018 and 2017

**10. Long-Term Obligations (Continued)**

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

2019	\$ 352,757
2020	316,170
2021	203,824
2022	207,716
2023	18,277
Thereafter	<u>282,699</u>
	<u>\$1,381,443</u>

**11. Temporarily and Permanently Restricted Net Assets**

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

	<u>2018</u>	<u>2017</u>
Capital acquisition and improvements at OHCC	\$443,308	\$565,408
Contributions receivable from charitable remainder trusts	<u>34,016</u>	<u>35,068</u>
	<u>\$477,324</u>	<u>\$600,476</u>

Permanently restricted net assets at September 30 are restricted to:

	<u>2018</u>	<u>2017</u>
Investments to be held in perpetuity, the income of which is expendable to support operations	\$1,034,355	\$1,028,338
Beneficial interest in perpetual trust	<u>1,717,123</u>	<u>1,690,978</u>
	<u>\$2,751,478</u>	<u>\$2,719,316</u>

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2018 and 2017

**12. Net Patient Service Revenue**

An estimated breakdown of patient service revenue, net of contractual allowances, discounts and provision for bad debts recognized in 2018 and 2017 from these major payor sources, is as follows:

	<u>Gross Patient Service Revenues</u>	<u>Contractual Allowances and Discounts</u>	<u>Charity Care</u>	<u>Provision for Bad Debts</u>	<u>Net Patient Services Revenues Less Provision for Bad Debts</u>
<b><u>2018</u></b>					
Third-party insurance (includes coinsurance and deductibles)	\$ 4,846,146	\$(1,450,485)	\$ (9,945)	\$(141,117)	\$ 3,244,599
Blue Cross	3,490,942	(1,475,110)	(14,220)	(153,136)	1,848,476
Medicaid	3,933,414	(2,600,759)	(6,740)	(31,042)	1,294,873
Medicare	15,421,271	(3,978,336)	(83,338)	(83,848)	11,275,749
Self-pay	<u>702,281</u>	<u>—</u>	<u>(44,283)</u>	<u>(146,946)</u>	<u>511,052</u>
	<u>\$28,394,054</u>	<u>\$(9,504,690)</u>	<u>\$(158,526)</u>	<u>\$(556,089)</u>	<u>\$18,174,749</u>
<b><u>2017</u></b>					
Third-party insurance (includes coinsurance and deductibles)	\$ 3,720,269	\$(1,017,148)	\$ (1,775)	\$ (90,419)	\$ 2,610,927
Blue Cross	3,597,386	(1,702,561)	(20,195)	(76,541)	1,798,089
Medicaid	3,641,618	(2,331,408)	(68)	(11,494)	1,298,648
Medicare	14,090,885	(2,870,480)	(45,619)	(37,323)	11,137,463
Self-pay	<u>1,063,698</u>	<u>(1,697)</u>	<u>(44,449)</u>	<u>(629,513)</u>	<u>388,039</u>
	<u>\$26,113,856</u>	<u>\$(7,923,294)</u>	<u>\$(112,106)</u>	<u>\$(845,290)</u>	<u>\$17,233,166</u>

**13. Commitments and Contingencies**

**Malpractice Insurance**

The Organization insures its medical malpractice risks on a claims made basis. The Organization's claims made policy provides specific coverage for potential claims reported by the Organization during the policy term.

At September 30, 2018, there were no known malpractice claims outstanding which, in the opinion of management, will be settled for amounts in excess of insurance coverage. Additionally, there were no known unasserted claims or incidents which might require loss accrual for amounts in excess of insurance coverage. The Organization intends to renew coverage on a claims made basis and anticipates that such coverage will be available.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2018 and 2017

**13. Commitments and Contingencies (Continued)**

Litigation

The Organization is involved in litigation arising in the ordinary course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Organization's financial position, results of operations or cash flows.

Self-Insurance Program

The Organization self-insures a portion of its employee health benefits and estimates and accrues amounts to meet its expected obligations under the program. The plan is administered by an insurance company which will assist in determining the current funding requirements of participants under the terms of the plan and the liability for claims and assessments that would be payable at any given point in time. The Organization provides services to employees covered by the plan. Stop loss insurance coverage is in effect which mitigates the Organization's exposure to loss on an individual and aggregate basis. Estimated unpaid claims, and those claims incurred but not reported at September 30, 2018 and 2017, have been recorded as a liability of approximately \$117,000 and \$285,000, respectively, and are reflected within accrued expenses in the accompanying consolidated balance sheets.

Grant Award

During fiscal year 2016, the Organization was awarded a grant totaling \$1,310,000 to be paid over four years. The grant payments are subject to certain satisfactory compliance with pre-funding conditions and reporting requirements, as defined within the grant agreement. The grant award is to support the Organization's community health teams and provider recruitment program. During 2018, the Organization received and expended \$340,000 and \$260,053, respectively, related to this grant. During 2017, the Organization received and expended \$340,000 and \$269,542, respectively, related to this grant. No other amounts related to this grant are reflected within the accompanying financial statements given the contingencies related to the grant payments.

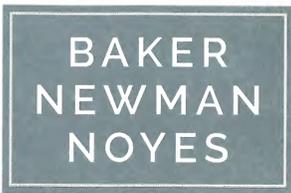
**14. Volunteer Services (Unaudited)**

In 2018 and 2017, total volunteer service hours received by OHCC were approximately 5,700 and 6,700, respectively. The volunteers provide nonspecialized services to OHCC, none of which have been recognized as revenue or expense in the consolidated statements of operations.

**15. Functional Expenses**

OHCC provides general health care services to residents within its geographic location. Expenses related to providing these services are as follows for the years ended September 30:

	<u>2018</u>	<u>2017</u>
Health care services	\$20,297,295	\$ 20,201,881
General and administrative	2,287,676	2,276,932
Depreciation and amortization	612,930	636,003
Interest	<u>135,586</u>	<u>131,906</u>
	<u>\$23,333,487</u>	<u>\$ 23,246,722</u>



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

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

We have audited the consolidated financial statements of Carlos G. Otis Health Care Center, Inc. and Subsidiary as of and for the years ended September 30, 2018 and 2017, and have issued our report thereon, which contains an unmodified opinion on those consolidated financial statements. See page 1. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for purposes of additional analysis rather than to present the financial position, results of operations and cash flows of the individual entities and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Baker Newman & Noyes LLC*

Manchester, New Hampshire  
April 12, 2019

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

CONSOLIDATING BALANCE SHEETS

September 30, 2018 and 2017

ASSETS

	Carlos G. Otis Health Care Center, Inc.		Grace Cottage Foundation		Eliminations		Consolidated	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Current assets:								
Cash and cash equivalents	\$ 23,386	\$ 67,498	\$ -	\$ -	\$ -	\$ -	\$ 23,386	\$ 67,498
Accounts receivable, net	2,083,725	2,017,796	-	-	-	-	2,083,725	2,017,796
Estimated third-party payor settlements receivable	-	149,450	-	-	-	-	-	149,450
Meaningful use receivable	34,000	85,000	-	-	-	-	34,000	85,000
Other receivables	32	789	604	2,937	(604)	(3,517)	32	209
Inventories	1,715,794	1,465,293	-	-	-	-	1,715,794	1,465,293
Prepaid expenses	<u>209,789</u>	<u>209,215</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>209,789</u>	<u>209,215</u>
Total current assets	4,066,726	3,995,041	604	2,937	(604)	(3,517)	4,066,726	3,994,461
Property and equipment, net	3,364,427	3,395,151	-	-	-	-	3,364,427	3,395,151
Assets whose use is limited or restricted:								
Restricted cash and cash equivalents	-	-	424,557	715,660	-	-	424,557	715,660
Investments	-	-	5,725,976	5,274,128	-	-	5,725,976	5,274,128
Contributions receivable from charitable remainder trusts	-	-	34,016	35,068	-	-	34,016	35,068
Beneficial interest in perpetual trust	-	-	1,717,123	1,690,978	-	-	1,717,123	1,690,978
Deposits with trustee	63,437	57,166	-	-	-	-	63,437	57,166
Beneficial interest in net assets of Grace Cottage Foundation	<u>7,821,439</u>	<u>7,632,909</u>	<u>-</u>	<u>-</u>	<u>(7,821,439)</u>	<u>(7,632,909)</u>	<u>-</u>	<u>-</u>
Total assets whose use is limited or restricted	<u>7,884,876</u>	<u>7,690,075</u>	<u>7,901,672</u>	<u>7,715,834</u>	<u>(7,821,439)</u>	<u>(7,632,909)</u>	<u>7,965,109</u>	<u>7,773,000</u>
Total assets	<u>\$15,316,029</u>	<u>\$15,080,267</u>	<u>\$ 7,902,276</u>	<u>\$ 7,718,771</u>	<u>\$ (7,822,043)</u>	<u>\$ (7,636,426)</u>	<u>\$15,396,262</u>	<u>\$15,162,612</u>

LIABILITIES AND NET ASSETS

	Carlos G. Otis Health Care Center, Inc.		Grace Cottage Foundation		Eliminations		Consolidated	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Current liabilities:								
Line of credit	\$ 1,078,501	\$ 1,317,298	\$ –	\$ –	\$ –	\$ –	\$ 1,078,501	\$ 1,317,298
Accounts payable	1,063,795	1,306,776	–	580	(604)	(3,517)	1,063,191	1,303,839
Accrued compensated absences	677,097	550,818	–	–	–	–	677,097	550,818
Accrued expenses	1,023,207	1,108,666	–	–	–	–	1,023,207	1,108,666
Estimated third-party payor settlements payable	321,147	–	–	–	–	–	321,147	–
Current portion of charitable gift annuities liability	–	–	18,244	18,244	–	–	18,244	18,244
Current portion of long-term debt and capital lease obligations	<u>352,757</u>	<u>339,578</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>352,757</u>	<u>339,578</u>
Total current liabilities	4,516,504	4,623,136	18,244	18,824	(604)	(3,517)	4,534,144	4,638,443
Charitable gift annuities liability, less current portion	–	–	62,593	67,038	–	–	62,593	67,038
Long-term debt and capital lease obligations, less current portion	<u>1,012,282</u>	<u>1,360,181</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,012,282</u>	<u>1,360,181</u>
Total liabilities	5,528,786	5,983,317	80,837	85,862	(604)	(3,517)	5,609,019	6,065,662
Net assets:								
Unrestricted net assets	6,558,441	5,777,158	4,592,637	4,313,117	(4,592,637)	(4,313,117)	6,558,441	5,777,158
Temporarily restricted net assets	477,324	600,476	477,324	600,476	(477,324)	(600,476)	477,324	600,476
Permanently restricted net assets	<u>2,751,478</u>	<u>2,719,316</u>	<u>2,751,478</u>	<u>2,719,316</u>	<u>(2,751,478)</u>	<u>(2,719,316)</u>	<u>2,751,478</u>	<u>2,719,316</u>
Total net assets	<u>9,787,243</u>	<u>9,096,950</u>	<u>7,821,439</u>	<u>7,632,909</u>	<u>(7,821,439)</u>	<u>(7,632,909)</u>	<u>9,787,243</u>	<u>9,096,950</u>
Total liabilities and net assets	<u>\$15,316,029</u>	<u>\$15,080,267</u>	<u>\$ 7,902,276</u>	<u>\$ 7,718,771</u>	<u>\$ (7,822,043)</u>	<u>\$ (7,636,426)</u>	<u>\$15,396,262</u>	<u>\$15,162,612</u>

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

**CONSOLIDATING STATEMENTS OF OPERATIONS**

Years Ended September 30, 2018 and 2017

	<u>Carlos G. Otis Health Care Center, Inc.</u>		<u>Grace Cottage Foundation</u>		<u>Eliminations</u>		<u>Consolidated</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Unrestricted revenue and other support:								
Net patient service revenue, less								
provision for bad debts	\$18,174,749	\$17,233,166	\$ –	\$ –	\$ –	\$ –	\$18,174,749	\$17,233,166
Other revenue	4,363,870	4,584,664	55,061	54,888	(288,969)	(283,430)	4,129,962	4,356,122
Meaningful use revenue	42,500	106,250	–	–	–	–	42,500	106,250
Net assets released from restrictions								
for operations	<u>–</u>	<u>–</u>	<u>430,497</u>	<u>449,615</u>	<u>–</u>	<u>–</u>	<u>430,497</u>	<u>449,615</u>
Total unrestricted revenue and other support	<u>22,581,119</u>	<u>21,924,080</u>	<u>485,558</u>	<u>504,503</u>	<u>(288,969)</u>	<u>(283,430)</u>	<u>22,777,708</u>	<u>22,145,153</u>
Expenses:								
Salaries and benefits	15,163,919	14,679,909	–	–	–	–	15,163,919	14,679,909
Supplies and other	6,749,027	7,100,764	51,631	49,841	–	–	6,800,658	7,150,605
State provider taxes	620,394	648,299	–	–	–	–	620,394	648,299
Transfers to parent	–	–	1,208,206	1,024,553	(1,208,206)	(1,024,553)	–	–
Depreciation and amortization	612,930	636,003	–	–	–	–	612,930	636,003
Interest	<u>135,586</u>	<u>131,906</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>135,586</u>	<u>131,906</u>
Total expenses	<u>23,281,856</u>	<u>23,196,881</u>	<u>1,259,837</u>	<u>1,074,394</u>	<u>(1,208,206)</u>	<u>(1,024,553)</u>	<u>23,333,487</u>	<u>23,246,722</u>
Loss from operations	(700,737)	(1,272,801)	(774,279)	(569,891)	919,237	741,123	(555,779)	(1,101,569)
Nonoperating gains (losses):								
Investment income	76	60	92,957	81,856	–	–	93,033	81,916
Net realized and unrealized changes in								
the fair value of investments	–	–	279,170	393,518	–	–	279,170	393,518
Unrestricted contributions and program support	1,208,206	1,024,553	524,600	375,124	(1,208,206)	(1,024,553)	524,600	375,124
Other nonoperating (losses) gains	<u>(5,782)</u>	<u>2,023</u>	<u>(13,799)</u>	<u>(10,364)</u>	<u>–</u>	<u>–</u>	<u>(19,581)</u>	<u>(8,341)</u>
Nonoperating gains, net	<u>1,202,500</u>	<u>1,026,636</u>	<u>882,928</u>	<u>840,134</u>	<u>(1,208,206)</u>	<u>(1,024,553)</u>	<u>877,222</u>	<u>842,217</u>
Excess (deficiency) of revenue, gains and								
other support over expenses	501,763	(246,165)	108,649	270,243	(288,969)	(283,430)	321,443	(259,352)
Increase in unrestricted net assets of Foundation	279,520	508,672	–	–	(279,520)	(508,672)	–	–
Net transfers to affiliate	–	–	(288,969)	(283,430)	288,969	283,430	–	–
Net assets released from restrictions								
for capital purchases	<u>–</u>	<u>–</u>	<u>459,840</u>	<u>521,859</u>	<u>–</u>	<u>–</u>	<u>459,840</u>	<u>521,859</u>
Increase in unrestricted net assets	<u>\$ 781,283</u>	<u>\$ 262,507</u>	<u>\$ 279,520</u>	<u>\$ 508,672</u>	<u>\$ (279,520)</u>	<u>\$ (508,672)</u>	<u>\$ 781,283</u>	<u>\$ 262,507</u>

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

SCHEDULE OF OPERATING INCOME (LOSS)

Year Ended September 30, 2018

	<u>Grace Cottage Hospital</u>	<u>Messenger Valley Pharmacy</u>	<u>Grace Cottage Family Health</u>	<u>Corporate</u>	<u>Total</u>
Revenue:					
Gross patient service revenue	\$ 23,969,815	\$ –	\$ 4,424,239	\$ –	\$ 28,394,054
Contractual allowances	(8,765,831)	(52,019)	(686,840)	–	(9,504,690)
Charity care	(126,149)	(214)	(32,163)	–	(158,526)
Provision for bad debts	<u>(493,713)</u>	<u>(7,146)</u>	<u>(55,230)</u>	<u>–</u>	<u>(556,089)</u>
Net patient service revenue less provision for bad debts	14,584,122	(59,379)	3,650,006	–	18,174,749
Other revenue	1,320,951	2,778,769	222,949	41,201	4,363,870
Meaningful use revenue	<u>42,500</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>42,500</u>
Total unrestricted revenues and other support	15,947,573	2,719,390	3,872,955	41,201	22,581,119
Expenses:					
Salaries and benefits	10,860,823	647,429	3,655,667	–	15,163,919
Supplies and other and state provider taxes	5,046,148	2,057,606	237,739	27,928	7,369,421
Depreciation and amortization	580,294	32,147	489	–	612,930
Interest	<u>–</u>	<u>–</u>	<u>–</u>	<u>135,586</u>	<u>135,586</u>
Total expenses	<u>16,487,265</u>	<u>2,737,182</u>	<u>3,893,895</u>	<u>163,514</u>	<u>23,281,856</u>
Loss from operations	<u>\$ (539,692)</u>	<u>\$ (17,792)</u>	<u>\$ (20,940)</u>	<u>\$ (122,313)</u>	<u>\$ (700,737)</u>

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

SCHEDULE OF OPERATING INCOME (LOSS) (CONTINUED)

Year Ended September 30, 2017

	<u>Grace Cottage Hospital</u>	<u>Messenger Valley Pharmacy</u>	<u>Grace Cottage Family Health</u>	<u>Corporate</u>	<u>Total</u>
Revenue:					
Gross patient service revenue	\$ 21,703,960	\$ –	\$4,409,896	\$ –	\$ 26,113,856
Contractual allowances	(7,168,258)	(41,672)	(713,364)	–	(7,923,294)
Charity care	(85,804)	(1,847)	(24,455)	–	(112,106)
Provision for bad debts	<u>(713,770)</u>	<u>(2,893)</u>	<u>(128,627)</u>	<u>–</u>	<u>(845,290)</u>
Net patient service revenue less provision for bad debts	13,736,128	(46,412)	3,543,450	–	17,233,166
Other revenue	1,343,037	2,963,935	238,490	39,202	4,584,664
Meaningful use revenue	<u>106,250</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>106,250</u>
Total unrestricted revenues and other support	15,185,415	2,917,523	3,781,940	39,202	21,924,080
Expenses:					
Salaries and benefits	10,204,414	714,532	3,760,963	–	14,679,909
Supplies and other and state provider taxes	5,223,079	2,187,841	271,667	66,476	7,749,063
Depreciation and amortization	599,378	33,431	3,194	–	636,003
Interest	<u>–</u>	<u>–</u>	<u>–</u>	<u>131,906</u>	<u>131,906</u>
Total expenses	<u>16,026,871</u>	<u>2,935,804</u>	<u>4,035,824</u>	<u>198,382</u>	<u>23,196,881</u>
Loss from operations	<u>\$ (841,456)</u>	<u>\$ (18,281)</u>	<u>\$ (253,884)</u>	<u>\$ (159,180)</u>	<u>\$ (1,272,801)</u>