



**NORTHEASTERN VERMONT REGIONAL CORP.
AND SUBSIDIARY**

CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2020 and 2019

With Independent Auditor's Report





INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Northeastern Vermont Regional Corp.

We have audited the accompanying consolidated financial statements of Northeastern Vermont Regional Corp. and Subsidiary (a Vermont not-for-profit corporation), 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 U.S. generally accepted accounting principles; 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 U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Northeastern Vermont Regional Corp. and Subsidiary as of September 30, 2020 and 2019, and the results of their operations, changes in their net assets and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Board of Trustees
Northeastern Vermont Regional Corp.

Changes in Accounting Principles

As discussed in Note 1 to the financial statements, in 2020 Northeastern Vermont Regional Corp. and Subsidiary adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-01, *Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*, FASB ASU No. 2016-18, *Restricted Cash* and FASB ASU No. 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to these matters.

Berry Dunn McNeil & Parker, LLC

Portland, Maine
December 2, 2020
Registration No. 92-0000278

NORTHEASTERN VERMONT REGIONAL CORP. AND SUBSIDIARY

Consolidated Balance Sheets

September 30, 2020 and 2019

ASSETS

	<u>2020</u>	<u>2019</u>
Current assets		
Cash and cash equivalents	\$ 29,494,740	\$ 6,631,790
Patient accounts receivable, net of allowances for doubtful accounts and contractual allowances of \$14,429,421 in 2020 and \$15,368,665 in 2019	8,715,262	9,251,741
Supplies	1,561,263	1,429,788
Prepaid expenses	587,732	733,320
Other receivables	<u>1,496,249</u>	<u>2,100,414</u>
Total current assets	<u>41,855,246</u>	<u>20,147,053</u>
Assets limited as to use		
Restricted or internally designated for		
Capital acquisitions	16,390,932	14,754,840
Funded depreciation	4,031,929	3,762,839
Donor restricted - other	<u>370,630</u>	<u>362,874</u>
Total assets limited as to use	<u>20,793,491</u>	<u>18,880,553</u>
Property and equipment, net	29,813,071	30,784,276
Long-term investments	402,213	370,679
Other long-term assets	<u>2,682,913</u>	<u>2,649,418</u>
Total assets	<u>\$ 95,546,934</u>	<u>\$ 72,831,979</u>

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

LIABILITIES AND NET ASSETS

	<u>2020</u>	<u>2019</u>
Current liabilities		
Current portion of long-term debt	\$ 796,909	\$ 771,798
Accounts payable and accrued expenses	9,701,657	8,393,049
Provider relief funds	6,263,821	-
Current portion of Medicare accelerated payments	2,946,638	-
Current portion of estimated third-party payor settlements	116,780	1,668,353
Other current liabilities	<u>635,508</u>	<u>361,203</u>
Total current liabilities	20,461,313	11,194,403
Long-term debt, less current portion	8,583,050	9,172,855
Annuity liability	17,018	17,018
Estimated third-party payor settlements, less current portion	4,463,755	4,737,451
Medicare accelerated payments, less current portion	10,778,846	-
Other long-term liabilities	<u>1,463,430</u>	<u>1,212,435</u>
Total liabilities	<u>45,767,412</u>	<u>26,334,162</u>
Net assets		
Without donor restriction	48,062,801	44,769,759
With donor restriction	<u>1,716,721</u>	<u>1,728,058</u>
Total net assets	<u>49,779,522</u>	<u>46,497,817</u>
Total liabilities and net assets	<u>\$ 95,546,934</u>	<u>\$ 72,831,979</u>

NORTHEASTERN VERMONT REGIONAL CORP. AND SUBSIDIARY

Consolidated Statements of Operations

Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Revenues, gains, and other support without donor restriction		
Patient service revenue (net of contractual allowances and discounts)	\$ 88,346,229	\$ 87,954,895
Less provision for bad debts	<u>2,570,476</u>	<u>3,270,152</u>
Net patient service revenue	85,775,753	84,684,743
Other revenues	8,164,364	5,833,402
Net assets released from restrictions used for operations	<u>111,294</u>	<u>195,727</u>
Total revenues, gains, and other support without donor restriction	<u>94,051,411</u>	<u>90,713,872</u>
Expenses		
Salaries and benefits	55,182,928	52,581,764
Supplies and other	31,542,132	31,217,488
Insurance	2,006,062	1,266,119
Depreciation and amortization	3,624,668	3,734,325
Interest	<u>231,981</u>	<u>247,716</u>
Total expenses	<u>92,587,771</u>	<u>89,047,412</u>
Operating income	<u>1,463,640</u>	<u>1,666,460</u>
Nonoperating gains (losses)		
Investment gains (losses)	1,587,251	(212,671)
Gifts and bequests without donor restriction	502,321	291,754
Income from assets limited as to use	229,849	321,922
Nonoperating facility expense	(129,077)	(143,289)
Contribution expense	(141,855)	(153,475)
Other nonoperating losses	<u>(219,087)</u>	<u>(169,722)</u>
Nonoperating gains (losses), net	<u>1,829,402</u>	<u>(65,481)</u>
Excess of revenues, gains, and other support over expenses and losses	3,293,042	1,600,979
Change in net unrealized gains on investments	<u>-</u>	<u>37,129</u>
Increase in net assets without donor restriction	<u>\$ 3,293,042</u>	<u>\$ 1,638,108</u>

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

NORTHEASTERN VERMONT REGIONAL CORP. AND SUBSIDIARY

Consolidated Statements of Changes in Net Assets

Years Ended September 30, 2020 and 2019

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Balances, October 1, 2018	\$ <u>43,131,651</u>	\$ <u>1,860,878</u>	\$ <u>44,992,529</u>
Excess of revenues, gains, and other support over expenses and losses before net assets released from restrictions	1,405,252	-	1,405,252
Change in net unrealized gains on non-equity investments	37,129	-	37,129
Change in net realized and unrealized losses on investments	-	(17,055)	(17,055)
Restricted investment income	-	3,082	3,082
Restricted contributions	-	76,880	76,880
Net assets released from restrictions used for operations	<u>195,727</u>	<u>(195,727)</u>	<u>-</u>
Change in net assets	<u>1,638,108</u>	<u>(132,820)</u>	<u>1,505,288</u>
Balances, September 30, 2019	<u>44,769,759</u>	<u>1,728,058</u>	<u>46,497,817</u>
Excess of revenues, gains, and other support over expenses and losses before net assets released from restrictions	3,181,748	-	3,181,748
Change in net unrealized gains on non-equity investments	-	30,102	30,102
Restricted investment income	-	4,446	4,446
Restricted contributions, net	-	65,409	65,409
Net assets released from restrictions used for operations	<u>111,294</u>	<u>(111,294)</u>	<u>-</u>
Change in net assets	<u>3,293,042</u>	<u>(11,337)</u>	<u>3,281,705</u>
Balances, September 30, 2020	<u>\$48,062,801</u>	<u>\$ 1,716,721</u>	<u>\$49,779,522</u>

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

NORTHEASTERN VERMONT REGIONAL CORP. AND SUBSIDIARY

Consolidated Statements of Cash Flows

Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Change in net assets	\$ 3,281,705	\$ 1,505,288
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	3,637,463	3,747,120
Provision for bad debts	2,570,476	3,270,152
Realized and unrealized (gains) losses on investments	(1,574,476)	192,597
Decrease (increase) in		
Patient accounts receivable	(2,033,997)	(4,334,442)
Supplies	(131,475)	(87,042)
Prepaid expenses	145,588	(147,701)
Other receivables	604,165	(472,388)
Increase (decrease) in		
Accounts payable and accrued expenses	1,422,034	435,522
Provider relief funds	5,713,821	-
Medicare accelerated payments	13,725,484	-
Estimated third-party payor settlements	(1,275,269)	1,254,384
Other current liabilities	274,305	68,911
Net cash provided by operating activities	<u>26,359,824</u>	<u>5,432,401</u>
Cash flows from investing activities		
Purchases of property and equipment	(2,535,963)	(3,896,630)
Proceeds from sales of investments	31,270,496	4,793,870
Purchases of investments	(31,632,736)	(5,275,477)
Decrease in accounts payable for purchases of property and equipment	(113,426)	-
Decrease (increase) in other long-term assets	100,000	(1,435,000)
Net cash used by investing activities	<u>(2,911,629)</u>	<u>(5,813,237)</u>
Cash flows from financing activities		
Payments on long-term debt	(577,489)	(755,354)
Net cash used by financing activities	<u>(577,489)</u>	<u>(755,354)</u>
Net increase (decrease) in cash, cash equivalents and restricted cash	22,870,706	(1,136,190)
Cash, cash equivalents and restricted cash, beginning of year	<u>6,994,664</u>	<u>8,130,854</u>
Cash, cash equivalents and restricted cash, end of year	\$ <u>29,865,370</u>	\$ <u>6,994,664</u>
Composition of cash, cash equivalents and restricted cash, end of year:		
Cash and cash equivalents	\$ 29,494,740	\$ 6,631,790
Restricted cash included in assets whose use is limited	370,630	362,874
	\$ <u>29,865,370</u>	\$ <u>6,994,664</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ <u>231,981</u>	\$ <u>234,922</u>
Purchases of property and equipment included in accounts payable and accrued expenses	\$ <u>-</u>	\$ <u>113,426</u>

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

NORTHEASTERN VERMONT REGIONAL CORP. AND SUBSIDIARY

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

Organization

Northeastern Vermont Regional Corp. (Corporation) manages investments and carries on fund-raising activities for the benefit of Northeastern Vermont Regional Hospital, Inc. (Hospital), a provider of healthcare services. The Corporation is the sole member of the Hospital. The Corporation extended credit to donors in the form of pledges receivable to establish the Chaplaincy Fund. The Hospital is a Critical Access Hospital located in St. Johnsbury, Vermont.

1. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Corporation and its member organization, the Hospital. Intercompany transactions and balances have been eliminated in consolidation.

Basis of Presentation

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

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

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

Donor restricted contributions are reported as increases in net assets with donor restriction. When a restriction expires, net assets are reclassified from net assets with donor restriction to net assets without donor restriction in the consolidated statements of operations and changes in net assets.

Use of Estimates

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

NORTHEASTERN VERMONT REGIONAL CORP. AND SUBSIDIARY

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

Cash and Cash Equivalents

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

Patient Accounts Receivable

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

Supplies

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

Investments and Investment Income

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Investment income or loss (including realized gains and losses on investments, other than temporary losses on investments, interest, and dividends) is included in the excess of revenues, gains, and other support over expenses and losses, unless the income or loss is restricted by donor or law. Unrealized gains and temporary unrealized losses debt and, in 2019, equity on investments are excluded from this measure. The cost of securities sold is based on the specific identification method. In 2020, the Corporation adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-01, *Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. As a result, 2020 investment income related to equity investments is included in the excess of revenues, gains, and other support over expenses and losses.

Assets Limited as to Use

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

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Corporation are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the conditions are met. The gifts are reported as donor restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose

NORTHEASTERN VERMONT REGIONAL CORP. AND SUBSIDIARY

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

restriction is accomplished, net assets with donor restriction are reclassified as net assets without donor restriction and reported in the statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restriction in the accompanying consolidated financial statements.

Any future annuity payments resulting from contributions received which are life income gifts or annuity gifts are determined through present value techniques. The future liability for these payments is reflected as a deferred annuity in the consolidated balance sheets. As of September 30, 2020 and 2019, the liability for these gift annuities was \$17,018.

Goodwill

Goodwill related to the acquisition of a physical therapy practice is included in other long-term assets in the consolidated balance sheet, net of \$117,500 accumulated amortization in 2020.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

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

Accrued Self-Insurance

The Corporation has established a self-insured healthcare plan for substantially all of its employees. The Corporation has obtained reinsurance coverage to limit the Corporation's exposure associated with this plan of \$100,000 per individual occurrence. The consolidated balance sheets include an accrual in accrued expenses for management's estimate of claims incurred, but not reported, of approximately \$874,000 and \$1,030,000 as of September 30, 2020 and 2019, respectively.

Benefit Plans

The Corporation sponsors a defined contribution retirement plan covering substantially all of its employees. Under this plan, the Corporation contributes a non-elective contribution of 3% of a participant's eligible compensation and a matching contribution equal to 100% of a participant's elective deferral, up to 1.5% of the participant's eligible compensation. Retirement plan expenses charged to operations were \$1,771,252 and \$1,684,877 for the years ended September 30, 2020 and 2019, respectively.

NORTHEASTERN VERMONT REGIONAL CORP. AND SUBSIDIARY

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

The Corporation provides the opportunity for certain members of management and employed physicians to contribute to a deferred compensation plan established under Section 457 of the Internal Revenue Code (Code). Contributions are voluntary on the part of qualifying employees and no contributions are made by the Corporation on their behalf. Amounts are recorded as other long-term assets and corresponding other long-term liabilities in the consolidated balance sheets and totaled \$1,463,430 and \$1,212,435 as of September 30, 2020 and 2019, respectively.

Medicare Accelerated Payments

In response to the 2019 Novel Coronavirus Disease (COVID-19) pandemic, the Centers for Medicare and Medicaid Services (CMS) made available an accelerated and advance payment program to Medicare providers. The Corporation received \$13,725,484 in April 2020. Under the program CMS will begin recouping payment from claim payments one year after the advance was made for a period of seventeen months.

Provider Relief Funds

The Coronavirus Aid, Relief, and Economic Security (CARES) Act provided \$175 billion to eligible healthcare providers to prevent, prepare for and respond to COVID-19. The CARES Act provides the U.S. Department of Health and Human Services (HHS) with discretion to operate the program and determine the reporting requirements. The funds have been appropriated to reimburse healthcare providers for COVID related expenses or lost revenues that are attributable to COVID-19. During 2020, the Hospital received \$6,805,012 of HHS Provider Relief Funds (PRF) and attested to the receipt of the PRF and agreement with the associated terms and conditions. At September 30, 2020, the Hospital has recognized \$1,004,310 of the PRF in other revenues in the statements of operations. Management determined the conditions on which this portion of the PRF depends were substantially met. The remaining PRF are reported as deferred revenue in the current liability section of the consolidated balance sheet at September 30, 2020, as qualified expenditures had not yet been incurred. Management believes the position taken is a reasonable interpretation of the rules currently available. Due to the complexity of the reporting requirements and the continued issuance of clarifying guidance, it is possible the amount of income recognized related to the lost revenues and COVID-related costs may change by a material amount. Any difference between amounts previously estimated and amounts subsequently determined to be recoverable or payable will be included in income in the year that such amounts become known.

Net Patient Service Revenue

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

NORTHEASTERN VERMONT REGIONAL CORP. AND SUBSIDIARY

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

Charity Care

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

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

The consolidated statements of operations include excess of revenues, gains, and other support over expenses and losses. Changes in unrestricted net assets which are excluded from this measure, consistent with industry practice, include net unrealized gains and temporary unrealized losses on debt and, in 2019, equity investments. In 2020, the Hospital adopted FASB ASU No. 2016-01. As a result, 2020 investment income related to equity investments is included in the excess of revenues, gains, and other support over expenses and losses.

Income Taxes

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

Newly Adopted Accounting Pronouncements

In 2020, the Corporation adopted FASB ASU No. 2016-01. The ASU was issued to enhance the reporting model for financial instruments to provide users of the financial statements with more decision-useful information. This ASU changes how entities account for equity investments that do not result in consolidation and are not accounted for under the equity method of accounting. The accompanying financial statements reflect the adoption of this ASU.

During 2020, the Corporation adopted FASB ASU No. 2016-18, *Restricted Cash*. This ASU provides consistent practice in how restricted cash is reported separately in the statement of financial position, but in the statement of cash flows restricted cash is reported as part of cash, rather than reporting the activity in the restricted cash accounts as an investing or financing activity. A reconciliation of beginning-of-period and end-of-period cash and amounts generally described as restricted cash to the amounts reported in the statement of financial position is now required in the statement of cash flows. The impact of adoption to the statement of cash flows for the year ended September 30, 2019 is a decrease in cash used by investing activities of \$6,933 and an increase in cash and cash equivalents, beginning of year, of \$355,941.

During 2020, the Corporation also adopted FASB ASU No. 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides guidance for determining when transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions, and whether a contribution is conditional. The adoption of ASU No. 2018-08 did not impact the Corporation's financial position or changes in net assets.

NORTHEASTERN VERMONT REGIONAL CORP. AND SUBSIDIARY

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

Uncertainty Related to COVID-19 Considerations

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. Local, U.S., and world governments encouraged self-isolation to curtail the spread of COVID-19 by mandating the temporary shut-down of business in many sectors and imposing limitations on travel and the size and duration of group gatherings. Most sectors have experienced significant disruption to business operations. Hospitals have played an important role in delivering critical services during the outbreak. The Coronavirus Preparedness and Response Supplemental Appropriates Act, 2020, provides several waivers to allow flexibility to hospitals and providers to deliver critical care. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and additional government actions to mitigate them. Accordingly, while management cannot quantify the financial and other impacts to the Corporation, management believes that a material impact on the Corporation's consolidated financial position and results of future operations is reasonably possible.

Subsequent Events

For purposes of the preparation of these financial statements in conformity with U.S. GAAP, the Corporation has considered transactions or events occurring through December 2, 2020, which was the date the financial statements were available to be issued.

2. Availability and Liquidity of Financial Assets

As of September 30, 2020 and 2019, the Corporation has working capital of \$21,393,933 and \$8,952,650, respectively, and average days (based on normal expenditures) cash and cash equivalents on hand of 121 and 28, respectively. PRF have been excluded from these amounts. On average, it takes the Corporation 39 days to convert an account receivable account into cash, based on 2020 data.

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

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents, net of restricted amounts	\$ 22,973,001	\$ 6,379,748
Patient accounts receivable, net	8,715,262	9,251,741
Other receivables	1,496,249	2,100,414
Long-term investments	<u>402,213</u>	<u>370,679</u>
Financial assets available at year end for current use	<u>\$ 33,586,725</u>	<u>\$ 18,102,582</u>

The Corporation has assets limited as to use and long-term investments, which are more fully described in Notes 5 and 9, respectively. These assets are not available for general expenditure within the next year, and are not reflected in the amounts above.

NORTHEASTERN VERMONT REGIONAL CORP. AND SUBSIDIARY

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

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

Additionally, the Corporation maintains a \$2,000,000 line of credit. The Corporation did not draw on the line of credit during 2020 and 2019. As of September 30, 2020, the Corporation was in compliance with financial covenants as described in Note 8.

3. Net Patient Service Revenue

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

	<u>2020</u>	<u>2019</u>
Patient services		
Inpatient	\$ 40,590,893	\$ 46,516,852
Outpatient	<u>128,631,188</u>	<u>131,262,761</u>
Gross patient service revenue	<u>169,222,081</u>	<u>177,779,613</u>
Less contractual allowances	78,252,456	86,683,123
Less charity care	<u>2,623,396</u>	<u>3,141,595</u>
	<u>80,875,852</u>	<u>89,824,718</u>
Patient service revenue (net of contractual allowances and discounts)	88,346,229	87,954,895
Less provision for bad debts	<u>2,570,476</u>	<u>3,270,152</u>
Net patient service revenue	<u>\$ 85,775,753</u>	<u>\$ 84,684,743</u>

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

Medicare

As a Critical Access Hospital, the Hospital is reimbursed allowable cost for its inpatient and outpatient services provided by Medicare patients. The Hospital is reimbursed for cost reimbursable items at tentative rates, with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2015.

NORTHEASTERN VERMONT REGIONAL CORP. AND SUBSIDIARY

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

Medicaid

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

Blue Cross

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

Revenue from the Medicare and Medicaid programs accounted for approximately 33% and 13%, respectively, of the Hospital's net patient service revenue for the year ended September 30, 2020, and 45% and 19%, respectively, of the Hospital's net patient service revenue for the year ended September 30, 2019. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue increased approximately \$634,600 and \$941,900 during 2020 and 2019, respectively, due to settlements more favorable than amounts previously estimated.

The Hospital recognizes patient service revenue associated with services rendered to patients who have third-party payor coverage on the basis of contractual rates for such services. For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates (or on the basis of discounted rates, if negotiated or provided by policy). Based on historical trends, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services rendered. Thus, the Hospital records a provision for bad debts related to uninsured patients in the period the services are rendered. Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized during fiscal years ended September 30, 2020 and 2019 totaled \$84,381,589 and \$83,685,905, respectively, from third-party payors and \$3,774,640 and \$4,268,990, respectively, from self-pay patients.

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

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reasonable collection efforts have been exhausted is charged against the allowance for doubtful accounts.

During 2020, self-pay accounts receivable decreased due to payments and reduced volume as a result of COVID-19. This resulted in the Hospital decreasing its estimate of the allowance for doubtful accounts related to self-pay and charity care patients from \$10,079,508 to \$9,183,655. During 2020, the Hospital's self-pay writeoffs increased from \$2,433,908 to \$3,031,443 as a result of increased billing staff availability during volume decline related to COVID.

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

4. Charity Care

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

	<u>2020</u>	<u>2019</u>
Charges foregone, based on established rates	\$ <u>2,623,396</u>	\$ <u>3,141,595</u>
Estimated costs incurred to provide charity care	\$ <u>1,430,000</u>	\$ <u>1,569,000</u>
Equivalent percentage of charity care services to all services	<u>1.55 %</u>	<u>1.77 %</u>

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

5. Assets Limited as to Use and Long-Term Investments

The composition of assets limited as to use and long-term investments as of September 30, 2020 and 2019 is set forth in the following table. Investments are stated at fair value.

	<u>2020</u>	<u>2019</u>
Assets limited as to use		
Internally designated for capital acquisitions		
Cash and short-term investments	\$ 645,488	\$ 6,591
Restricted cash and short-term investments	237,907	237,331
U.S. Treasury securities and other government securities	-	347,590
Mortgage securities	-	313,771
Mutual funds	5,220,758	7,944,302
Equities	<u>10,286,779</u>	<u>5,905,255</u>
	<u>16,390,932</u>	<u>14,754,840</u>

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	<u>2020</u>	<u>2019</u>
Internally designated to fund depreciation		
Cash and short-term investments	156,450	75,491
U.S. Treasury securities and other government securities	-	86,988
Mortgage securities	-	79,721
Mutual funds	1,410,521	2,010,322
Equities	<u>2,464,958</u>	<u>1,510,317</u>
	<u>4,031,929</u>	<u>3,762,839</u>
Restricted by donor for other purposes		
Cash and short-term investments	<u>370,630</u>	<u>362,874</u>
	<u>\$ 20,793,491</u>	<u>\$ 18,880,553</u>

	<u>2020</u>	<u>2019</u>
Long-term investments		
Cash equivalents	\$ 15,530	\$ 4,354
Equities	222,362	-
Mutual funds	<u>164,321</u>	<u>366,325</u>
	<u>\$ 402,213</u>	<u>\$ 370,679</u>

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

	<u>2020</u>	<u>2019</u>
Income without donor restriction		
Interest and dividend income	\$ 478,873	\$ 611,061
Unrealized and realized gains (losses) on equities	1,587,251	(212,671)
Investment management fees	<u>(60,251)</u>	<u>(101,580)</u>
	<u>\$ 2,005,873</u>	<u>\$ 296,810</u>
Other changes in net assets without donor restriction		
Change in net unrealized gains	<u>\$ -</u>	<u>\$ 37,129</u>
Other changes in net assets with donor restriction		
Investment income	\$ 4,446	\$ 3,082
Net realized and unrealized gains (losses) on investments	<u>30,102</u>	<u>(17,055)</u>
	<u>\$ 34,548</u>	<u>\$ (13,973)</u>

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

	<u>2020</u>	<u>2019</u>
Other revenues	\$ 188,695	\$ 187,481
Nonoperating gains	<u>1,817,178</u>	<u>109,329</u>
	<u>\$ 2,005,873</u>	<u>\$ 296,810</u>

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

6. Fair Value Measurements

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

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

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

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

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

	Fair Value Measurements at September 30:	
	<u>2020</u>	<u>2019</u>
Assets:		
Cash and cash equivalents	\$ 1,426,005	\$ 686,641
U.S. Treasury obligations and government securities	-	434,578
Mortgage securities	-	393,492
Mutual funds	6,795,600	10,320,949
Equities	<u>12,974,099</u>	<u>7,415,572</u>
Total assets limited as to use and long-term investments	21,195,704	19,251,232
Investments to fund deferred compensation		
Mutual funds	<u>1,463,430</u>	<u>1,212,435</u>
Total assets	<u>\$ 22,659,134</u>	<u>\$ 20,463,667</u>

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7. Property and Equipment

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

	<u>2020</u>	<u>2019</u>
Land and land improvements	\$ 2,258,362	\$ 2,258,362
Buildings and improvements	44,661,009	43,020,499
Fixed equipment	2,330,457	2,330,457
Major moveable equipment	<u>32,037,764</u>	<u>30,281,351</u>
	81,287,592	77,890,669
Less accumulated depreciation	<u>51,719,023</u>	<u>48,232,413</u>
	29,568,569	29,658,256
Construction in progress	<u>244,502</u>	<u>1,126,020</u>
Property and equipment, net	<u>\$ 29,813,071</u>	<u>\$ 30,784,276</u>

8. Borrowings

Long-term Debt

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

	<u>2020</u>	<u>2019</u>
Vermont Educational and Health Buildings Finance Agency Hospital Revenue Bonds 2016 Series A Bonds, bearing interest of 2.23% until March 2026, thereafter variable, due April 2031. Principal payments are due in annual installments, ranging from \$796,909 to \$965,133 in 2030.	\$ 9,515,372	\$ 10,092,861
Unamortized deferred issuance costs	<u>(135,413)</u>	<u>(148,208)</u>
Total long-term debt	9,379,959	9,944,653
Less current portion	<u>796,909</u>	<u>771,798</u>
Long-term debt, excluding current portion	<u>\$ 8,583,050</u>	<u>\$ 9,172,855</u>

The 2016 Series A Bond agreement is unsecured and contains various restrictive covenants, which include compliance with certain financial ratios and a detail of events constituting defaults. The Corporation is in compliance with these requirements at September 30, 2020.

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

<u>Fiscal Year Ending</u>	
2021 (included in current liabilities)	\$ 796,909
2022	807,584
2023	825,778
2024	843,978
2025	863,396
Thereafter	<u>5,377,727</u>
	<u>\$ 9,515,372</u>

The Hospital incurred various costs in connection with the 2016 bond issuance totaling \$191,922. These amounts are being amortized over the life of the bonds on a straight-line basis. Accumulated amortization as of September 30, 2020 and 2019 was \$56,509 and \$43,714, respectively.

Line of Credit

The Hospital has available \$2,000,000 in an unsecured line of credit with a bank with an interest rate at the Wall Street Journal prime rate adjusted monthly (3.25% at September 30, 2020). The line expires March 21, 2021. As of September 30, 2020 and 2019, there was no outstanding balance on the line.

9. Net Assets With Donor Restriction

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

	<u>2020</u>	<u>2019</u>
Plant replacement, included in assets limited as to use	\$ 237,907	\$ 237,331
Special purpose, included in cash and cash equivalents	239,933	234,683
Chaplaincy Program	<u>795,387</u>	<u>813,989</u>
	<u>\$1,273,227</u>	<u>\$1,286,003</u>

Net assets subject to perpetual duration consisted of the following at September 30:

	<u>2020</u>	<u>2019</u>
Investments in parent from subsidiary	\$ <u>443,494</u>	\$ <u>442,055</u>

NVRC supports the activities and charitable purposes of the Hospital. NVRC holds funds for purposes of the Hospital, which are reflected as "Investments in parent from subsidiary."

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10. Concentrations of Credit Risk

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

	<u>2020</u>	<u>2019</u>
Medicare	29 %	18 %
Medicaid	16	23
Blue Cross	7	10
Commercial	27	25
Self-pay	<u>21</u>	<u>24</u>
	<u>100 %</u>	<u>100 %</u>

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

11. Commitments and Contingencies

Medical Malpractice Claims

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

Operating Leases

The Hospital leases equipment under operating leases that expire in December 2025. Total rental expense for the years ended September 30, 2020 and 2019 was approximately \$718,048 and \$644,015, respectively.

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The following is a schedule by year of future minimum lease payments under operating leases as of September 30, 2020 that have initial or remaining lease terms in excess of one year.

Year ending September 30,	
2021	\$ 743,641
2022	569,803
2023	420,348
2024	420,348
2025	<u>234,596</u>
	<u>\$ 2,388,736</u>

12. Functional Expenses

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

	<u>Healthcare Service</u>	<u>Administrative Support</u>	<u>Total</u>
Salaries and benefits	\$ 48,367,190	\$ 6,815,738	\$ 55,182,928
Supplies and other	27,000,163	4,541,969	31,542,132
Insurance	1,847,553	158,509	2,006,062
Depreciation	1,881,023	1,743,645	3,624,668
Interest	<u>136,505</u>	<u>95,476</u>	<u>231,981</u>
	<u>\$ 79,232,434</u>	<u>\$ 13,355,337</u>	<u>\$ 92,587,771</u>
<u>2019</u>			
Salaries and benefits	\$ 46,537,501	\$ 6,044,263	\$ 52,581,764
Supplies and other	26,963,505	4,253,983	31,217,488
Insurance	1,101,080	165,039	1,266,119
Depreciation	1,719,120	2,015,205	3,734,325
Interest	<u>125,756</u>	<u>121,960</u>	<u>247,716</u>
	<u>\$ 76,446,962</u>	<u>\$ 12,600,450</u>	<u>\$ 89,047,412</u>

In 2020 and 2019, the Corporation had fundraising expenses related to a capital campaign of \$219,087 and \$169,722, respectively. These expenses are included in other nonoperating losses in the consolidated statements of operations.