Gifford Health Care, Inc.

Independent Auditor’s Report and Consolidated Financial Statements

September 30, 2019 and 2018

Gifford Health Care, Inc.
September 30, 2019 and 2018

Contents

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Independent Auditor's Report

Board of Directors
Gifford Health Care, Inc.
Randolph, Vermont

We have audited the accompanying consolidated financial statements of Gifford Health Care, Inc. (GHC), which comprise the consolidated balance sheets as of September 30, 2019 and 2018, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with 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 auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Gifford Health Care, Inc. as of September 30, 2019 and 2018, and the results of its operations, changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in *Note 1* to the financial statements, in 2019, GHC adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic 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 basic consolidated financial statements. The supplementary information has not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Springfield, Missouri
January 22, 2020

Gifford Health Care, Inc.
Consolidated Balance Sheets
September 30, 2019 and 2018

Assets

	2019	2018
Current Assets		
Cash and cash equivalents	$ 2,920,740	$ 1,309,804
Short-term investments	2,428,671	2,353,113
Patient accounts receivable, net of allowance; 2019 – $2,218,000, 2018 – $2,265,000	9,440,752	7,431,718
Other receivables	401,392	391,203
Estimated amounts due from third parties	-	1,119,012
Supplies	1,300,997	1,383,354
Prepaid expenses and other	1,518,706	1,835,819
Total current assets	18,011,258	15,824,023
Assets Limited as to Use	20,440,980	22,562,437
Long-Term Investments	9,935,381	9,728,714
Property and Equipment, Net	48,070,173	50,508,557
Other Assets	4,267,310	4,832,736
Total assets	$ 100,725,102	$ 103,456,467

Liabilities and Net Assets

	2019	2018
Current Liabilities		
Current maturities of long-term debt	$ 1,200,827	$ 1,113,300
Accounts payable	4,312,561	5,383,413
Accrued expenses	5,661,922	6,060,044
Interest rate swap agreement	2,928,417	1,446,235
Estimated amounts due to third-party payers	1,081,988	483,553
Other	67,517	119,294
Total current liabilities	15,253,232	14,605,839
Long-Term Debt	23,616,877	26,132,090
Other Liabilities	4,261,522	4,823,925
Refundable Entrance Fees	4,098,452	2,810,518
Deferred Revenue from Entrance Fees	894,384	648,789
Deferred Annuities	417,914	444,336
Total liabilities	48,542,381	49,465,497
Net Assets		
Without donor restrictions	49,921,793	51,591,208
With donor restrictions	2,260,928	2,399,762
Total net assets	52,182,721	53,990,970
Total liabilities and net assets	$ 100,725,102	$ 103,456,467

Gifford Health Care, Inc.
Consolidated Statements of Operations
Years Ended September 30, 2019 and 2018

	2019	2018
Revenues, Gains and Other Support Without Donor Restrictions		
Patient service revenue (net of contractual discounts and allowances)	$ 63,932,968	$ 64,214,966
Provision for doubtful accounts	2,776,665	2,606,284
Net patient service revenue less provision for doubtful accounts	61,156,303	61,608,682
Fixed prospective revenue	2,112,278	-
Other	6,674,446	5,177,189
Net assets released from restrictions used for operations	217,322	243,318
Total revenues, gains and other support without donor restrictions	70,160,349	67,029,189
Expenses and Losses		
Salaries and wages	36,120,352	36,208,631
Employee benefits	9,539,239	10,021,188
Purchased services and professional fees	7,602,673	8,469,761
Supplies and other	13,252,629	13,549,008
Depreciation and amortization	4,200,703	4,440,921
Interest	1,337,235	1,193,981
Total expenses and losses	72,052,831	73,883,490
Operating Loss	(1,892,482)	(6,854,301)
Other Income (Expense)		
Investment return, net	1,443,972	2,222,575
Change in fair value of interest rate swap agreement	(1,482,182)	1,061,830
Other income	118,220	70,460
Total other income	80,010	3,354,865
Deficiency of Revenues Over Expenses	(1,812,472)	(3,499,436)
Net assets released from restriction for acquisition of property and equipment	143,057	393,738
Decrease in Net Assets Without Donor Restrictions	$ (1,669,415)	$ (3,105,698)

Gifford Health Care, Inc.
Consolidated Statements of Changes in Net Assets
Years Ended September 30, 2019 and 2018

	2019	2018
Net Assets Without Donor Restrictions		
Deficiency of revenues over expenses	$ (1,812,472)	$ (3,499,436)
Net assets released for acquisition of property and equipment	143,057	393,738
Decrease in net assets without donor restrictions	(1,669,415)	(3,105,698)
Net Assets With Donor Restrictions		
Contributions	221,545	561,626
Net assets released from restrictions	(360,379)	(637,056)
Contributions received for endowment	-	173,912
Increase (decrease) in net assets with donor restrictions	(138,834)	98,482
Change in Net Assets	(1,808,249)	(3,007,216)
Net Assets, Beginning of Year	53,990,970	56,998,186
Net Assets, End of Year	$ 52,182,721	$ 53,990,970

Gifford Health Care, Inc.
Consolidated Statements of Cash Flows
Years Ended September 30, 2019 and 2018

	2019	2018
Operating Activities		
Change in net assets	$ (1,808,249)	$ (3,007,216)
Items not requiring (providing) cash		
Depreciation and amortization	4,200,703	4,440,921
Amortization of deferred revenue	(76,388)	(53,841)
Amortization of debt issuance costs	26,540	26,540
Net gain on investments	(640,774)	(1,544,867)
Change in fair value of interest rate swap agreement	1,482,182	(1,061,830)
Restricted contributions	(221,545)	(735,538)
Changes in		
Patient accounts receivable, net	(2,009,034)	2,552,068
Inventories	82,357	39,955
Estimated amounts due from and to third-party payers	1,717,447	(415,640)
Accounts payable and accrued expenses	(1,064,467)	1,565,361
Other assets and liabilities	56,783	246,205
Net cash provided by operating activities	1,745,555	2,052,118
Investing Activities		
Purchases of property and equipment	(1,991,861)	(3,443,595)
Purchase of investments	(4,322)	(350,742)
Proceeds from disposition of investments	2,484,328	1,358,053
Net cash provided by (used in) investing activities	488,145	(2,436,284)
Financing Activities		
Proceeds from entrance fees – refundable and deferred revenue	1,609,917	1,316,616
Restricted contributions	221,545	735,538
Proceeds from issuance of long-term debt	-	163,235
Principal payments on long-term debt	(2,454,226)	(3,118,585)
Net cash used in financing activities	(622,764)	(903,196)
Increase (Decrease) in Cash and Cash Equivalents	1,610,936	(1,287,362)
Cash and Cash Equivalents, Beginning of Year	1,309,804	2,597,166
Cash and Cash Equivalents, End of Year	$ 2,920,740	$ 1,309,804
Supplemental Cash Flows Information		
Interest paid	$ 1,337,235	$ 1,193,981
Purchase of property and equipment in accounts payable	$ 537,167	$ 132,660

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Principles of Consolidation

Gifford Health Care (GHC) is a not-for-profit organization incorporated under the laws of the state of Vermont for the purpose of providing health care services in Randolph, Vermont, and surrounding communities. GHC is a federally qualified health center (FQHC) and parent organization.

GHC includes:

Gifford Medical Center, Inc. (GMC), a 25-bed critical access hospital (CAH), providing general and specialty services.

Gifford Retirement Community (GRC), which provides skilled nursing services and an independent living community.

Collectively GHC, GMC and GRC are referred to as GHC. The consolidated financial statements include the accounts of GHC, GMC and GRC. All material intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of 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 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

GHC considers all liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2019 and 2018, cash equivalents consisted primarily of sweep products. GHC utilizes repurchase and sweep products as part of their cash management policy, which are not FDIC insured, but may be covered by separate agreements with the financial institution.

At September 30, 2019, GHC's cash accounts did not exceed federally insured limits. At September 30, 2018, GHC's cash accounts exceeded federally insured limits by approximately $143,000.

At September 30, 2019 and 2018, GHC held $3,737,958 and $1,995,767, respectively, in repurchase and sweep accounts.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments, less external and direct internal investment expense.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restrictions. Other investment return is reflected in the consolidated statements of operations and changes in net assets as with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

Assets Limited As To Use

Assets limited as to use include assets set aside by the Board of Directors for future capital improvements which the Board retains control and may at its discretion subsequently use for other purposes.

Patient Accounts Receivable

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, GHC analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for doubtful accounts. Management regularly reviews data about these major payer 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, GHC analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for doubtful accounts, if necessary (for example, for expected doubtful deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely).

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), GHC records a significant provision for doubtful accounts 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 or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

GHC's allowance for doubtful accounts for self-pay was 84 percent and 88 percent of self-pay accounts receivable at September 30, 2019 and 2018, respectively. GHC's write-offs increased from $2,293,284 for the year ended September 30, 2018, to $2,823,665 for the year ended September 30, 2019. Allowance for doubtful accounts activity for 2019 and 2018, is shown in the following table:

	2019	2018
Balance, beginning of year	$ 2,265,000	$ 1,952,000
Provision for year	2,776,665	2,606,284
Accounts charged off during year	(2,823,665)	(2,293,284)
Balance, end of year	$ 2,218,000	$ 2,265,000

Supplies

GHC states supply inventories at the lower of cost, determined using the first-in, first-out method, or net realizable value.

Property and Equipment

Property and equipment acquisitions are recorded at cost and are depreciated using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

Land improvements	3 – 25 years
Buildings and building improvements	5 – 40 years
Equipment	3 – 25 years

Donations of property and equipment are reported at fair value as an increase in net assets without donor restrictions unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in net assets without donor restrictions when the donated asset is placed in service.

Long-Lived Asset Impairment

GHC evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended September 30, 2019 and 2018.

Debt Issuance Costs

Debt issuance costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the straight-line method. Debt issuance costs are presented as a reduction from long-term debt.

Deferred Revenue

GRC also records deferred revenue from the occupancy of units in the retirement community as follows: Upon entry in the retirement community, residents pay a deposit to GRC. The deposit is 80 percent refundable to the resident contingent upon the reoccupancy of a resident's unit after the resident leaves the community. The refundable deposit is equal to the lesser of the original purchase price or resale price. Twenty percent of each deposit is nonrefundable and is amortized into income over the life expectancy of the resident. Life expectancies are adjusted annually.

GRC received proceeds from the sale of new units totaling $1,609,917 in 2019 and $1,316,616 in 2018. GRC did not refund any amounts in 2019 or 2018.

As of September 30, 2019 and 2018, GRC is contingently liable for $4,098,452 and $2,810,518, respectively, which represents the 80 percent portion of current residents' entrance deposits.

As of September 30, 2019 and 2018, the portion of advance fees representing deferred revenue was $894,384 and $648,789, respectively, which represents the unamortized 20 percent portion of current residents' entrance deposits. GRC reported deferred revenue amortization of $76,388 and $53,841 in 2019 and 2018, respectively, which is included in other operating revenues.

Based on the current fee structure and existing residency agreements, management expects that future monthly service charges will be reflective of related operating costs and, accordingly, GRC has not recorded a liability to provide future services to current residents.

GRC recognizes revenue for the fees charged to residents for rental, housekeeping and dietary services provided which is recorded at the estimated net realized amounts.

Deferred Annuities

Annuity obligations represent the amount of various planned giving instruments where GHC has fiduciary responsibility for the safekeeping, investment management and distribution of such funds to designated individuals. Annuity obligations are valued at the actuarial present value of the expected payments based upon the life expectancy for the annuitants. The present value of the estimated future payments at September 30, 2019 and 2018, was $488,511 and $517,921, respectively, and is included in other current liabilities and deferred annuities. At September 30, 2019 and 2018, the internally designated assets to satisfy the future payments were $1,437,100 and $1,433,338, respectively, and is included in long-term investments.

Net Assets With Donor Restrictions

Net assets with donor restrictions are those whose use by GHC has been limited by donors to a specific time period or purpose or have been restricted by donors to be maintained by GHC in perpetuity.

Net Patient Service Revenue

GHC has agreements with third-party payers that provide for payments to GHC at amounts different from their established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known. Net patient service revenue of $0 for both 2019 and 2018 is recognized due to changes in amounts previously estimated.

Grant Revenue

GHC is the recipient of a Consolidated Health Centers (CHC) grant from the U.S. Department of Health and Human Services (the “granting agency”). The general purpose of the grant is to provide expanded health care service delivery for residents of Randolph, Vermont, and surrounding areas. Terms of the grant generally provide for funding of GHC’s operations based on an approved budget.

Grant revenue is recognized as qualifying expenditures are incurred over the grant period. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required. During the years ended September 30, 2019 and 2018, GHC recognized CHC grant revenue of $1,908,011 and $1,650,542, respectively. GHC’s present CHC grant award covers the grant period ended January 31, 2020, and is approved at $1,754,120. Future funding will be determined by the granting agency based on an application to be submitted by GHC prior to expiration of the present grant period.

In addition to the above grants, GHC receives additional financial support from other federal and state sources. Generally, such support requires compliance with terms and conditions specified in grant agreements and must be renewed on an annual basis.

Contract Pharmacy Program

GHC participates in the 340B outpatient drug discount program administered by the Office of Pharmacy Affairs of the Health Resources and Services Administration (HRSA). GHC contracts with local retail pharmacies under the program, which resulted in additional revenues and discounts on outpatient pharmaceuticals. Net revenue from this program was approximately $1,515,000 and $1,235,000 for 2019 and 2018, respectively. Laws and regulations surrounding the 340B drug program are complex and are subject to interpretation and change.

Charity Care

GHC provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because GHC does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as revenue and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. When a donor-stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as revenue with donor restrictions and then released from restriction.

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Gifts of land, buildings, equipment and other long-lived assets are reported as revenue and net assets without donor restrictions unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as revenue and net assets with donor restrictions. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of net assets with donor restrictions as net assets without donor restrictions are reported when the long-lived assets are placed in service.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional. Donor-restricted conditional gifts in which the condition and restriction is met in the period the gift is received are reported as revenue and net assets without donor restrictions.

Estimated Self-Insurance Costs

GHC records an estimated liability for self-insured employee health claims, which is included in accrued expenses, and includes an estimate of both reported claims and claims incurred but not reported.

Professional Liability Claims

GHC recognizes an accrual for claim liabilities based on estimated ultimate losses and costs associated with settling claims and a receivable to reflect the estimated insurance recoveries, if any. Professional liability claims are described more fully in *Note 6*.

Income Taxes

GHC, GMC and GRC have been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, GHC, GMC and GRC are subject to federal income tax on any unrelated business taxable income. GHC files tax returns in the U.S. federal jurisdiction.

Deficiency of Revenues Over Expenses

The statements of operations include deficiency of revenues over expenses. Changes in net assets without donor restrictions which are excluded from deficiency of revenues over expenses, consistent with industry practice, include permanent transfers to and from affiliates for other than goods and services and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

Transfers Between Fair Value Hierarchy Levels

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the period ending date.

Subsequent Events

Subsequent events have been evaluated through January 22, 2020, which is the date the financial statements were available to be issued.

Prior Years' Financial Statements Revisions

Certain immaterial revisions have been made to the 2018 financial statements for proper classification of an interest rate swap agreement. The following financial statement line items for fiscal year 2018 were affected by the correction.

	As Revised	As Previously Reported	Effect of Change
Balance Sheets			
Interest rate swap agreement - current	$ 1,446,235	$ -	$ 1,446,235
Interest rate swap agreement - long term	-	1,446,235	(1,446,235)
Total current liabilities	14,605,839	13,159,604	1,446,235

Certain immaterial revisions have been made to the 2018 disclosures about fair value of assets and liabilities (*Note 15*). As a result of the revisions, the previously reported deferred compensation plan assets – equity and fixed income mutual funds increased from $4,447,821 to $4,823,925.

Certain immaterial revisions have been made to the 2018 statement of cash flows. As a result of the revisions, the previously reported net cash provided by operating activities increased from $2,025,578 to $2,052,118 and the net cash used in financing activities decreased from $(876,656) to $(903,196).

Change in Accounting Principle

In 2019, GHC adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. A summary of the change is as follows:

Balance Sheet

- The balance sheet distinguishes between two new classes of net assets – those with donor imposed restrictions and those without. This is a change from the previously required three classes of net assets – unrestricted, temporarily restricted and permanently restricted.

Statement of Operations

- Investment income is shown net of external and direct internal investment expenses. Disclosure of the expenses netted against investment income is no longer required.

Notes to the Financial Statements

- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flow available to meet operating expenses for one year from the date of the balance sheet.

- Expenses are reported by both nature and function in one location.

This change had no impact on previously reported total change in net assets.

Note 2: Net Patient Service Revenue

GHC recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, GHC recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of GHC's uninsured patients will be unable or unwilling to pay for the services provided. Thus, GHC records a significant provision for doubtful accounts related to uninsured patients in the period the services are provided. This provision for doubtful accounts is presented on the statement of operations as a component of net patient service revenue.

GHC is approved as a FQHC for Medicare reimbursement purposes. GHC has agreements with third-party payers that provide for payments to GHC at amounts different from its established rates. These payment arrangements include:

Medicare – GMC. GMC is a 25-bed facility certified by Medicare as a critical access hospital (CAH). Medicare inpatient and outpatient reimbursement as a CAH is based on the defined allowable costs of services rendered. This certification places several restrictions on a CAH's operations, including a 96-hour average annual acute-care length of stay restriction and a limit of 25 medical/surgical beds.

Medicare – GHC. Covered FQHC services rendered to Medicare program beneficiaries are paid in accordance with provisions of Medicare's Prospective Payment System (PPS) for FQHCs. Medicare payments, including patient coinsurance, are paid on the lesser of GHC's actual charge or the applicable PPS rate. Services not covered under the FQHC benefit are paid based on established fee schedules.

Medicare – GRC. Facility residents eligible for "Part A" Medicare benefits are paid on a prospective basis, with no retrospective settlement. The prospective payment is based on the scoring attributed to the acuity level of the resident at a rate determined by federal guidelines.

Medicaid – GMC, GHC and GRC. Inpatient, outpatient, clinic and skilled nursing services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates.

Beginning January 1, 2019, GMC began receiving monthly fixed prospective payments for services provided by hospitals and hospital-owned physician practices participating in the OneCare Vermont Accountable Care Organization (ACO) Program. GMC receives a monthly, per member payment received in advance of the services being performed and is recognized as revenue in the month to which it relates.

GMC is subject to an annual contracted maximum risk corridor, of which for calendar 2019 is a maximum potential gain or loss of $345,000. As of September 30, 2019, GMC has recorded a liability of $258,676, which is recorded within estimated amounts due to third-party payers.

Medicaid fee-for-service payments continue for all other nonhospital providers in the ACO, for all providers who are not part of the ACO, and for all services that are not in the fixed prospective payment. The ACO is responsible for both the cost and the quality of care for each attributed member, regardless of individual member's utilization.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

Patient service revenue, net of contractual allowances and discounts (but before the provision for doubtful accounts), recognized in the years ended September 30, 2019 and 2018, was approximately:

	2019	2018
Medicare	$ 25,393,259	$ 25,127,439
Medicaid	5,144,640	7,426,429
Blue Cross and other third-party payers	30,931,566	29,549,425
Patients	2,463,503	2,111,673
	$ 63,932,968	$ 64,214,966

Note 3: Concentration of Credit Risk

GHC grants credit without collateral to their patients, most of whom are area residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers at September 30, 2019 and 2018, is:

	2019	2018
Medicare	34%	33%
Medicaid	11%	16%
Blue Cross and other third-party payers	51%	47%
Patients	4%	4%
	100%	100%

Note 4: Investments and Investment Return

Investments, at September 30, include:

	2019	2018
Cash equivalents	$ 328,069	$ 464,381
Certificates of deposit	1,421,580	912,007
U.S. agency obligations	1,893,003	1,929,301
Corporate and foreign obligations	12,210,771	9,297,421
Equity securities		
Consumer discretionary	1,604,548	1,715,901
Consumer staples	927,483	739,104
Energy	604,310	1,176,007
Financial	1,435,563	2,909,839
Health care	1,944,096	3,124,927
Industrials	1,222,625	1,845,386
Information technology	3,137,499	4,145,563
International	4,043,259	3,887,221
Materials	415,988	598,962
Telecommunications	850,436	1,746,218
Utilities	643,407	-
Other	122,395	152,026
	$ 32,805,032	$ 34,644,264

Investments are included in the consolidated balance sheets as follows:

	2019	2018
Short-term investments	$ 2,428,671	$ 2,353,113
Assets limited as to use	20,440,980	22,562,437
Long-term investments	9,935,381	9,728,714
	$ 32,805,032	$ 34,644,264

Total investment return is comprised of the following:

	2019	2018
Interest and dividend income	$ 803,198	$ 677,708
Net realized gains on sales of securities	2,156,958	1,432,167
Net unrealized gains (losses) on trading securities	(1,516,184)	112,700
Total	$ 1,443,972	$ 2,222,575

Note 5: Property and Equipment

Property and equipment consists of the following at September 30, 2019 and 2018:

	2019	2018
Land and land improvements	$ 6,121,985	$ 6,033,958
Buildings and building improvements	46,862,415	47,344,471
Equipment	45,602,676	44,193,471
Construction in progress	1,431,956	1,368,411
	100,019,032	98,940,311
Less accumulated depreciation	51,948,859	48,431,754
Property and equipment, net	$ 48,070,173	$ 50,508,557

At September 30, 2019, construction in progress represents costs incurred in connection with the construction of various additions and alterations to GHC's facilities and equipment. The total cost to complete the projects is approximately $7,978,000, with funding from cash from operations and existing cash and investments.

Note 6: Professional Liability Claims

GHC purchases medical malpractice insurance under a claims-made policy. Under such a policy, only claims made and reported to the insurer during the policy term, regardless of when the incidents giving rise to the claims occurred, are covered. GHC also purchases excess umbrella liability coverage, which provides additional coverage above the basic policy limits up to the amount specified in the umbrella policy.

Based upon GHC's claims experience, an accrual had been made for GHC's estimated medical malpractice costs, including costs associated with litigating or settling claims, under its malpractice insurance policy, amounting to approximately $788,000 and $1,023,000 as of September 30, 2019 and 2018, respectively, which is included in accrued expenses. It is reasonably possible that this estimate could change materially in the near term.

Note 7: Long-Term Debt

	2019	2018
Series 2014 Bonds (A)	$ 17,755,001	$ 18,445,735
Note payable (B)	279,394	288,325
Note payable (C)	69,639	72,912
Note payable (D)	6,740,836	8,483,209
Note payable (E)	30,338	39,253
	24,875,208	27,329,434
Less current maturities	1,200,827	1,113,300
Less unamortized debt issuance costs	57,504	84,044
	$ 23,616,877	$ 26,132,090

A) In December 2014, the Vermont Educational and Health Buildings Financing Agency (the "Agency") issued $20,840,000 of tax-exempt revenue bonds. Proceeds were used to extinguish the existing Series 2010 Bonds, pay certain costs incurred in the authorization and issuance of the Bonds and fund future capital projects. The Bonds require monthly principal and interest payments, at a variable rate of 70 percent of one-month LIBOR plus 1.23 percent. The rates as of September 30, 2019 and 2018, was 2.70 percent for both years. The Bonds mature in December 2036, but contain a provision allowing early redemption in December 2021, 2028 and 2035, at a price equal to 100 percent of the amount outstanding.

   GHC has granted a security interest in gross receipts and certain assets. The Bonds contain certain covenants including maintaining a minimum amount of days cash on hand and debt service ratio.

   Subsequent to September 30, 2018, a supplemental indenture was executed between GHC and the bondholder. The supplemental indenture revised the test dates for the coverage ratio, removing the September 30, 2018, test date, with the first measurement date being the first quarter ending December 31, 2018. Quarterly measurement dates will continue at March 31, June 30 and September 30, 2019. The supplemental indenture also added a mortgage on certain GHC property and a new cash flow margin test, and if not met, increases the days cash on hand requirement to 100 days.

   GHC has entered into an interest rate swap agreement to help mitigate exposure to future changes in interest rates on this Bond, see *Note 8*.

B) Monthly payments of $2,733 including interest at 8.75 percent, due in June 2025, secured by property.

C) Monthly payments of $450 including interest at 3.00 percent, due in April 2034, secured by property.

D) Monthly payments were due including interest at 4.35 percent from October 2018 through January 2019. Interest only payments on outstanding amounts are due from January 2019 through December 2019 at 4.35 percent. From January 2020 through maturity in June 2028, monthly payments are due including interest at a variable rate based on a Federal Home Loan Bank index plus 1.75 percent. Due in June 2028, secured by property.

E) Monthly payments of $845 including interest at 3.5 percent, due in November 2022, secured by property.

Aggregate annual maturities of long-term debt at September 30, 2019, are:

2020	$ 1,200,827
2021	1,494,519
2022	1,560,556
2023	1,620,968
2024	1,690,456
Thereafter	17,307,882
	$ 24,875,208

GHC also has a $1,000,000 line-of-credit agreement available, expiring on January 1, 2020. No amounts were outstanding at September 30, 2019 and 2018. If drawn, interest payments are due monthly at the prime rate plus 0.25 percent. The rate was 5.25 percent as of September 30, 2019. The line is unsecured.

Note 8: Interest Rate Swap Agreement

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations on its own debt, GMC entered into an interest rate swap agreement. The notional amount is adjusted every October 1. The notional amount was $16,690,000 and $17,280,000 at September 30, 2019 and 2018, respectively. The agreement provides for GMC to receive interest from the counterparty equivalent to the sum of 68 percent of three-month LIBOR and pay interest to the counterparty at a fixed rate of 3.08 percent. The swap expires on October 1, 2036.

The swap agreement includes certain financial covenants including a debt service coverage test. GHC did not meet the requirement of the swap agreement as of September 30, 2019 and 2018, which allows the counterparty to terminate the swap. Accordingly, the swap agreement is included in current liabilities.

The table below presents certain information regarding GHC's interest rate swap agreement.

	2019	2018
Other Liabilities		
Fair value of interest rate swap agreement	$ 2,928,417	$ 1,446,235
Interest Expense		
Loss reclassified from net assets without donor restrictions into deficiency of revenues over expenses	226,007	293,029
Other Income		
Change in interest rate swap agreement	(1,482,182)	1,061,830

Note 9: Net Assets

Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes or periods:

	2019	2018
Subject to expenditure for specified purpose		
Indigent care	$ 97,364	$ 117,318
Community outreach initiatives	225,507	271,723
Nursing	14,984	18,055
Buildings and maintenance	17,539	21,133
Operations	22,900	27,594
Time restricted	131,096	258,629
Without restriction	168,048	102,420
	677,438	816,872
Investments to be held in perpetuity, the income from which is expendable to support		
Indigent care	227,585	226,985
Community outreach initiatives	527,116	527,116
Nursing	35,025	35,025
Buildings and maintenance	40,996	40,996
Operations	53,529	53,529
Without restriction	699,239	699,239
	1,583,490	1,582,890
	$ 2,260,928	$ 2,399,762

Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by donors.

	2019	2018
Purpose restrictions accomplished		
Indigent care	$ 51,795	$ 91,560
Community outreach initiatives, including acquisition of property and equipment	119,964	212,065
Nursing	7,971	14,091
Buildings and maintenance	9,330	16,493
Operations	12,182	21,535
Without restrction and for acquistition of property and equipment	159,137	281,312
Total restrictions released	$ 360,379	$ 637,056

Note 10: Endowment

GHC’s endowment consists of various individual donor-restricted funds which were established for general operational and certain departmental purposes. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

GHC’s governing body has interpreted the Uniform Management of Institutional Funds Act (UPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, GHC classifies as net assets with donor restrictions the original value of gifts donated to the permanent endowment, and net assets with donor restrictions, the investment earnings of the gifts donated which have not met the donor stipulations for recognition in net assets without donor restrictions. In accordance with UPMIFA, GHC considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of GHC and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of GHC
7. Investment policies of GHC

Changes in endowment net assets for the years ended September 30, 2019 and 2018, were:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 6,987,211	$ 2,141,733	$ 9,128,944
Investment return and contributions	351,096	(11,901)	339,195
Endowment net assets, end of year	$ 7,338,307	$ 2,129,832	$ 9,468,139

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 6,614,936	$ 1,742,555	$ 8,357,491
Investment return and contributions	372,275	399,178	771,453
Endowment net assets, end of year	$ 6,987,211	$ 2,141,733	$ 9,128,944

GHC has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds GHC must hold in perpetuity or for donor-specified periods, as well as those of board-designated endowment funds. Under GHC's policies, endowment assets are invested in a manner that is intended to produce results equal to inflation plus four percent. Actual returns in any given year may vary from this amount.

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

GHC has a spending policy of appropriating for expenditure each year 4 percent of its endowment fund's average fair value over the prior three years through the year end preceding the year in which expenditure is planned. It is GHC's intent that the distribution rate will not exceed the total return of the endowment. In establishing this policy, GHC considered the long-term expected return on its endowment. This is consistent with GHC's objective to maintain the purchasing power of endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

Note 11: Liquidity and Availability

GHC's financial assets available within one year of the balance sheet date for general expenditure are:

	2019	2018
Financial assets at year end		
Cash and cash equivalents	$ 2,920,740	$ 1,309,804
Short-term investments	2,428,671	2,353,113
Patient accounts receivable, net	9,440,752	7,431,718
Other receivables	401,392	391,203
Estimated amounts due from third parties	-	1,119,012
Assets limited as to use – internally designated	20,440,980	22,562,437
Long-term investments	9,935,381	9,728,714
Deferred compensation plan assets	4,261,522	4,823,925
Total financial assets	49,829,438	49,719,926
Less amounts not available to be used within one year		
Deferred compensation plan assets	4,261,522	4,823,925
Financial assets available to meet general expenditures within one year	$ 45,567,916	$ 44,896,001

As part of GHC's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. To help manage unanticipated liquidity needs, GHC has a committed line of credit of $1,000,000, which it could draw upon.

Note 12: Charity Care

The estimated costs of charity provided under GHC's charity care policy were approximately $216,000 and $299,000 for 2019 and 2018, respectively. The cost of charity care is estimated by applying the ratio of cost to charges to the gross uncompensated care charges.

Note 13: Functional Expenses

GHC provides health care services to residents within its service area. Certain costs attributable to more than one function have been allocated among health care services, general and administrative and fundraising functional expense classifications based on direct assignment, salary allocation and other methods. The following schedules present the natural classification of expenses by function as follows:

2019

	Health Care Program Services				Support Services			
	Inpatient	Outpatient	Post Acute	Total Health Care Program Services	General and Administrative	Fundraising	Total Support Services	Total
Salaries and wages	$ 4,414,032	$ 25,551,954	$ 3,867,029	$ 33,833,015	$ 2,216,063	$ 71,274	$ 2,287,337	$ 36,120,352
Employee benefits	1,210,408	6,610,217	1,114,538	8,935,163	585,254	18,823	604,077	9,539,240
Purchased services and professional fees	1,128,292	5,223,662	769,276	7,121,230	466,441	15,002	481,443	7,602,673
Supplies and other	1,861,458	8,710,372	1,841,570	12,413,400	813,078	26,150	839,228	13,252,628
Depreciation and amortization	516,578	2,456,420	961,694	3,934,692	257,722	8,289	266,011	4,200,703
Interest	179,840	698,014	374,700	1,252,554	82,042	2,639	84,681	1,337,235
Total expenses	$ 9,310,608	$ 49,250,639	$ 8,928,807	$ 67,490,054	$ 4,420,600	$ 142,177	$ 4,562,777	$ 72,052,831

2018

	Health Care Program Services				Support Services			
	Inpatient	Outpatient	Post Acute	Total Health Care Program Services	General and Administrative	Fundraising	Total Support Services	Total
Salaries and wages	$ 5,097,359	$ 24,918,908	$ 3,791,799	$ 33,808,066	$ 2,329,893	$ 70,673	$ 2,400,566	$ 36,208,632
Employee benefits	1,499,030	6,770,146	1,087,626	9,356,802	644,827	19,560	664,387	10,021,189
Purchased services and professional fees	1,448,930	5,737,527	721,774	7,908,231	544,998	16,531	561,529	8,469,760
Supplies and other	2,206,362	8,713,911	1,730,461	12,650,734	871,829	26,445	898,274	13,549,008
Depreciation and amortization	630,805	2,561,594	954,097	4,146,496	285,757	8,668	294,425	4,440,921
Interest	162,904	537,282	414,636	1,114,822	76,828	2,330	79,158	1,193,980
Total expenses	$ 11,045,390	$ 49,239,368	$ 8,700,393	$ 68,985,151	$ 4,754,132	$ 144,207	$ 4,898,339	$ 73,883,490

Note 14: Pension Plan

GHC has a defined contribution pension plan covering all employees meeting age and service requirements. The plan provides for immediate vesting of all eligible employees. Discretionary contributions by GHC are funded at 4 percent of covered compensation plus an additional 1 percent matching contribution to eligible employees. Pension expense was $1,455,989 and $1,421,940 for 2019 and 2018, respectively.

GHC has a deferred compensation plan for the benefit of certain employees. The assets are classified as other long-term assets and a corresponding liability. Investments held in deferred compensation plans include equity and fixed income mutual funds.

Note 15: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities.

Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2019 and 2018.

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2019				
Investments and cash equivalents				
Cash equivalents – money market funds	$ 328,069	$ 328,069	$ -	$ -
Equity securities	16,829,214	16,829,214	-	-
Corporate obligations	12,210,771	-	12,210,771	-
U.S. agency obligations	1,893,003	-	1,893,003	-
Other	122,395	-	122,395	-
Deferred compensation plan assets – equity and fixed income mutual funds	4,261,522	-	4,261,522	-
Interest rate swap agreement	(2,928,417)	-	(2,928,417)	-
September 30, 2018				
Investments and cash equivalents				
Cash equivalents – money market funds	$ 464,381	$ 464,381	$ -	$ -
Equity securities	21,889,128	21,889,128	-	-
Corporate obligations	9,297,421	-	9,297,421	-
U.S. agency obligations	1,929,301	-	1,929,301	-
Other	152,026	-	152,026	-
Deferred compensation plan assets – equity and fixed income mutual funds	4,823,925	-	4,823,925	-
Interest rate swap agreement	(1,446,235)	-	(1,446,235)	-

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended September 30, 2019.

Investments and Cash Equivalents

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. GHC has no securities classified as Level 3.

Interest Rate Swap Agreement

The fair value is estimated using forward-looking interest rate curves and discounted cash flows that are observable or can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying balance sheets at amounts other than fair value.

Note 16: Related Party Transactions

GHC receives support from the Gifford Medical Center Auxiliary (Auxiliary), which is a not-for-profit thrift shop. At September 30, 2019 and 2018, GHC had $128,125 and $230,625, respectively, pledge receivable from the Auxiliary, which is included in other current receivables and other long-term assets.

Note 17: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in *Notes 1* and *2*.

Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in *Notes 1* and *6*.

Self-Insurance

GHC is self-insured for employee health care benefits. Stop loss coverage is purchased for any claimant with over $200,000 of claims in the policy year. GHC accrues a liability for self-insured losses by charging the statement of operations for certain known claims and reasonable estimates for incurred but not reported claims based on claims experience and premiums paid. The amount of actual losses incurred could differ materially from these estimates in the near term.

Litigation

In the normal course of business, GHC is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by GHC's self-insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegations regarding employment practices or performances of contracts. GHC evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Investments

GHC invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying balance sheet.

340B Drug Pricing Program

GHC participates in the 340B Drug Pricing Program (340B Program) which provides discounted prices from drug manufacturers on outpatient pharmaceutical purchases. The 340B Program is overseen by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs (OPA). HRSA is currently conducting routine audits at participating health care organizations and increasing its compliance monitoring processes. Laws and regulations governing the 340B Program are complex and subject to interpretation and change. As a result, it is reasonably possible that material changes to financial statement amounts related to the 340B Program could occur in the near term.

Note 18: Future Change in Accounting Principles

Revenue Recognition

The Financial Accounting Standards Board amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for GHC's annual period beginning October 1, 2019. GHC is in the process of evaluating the impact the amendment will have on the consolidated financial statements.

Leases (ASU 2016-02)

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for GHC's annual periods beginning October 1, 2020. GHC is evaluating the impact the standard will have on the consolidated financial statements. The standard could have a material impact on the consolidated financial statements due to the recognition of additional assets and liabilities for operating leases.

Restricted Cash and Restricted Cash Equivalents (ASU 2016-18)

The Financial Accounting Standards Board amended its standard related to the accounting for restricted cash and restricted cash equivalents with the provisions of Accounting Standards Update No. 2016-18 (ASU 2016-18), *Statement of Cash Flows* (*Topic 230): Restricted Cash.* The new accounting guidance in ASU 2016-18 requires balances generally described as restricted cash or restricted cash equivalents to be included with cash and cash equivalents when reconciling beginning and end of the period balances on the statement of cash flows. The new standard is effective for GHC's annual periods beginning October 1, 2019. GHC is evaluating the impact the standard will have on the consolidated financial statements.

Supplementary Information

Gifford Health Care, Inc.
Consolidating Schedule – Balance Sheet Information
September 30, 2019

Assets

	GMC	GRC	GHC	Eliminations	Total
Current Assets					
Cash and cash equivalents	$ 2,177,460	$ 664,570	$ 78,710	$ -	$ 2,920,740
Short-term investments	2,428,671	-	-	-	2,428,671
Patient accounts receivable	7,915,918	372,088	1,152,746	-	9,440,752
Other receivables	163,347	-	238,045	-	401,392
Supplies	1,258,986	6,405	35,606	-	1,300,997
Prepaid expenses and other	1,315,908	28,603	174,195	-	1,518,706
Due from affiliate	9,524,176	-	-	(9,524,176)	-
Total current assets	24,784,466	1,071,666	1,679,302	(9,524,176)	18,011,258
Assets Limited as to Use	20,440,980	-	-	-	20,440,980
Long-Term Investments	9,743,943	191,438	-	-	9,935,381
Property and Equipment, Net	35,520,148	12,204,744	345,281	-	48,070,173
Other Assets	4,267,310	-	-	-	4,267,310
Total assets	$94,756,847	$13,467,848	$ 2,024,583	$ (9,524,176)	$100,725,102

Liabilities and Net Assets

	GMC	GRC	GHC	Eliminations	Total
Current Liabilities					
Current portion of long-term debt	$ 679,812	$ 521,015	$ -	$ -	$ 1,200,827
Accounts payable	3,843,269	282,897	186,395	-	4,312,561
Accrued expenses	4,392,527	438,192	831,203	-	5,661,922
Interest rate swap agreement	2,928,417	-	-	-	2,928,417
Estimated amounts due to third-party payers	1,047,437	-	34,551	-	1,081,988
Other	53,317	14,200	-	-	67,517
Due to affiliate	-	5,107,557	4,416,619	(9,524,176)	-
Total current liabilities	12,944,779	6,363,861	5,468,768	(9,524,176)	15,253,232
Long-Term Debt	17,397,056	6,219,821	-	-	23,616,877
Other Liabilities	4,261,522	-	-	-	4,261,522
Refundable Entrance Fees	-	4,098,452			4,098,452
Deferred Revenue from Entrance Fees	-	894,384	-	-	894,384
Deferred Annuities	345,721	72,193	-	-	417,914
Total liabilities	34,949,078	17,648,711	5,468,768	(9,524,176)	48,542,381
Net Assets					
Without donor restrictions	57,749,480	(4,358,452)	(3,469,235)	-	49,921,793
With donor restrictions	2,058,289	177,589	25,050	-	2,260,928
Total net assets	59,807,769	(4,180,863)	(3,444,185)	-	52,182,721
Total liabilities and net assets	$94,756,847	$13,467,848	$ 2,024,583	$ (9,524,176)	$100,725,102

Gifford Health Care, Inc.

Consolidating Schedule – Statement of Operations Information

Year Ended September 30, 2019

	GMC	GRC	GHC	Eliminations	Total
Revenues, Gains and Other Support Without Donor Restrictions					
Patient service revenue (net of contractual discounts and allowances)	$ 50,470,709	$ 4,222,762	$ 9,239,497	$ -	$ 63,932,968
Provision for doubtful accounts	2,361,692	-	414,973	-	2,776,665
Net patient service revenue less provision for doubtful accounts	48,109,017	4,222,762	8,824,524	-	61,156,303
Fixed prospective revenue	1,943,080	-	169,198	-	2,112,278
Other	1,778,346	1,014,179	4,353,225	(471,304)	6,674,446
Net assets released from restrictions used for operations	166,061	9,825	41,436	-	217,322
Total revenues, gains and other support without donor restrictions	51,996,504	5,246,766	13,388,383	(471,304)	70,160,349
Expenses and Losses					
Salaries and wages	23,922,092	3,141,956	9,056,304	-	36,120,352
Employee benefits	6,559,874	919,369	2,059,996	-	9,539,239
Purchased services and professional fees	6,114,842	569,118	918,713	-	7,602,673
Supplies and other	10,088,274	2,021,352	1,614,307	(471,304)	13,252,629
Depreciation and amortization	2,799,624	911,259	489,820	-	4,200,703
Interest	974,655	359,839	2,741	-	1,337,235
Total expenses and losses	50,459,361	7,922,893	14,141,881	(471,304)	72,052,831
Operating Income (Loss)	1,537,143	(2,676,127)	(753,498)	-	(1,892,482)
Other Income (Expense)					
Investment return, net	1,429,372	11,952	2,648	-	1,443,972
Change in fair value of interest rate swap agreement	(1,482,182)	-	-	-	(1,482,182)
Other income	109,881	8,339	-	-	118,220
Total other income	57,071	20,291	2,648	-	80,010
Excess (Deficiency) of Revenues Over Expenses	1,594,214	(2,655,836)	(750,850)	-	(1,812,472)
Net assets released for acquisition of property and equipment	143,057	-	-	-	143,057
Transfers (to) from affiliates	(1,950,850)	1,200,000	750,850	-	-
Decrease in Net Assets Without Donor Restrictions	$ (213,579)	$ (1,455,836)	$ -	$ -	$ (1,669,415)