

North Country Health Systems, Inc.

Independent Auditor's Report and
Consolidated Financial Statements

September 30, 2020 and 2019

North Country Health Systems, Inc.
September 30, 2020 and 2019

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Independent Auditor's Report

Board of Trustees
North Country Health Systems, Inc.
Newport, Vermont

We have audited the accompanying consolidated financial statements of North Country Health Systems, Inc. and its subsidiaries, which comprise the consolidated balance sheets as of September 30, 2020 and 2019, 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 North Country Health Systems, Inc. and its subsidiaries as of September 30, 2020 and 2019, and the results of their operations, changes in net assets, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As described in *Note 1* to the consolidated financial statements, in 2020, the Health System adopted ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, and ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. Our opinion is not modified with respect to these matters.

Supplementary Information

Our audits were performed for the purpose of forming an opinion on the 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 consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Springfield, Missouri
December 18, 2020

North Country Health Systems, Inc.
Consolidated Balance Sheets
September 30, 2020 and 2019

Assets

	2020	2019
Current Assets		
Cash and cash equivalents	\$ 22,246,471	\$ 3,436,472
Patient accounts receivable, net of allowance; 2020 – \$9,100,000, 2019 – \$8,500,000	6,605,257	6,915,796
Other receivables	1,047,245	650,584
Supplies	2,631,841	2,519,268
Estimated amounts due from third-party payors	171,660	226,678
Prepaid expenses and other	954,983	777,155
Total current assets	33,657,457	14,525,953
 Assets Limited As To Use		
Internally designated	46,269,199	42,942,516
Externally restricted by donors	4,587,942	4,222,913
Held by trustee		
Under deferred compensation arrangements	3,034,510	3,110,541
	53,891,651	50,275,970
 Property and Equipment, At Cost		
Less accumulated depreciation	76,076,905	82,428,949
	53,249,122	58,923,478
	22,827,783	23,505,471
 Other Assets		
	141,567	57,019
Total assets	\$ 110,518,458	\$ 88,364,413

Liabilities and Net Assets

	<u>2020</u>	<u>2019</u>
Current Liabilities		
Current maturities of long-term debt	\$ 1,127,217	\$ 1,193,013
Accounts payable	3,933,961	2,649,210
Accrued expenses	5,910,797	5,305,818
Due to affiliate	54,159	7,427
Deferred revenue	5,487,103	-
Estimated amounts due to third-party payors	<u>1,678,464</u>	<u>1,399,537</u>
Total current liabilities	18,191,701	10,555,005
Deferred Compensation and Other	3,138,188	3,208,350
Deferred Revenue	7,610,056	-
Long-Term Debt	15,404,285	16,068,559
Interest Rate Swap Agreements	<u>1,530,179</u>	<u>1,562,653</u>
Total liabilities	<u>45,874,409</u>	<u>31,394,567</u>
Net Assets		
Without donor restrictions		
Health System	59,750,387	52,283,311
Noncontrolling interest	<u>325,656</u>	<u>413,680</u>
Total net assets without donor restrictions	60,076,043	52,696,991
With donor restrictions	<u>4,568,006</u>	<u>4,272,855</u>
Total net assets	<u>64,644,049</u>	<u>56,969,846</u>
Total liabilities and net assets	<u><u>\$ 110,518,458</u></u>	<u><u>\$ 88,364,413</u></u>

North Country Health Systems, Inc.
Consolidated Statements of Operations
Years Ended September 30, 2020 and 2019

	2020	2019
Revenues, Gains, and Other Support Without Donor Restrictions		
Net patient service revenue (net of contractual discounts and allowances)	\$ 72,269,833	\$ 80,355,766
Provision for uncollectible accounts	(3,323,546)	(3,441,803)
Net patient service revenue less provision for uncollectible accounts	68,946,287	76,913,963
Fixed prospective revenue	8,118,782	6,049,992
Other	13,006,220	7,406,377
Net assets released from restriction used for operations	137,826	91,829
Total revenues, gains, and other support without donor restrictions	90,209,115	90,462,161
Expenses and Losses		
Salaries	40,248,133	41,401,367
Employee benefits	11,725,605	11,161,563
Supplies and other	30,672,993	31,616,896
Depreciation	3,856,943	4,184,055
Interest	596,013	680,047
Total expenses and losses	87,099,687	89,043,928
Operating Income	3,109,428	1,418,233
Other Income (Expense)		
Contributions received	9,113	79,642
Investment return, net	3,947,109	941,325
Investment return – change in fair value of investments accounted for under the fair value option of FASB ASC Topic 825	(116,391)	(232,156)
Other	326,276	16,862
Total other income	4,166,107	805,673
Excess of Revenues Over Expenses	7,275,535	2,223,906
Investment return – change in unrealized gains and losses on other than trading securities	-	437,440
Change in fair value of interest rate swap agreements	32,474	(929,378)
Contributions for property and equipment	171,043	-
Contributions from noncontrolling interest	-	260,000
Distributions to noncontrolling interest	(100,000)	-
Net assets released from restriction used for property and equipment	-	220,000
Increase in Net Assets Without Donor Restrictions	\$ 7,379,052	\$ 2,211,968

North Country Health Systems, Inc.
Consolidated Statements of Changes in Net Assets
Years Ended September 30, 2020 and 2019

	2020	2019
Net Assets Without Donor Restrictions Attributable to the Health System		
Excess of revenues over expenses	\$ 7,263,559	\$ 2,246,484
Investment return – change in unrealized gains and losses on other than trading securities	-	437,440
Change in fair value of interest rate swap agreements	32,474	(929,378)
Contributions for property and equipment	171,043	-
Net assets released from restriction used for property and equipment	-	220,000
	<u>7,467,076</u>	<u>1,974,546</u>
Increase in net assets without donor restrictions attributable to the Health System	<u>7,467,076</u>	<u>1,974,546</u>
Net Assets Without Donor Restrictions Attributable to Noncontrolling Interest		
Excess (deficiency) of revenues over expenses	11,976	(22,578)
Distributions to noncontrolling interest	(100,000)	-
Contributions from noncontrolling interest	-	260,000
	<u>(88,024)</u>	<u>237,422</u>
Increase (decrease) in net assets without donor restrictions attributable to noncontrolling interest	<u>(88,024)</u>	<u>237,422</u>
Increase in net assets without donor restrictions	<u>7,379,052</u>	<u>2,211,968</u>
Net Assets With Donor Restrictions		
Contributions received	109,611	98,773
Investment return – change in unrealized gains and losses on other than trading securities	323,366	77,492
Net assets released from restriction	(137,826)	(311,829)
	<u>295,151</u>	<u>(135,564)</u>
Increase (decrease) in net assets with donor restrictions	<u>295,151</u>	<u>(135,564)</u>
Change in Net Assets	<u>7,674,203</u>	<u>2,076,404</u>
Net Assets, Beginning of Year	<u>56,969,846</u>	<u>54,893,442</u>
Net Assets, End of Year	<u><u>\$ 64,644,049</u></u>	<u><u>\$ 56,969,846</u></u>

North Country Health Systems, Inc.
Consolidated Statements of Cash Flows
Years Ended September 30, 2020 and 2019

	2020	2019 (Adjusted – Note 1)
Operating Activities		
Change in net assets	\$ 7,674,203	\$ 2,076,404
Items not requiring (providing) cash		
Loss on disposal of property and equipment	95,226	17,431
Depreciation	3,856,943	4,184,055
Net unrealized and realized gains on investments	(3,426,544)	(419,650)
Change in fair value of interest rate swap agreements	(32,474)	929,378
Restricted contributions received	(109,611)	(98,773)
(Distributions to) contributions from noncontrolling interest	100,000	(260,000)
Changes in		
Patient accounts receivable, net	310,539	1,567,963
Estimated amounts due to/from third-party payors	333,945	(524,250)
Accounts payable and accrued expenses	1,959,324	(144,788)
Other assets and liabilities	12,399,888	(82,180)
	<u>23,161,439</u>	<u>7,245,590</u>
Investing Activities		
Proceeds from disposition of assets limited as to use	41,303,733	16,036,742
Purchases of assets limited as to use	(44,515,370)	(13,641,021)
Purchase of property and equipment	(2,843,643)	(3,252,697)
Proceeds from sale of property and equipment	-	46,026
	<u>(6,055,280)</u>	<u>(810,950)</u>
Financing Activities		
(Distributions to) contributions from noncontrolling interest	(100,000)	260,000
Proceeds from restricted contributions	109,611	98,773
Payments on line of credit	-	(1,001,134)
Principal payments on long-term debt	(1,252,240)	(1,126,418)
	<u>(1,242,629)</u>	<u>(1,768,779)</u>
Increase in Cash, Cash Equivalents, and Restricted Cash Equivalents	15,863,530	4,665,861
Cash, Cash Equivalents, and Restricted Cash Equivalents, Beginning of Year	<u>8,907,424</u>	<u>4,241,563</u>
Cash, Cash Equivalents, and Restricted Cash Equivalents, End of Year	<u>\$ 24,770,954</u>	<u>\$ 8,907,424</u>

North Country Health Systems, Inc.
Consolidated Statements of Cash Flows
Years Ended September 30, 2020 and 2019

	2020	2019 (Adjusted – Note 1)
Reconciliation of Cash, Cash Equivalents, and Restricted Cash Equivalents to the Consolidated Balance Sheets		
Cash and cash equivalents	\$ 22,246,471	\$ 3,436,472
Assets limited as to use	2,524,483	5,470,952
Total cash and cash equivalents shown in the statements of cash flows	\$ 24,770,954	\$ 8,907,424
Supplemental Cash Flows Information		
Interest paid	\$ 596,013	\$ 680,047
Accounts payable incurred for property and equipment	166,710	97,116
Capital lease obligations incurred for property and equipment	500,432	339,366

North Country Health Systems, Inc.
Notes to Consolidated Financial Statements
September 30, 2020 and 2019

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

Nature of Operations

North Country Health Systems, Inc. and its subsidiaries collectively do business as North Country Health System.

North Country Health Systems, Inc. (Health System or NCHS) is the parent holding company for its wholly owned subsidiaries, which include North Country Hospital and Health Center, Inc. (Hospital), North Country Health Services, Inc., d/b/a Derby Green (Derby Green).

North Country Hospital and Health Center, Inc. operates a 25-bed acute care hospital facility in Newport, Vermont. The Hospital primarily earns revenues by providing inpatient, outpatient, and emergency care services to patients in Newport, Vermont, and the surrounding area. The Hospital also operates a number of physician clinics in the same geographic area.

Derby Green operates a 23-bed nursing home located in Derby, Vermont. Effective April 30, 2020, Derby Green was closed and all remaining assets and liabilities were transferred to the Hospital.

North Country Hospital and Health Center, Inc. is the majority general shareholder of Northeast Kingdom Healthcare Collaborative, LLC (NEK), which is a limited liability corporation. The Hospital controls Northeast Kingdom Healthcare Collaborative, LLC through its 60 percent majority interest of the general partnership membership units. The noncontrolling interest represents the proportionate share of Northeast Kingdom Healthcare Collaborative, LLC equity owned by a third party.

Principles of Consolidation

The consolidated financial statements include the financial statements of North Country Health Systems, Inc., its wholly owned subsidiaries, North Country Hospital and Health Center, Inc., North Country Health Services, d/b/a Derby Green, and the majority owned Northeast Kingdom Healthcare Collaborative, LLC (collectively, NCHS). All significant intercompany accounts and transactions have been eliminated in consolidation.

Noncontrolling Interest

Noncontrolling interest represents the third-party member's equity contribution and the proportionate share of income or loss in NEK. Income passes through to its members and any associated income taxes are paid by the members under their respective income tax status.

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.

North Country Health Systems, Inc.
Notes to Consolidated Financial Statements
September 30, 2020 and 2019

Cash and Cash Equivalents

NCHS considers all liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2020 and 2019, cash equivalents consisted primarily of repurchase agreements in sweep accounts with financial institutions.

At September 30, 2020, NCHS had approximately \$266,800 of cash accounts in excess of FDIC limits.

Debt Investments

Debt securities held by the Health System generally are classified and recorded in the financial statements as follows:

Classified as	Description	Recorded at
Trading	Securities that are bought and held principally for the purpose of selling in the near term and, therefore, held for only a short period of time	Fair value, with changes in fair value included in excess (deficiency) revenues over expenses
Other than trading	Securities not classified as trading	Fair value, with unrealized gains and losses recorded below excess (deficiency) revenues over expenses

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

When the fair value of securities is below the amortized cost, the Health System accounting treatment for an other-than-temporary impairment (OTTI) is as follows:

<u>Circumstances of Impairment Considerations</u>	<u>Accounting Treatment for OTTI Components</u>	
	<u>Credit Component</u>	<u>Remaining Portion</u>
Not intended for sale and more likely than not that the Health System will not have to sell before recovery of cost basis	Recognized in excess (deficiency) revenues over expenses	Recognized below excess (deficiency) revenues over expenses
Intended for sale or more likely than not that the Health System will be required to sell before recovery of cost basis	Recognized in excess (deficiency) revenues over expenses	

When a credit loss component is separately recognized in excess (deficiency) of revenues over expenses, the amount is identified as the total of principal cash flows not expected to be received over the remaining term of the security, as projected based on cash flow projections.

North Country Health Systems, Inc.
Notes to Consolidated Financial Statements
September 30, 2020 and 2019

Equity Investments

The Health System measures equity securities, other than investments that qualify for the equity method of accounting, at fair value with changes recognized in excess (deficiency) revenues over expenses. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Net Investment Return

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 expenses.

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 (1) assets held by trustees under bond indentures and deferred compensation agreements, (2) assets restricted by donors, and (3) assets set aside by the Board of Trustees for future capital improvements and debt service over which the Board retains control and may at its discretion subsequently use for other purposes. Amounts required to meet current liabilities of NCHS are included in current assets.

Patient Accounts Receivable

Accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectability of accounts receivable, NCHS analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for uncollectible accounts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts.

For receivables associated with services provided to patients who have third-party coverage, NCHS analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for uncollectible accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (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), NCHS records a significant provision for uncollectible 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) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

North Country Health Systems, Inc.
Notes to Consolidated Financial Statements
September 30, 2020 and 2019

NCHS's allowance for uncollectible accounts for self-pay patients increased from 78 percent of self-pay accounts receivable at September 30, 2019, to 83 percent of self-pay accounts receivable at September 30, 2020. NCHS's write-offs increased approximately \$1,113,000 from approximately \$1,169,000 for the year ended September 30, 2019, to approximately \$2,282,000 for the year ended September 30, 2020.

Supplies

NCHS 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 are depreciated over the shorter of the lease term or their respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Land improvements	5 – 25 years
Buildings	10 – 40 years
Fixed equipment	5 – 20 years
Moveable equipment	2 – 20 years
Vehicles	4 years
Equipment under capital lease	4 – 5 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

NCHS 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, 2020 and 2019.

North Country Health Systems, Inc.
Notes to Consolidated Financial Statements
September 30, 2020 and 2019

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 and are included as a component of long-term debt on the consolidated balance sheets.

Net Assets With Donor Restrictions

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

Net Patient Service Revenue

The Hospital and Derby Green have agreements with third-party payors that provide for payments at amounts different from their established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, 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.

Fixed Prospective Revenue

Beginning January 1, 2018, the Hospital began to receive monthly fixed prospective payments for services provided by the Hospital and Hospital-owned physician practices participating in the Vermont Medicaid next Generation Accountable Care Organization (ACO) Pilot Program, and beginning January 1, 2019, expanded the program to include some commercial payors in addition to Medicaid. This is 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.

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. The Hospital is subject to an annual contracted maximum risk corridor, of which for calendar 2020 and 2019 is a maximum potential gain or loss of \$0 and \$450,000, respectively. As of September 30, 2020 and 2019, the Hospital has recorded a liability related to this risk corridor of \$235,000 and \$400,000, respectively, which is recorded within estimated amounts due to third-party payors.

Charity Care

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

North Country Health Systems, Inc.
Notes to Consolidated Financial Statements
September 30, 2020 and 2019

Contributions

Contributions are provided to NCHS either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

Nature of Gift	Value Recognized
<i>Conditional gifts, with or without restrictions</i>	
Gifts that depend on NCHS overcoming a donor-imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, <i>i.e.</i> , the donor-imposed barrier is met
<i>Unconditional gifts, with or without restriction</i>	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment, and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

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 consolidated statements of operations as net assets released from restrictions. Absent explicit donor restrictions for gifts of land, buildings, equipment, and other long-lived assets are reported when those assets are placed in service.

Gifts having donor stipulations which are satisfied in the period the gift is received are reported as revenue and net assets without donor restrictions.

Conditional contributions having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

North Country Health Systems, Inc.
Notes to Consolidated Financial Statements
September 30, 2020 and 2019

Professional Liability Claims

The Hospital 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*.

Estimated Self-Insurance Costs

NCHS accrues estimated liabilities for self-insurance losses associated with employee health insurance, employee unemployment claims, and workers' compensation claims by estimating the ultimate costs for both reported claims, and claims incurred but not reported. NCHS has purchased insurance that limits its exposure for individual claims.

Income Taxes

NCHS and its subsidiaries have been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, NCHS and its subsidiaries are subject to federal income tax on any unrelated business taxable income.

NCHS files tax returns in the U.S. federal jurisdiction. With a few exceptions, NCHS is no longer subject to U.S. federal examinations by tax authorities for years before 2016.

Excess of Revenues Over Expenses

The consolidated statements of operations include excess of revenues over expenses. Changes in net assets without donor restrictions which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, the change in fair value of interest rate swap agreements, and distributions to noncontrolling interest.

Contract Pharmacy Program

NCHS participates in the 340B outpatient drug discount program administered by the Office of Pharmacy Affairs of the Health Resources and Services Administration (HRSA). NCHS contracts with local retail pharmacies under the program, which resulted in significant additional revenues and discounts of outpatient pharmaceuticals. In 2020 and 2019, net revenue from this program was approximately \$4,185,000 and \$3,530,000, respectively, greater than the direct cost of operating the program. The benefits from this program allow NCHS to continue to provide, improve, and expand access to health care services in the surrounding communities. Laws and regulations surrounding the 340B drug program are complex and are subject to interpretation and change.

North Country Health Systems, Inc.
Notes to Consolidated Financial Statements
September 30, 2020 and 2019

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.

Change in Accounting Principle

Clarifying Contributions Received and Contributions Made

In 2020, the Health System adopted ASU, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* using a modified prospective basis. ASU 2018-08 clarifies existing guidance on determining whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction. The amendments clarify how the Health System determines whether a resource provider (including a foundation, a government agency, or other) is receiving commensurate value in return for the resources transferred, and whether contributions are conditional or unconditional.

Adoption of ASU 2018-08 had no impact on the 2020 or 2019 financial statements.

Recognition and Measurement of Financial Assets and Financial Liabilities

In 2020, the Health System changed its accounting policy on financial assets and liabilities by adopting the provisions of ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The new accounting guidance in ASU 2016-01 requires companies to recognize changes in fair value of equity investments through the performance indicator. The change was applied utilizing a modified retrospective approach through a cumulative-effect adjustment which had no impact on the beginning net assets of the Health System at October 1, 2019.

Beginning with the year ended September 30, 2020, the unrealized gains (losses) from equity investments are recognized in excess (deficiency) of revenues over expenses within investment return, net. Prior to October 1, 2019, the unrealized gains (losses) from equity securities were recognized below excess (deficiency) of revenues over expenses within investment return - change in unrealized gains on other than trading securities. There have been no changes to how unrealized gains (losses) for debt securities are determined with the adoption of this standard.

Clarifying Restricted Cash

In 2020, the Health System changed its method of accounting for restricted cash by adopting 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 to be included with cash when reconciling beginning and end-of-period balances on the statement of cash flows.

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This change was applied retrospectively to all periods presented which resulted in the following changes within the statement of cash flows for the year ended September 30, 2019:

	As Adjusted	As Previously Reported	Effect of Change in Principle
Statement of Cash Flows			
Proceeds from disposition of investments	\$ 16,036,742	\$ 15,957,199	\$ 79,543
Net cash used in investing activities	(810,950)	(3,784,280)	2,973,330
Increase in cash	4,665,861	1,692,531	2,973,330
Cash, beginning of year	4,241,563	1,743,941	2,497,622
Cash, end of year	8,907,424	3,436,472	5,470,952

Note 2: Net Patient Service Revenue

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

The Hospital and Derby Green have agreements with third-party payors that provide for payments at amounts different from its established rates. These payment arrangements include:

Medicare. The Hospital is designated as a critical access hospital and is paid based on cost formulas for most inpatient and outpatient services from the Medicare program.

Skilled nursing services rendered to Medicare program beneficiaries at Derby Green are paid at prospectively determined per diem rates.

The Hospital and Derby Green are reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and Derby Green and audits thereof by the Medicare Administrative Contractor. The most recent Hospital cost report audited by the Medicare Administrative Contractor is for the period ended September 30, 2014.

The 2020 and 2019 net patient service revenue decreased approximately \$150,000 and increased approximately \$2,000,000, respectively, due to settlements in excess of amounts previously estimated.

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Medicaid. Inpatient, outpatient, and skilled nursing services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates.

Blue Cross. Inpatient and outpatient services rendered to Blue Cross subscribers are reimbursed at submitted charges less a contractually determined discount.

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.

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

Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the years ended September 30, 2020 and 2019, respectively, was approximately:

	2020	2019
Medicare	\$ 31,222,524	\$ 33,255,547
Medicaid	3,185,870	2,870,084
Other third-party payors	16,100,998	19,947,796
Blue Cross	20,374,119	23,943,424
Self-pay	1,386,322	338,915
	<u> </u>	<u> </u>
Total	<u><u>\$ 72,269,833</u></u>	<u><u>\$ 80,355,766</u></u>

Note 3: Concentration of Credit Risk

NCCHS grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payor agreements. The mix of net receivables from patients and third-party payors at September 30, 2020 and 2019, is:

	2020	2019
Medicare	36%	32%
Medicaid	11%	13%
Other third-party payors	20%	19%
Blue Cross	20%	18%
Self-pay	13%	18%
	<u> </u>	<u> </u>
	<u><u>100%</u></u>	<u><u>100%</u></u>

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Note 4: Investments and Investment Return

Assets Limited as to Use

Assets limited as to use, at September 30, 2020 and 2019, include:

	2020	2019
Internally designated		
Cash and cash equivalents	\$ 2,220,174	\$ 5,069,384
U.S. Treasury securities	-	1,921,768
Government agency securities	-	342,406
Corporate fixed income securities	-	5,827,512
Equities	151,964	27,636,771
Exchange traded and mutual funds	43,145,801	965,070
Alternative investments	751,260	1,179,605
	<u>\$ 46,269,199</u>	<u>\$ 42,942,516</u>

The alternative investments were acquired to balance the investment portfolio risks associated with the volatility of fluctuations in the financial market through diversification and, as such, are subject to varying degrees of market and credit risks.

	2020	2019
Externally restricted by donors		
Cash and cash equivalents	\$ 175,870	\$ 401,568
U.S. Treasury securities	-	152,232
Government agency securities	-	27,123
Corporate fixed income securities	-	461,622
Equities	12,038	3,010,479
Exchange traded and mutual funds	4,340,523	76,447
Alternative investments	59,511	93,442
	<u>\$ 4,587,942</u>	<u>\$ 4,222,913</u>
Held by trustee under indenture agreements		
Life insurance policies and deferred compensation arrangements	\$ 2,438,472	\$ 2,488,520
Mutual funds	596,038	622,021
	<u>\$ 3,034,510</u>	<u>\$ 3,110,541</u>

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Investment Return

Total investment return is comprised of the following:

	<u>2020</u>	<u>2019</u>
Interest and dividend income	\$ 727,540	\$ 804,451
Realized and unrealized gains (losses) on other than trading securities	<u>3,426,544</u>	<u>419,650</u>
	<u>\$ 4,154,084</u>	<u>\$ 1,224,101</u>

Total investment return is reflected in the consolidated statements of operations and changes in net assets as follows:

	<u>2020</u>	<u>2019</u>
Net assets without donor restrictions		
Investment return, net	\$ 3,947,109	\$ 941,325
Change in fair value of investments accounted for under the fair value option of FASB ASC Topic 825	(116,391)	(232,156)
Change in unrealized gains and losses on other than trading securities	-	437,440
Net assets with donor restrictions		
Change in unrealized gains and losses on other than trading securities	<u>323,366</u>	<u>77,492</u>
	<u>\$ 4,154,084</u>	<u>\$ 1,224,101</u>

Unrealized Losses on Investments

Certain investments in debt and marketable equity securities are reported in the financial statements at an amount less than their historical cost. Total fair value of these investments at September 30, 2019, was \$8,417,486, which was approximately 17 percent of NCHS' assets limited as to use. These declines primarily resulted from recent increases in market interest rates, failure of certain investments to maintain consistent credit quality ratings, changes in the market's perception of the current risks, or failure to meet projected earnings targets.

Management believes the declines in fair value for these securities are temporary.

Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified.

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NCHS' investments in marketable equity securities consist primarily of investments in companies in various industries in domestic and international markets. NCHS routinely conducts periodic reviews to identify and evaluate each investment security to determine whether an other-than-temporary impairment has occurred. For each security in the investment portfolio (including but not limited to those whose fair value is less than their amortized cost basis), an extensive, regular review is conducted to determine if an other-than-temporary impairment has occurred. Various inputs to the economic models are used to determine if an unrealized loss is other than temporary such as severity of loss, length of time in a loss position, and other significant factors.

No other-than-temporary impairment losses were recorded during the years ended September 30, 2019.

Alternative Investments

The fair value of alternative investments that have been estimated using the net asset value per share as a practical expedient consist of the following at September 30:

	September 30, 2020 Fair Value	September 30, 2019 Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Multistrategy hedge funds (A)	\$ 810,771	\$ 1,273,047	\$ -	Quarterly	65 days' written notice

(A) This category includes investments in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. For the investment, the Funds' primary investment objective is to provide capital appreciation consistent with the return characteristics of alternative investment portfolios of larger endowments through investments in the six asset classes of Opportunistic Equity, Enhanced Fixed Income, Absolute Return, Real Estate, Private Equity, and Energy and Natural Resources.

Note 5: Property and Equipment

Property and equipment are stated at cost. A summary of cost by category follows:

	2020	2019
Land	\$ 435,921	\$ 486,559
Land improvements	2,100,091	2,098,926
Buildings	46,454,111	46,557,589
Fixed equipment	2,393,174	2,050,906
Moveable equipment	21,565,402	28,988,823
Vehicles	100,640	100,640
Equipment under capital lease	2,390,460	1,919,290
Construction in progress	637,106	226,216
	<u>\$ 76,076,905</u>	<u>\$ 82,428,949</u>

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Construction in progress at September 30, 2020, consisting of various projects with approximately \$2,100,000 of anticipated future costs to complete. All projects are anticipated to be completed during fiscal year 2021.

Note 6: Contingent Liabilities

Professional Liability Claims

NCHS 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. NCHS 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 the claims experience, no such accrual had been made for NCHS' estimated medical malpractice costs, including costs associated with litigating or settling claims, under its malpractice insurance policy, as of September 30, 2020 and 2019. It is reasonably possible that this estimate could change materially in the near term.

Self-Insurance

NCHS is self-insured for employee health claims and has accrued an estimate of the ultimate costs for reported claims and claims incurred but not reported. Actual results could differ from these estimates. NCHS has entered into a stop-loss insurance contract to protect assets against significant claims expense. Specific stop-loss insurance provides coverage on individual claims incurred in excess of \$175,000 and \$150,000 at September 30, 2020 and 2019, respectively.

NCHS is self-insured for employee unemployment insurance benefits. The accrual for self-insurance is evaluated periodically throughout the fiscal year for adequacy based on staffing changes. Actual results could differ from these estimates.

NCHS is effectively self-insured for workers' compensation claims under a high-deductible policy and has accrued an estimate of the ultimate costs for reported claims and claims incurred but not reported. The policy provides a \$250,000 deductible for individual claims and \$600,000 for aggregate claims at September 30, 2020 and 2019.

Note 7: Lines of Credit

The Hospital had a \$2,000,000 revolving bank line of credit with a term that is the shorter of twelve months or March 1, 2020. The line is collateralized by substantially all of the Hospital's assets. Interest varies with the bank's prime rate, with a 1 percent margin added to the prime rate, with a minimum rate of 4.25 percent. At September 30, 2019, the interest rate was 6.5 percent. This line was not renewed upon expiration in March 2020. There were no amounts borrowed against this line at September 30, 2019.

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The Hospital has a \$200,000 revolving bank line of credit which expires in December 2020. At September 30, 2020 and 2019, there was \$0 borrowed against this line. The line is collateralized by substantially all of the Hospital's assets and has an interest rate of 8.25 percent at both September 30, 2020 and 2019.

In June 2019, the Hospital entered into a revolving bank line of credit with maximum borrowings of \$5,000,000, due May 2022. At September 30, 2020 and 2019, there was \$0 borrowed against this line. The line is collateralized by substantially all of the Hospital's assets. Interest varies with the bank's prime rate, with a .75 percent margin subtracted from the prime rate, with a minimum rate of 4 percent which was 4.00 percent and 4.25 percent at September 30, 2020 and 2019, respectively.

Note 8: Long-Term Debt

	2020	2019
Hospital Revenue Bonds, Series 2016 (A)	\$ 15,387,819	\$ 16,221,604
Note payable (B)	166,101	190,149
Note payable (C)	293,088	310,055
Capital lease obligations (D)	809,486	686,494
	16,656,494	17,408,302
Less unamortized debt issuance costs	124,992	146,730
Less current maturities	1,127,217	1,193,013
	\$ 15,404,285	\$ 16,068,559

(A) Vermont Educational and Health Buildings Financing Agency Revenue Refunding Bonds (North Country Hospital Project), Series 2016 A in the original amount of \$18,743,131 dated June 1, 2016, which bear interest at a variable rate equal to the sum of 68 percent of one-month LIBOR plus 78.2 basis points per annum (.83 percent and 2.15 percent at September 30, 2020 and 2019, respectively), and are due in graduated installments through October 2034, with a due on demand clause June 1, 2026, and thereafter. Proceeds from the bonds were used to repay the outstanding debt from the Series 2007 bonds. The Bonds are collateralized by equipment, personal property, hardware, supplies, and inventory of the Hospital. The Hospital is subject to certain financial covenants related to this bond issue. Unamortized debt issuance costs associated with the borrowing are \$124,992 and \$146,730 at September 30, 2020 and 2019, respectively.

(B) Note payable to Vermont Economic Development Authority for assistance with development of renal dialysis services. Principal on the note is due annually and the rate of interest on this loan is 0 percent. The note is collateralized by an interest in the gross receipts of the Hospital.

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- (C) Note payable originally issued in the amount of \$400,000 for capital improvements. Principal on the note is due monthly and the rate of interest on this loan is 4.00 percent until September 2023, with the interest rate varying thereafter. The note is collateralized by real estate at Derby Green.
- (D) Capital lease obligations at varying rates of imputed interest from 0.0 percent to 12.4 percent, collateralized by leased equipment expiring at various dates through 2025. Property and equipment include the following equipment under capital leases:

	2020	2019
Moveable equipment	\$ 2,390,460	\$ 1,919,291
Less accumulated depreciation	1,681,720	1,466,752
	\$ 708,740	\$ 452,539

Aggregate annual maturities and sinking fund requirements of long-term debt and payments on capital lease obligations at September 30, 2020, are:

	Long-Term Debt Excluding Capital Lease Obligations	Capital Lease Obligations
2021	\$ 906,277	\$ 235,725
2022	936,671	187,186
2023	968,753	170,932
2024	1,001,448	157,804
2025	1,036,794	86,736
Thereafter	10,997,065	-
	\$ 15,847,008	838,383
Less amount representing interest		28,897
Present value of future minimum lease payments		809,486
Less current maturities		220,940
Noncurrent portion		\$ 588,546

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Note 9: Derivative Financial Instruments

2007 Interest Rate Swap

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, NCHS entered into an interest rate swap agreement for \$15,466,750 of the outstanding Hospital Revenue Bonds, Series 2007, in December 2007. During the year ended September 30, 2016, the Hospital paid in full the Hospital Revenue Bonds, Series 2007 and entered into a new financing arrangement with the issuance of the Hospital Revenue Bonds, Series 2016 A. Upon execution of the Hospital Revenue Bonds, Series 2016 A, the Hospital elected to continue its strategy to limit its exposure to interest rate risk by applying this swap agreement to the 2016 debt.

The agreement provides for NCHS to receive interest from the counterparty of 68 percent of LIBOR and to pay interest to the counterparty at a fixed rate of 3.285 percent on notional amounts of \$10,374,000 and \$10,984,000 at September 30, 2020 and 2019, respectively. Under the agreement, NCHS pays or receives the net interest amount monthly, with the monthly settlements included in interest expense. The interest rate swap agreement terminates on November 1, 2027. This swap is valued at \$(1,758,065) and \$(1,513,477) at September 30, 2020 and 2019, respectively.

2016 Interest Rate Swap

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, NCHS entered into an interest rate swap agreement for \$6,396,381 of the outstanding Hospital Revenue Bonds, Series 2016, in June 2016.

The agreement provides for NCHS to receive interest from the counterparty of 68 percent of LIBOR and to pay interest to the counterparty at a fixed rate of 1.12 percent on a notional amount of \$5,013,819 and \$5,327,604 at September 30, 2020 and 2019, respectively. Under the agreement, NCHS pays or receives the net interest amount monthly, with the monthly settlements included in interest expense. The interest rate swap agreement terminates on June 1, 2026. The swap is valued at \$228,126 and \$48,936 at September 30, 2020 and 2019, respectively.

Management has designated the interest rate swap agreements as cash flow hedging instruments. For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of net assets without donor restrictions and reclassified into excess revenues over expenses in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current excess revenues over expenses.

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The table below presents certain information regarding NCHS' interest rate swap agreements designated as cash flow hedges. NCHS did not have any derivative instruments at September 30, 2020 and 2019, that were not designated as hedging instruments.

	2020	2019
Other Liabilities		
Fair value of interest rate swap agreements	\$ (1,530,179)	\$ (1,562,653)
Changes in Net Assets Without Donor Restrictions		
Change in interest rate swap agreements	-	-
Interest Expense		
Loss reclassified from net assets without donor restrictions into excess of revenues over expenses	295,623	150,809

Note 10: Deferred Compensation

During the year ended September 30, 2002, the Hospital established the North Country Hospital Executive and Physician Stock Option Plan. This plan provides options as a form of compensation for a select group of management, physicians, or highly compensated employees of the Hospital and its affiliates. The balance in this plan was \$596,038 and \$622,021 at September 30, 2020 and 2019, respectively. At September 30, 2003, this plan was frozen and no more employee contributions will be put into the plan.

During the year ended September 30, 2003, the Hospital established the Split Dollar Insurance and Death Benefit Only Programs to certain key employees of the Hospital and its affiliates. Eligible employees may elect to have a minimum of \$10,000 withheld from their compensation, up to a maximum of 75 percent of annual gross compensation. At both September 30, 2020 and 2019, two employees were participating in this plan with a balance of \$174,838.

The Hospital has established a 457(b) deferred compensation plan eligible to certain key employees of the Hospital and its affiliates. At September 30, 2020 and 2019, 28 employees were participating in this plan with a balance of \$2,263,634 and \$2,313,682, respectively.

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Note 11: Net Assets With Donor Restrictions

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

	<u>2020</u>	<u>2019</u>
Subject to expenditure for a specified purpose		
Healthcare services	\$ 566,055	\$ 518,475
Purchase of equipment	79,653	73,451
Nursing scholarships	160,485	171,246
	<u>806,193</u>	<u>763,172</u>
Endowments		
Subject to spending policies and appropriation		
Investments to be held in perpetuity, the income is expendable for operations	3,761,813	3,509,683
	<u>3,761,813</u>	<u>3,509,683</u>
	<u>\$ 4,568,006</u>	<u>\$ 4,272,855</u>

During 2020 and 2019, net assets of \$137,826 and \$91,829, respectively, were released from donor restriction by incurring expenses satisfying the restricted operating purposes or by occurrence of other events specified by donors. During 2020 and 2019, net assets of \$0 and \$220,000, respectively, were released to purchase equipment.

Note 12: Liquidity and Availability

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

	<u>2020</u>	<u>2019</u>
Financial assets at year-end		
Cash and cash equivalents	\$ 22,246,471	\$ 3,436,472
Patient accounts receivable, net	6,605,257	6,915,796
Other receivables	1,047,245	650,584
Estimated amounts due from third-party payors	171,660	226,678
Assets limited as to use	53,891,651	50,275,970
Total financial assets	<u>83,962,284</u>	<u>61,505,500</u>
Less amounts not available to be used within one year		
Assets limited as to use		
Externally restricted by donors	4,587,942	4,222,913
Held by trustees	3,034,510	3,110,541
Financial assets not available to be used within one year	<u>7,622,452</u>	<u>7,333,454</u>
Financial assets available to meet general expenditures within one year	<u>\$ 76,339,832</u>	<u>\$ 54,172,046</u>

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NCHS has certain internally designated assets limited as to use which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included above for financial assets to meet general expenditures within one year, as the Board could make them available, if necessary.

As part of NCHS'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, NCHS has committed lines of credit which are more fully described in *Note 7*.

Note 13: Endowments

NCHS' endowment consists of various individual funds established for a variety of purposes. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

NCHS' governing body has interpreted the State of Vermont Prudent Management of Institutional Funds Act (SPMIFA) 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, NCHS classifies as net assets with donor restrictions the original value of gifts donated to the endowment. The donor-restricted endowment funds are classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Hospital in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the remaining portion of donor-restricted endowment funds is classified as net assets without donor restrictions as those assets have been appropriated for expenditure by NCHS in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Hospital 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 NCHS 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 the NCHS
7. Investment policies of the NCHS

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The composition of net assets by type of endowment fund and changes in net assets for the years ended September 30, 2020 and 2019, were:

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-Restricted Endowment Funds			
Endowment net assets, beginning of the year	\$ -	\$ 3,509,683	\$ 3,509,683
Investment return	-	252,130	252,130
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 3,761,813</u>	<u>\$ 3,761,813</u>
	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-Restricted Endowment Funds			
Endowment net assets, beginning of the year	\$ -	\$ 3,458,334	\$ 3,458,334
Investment return	-	51,349	51,349
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 3,509,683</u>	<u>\$ 3,509,683</u>

NCHS 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. Under NCHS' policies, the primary investment goal is growth in the endowment accounts. NCHS expects its endowment funds to provide an average rate of return that exceeds benchmark returns indicated for various asset classes. Actual returns in any given year may vary.

To satisfy its long-term rate of return objectives, the NCHS relies on a strategy in which investment returns are achieved through both current yield and capital appreciation (both realized and unrealized). NCHS invests in a variety of securities to achieve its long-term return objectives within prudent risk constraints.

Note 14: Charity Care

The costs of charity care provided under NCHS' charity care policy were approximately \$639,000 and \$592,000 for 2020 and 2019, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

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Note 15: Functional Expenses

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

	Health Care Program Services	2020 General and Administrative	Total
Salaries	\$ 30,136,874	\$ 10,111,259	\$ 40,248,133
Employee benefits	10,235,035	1,490,570	11,725,605
Supplies and other	29,008,048	1,664,945	30,672,993
Depreciation	3,437,204	419,739	3,856,943
Interest	530,662	65,351	596,013
	<u>\$ 73,347,823</u>	<u>\$ 13,751,864</u>	<u>\$ 87,099,687</u>
		2019	
	Health Care Program Services	General and Administrative	Total
Salaries	\$ 30,959,805	\$ 10,441,562	\$ 41,401,367
Employee benefits	9,777,230	1,384,333	11,161,563
Supplies and other	29,683,008	1,933,888	31,616,896
Depreciation	3,729,095	454,960	4,184,055
Interest	605,638	74,409	680,047
	<u>\$ 74,754,776</u>	<u>\$ 14,289,152</u>	<u>\$ 89,043,928</u>

Note 16: Pension Plan

The Hospital has a 403(b) defined contribution pension plan covering substantially all employees. Employee contributions, which are at the discretion of the employee, are matched by NCHS at a maximum of 50 percent of the employee's contributions not exceeding 5 percent of an employee's gross salary. Additional contributions are made to the plan based on amounts determined annually by the Board of Trustees. Pension expense was \$1,250,000 and \$1,310,000 for 2020 and 2019, respectively.

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Note 17: Disclosures About Fair Value of Financial Instruments

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 tables present 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, 2020 and 2019:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2020				
Investments				
Money market funds	\$ 2,216,881	\$ 2,216,881	\$ -	\$ -
Mutual funds – equity	47,881,721	47,881,721	-	-
Equity securities	164,002	164,002	-	-
Exchange traded funds	72,202	72,202	-	-
U.S. Treasury securities	-	-	-	-
Government agencies securities	-	-	-	-
Corporate fixed income securities	-	-	-	-
Alternative investment measured at net asset value (A)	810,771			
Total investments	<u>51,145,577</u>			
Interest rate swap agreements	<u>(1,530,179)</u>	-	(1,530,179)	-
Total fair value of recurring measurements	<u>\$ 49,615,398</u>			

North Country Health Systems, Inc.
Notes to Consolidated Financial Statements
September 30, 2020 and 2019

	Fair Value	Fair Value Measurements Using		
		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				
Money market funds	\$ 5,163,350	\$ 5,163,350	\$ -	\$ -
Mutual funds – equity	931,741	931,741	-	-
Equity securities	31,269,271	31,269,271	-	-
Exchange traded funds	109,776	109,776		
U.S. Treasury securities	2,074,000	-	2,074,000	-
Government agencies securities	369,529	-	369,529	-
Corporate fixed income securities	6,289,134	-	6,289,134	-
Alternative investment measured at net asset value (A)	1,273,047	-	-	-
Total investments	<u>47,479,848</u>			
Interest rate swap agreements	<u>(1,562,653)</u>	-	(1,562,653)	-
Total fair value of recurring measurements	<u>\$ 45,917,195</u>			

(A) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the balance sheets.

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 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, 2020.

Investments

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. At September 30, 2020 and 2019, there were no securities classified as Level 3 within the hierarchy.

North Country Health Systems, Inc.
Notes to Consolidated Financial Statements
September 30, 2020 and 2019

Interest Rate Swap Agreements

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.

Note 18: The Fair Value Option

As permitted by Topic 825, NCHS has elected to measure its hedge fund investment at fair value. Management has elected the fair value option for these items because it more accurately reflects the portfolio returns and financial position of NCHS. The fair value of the hedge investments at September 30, 2020 and 2019, is \$810,771 and \$1,273,047, respectively.

See *Note 4* for additional disclosures regarding fair value of the hedge fund listed in the preceding paragraph.

Changes in Fair Value

Changes in fair value for items for which the fair value option has been elected are reported as investment return in other income (expense) in the financial statements. The change for 2020 and 2019 was a decrease of \$116,391 and \$232,156, respectively, which reflects all investment return from the hedge fund investment.

Note 19: 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*.

Contingencies

Estimates related to the accrual for medical malpractice claims, employee health insurance, workers' compensation, and employee unemployment insurance are described in *Notes 1* and *6*.

North Country Health Systems, Inc.
Notes to Consolidated Financial Statements
September 30, 2020 and 2019

Litigation

In the normal course of business, NCHS 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 the NCHS' self-insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. NCHS 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.

Interest Rate Swap Agreements

As discussed in *Note 9*, NCHS has recorded a liability representing estimated fair value of the interest rate swap agreement.

Asset Retirement Obligation

As discussed in *Note 21*, NCHS has recorded a liability for its conditional asset retirement obligations related to asbestos abatement.

Investments

The Hospital 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 consolidated balance sheets.

Note 20: Asset Retirement Obligation

Accounting principles generally accepted in the United States of America require that an asset retirement obligation (ARO) associated with the retirement of a tangible long-lived asset be recognized as a liability in the period in which it is incurred or becomes determinable (as defined by the standard). NCHS' conditional asset retirement obligations primarily relate to asbestos contained in buildings that NCHS owns. Environmental regulations exist that require NCHS to handle and dispose of asbestos in a special manner if a building undergoes major renovations or is demolished. A liability of \$103,678 and \$97,809 has been recognized in the accompanying 2020 and 2019 financial statements, respectively, for the portion of the liability that can be reasonably estimated.

North Country Health Systems, Inc.
Notes to Consolidated Financial Statements
September 30, 2020 and 2019

Note 21: Other Information

Contractual Obligation

NCHS entered into a one-year agreement, with automatic optional renewal provisions, with a national information technology vendor to provide electronic medical records, billing, and clinical information systems. NCHS has agreed to pay a 2.67 percent service fee based on total net patient service revenue. For the year ended September 30, 2020 and 2019, the Hospital paid \$1,488,000 and \$1,552,000 related to this agreement, respectively.

Note 22: COVID-19

During 2020, the COVID-19 pandemic caused significant business disruption to NCHS operations, including reduced patient revenue and increased expenses for preparation and adjustments to NCHS. There is considerable uncertainty around the duration and magnitude of the impact of COVID-19. The matter has and will have a negative impact on the NCHS's financial condition and operating results. The magnitude of the financial impact cannot be reasonably estimated at this time.

CARES Act and Other Programs

On March 27, 2020, the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act) was signed into law. The following summarizes significant CARES Act and other programs impacting the Corporation.

Provider Relief Funds

NCHS received approximately \$6,594,700 in grants from the CARES Act Provider Relief Fund distributions. NCHS has elected to account for such payments as conditional contributions in accordance with ASC Topic 958-605 – *Revenue Recognition*. Payments are recognized as contribution revenue once the applicable terms and conditions required to retain the funds have been substantially met. Based on an analysis of the compliance and reporting requirements of the Provider Relief Fund and the impact of the pandemic on NCHS's revenues and expenses through September 30, 2020, NCHS recognized revenue of \$4,426,995 related to the distributions from the Provider Relief Funds. The unrecognized amount of \$2,167,705 from the Provider Relief Funds are recorded as unearned revenue in the accompanying consolidated balance sheets.

NCHS will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and the impact of the pandemic on NCHS's revenues and expenses. The terms and conditions governing the Provider Relief Funds are complex and subject to interpretation and change. If NCHS is unable to attest to or comply with current or future terms and conditions, NCHS's ability to retain some or all of the distributions received may be impacted.

North Country Health Systems, Inc.
Notes to Consolidated Financial Statements
September 30, 2020 and 2019

Vermont Grants

The Corporation received a grant through the state of Vermont for \$197,000 from the Medicaid retainer funding program. This grant is included in other operating revenues in the accompanying consolidated financial statements.

Medicare Accelerated and Advanced Payment Program

During the year ended September 30, 2020, NCHS requested accelerated Medicare payments as provided for in the CARES Act, which allows for eligible health care facilities to request up to six months of advance Medicare payments for acute care hospitals or up to three months of advance Medicare payments for other health care providers. Accelerated payments received will be required to be repaid, based on current enacted legislation.

During the year ended September 30, 2020, NCHS received \$9,613,000 from accelerated Medicare payment requests, which are included in current and long-term contract liabilities – Medicare advances in the accompanying consolidated balance sheets.

Blue Cross Advance

NCHS received an advance from Blue Cross of \$1,091,000, which is included in amounts due to third-party payors in the accompanying consolidated financial statements.

Note 23: Future Changes 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 and is effective for the Health System's fiscal year ending September 30, 2021. The Health System is in the process of evaluating the impact the amendment will have on the consolidated financial statements. The Health System expects no significant changes to its previously reported net patient service revenue as a result of this adoption; however, the disclosures within the annual consolidated financial statements will be significantly expanded.

North Country Health Systems, Inc.
Notes to Consolidated Financial Statements
September 30, 2020 and 2019

Accounting for Leases

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. 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 the Health System's fiscal year ending September 30, 2023. The Health System is evaluating the impact the standard will have on the consolidated financial statements.

Accounting for Financial Instruments – Credit Losses

The Financial Accounting Standards Board amended its standards related to the accounting for credit losses on financial instruments. This amendment introduces new guidance for accounting for credit losses on instruments including trade receivables and finance receivables. The new standard is effective for the Health System's fiscal year ending September 30, 2023. The Health System is in the process of evaluating the impact the amendment will have on the consolidated financial statements.

Note 24: Subsequent Events

CARES Act - Provider Relief Funds

In October 2020, additional guidance was released impacting Provider Relief Funds (*Note 22*). The new guidance is subject to additional changes, clarifications, and interpretations. Future operating results of the Health System could impact revenue recognized. Material adjustments to revenue recognized including the \$4,426,995 recognized before September 30, 2020, and repayment of Provider Relief Funds are possible after the date of the financial statements were available to be issued.

Subsequent events have been evaluated through December 18, 2020, which is the date the consolidated financials were available to be issued.

Supplementary Information

North Country Health Systems, Inc.
Consolidating Schedule – Balance Sheet Information
September 30, 2020

	North Country Hospital and Health Center	Northeast Kingdom Healthcare Collaborative, LLC	Eliminations	Consolidated North Country Hospital and Health Center	North Country Health Systems	Derby Green	Eliminations	Consolidated Total
Current Assets								
Cash and cash equivalents	\$ 21,667,613	\$ 178,971	\$ -	\$ 21,846,584	\$ 399,887	\$ -	\$ -	\$ 22,246,471
Patient accounts receivable, net of allowance	6,518,572	86,685	-	6,605,257	-	-	-	6,605,257
Other receivables	1,047,245	-	-	1,047,245	-	-	-	1,047,245
Due from affiliate	41,543	-	-	41,543	-	-	(41,543)	-
Supplies	2,631,841	-	-	2,631,841	-	-	-	2,631,841
Estimated amounts due from third-party payors	171,660	-	-	171,660	-	-	-	171,660
Prepaid expenses and other	954,483	-	-	954,483	500	-	-	954,983
Total current assets	<u>33,032,957</u>	<u>265,656</u>	<u>-</u>	<u>33,298,613</u>	<u>400,387</u>	<u>-</u>	<u>(41,543)</u>	<u>33,657,457</u>
Assets Limited As To Use								
Internally designated	46,269,199	-	-	46,269,199	-	-	-	46,269,199
Externally restricted by donors	3,666,401	-	-	3,666,401	921,541	-	-	4,587,942
Held by trustee								
Under deferred compensation arrangements	3,034,510	-	-	3,034,510	-	-	-	3,034,510
	<u>52,970,110</u>	<u>-</u>	<u>-</u>	<u>52,970,110</u>	<u>921,541</u>	<u>-</u>	<u>-</u>	<u>53,891,651</u>
Property and Equipment, At Cost	75,239,585	837,320	-	76,076,905	-	-	-	76,076,905
Less accumulated depreciation	53,163,440	85,682	-	53,249,122	-	-	-	53,249,122
	<u>22,076,145</u>	<u>751,638</u>	<u>-</u>	<u>22,827,783</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,827,783</u>
Other Assets								
Interest in net assets of North Country Health Systems, Inc.	806,193	-	-	806,193	-	-	(806,193)	-
Other	612,050	-	(488,483)	123,567	18,000	-	-	141,567
	<u>1,418,243</u>	<u>-</u>	<u>(488,483)</u>	<u>929,760</u>	<u>18,000</u>	<u>-</u>	<u>(806,193)</u>	<u>141,567</u>
Total assets	<u>\$ 109,497,455</u>	<u>\$ 1,017,294</u>	<u>\$ (488,483)</u>	<u>\$ 110,026,266</u>	<u>\$ 1,339,928</u>	<u>\$ -</u>	<u>\$ (847,736)</u>	<u>\$ 110,518,458</u>

North Country Health Systems, Inc.
Consolidating Schedule – Balance Sheet Information
September 30, 2020

	North Country Hospital and Health Center	Northeast Kingdom Healthcare Collaborative, LLC	Eliminations	Consolidated North Country Hospital and Health Center	North Country Health Systems	Derby Green	Eliminations	Consolidated Total
Current Liabilities								
Current maturities of long-term debt	\$ 1,127,217	\$ -	\$ -	\$ 1,127,217	\$ -	\$ -	\$ -	\$ 1,127,217
Accounts payable	3,816,276	153,928	-	3,970,204	4,671	-	(40,914)	3,933,961
Accrued expenses	5,915,728	(4,932)	-	5,910,796	1	-	-	5,910,797
Due to affiliate	-	54,159	-	54,159	629	-	(629)	54,159
Deferred revenue	5,487,103	-	-	5,487,103	-	-	-	5,487,103
Estimated amounts due to third-party payors	1,678,464	-	-	1,678,464	-	-	-	1,678,464
Total current liabilities	18,024,788	203,155	-	18,227,943	5,301	-	(41,543)	18,191,701
Deferred Compensation and Other	3,138,188	-	-	3,138,188	-	-	-	3,138,188
Deferred Revenue	7,610,056	-	-	7,610,056	-	-	-	7,610,056
Long-Term Debt	15,404,285	-	-	15,404,285	-	-	-	15,404,285
Interest Rate Swap Agreements	1,530,179	-	-	1,530,179	-	-	-	1,530,179
Total liabilities	45,707,496	203,155	-	45,910,651	5,301	-	(41,543)	45,874,409
Net Assets								
Without donor restrictions								
Health System	59,221,953	488,483	(488,483)	59,221,953	528,434	-	-	59,750,387
Noncontrolling interest	-	325,656	-	325,656	-	-	-	325,656
Total net assets without donor restrictions	59,221,953	814,139	(488,483)	59,547,609	528,434	-	-	60,076,043
With donor restrictions	4,568,006	-	-	4,568,006	806,193	-	(806,193)	4,568,006
Total net assets	63,789,959	814,139	(488,483)	64,115,615	1,334,627	-	(806,193)	64,644,049
Total liabilities and net assets	\$ 109,497,455	\$ 1,017,294	\$ (488,483)	\$ 110,026,266	\$ 1,339,928	\$ -	\$ (847,736)	\$ 110,518,458

North Country Health Systems, Inc.
Consolidating Schedule – Statement of Operations Information
Year Ended September 30, 2020

	North Country Hospital and Health Center	Northeast Kingdom Healthcare Collaborative, LLC	Eliminations	Consolidated North Country Hospital and Health Center	North Country Health Systems	Derby Green	Eliminations	Consolidated Total
Revenues, Gains, and Other Support Without Donor Restrictions								
Net patient service revenue (net of contractual discounts and allowances)	\$ 70,606,050	\$ 754,938	\$ -	\$ 71,360,988	\$ 58,076	\$ 850,769	\$ -	\$ 72,269,833
Provision for uncollectible accounts	(3,320,713)	7,001	-	(3,313,712)	-	(9,834)	-	(3,323,546)
Net patient service revenue less provision for uncollectible accounts	67,285,337	761,939	-	68,047,276	58,076	840,935	-	68,946,287
Fixed prospective revenue	8,118,782	-	-	8,118,782	-	-	-	8,118,782
Other	12,967,321	-	-	12,967,321	-	38,899	-	13,006,220
Net assets released from restriction used for operations	-	-	-	-	137,826	-	-	137,826
Total revenues, gains, and other support without donor restrictions	88,371,440	761,939	-	89,133,379	195,902	879,834	-	90,209,115
Expenses and Losses								
Salaries	39,696,429	-	-	39,696,429	-	551,704	-	40,248,133
Employee benefits	11,440,595	-	-	11,440,595	-	285,010	-	11,725,605
Supplies and other	29,472,444	746,705	-	30,219,149	163,501	290,343	-	30,672,993
Depreciation	3,794,629	35,289	-	3,829,918	-	27,025	-	3,856,943
Interest	588,874	-	-	588,874	-	7,139	-	596,013
Total expenses and losses	84,992,971	781,994	-	85,774,965	163,501	1,161,221	-	87,099,687
Operating Income (Loss)	3,378,469	(20,055)	-	3,358,414	32,401	(281,387)	-	3,109,428
Other Income (Expense)								
Contributions received	-	-	-	-	9,113	-	-	9,113
Investment return, net	3,915,218	(5)	-	3,915,213	-	31,896	-	3,947,109
Investment return – change in fair value of investments accounted for under the fair value option of FASB ASC Topic 825	(116,391)	-	-	(116,391)	-	-	-	(116,391)
Gain (loss) on investments in equity investee	(32,036)	-	32,036	-	-	-	-	-
Other	(24,805)	-	-	(24,805)	-	351,081	-	326,276
Total other income	3,741,986	(5)	32,036	3,774,017	9,113	382,977	-	4,166,107
Excess (Deficiency) of Revenues Over Expenses	\$ 7,120,455	\$ (20,060)	\$ 32,036	\$ 7,132,431	\$ 41,514	\$ 101,590	\$ -	\$ 7,275,535

North Country Health Systems, Inc.
Consolidating Schedule – Statement of Changes in Net Assets Information
Year Ended September 30, 2020

	North Country Hospital and Health Center	Northeast Kingdom Healthcare Collaborative, LLC	Eliminations	Consolidated North Country Hospital and Health Center	North Country Health Systems	Derby Green	Eliminations	Consolidated Total
Net Assets Without Donor Restrictions Attributable to the Health System								
Excess (deficiency) of revenues over expenses	\$ 7,120,455	\$ (32,036)	\$ 32,036	\$ 7,120,455	\$ 41,514	\$ 101,590	\$ -	\$ 7,263,559
Investment return – change in unrealized gains and losses on other than trading securities	-	-	-	-	-	-	-	-
Change in fair value of interest rate swap agreements	32,474	-	-	32,474	-	-	-	32,474
Transfers to (from) affiliate	344,801	-	-	344,801	-	(344,801)	-	-
Contributions of property and equipment	171,043	-	-	171,043	-	-	-	171,043
Distributions to noncontrolling interest	-	(100,000)	100,000	-	-	-	-	-
Net assets released from restriction used for property and equipment	-	-	-	-	-	-	-	-
Increase (decrease) in net assets without donor restrictions attributable to the Health System	<u>7,668,773</u>	<u>(132,036)</u>	<u>132,036</u>	<u>7,668,773</u>	<u>41,514</u>	<u>(243,211)</u>	<u>-</u>	<u>7,467,076</u>
Net Assets Without Donor Restrictions Attributable to Noncontrolling Interest								
Excess of revenues over expenses	-	11,976	-	11,976	-	-	-	11,976
Distributions to noncontrolling interest	-	(100,000)	-	(100,000)	-	-	-	(100,000)
Increase in net assets without donor restrictions attributable to noncontrolling interest	<u>-</u>	<u>(88,024)</u>	<u>-</u>	<u>(88,024)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(88,024)</u>
Increase (decrease) in net assets without donor restrictions	<u>7,668,773</u>	<u>(220,060)</u>	<u>132,036</u>	<u>7,580,749</u>	<u>41,514</u>	<u>(243,211)</u>	<u>-</u>	<u>7,379,052</u>
Net Assets With Donor Restrictions								
Contributions received	-	-	-	-	109,611	-	-	109,611
Change in interest in net assets of North Country Health Systems, Inc.	43,021	-	-	43,021	-	-	(43,021)	-
Investment return – change in unrealized gains and losses on other than trading securities	252,130	-	-	252,130	71,236	-	-	323,366
Net assets released from restriction	-	-	-	-	(137,826)	-	-	(137,826)
Increase (decrease) in net assets with donor restrictions	<u>295,151</u>	<u>-</u>	<u>-</u>	<u>295,151</u>	<u>43,021</u>	<u>-</u>	<u>(43,021)</u>	<u>295,151</u>
Change in Net Assets	<u>7,963,924</u>	<u>(220,060)</u>	<u>132,036</u>	<u>7,875,900</u>	<u>84,535</u>	<u>(243,211)</u>	<u>(43,021)</u>	<u>7,674,203</u>
Net Assets, Beginning of Year	<u>55,826,035</u>	<u>1,034,199</u>	<u>(620,519)</u>	<u>56,239,715</u>	<u>1,250,092</u>	<u>243,211</u>	<u>(763,172)</u>	<u>56,969,846</u>
Net Assets, End of Year	<u>\$ 63,789,959</u>	<u>\$ 814,139</u>	<u>\$ (488,483)</u>	<u>\$ 64,115,615</u>	<u>\$ 1,334,627</u>	<u>\$ -</u>	<u>\$ (806,193)</u>	<u>\$ 64,644,049</u>

North Country Health Systems, Inc.
Consolidating Schedule – Balance Sheet Information
September 30, 2019

	North Country Hospital and Health Center	Northeast Kingdom Healthcare Collaborative, LLC	Eliminations	Consolidated North Country Hospital and Health Center	North Country Health Systems	Derby Green	Eliminations	Consolidated Total
Current Assets								
Cash and cash equivalents	\$ 2,700,132	\$ 310,333	\$ -	\$ 3,010,465	\$ 364,485	\$ 61,522	\$ -	\$ 3,436,472
Patient accounts receivable, net of allowance	6,639,924	136,136	-	6,776,060	-	139,736	-	6,915,796
Other receivables	788,299	-	(137,715)	650,584	-	-	-	650,584
Due from affiliate	474,290	-	(26,521)	447,769	-	-	(447,769)	-
Supplies	2,519,168	-	-	2,519,168	-	100	-	2,519,268
Estimated amounts due from third-party payors	226,678	-	-	226,678	-	-	-	226,678
Prepaid expenses and other	758,426	-	-	758,426	734	17,995	-	777,155
Total current assets	<u>14,106,917</u>	<u>446,469</u>	<u>(164,236)</u>	<u>14,389,150</u>	<u>365,219</u>	<u>219,353</u>	<u>(447,769)</u>	<u>14,525,953</u>
Assets Limited As To Use								
Internally designated	42,543,598	-	-	42,543,598	-	398,918	-	42,942,516
Externally restricted by donors Held by trustee	3,370,889	-	-	3,370,889	852,024	-	-	4,222,913
Under deferred compensation arrangements	3,110,541	-	-	3,110,541	-	-	-	3,110,541
	<u>49,025,028</u>	<u>-</u>	<u>-</u>	<u>49,025,028</u>	<u>852,024</u>	<u>398,918</u>	<u>-</u>	<u>50,275,970</u>
Property and Equipment, At Cost	80,072,775	831,235	-	80,904,010	-	1,524,939	-	82,428,949
Less accumulated depreciation	57,792,051	50,395	-	57,842,446	-	1,081,032	-	58,923,478
	<u>22,280,724</u>	<u>780,840</u>	<u>-</u>	<u>23,061,564</u>	<u>-</u>	<u>443,907</u>	<u>-</u>	<u>23,505,471</u>
Other Assets								
Interest in net assets of North Country Health Systems, Inc.	763,172	-	-	763,172	-	-	(763,172)	-
Other	643,538	-	(620,519)	23,019	34,000	-	-	57,019
	<u>1,406,710</u>	<u>-</u>	<u>(620,519)</u>	<u>786,191</u>	<u>34,000</u>	<u>-</u>	<u>(763,172)</u>	<u>57,019</u>
Total assets	<u>\$ 86,819,379</u>	<u>\$ 1,227,309</u>	<u>\$ (784,755)</u>	<u>\$ 87,261,933</u>	<u>\$ 1,251,243</u>	<u>\$ 1,062,178</u>	<u>\$ (1,210,941)</u>	<u>\$ 88,364,413</u>

North Country Health Systems, Inc.
Consolidating Schedule – Balance Sheet Information
September 30, 2019

	North Country Hospital and Health Center	Northeast Kingdom Healthcare Collaborative, LLC	Eliminations	Consolidated North Country Hospital and Health Center	North Country Health Systems	Derby Green	Eliminations	Consolidated Total
Current Liabilities								
Current maturities of long-term debt	\$ 1,175,963	\$ -	\$ -	\$ 1,175,963	\$ -	\$ 17,050	\$ -	\$ 1,193,013
Accounts payable	2,616,437	141,041	(137,715)	2,619,763	499	59,189	(30,241)	2,649,210
Accrued expenses	5,254,850	18,121	-	5,272,971	-	32,847	-	5,305,818
Due to affiliate	-	33,948	(26,521)	7,427	652	416,876	(417,528)	7,427
Estimated amounts due to third-party payors	1,399,537	-	-	1,399,537	-	-	-	1,399,537
Total current liabilities	10,446,787	193,110	(164,236)	10,475,661	1,151	525,962	(447,769)	10,555,005
Deferred Compensation and Other	3,208,350	-	-	3,208,350	-	-	-	3,208,350
Long-Term Debt	15,775,554	-	-	15,775,554	-	293,005	-	16,068,559
Interest Rate Swap Agreements	1,562,653	-	-	1,562,653	-	-	-	1,562,653
Total liabilities	30,993,344	193,110	(164,236)	31,022,218	1,151	818,967	(447,769)	31,394,567
Net Assets								
Without donor restrictions								
Health System	51,553,180	620,519	(620,519)	51,553,180	486,920	243,211	-	52,283,311
Noncontrolling interest	-	413,680	-	413,680	-	-	-	413,680
Total net assets without donor restrictions	51,553,180	1,034,199	(620,519)	51,966,860	486,920	243,211	-	52,696,991
With donor restrictions	4,272,855	-	-	4,272,855	763,172	-	(763,172)	4,272,855
Total net assets	55,826,035	1,034,199	(620,519)	56,239,715	1,250,092	243,211	(763,172)	56,969,846
Total liabilities and net assets	\$ 86,819,379	\$ 1,227,309	\$ (784,755)	\$ 87,261,933	\$ 1,251,243	\$ 1,062,178	\$ (1,210,941)	\$ 88,364,413

North Country Health Systems, Inc.
Consolidating Schedule – Statement of Operations Information
Year Ended September 30, 2019

	North Country Hospital and Health Center	Northeast Kingdom Healthcare Collaborative, LLC	Eliminations	Consolidated North Country Hospital and Health Center	North Country Health Systems	Derby Green	Eliminations	Consolidated Total
Revenues, Gains, and Other Support Without Donor Restrictions								
Net patient service revenue (net of contractual discounts and allowances)	\$ 77,659,719	\$ 844,508	\$ -	\$ 78,504,227	\$ -	\$ 1,851,539	\$ -	\$ 80,355,766
Provision for uncollectible accounts	(3,422,797)	(18,185)	-	(3,440,982)	-	(821)	-	(3,441,803)
Net patient service revenue less provision for uncollectible accounts	74,236,922	826,323	-	75,063,245	-	1,850,718	-	76,913,963
Fixed prospective revenue	6,049,992	-	-	6,049,992	-	-	-	6,049,992
Other	7,405,210	-	-	7,405,210	-	1,167	-	7,406,377
Net assets released from restriction used for operations	-	-	-	-	91,829	-	-	91,829
Total revenues, gains, and other support without donor restrictions	87,692,124	826,323	-	88,518,447	91,829	1,851,885	-	90,462,161
Expenses and Losses								
Salaries	40,391,378	-	-	40,391,378	-	1,009,989	-	41,401,367
Employee benefits	10,678,990	-	-	10,678,990	-	482,573	-	11,161,563
Supplies and other	30,146,338	860,477	-	31,006,815	348,501	481,580	(220,000)	31,616,896
Depreciation	4,113,752	22,305	-	4,136,057	-	47,998	-	4,184,055
Interest	667,291	-	-	667,291	-	12,756	-	680,047
Total expenses and losses	85,997,749	882,782	-	86,880,531	348,501	2,034,896	(220,000)	89,043,928
Operating Income (Loss)	1,694,375	(56,459)	-	1,637,916	(256,672)	(183,011)	220,000	1,418,233
Other Income (Expense)								
Contributions received	13,000	-	-	13,000	66,642	-	-	79,642
Investment return, net	920,743	12	-	920,755	-	20,570	-	941,325
Investment return – change in fair value of investments accounted for under the fair value option of FASB ASC Topic 825	(232,156)	-	-	(232,156)	-	-	-	(232,156)
Gain (loss) on investments in equity investee	(33,869)	-	33,869	-	-	-	-	-
Other	22,898	-	-	22,898	-	(6,036)	-	16,862
Total other income (expense)	690,616	12	33,869	724,497	66,642	14,534	-	805,673
Excess (Deficiency) of Revenues Over Expenses	\$ 2,384,991	\$ (56,447)	\$ 33,869	\$ 2,362,413	\$ (190,030)	\$ (168,477)	\$ 220,000	\$ 2,223,906

North Country Health Systems, Inc.
Consolidating Schedule – Statement of Changes in Net Assets Information
Year Ended September 30, 2019

	North Country Hospital and Health Center	Northeast Kingdom Healthcare Collaborative, LLC	Eliminations	Consolidated North Country Hospital and Health Center	North Country Health Systems	Derby Green	Eliminations	Consolidated Total
Net Assets Without Donor Restrictions								
Attributable to the Health System								
Excess (deficiency) of revenues over expenses	\$ 2,384,991	\$ (33,869)	\$ 33,869	\$ 2,384,991	\$ (190,030)	\$ (168,477)	\$ 220,000	\$ 2,246,484
Investment return – change in unrealized gains and losses on other than trading securities	433,499	-	-	433,499	-	3,941	-	437,440
Contributions from controlling interest	-	390,000	(390,000)	-	-	-	-	-
Change in fair value of interest rate swap agreements	(929,378)	-	-	(929,378)	-	-	-	(929,378)
Net assets released from restriction used for property and equipment	220,000	-	-	220,000	220,000	-	(220,000)	220,000
Increase (decrease) in net assets without donor restrictions attributable to the Health System	<u>2,109,112</u>	<u>356,131</u>	<u>(356,131)</u>	<u>2,109,112</u>	<u>29,970</u>	<u>(164,536)</u>	<u>-</u>	<u>1,974,546</u>
Net Assets Without Donor Restrictions								
Attributable to Noncontrolling Interest								
Excess of revenues over expenses	-	(22,578)	-	(22,578)	-	-	-	(22,578)
Contributions from noncontrolling interest	-	260,000	-	260,000	-	-	-	260,000
Increase in net assets without donor restrictions attributable to noncontrolling interest	<u>-</u>	<u>237,422</u>	<u>-</u>	<u>237,422</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>237,422</u>
Increase (decrease) in net assets without donor restrictions	<u>2,109,112</u>	<u>593,553</u>	<u>(356,131)</u>	<u>2,346,534</u>	<u>29,970</u>	<u>(164,536)</u>	<u>-</u>	<u>2,211,968</u>
Net Assets With Donor Restrictions								
Contributions received	-	-	-	-	98,773	-	-	98,773
Change in interest in net assets of North Country Health Systems, Inc.	(186,913)	-	-	(186,913)	-	-	186,913	-
Investment return – change in unrealized gains and losses on other than trading securities	51,349	-	-	51,349	26,143	-	-	77,492
Net assets released from restriction	-	-	-	-	(311,829)	-	-	(311,829)
Increase (decrease) in net assets with donor restrictions	<u>(135,564)</u>	<u>-</u>	<u>-</u>	<u>(135,564)</u>	<u>(186,913)</u>	<u>-</u>	<u>186,913</u>	<u>(135,564)</u>
Change in Net Assets	<u>1,973,548</u>	<u>593,553</u>	<u>(356,131)</u>	<u>2,210,970</u>	<u>(156,943)</u>	<u>(164,536)</u>	<u>186,913</u>	<u>2,076,404</u>
Net Assets, Beginning of Year	<u>53,852,487</u>	<u>440,646</u>	<u>(264,388)</u>	<u>54,028,745</u>	<u>1,407,035</u>	<u>407,747</u>	<u>(950,085)</u>	<u>54,893,442</u>
Net Assets, End of Year	<u>\$ 55,826,035</u>	<u>\$ 1,034,199</u>	<u>\$ (620,519)</u>	<u>\$ 56,239,715</u>	<u>\$ 1,250,092</u>	<u>\$ 243,211</u>	<u>\$ (763,172)</u>	<u>\$ 56,969,846</u>