



FINANCIAL STATEMENTS

September 30, 2019 and 2018

With Independent Auditor's Report





INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Northeastern Vermont Regional Hospital, Inc.

We have audited the accompanying financial statements of Northeastern Vermont Regional Hospital, Inc., a subsidiary of Northeastern Vermont Regional Corp., which comprise the balance sheets as of September 30, 2019 and 2018, and the related statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Board of Trustees
Northeastern Vermont Regional Hospital, Inc.

Change in Accounting Principles

As discussed in Note 1 to the financial statements, during the year ended September 30, 2019, Northeastern Vermont Regional Hospital, Inc. adopted new accounting guidance, Financial Accounting Standards Board Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, and ASU No. 2019-06, *Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities*. Our opinion is not modified with respect to these matters.

Berry Dunn McNeil & Parker, LLC

Portland, Maine
December 2, 2019
Registration No. 92-0000278

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Balance Sheets

September 30, 2019 and 2018

ASSETS

	<u>2019</u>	<u>2018</u>
Current assets		
Cash and cash equivalents	\$ 5,802,955	\$ 7,110,877
Patient accounts receivable, net of allowances for doubtful accounts and contractual allowances of \$15,368,665 in 2019 and \$11,777,305 in 2018	9,251,741	8,187,451
Supplies	1,429,788	1,342,746
Prepaid expenses	733,320	585,619
Other accounts receivable	<u>1,933,134</u>	<u>1,332,808</u>
Total current assets	<u>19,150,938</u>	<u>18,559,501</u>
Assets limited as to use		
Restricted or internally designated for		
Capital acquisitions	14,754,840	14,549,807
Funded depreciation	3,762,839	3,710,563
Donor restricted-other	<u>362,874</u>	<u>355,941</u>
Total assets limited as to use	<u>18,880,553</u>	<u>18,616,311</u>
Property and equipment, net	23,016,180	23,141,657
Due from Parent	3,810,646	3,152,145
Beneficial interest in net assets of Parent	1,162,328	1,301,600
Other long-term assets	<u>2,649,418</u>	<u>1,046,812</u>
Total assets	<u>\$ 68,670,063</u>	<u>\$ 65,818,026</u>

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

LIABILITIES AND NET ASSETS

	<u>2019</u>	<u>2018</u>
Current liabilities		
Current portion of long-term debt	\$ 771,798	\$ 755,384
Accounts payable and accrued expenses	8,390,849	7,841,877
Current portion of estimated third-party payor settlements	1,668,353	1,281,212
Other current liabilities	<u>361,203</u>	<u>292,292</u>
Total current liabilities	11,192,203	10,170,765
Long-term debt, excluding current portion	9,172,855	9,931,828
Estimated third-party payor settlements, less current portion	4,737,451	3,870,208
Other long-term liabilities	<u>1,212,435</u>	<u>946,912</u>
Total liabilities	<u>26,314,944</u>	<u>24,919,713</u>
Net assets		
Without donor restriction	40,627,061	39,037,435
With donor restriction	<u>1,728,058</u>	<u>1,860,878</u>
Total net assets	<u>42,355,119</u>	<u>40,898,313</u>
 Total liabilities and net assets	 <u>\$ 68,670,063</u>	 <u>\$ 65,818,026</u>

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Statements of Operations

Years Ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Revenues, gains, and other support without donor restriction		
Patient service revenue (net of contractual allowances and discounts)	\$ 87,954,895	\$ 81,491,143
Less provision for bad debts	<u>3,270,152</u>	<u>3,046,071</u>
Net patient service revenue	84,684,743	78,445,072
Other revenues	<u>5,737,906</u>	<u>5,986,073</u>
Total revenues, gains, and other support without donor restriction	<u>90,422,649</u>	<u>84,431,145</u>
Expenses		
Salaries and benefits	52,581,764	50,772,775
Supplies and other	31,313,505	27,439,478
Insurance	1,266,119	1,245,690
Depreciation and amortization	3,386,352	3,247,848
Interest	<u>247,716</u>	<u>264,392</u>
Total expenses	<u>88,795,456</u>	<u>82,970,183</u>
Operating income	<u>1,627,193</u>	<u>1,460,962</u>
Nonoperating (losses) gains		
Realized (losses) gains on sales of investments	(212,671)	370,740
Income from assets limited as to use	321,922	283,211
Nonoperating facility expense	(30,472)	(30,698)
Contribution expense	<u>(153,475)</u>	<u>(150,113)</u>
Nonoperating (losses) gains, net	<u>(74,696)</u>	<u>473,140</u>
Excess of revenues, gains, and other support over expenses and losses	1,552,497	1,934,102
Net unrealized gains (losses) on investments	<u>37,129</u>	<u>(48,538)</u>
Increase in net assets without donor restriction	<u>\$ 1,589,626</u>	<u>\$ 1,885,564</u>

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

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Statements of Changes in Net Assets

Years Ended September 30, 2019 and 2018

	Without Donor <u>Restriction</u>	With Donor <u>Restriction</u>	<u>Total</u>
Balances October 1, 2017	\$ <u>37,151,871</u>	\$ <u>1,984,116</u>	\$ <u>39,135,987</u>
Excess of revenues, gains, and other support over expenses and losses	1,934,102	-	1,934,102
Change in net unrealized gains on investments	(48,538)	-	(48,538)
Change in beneficial interest in net assets of Parent	-	(122,825)	(122,825)
Restricted investment loss	<u>-</u>	<u>(413)</u>	<u>(413)</u>
Change in net assets	<u>1,885,564</u>	<u>(123,238)</u>	<u>1,762,326</u>
Balances September 30, 2018	<u>39,037,435</u>	<u>1,860,878</u>	<u>40,898,313</u>
Excess of revenues, gains, and other support over expenses and losses	1,552,497	-	1,552,497
Change in net unrealized losses on investments	37,129	-	37,129
Change in beneficial interest in net assets of Parent	-	(139,272)	(139,272)
Restricted investment income	<u>-</u>	<u>6,452</u>	<u>6,452</u>
Change in net assets	<u>1,589,626</u>	<u>(132,820)</u>	<u>1,456,806</u>
Balances September 30, 2019	<u>\$ 40,627,061</u>	<u>\$ 1,728,058</u>	<u>\$ 42,355,119</u>

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

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Statements of Cash Flows

Years Ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Change in net assets	\$ 1,456,806	\$ 1,762,326
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	3,399,147	3,260,643
Provision for bad debts	3,270,152	3,046,071
Realized and unrealized losses (gains) on investments	175,542	(322,202)
Change in beneficial interest in net assets of Parent	139,272	122,825
(Increase) decrease in		
Patient accounts receivable	(4,334,442)	(3,306,864)
Due from Parent	(658,501)	892,815
Supplies	(87,042)	(17,560)
Prepaid expenses	(147,701)	(30,540)
Other accounts receivable	(600,326)	(194,052)
Increase (decrease) in		
Accounts payable and accrued expenses	435,546	247,843
Estimated third-party payor settlements	1,254,384	681,319
Other current liabilities	68,911	(124,444)
Net cash provided by operating activities	<u>4,371,748</u>	<u>6,018,180</u>
Cash flows from investing activities		
Purchases of property and equipment	(3,049,532)	(5,068,161)
Purchases of investments	(5,147,090)	(10,553,451)
Proceeds from sales of investments	4,707,306	10,167,703
Increase in other long-term assets	(1,435,000)	(99,900)
Net cash used by investing activities	<u>(4,924,316)</u>	<u>(5,553,809)</u>
Cash flows from financing activities		
Payments on long-term debt	(755,354)	(738,726)
Net cash used by financing activities	<u>(755,354)</u>	<u>(738,726)</u>
Net decrease in cash and cash equivalents	(1,307,922)	(274,355)
Cash and cash equivalents, beginning of year	<u>7,110,877</u>	<u>7,385,232</u>
Cash and cash equivalents, end of year	<u>\$ 5,802,955</u>	<u>\$ 7,110,877</u>
Supplemental disclosures of cash flow information		
Cash paid for interest	\$ 234,922	\$ 263,392
Purchases of property and equipment included in accounts payable and accrued expenses	\$ 113,426	\$ -

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

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2019 and 2018

Organization

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

1. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of the Hospital have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP), which require the Hospital to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restriction: 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 Trustees (Board).

Net assets with donor restriction: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by the 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 restriction. When a restriction expires, net assets are reclassified from net assets with donor restriction to net assets without donor restriction in the consolidated statements of operations and changes in net assets.

Use of Estimates

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

Cash and Cash Equivalents

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

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2019 and 2018

Patient Accounts Receivable

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

Supplies

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

Investments and Investment Income

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

Assets Limited as to Use

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

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Hospital are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either donor restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restriction are reclassified as net assets without donor restriction and reported in the statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restriction in the accompanying financial statements.

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2019 and 2018

Gifts of long-lived assets such as land, buildings, or equipment are reported as support without donor restriction, and are excluded from the excess of revenues, gains, and other support over expenses and losses, 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 support with donor restriction. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Acquisition

In November 2018, the Hospital acquired Northern Physical Therapy. The fair value of consideration transferred to the sellers, exceeded the fair value of the net assets acquired by \$1,175,000. This excess has been recorded as goodwill. Goodwill recognized from the acquisition primarily relates to overall strategy, acquired workforce and patient-related intangible assets that are not capable of being sold or licensed independently from other assets of the business, which are not separable from goodwill. The assets acquired were recorded at their estimated fair values on the acquisition date. The following is a summary of the amounts assigned to each major asset caption as of the date of the acquisition.

Property, plant and equipment	\$ 838,950
Goodwill	<u>1,175,000</u>
Total assets acquired	\$ <u>2,013,950</u>

Goodwill

Goodwill related to the acquisition of the physical therapy practice is included in other long-term assets on the consolidated balance sheet, net of \$97,917 accumulated amortization.

The Hospital adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2019-06, *Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities*, and began amortizing goodwill on a straight-line basis over a ten-year period.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2019 and 2018

Accrued Self-Insurance

The Hospital has established a self-insured health care plan for substantially all of its employees. The Hospital has obtained reinsurance coverage to limit the Hospital's exposure associated with this plan of \$100,000 per individual occurrence. The balance sheets include an accrual in accrued expenses for management's estimate of claims incurred, but not reported, of approximately \$1,030,000 and \$1,238,200 as of September 30, 2019 and 2018, respectively.

Benefit Plans

The Hospital sponsors a defined contribution retirement plan covering substantially all of its employees. Under this plan, the Hospital contributes a non-elective contribution of 3% of a participant's eligible compensation and a matching contribution equal to 100% of a participant's elective deferral, up to 1.5% of the participant's eligible compensation. Retirement plan expenses charged to operations were \$1,684,877 and \$1,640,917 for the years ended September 30, 2019 and 2018, respectively.

The Hospital provides the opportunity for certain members of management and employed physicians to contribute to a deferred compensation plan established under Section 457 of the Internal Revenue Code (Code). Contributions are voluntary on the part of qualifying employees and no contributions are made by the Hospital on their behalf. Contributions are recorded as other long-term assets and corresponding other long-term liabilities in the balance sheets and totaled \$1,212,435 and \$946,912 as of September 30, 2019 and 2018, respectively.

Net Patient Service Revenue

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

Charity Care

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

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2019 and 2018

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

The statements of operations include excess of revenues, gains, and other support over expenses and losses. Changes in net assets without donor restriction which are excluded from this measure, consistent with industry practice, include net unrealized gains and temporary unrealized losses on investments and permanent transfers of assets to or from NVRC.

Income Taxes

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

Newly Adopted Accounting Pronouncement

In 2019, the Hospital adopted FASB 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. 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. New or updated disclosures in the financial statements are Note 1 - Summary of Significant Accounting Policies (Basis of Presentation), Note 2 - Availability and Liquidity of Financial Assets, Note 9 - Net Assets With Donor Restriction, and Note 13 - Functional Expenses. The adoption of the ASU had no impact on previously reported total net assets or changes therein.

In 2019, the Hospital adopted ASU No. 2019-06, which extends the two private company alternatives on the subsequent accounting for goodwill and certain identifiable intangible assets in a business combination to not-for-profit entities. As a result of the adoption, the Hospital began amortizing goodwill effective October 1, 2018. The adoption was effective prospectively and had no impact on the statements of operations or cash flows for the year ended September 30, 2018.

Subsequent Events

For purposes of the preparation of these financial statements in conformity with U.S. GAAP, the Hospital has considered transactions or events occurring through December 2, 2019, which was the date the financial statements were available to be issued.

2. Availability and Liquidity of Financial Assets

As of September 30, 2019 and 2018, the Hospital has working capital of \$7,958,735 and \$8,388,736, respectively, and average days (based on normal expenditures) cash and cash equivalents on hand of 24 and 31, respectively. On average, it takes the hospital 41 days to convert an account receivable account into cash based on 2019 data.

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2019 and 2018

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:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 5,566,611	\$ 6,879,161
Patient accounts receivable, net	9,251,741	8,187,451
Other receivables	1,933,134	1,332,808
Assets limited as to use, net of restricted amounts	<u>3,762,839</u>	<u>3,710,563</u>
Financial assets available at year end for current use	<u>\$ 20,514,325</u>	<u>\$ 20,109,983</u>

The Hospital's goal is generally to maintain financial assets to meet 100 days of operating expenses. As part of its liquidity plan, cash is maintained in insured cash sweep accounts with excess cash invested in U.S. government securities.

Additionally, the Hospital maintains a \$500,000 line of credit. The Hospital did not draw on the line of credit during 2019 and 2018. As of September 30, 2019, the Hospital was in compliance with financial covenants as described in Note 8.

3. Net Patient Service Revenue

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

	<u>2019</u>	<u>2018</u>
Patient services		
Inpatient	\$ 46,516,852	\$ 35,366,945
Outpatient	<u>131,262,761</u>	<u>125,731,069</u>
Gross patient service revenue	<u>177,779,613</u>	<u>161,098,014</u>
Less contractual allowances	86,683,123	76,683,438
Less charity care and other discounts	<u>3,141,595</u>	<u>2,923,433</u>
	<u>89,824,718</u>	<u>79,606,871</u>
Patient service revenue (net of contractual allowances and discounts)	87,954,895	81,491,143
Less provision for bad debts	<u>3,270,152</u>	<u>3,046,071</u>
Net patient service revenue	<u>\$ 84,684,743</u>	<u>\$ 78,445,072</u>

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2019 and 2018

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

Medicare

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

Medicaid

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

Blue Cross

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

Revenue from the Medicare and Medicaid programs accounted for approximately 45% and 19%, respectively, of the Hospital's net patient service revenue for the year ended September 30, 2019, and 38% and 18%, respectively, of the Hospital's net patient service revenue for the year ended September 30, 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. Net patient service revenue increased approximately \$941,900 and \$1,462,100 during 2019 and 2018, respectively, due to settlements in excess of amounts previously estimated.

The Hospital recognizes patient service revenue associated with services rendered to patients who have third-party payor coverage on the basis of contractual rates for such services. For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates (or on the basis of discounted rates, if negotiated or provided by policy). Based on historical trends, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services rendered. Thus, the Hospital records a provision for bad debts related to uninsured patients in the period the services are rendered. Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized during fiscal years ended September 30, 2019 and 2018 totaled \$87,954,895 and \$81,491,143,

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2019 and 2018

respectively, of which \$83,685,905 and \$78,055,307, respectively, were revenues from third-party payors and approximately \$4,268,990 and \$3,435,836, respectively, were revenues from self-pay patients.

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

During 2019, self-pay accounts receivable increased significantly. This resulted in the Hospital increasing its estimate of the allowance for doubtful accounts related to self-pay and charity care patients from \$7,287,919 to \$10,079,508. During 2019, the Hospital's self-pay writeoffs decreased from \$2,438,883 to \$2,433,908 as a result of trends experienced in the collection of amounts from self-pay patients.

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

4. Charity Care

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

	<u>2019</u>	<u>2018</u>
Charges foregone, based on established rates	<u>\$ 3,141,595</u>	<u>\$ 2,923,433</u>
Estimated costs incurred to provide charity care	<u>\$ 1,578,000</u>	<u>\$ 1,511,000</u>
Equivalent percentage of charity care services to all services	<u>1.77%</u>	<u>1.81%</u>

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

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2019 and 2018

5. Assets Limited as to Use

The composition of assets limited as to use as of September 30, 2019 and 2018 is set forth in the following table. Investments are stated at fair value.

	<u>2019</u>	<u>2018</u>
Restricted or internally designated for capital acquisitions		
Cash and short-term investments	\$ 6,591	\$ 185,107
Restricted cash and short-term investments	237,331	236,817
U.S. Treasury securities and other government securities	347,590	314,779
Mortgage securities	313,771	317,335
Mutual funds	7,944,303	7,358,923
Equities	<u>5,905,254</u>	<u>6,136,846</u>
	<u>14,754,840</u>	<u>14,549,807</u>
Internally designated to fund depreciation		
Cash and short-term investments	75,491	109,126
U.S. Treasury securities and other government securities	86,988	80,306
Mortgage securities	79,721	81,049
Mutual funds	2,010,322	1,876,776
Equities	<u>1,510,317</u>	<u>1,563,306</u>
	<u>3,762,839</u>	<u>3,710,563</u>
Restricted by donor for other purposes- Cash and short-term investments	<u>362,874</u>	<u>355,941</u>
	<u>\$ 18,880,553</u>	<u>\$ 18,616,311</u>

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

	<u>2019</u>	<u>2018</u>
Income without donor restriction		
Interest and dividend income	\$ 610,983	\$ 561,097
Realized (losses) gains on sales of securities	(212,671)	370,740
Investment management fees	<u>(101,580)</u>	<u>(104,461)</u>
	<u>\$ 296,732</u>	<u>\$ 827,376</u>
Other changes in net assets without donor restriction		
Change in net unrealized gains (losses)	<u>\$ 37,129</u>	<u>\$ (48,538)</u>
Other changes in net assets with donor restriction		
Investment gains (losses)	<u>\$ 6,452</u>	<u>\$ (413)</u>

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2019 and 2018

Income on investments without donor restriction is reported as follows for the years ended September 30:

	<u>2019</u>	<u>2018</u>
Other revenues	\$ 187,481	\$ 173,425
Nonoperating gains	<u>109,251</u>	<u>653,951</u>
	<u>\$ 296,732</u>	<u>\$ 827,376</u>

Total gross unrealized losses sustained for less than twelve months and twelve months or longer were approximately \$318,700 and \$825,500, respectively, on investments held at September 30, 2019. In the opinion of management, no individual unrealized loss as of September 30, 2019 represents an other-than-temporary impairment. The Hospital has both the intent and the ability to hold these securities for the time necessary to recover their cost.

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

6. Fair Value Measurements

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

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

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

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

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Notes to Financial Statements

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Assets measured at fair value on a recurring basis are all considered level 1, and consist of the following:

	Fair Value Measurements at September 30:	
	<u>2019</u>	<u>2018</u>
Assets:		
Cash and cash equivalents	\$ 682,287	\$ 886,991
U.S. Treasury obligations and government securities	434,578	395,085
Mortgage securities	393,492	398,384
Mutual funds	9,954,625	9,235,699
Equities	<u>7,415,571</u>	<u>7,700,152</u>
Total assets limited as to use	18,880,553	18,616,311
Investments to fund deferred compensation		
Mutual funds	<u>1,212,435</u>	<u>946,912</u>
Total assets	<u>\$ 20,092,988</u>	<u>\$ 19,563,223</u>

7. Property and Equipment

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

	<u>2019</u>	<u>2018</u>
Land and land improvements	\$ 1,698,055	\$ 1,661,069
Buildings and improvements	32,823,272	32,591,815
Fixed equipment	2,324,457	2,324,457
Major moveable equipment	<u>29,429,207</u>	<u>27,269,424</u>
Less accumulated depreciation	66,274,991	63,846,765
	<u>44,384,831</u>	<u>41,142,342</u>
Construction in progress	21,890,160	22,704,423
	<u>1,126,020</u>	<u>437,234</u>
Property and equipment, net	<u>\$ 23,016,180</u>	<u>\$ 23,141,657</u>

Depreciation expense for the years ended September 30, 2019 and 2018 amounted to \$3,386,352 and \$3,247,848, respectively.

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2019 and 2018

8. Borrowings

Long-Term Debt

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

	<u>2019</u>	<u>2018</u>
Vermont Educational and Health Buildings Finance Agency Hospital Revenue Bonds 2016 Series A Bonds, bearing interest of 2.23% until March 2026, thereafter variable, due April 2031. Principal payments are due in annual installments, ranging from \$771,798 to \$965,133 in 2030.	\$ 10,092,861	\$ 10,848,214
Unamortized deferred issuance costs	<u>(148,208)</u>	<u>(161,002)</u>
Total long-term debt	9,944,653	10,687,212
Less current portion	<u>(771,798)</u>	<u>(755,384)</u>
Long-term debt, excluding current portion	<u>\$ 9,172,855</u>	<u>\$ 9,931,828</u>

The 2016 Series A Bond agreement contains various restrictive covenants, which include compliance with certain financial ratios and a detail of events constituting defaults. The Hospital is in compliance with these requirements at September 30, 2019.

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

<u>Fiscal Year Ending</u>	
2020 (included in current liabilities)	\$ 771,798
2021	789,790
2022	807,584
2023	825,778
2024	843,978
Thereafter	<u>6,053,933</u>
	<u>\$ 10,092,861</u>

The Hospital incurred various costs in connection with the 2016 bond issuance totaling \$191,922. These amounts are being amortized over the life of the bond on a straight-line basis. Accumulated amortization as of September 30, 2019 and 2018 was \$43,714 and \$30,920, respectively.

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2019 and 2018

Line of Credit

The Hospital has available \$500,000 in an unsecured line of credit with a bank with interest at the Wall Street Journal prime rate adjusted monthly (5.00% at September 30, 2019). The line expires December 31, 2019. As of September 30, 2019 and 2018, there was no balance outstanding on the line.

9. Net Assets with Donor Restriction

Net assets subject to expenditure for a specified purpose consisted of the following at September 30:

	<u>2019</u>	<u>2018</u>
Plant replacement, included in assets limited as to use	\$ 237,331	\$ 236,817
Special purpose, included in cash and cash equivalents	236,344	231,716
Beneficial interest in net assets of Parent	<u>812,328</u>	<u>951,600</u>
	<u>\$ 1,286,003</u>	<u>\$ 1,420,133</u>

Net assets held in perpetuity at September 30:

	<u>2019</u>	<u>2018</u>
Investments to be held in perpetuity, included in cash and cash equivalents	\$ 93,716	\$ 92,406
Beneficial interest in net assets of Parent	<u>348,339</u>	<u>348,339</u>
	<u>\$ 442,055</u>	<u>\$ 440,745</u>

10. Concentrations of Credit Risk

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

	<u>2019</u>	<u>2018</u>
Medicare	18 %	28 %
Medicaid	23	16
Blue Cross	10	10
Commercial	25	21
Self pay	<u>24</u>	<u>25</u>
	<u>100 %</u>	<u>100 %</u>

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2019 and 2018

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

11. Commitments and Contingencies

Medical Malpractice Claims

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

Operating Leases

The Hospital leases equipment under operating leases that expire in September 2025. Total rental expense for the years ended September 30, 2019 and 2018 was approximately \$817,900 and \$840,500, respectively.

The following is a schedule by year of future minimum lease payments under operating leases as of September 30, 2019 that have initial or remaining lease terms in excess of one year.

Year ending September 30,	
2020	\$ 601,824
2021	555,325
2022	431,940
2023	360,474
2024	<u>360,099</u>
	<u>\$ 2,309,662</u>

12. Related Party Transactions

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

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

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Notes to Financial Statements

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

As of September 30, 2019 and 2018, the total amounts due from NVRC, which arose in part from these transactions, were \$3,810,623 and \$3,152,122, respectively. No fixed repayment terms have been established. NVRC has indicated it intends to reduce amounts due to the Hospital during 2020 through transferring NVRC buildings and related equipment as well as capital campaign funds.

13. Functional Expenses

The statement 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, 2019 are as follows:

	Healthcare <u>Service</u>	Administrative <u>Support</u>	<u>Total</u>
Salaries and benefits	\$ 46,537,501	\$ 6,044,263	\$ 52,581,764
Supplies and other	26,963,505	4,350,000	31,313,505
Insurance	1,101,080	165,039	1,266,119
Depreciation	1,719,120	1,667,232	3,386,352
Interest	<u>125,756</u>	<u>121,960</u>	<u>247,716</u>
	<u>\$ 76,446,962</u>	<u>\$ 12,348,494</u>	<u>\$ 88,795,456</u>

14. Fair Value of Financial Instruments

The Hospital's financial instruments consist of cash and cash equivalents, marketable securities, trade accounts receivable and payable, estimated third-party payor settlements, due from Parent, beneficial interest in net assets of Parent and debt. The fair values of all financial instruments approximate their carrying values at September 30, 2019.