BerryDunn

Gifford Health Care, Inc. and Subsidiaries

CONSOLIDATED FINANCIAL STATEMENTS
and
SUPPLEMENTARY INFORMATION

September 30, 2020 and 2019
With Independent Auditor's Report

GIFFORD HEALTH CARE, INC. AND SUBSIDIARIES

September 30, 2020 and 2019

TABLE OF CONTENTS

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Gifford Health Care, Inc. and Subsidiaries

We have audited the accompanying consolidated financial statements of Gifford Health Care, Inc. and Subsidiaries, which comprise the consolidated balance sheet as of September 30, 2020, and the related consolidated statements of operations, changes in net assets and cash flows for the year 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 audit. We conducted our audit 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 consolidated financial position of Gifford Health Care, Inc. and Subsidiaries as of September 30, 2020, and the consolidated results of their operations, changes in their net assets and their cash flows for the year then ended, in accordance with U.S. generally accepted accounting principles.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, during the year ended September 30, 2020 Gifford Health Care, Inc. and Subsidiaries adopted new accounting guidance, Financial Accounting Standards Board Accounting Standards Update 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 this matter.

Other Matters

Prior Period Consolidated Financial Statements

The 2019 consolidated financial statements were audited by other auditors whose report dated January 22, 2020, expressed an unmodified opinion on those statements. As more fully described in footnote 12 of the consolidated financial statements, a reclassification of functional expenses for the year ended September 30, 2019 was made to utilize an allocation based solely on salaries. Other methods were used in the prior period's audited consolidated financial statements.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The additional consolidating schedules are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Berry Dunn McNeil & Parker, LLC

Portland, Maine
January 29, 2021
Registration No. 92-0000278

GIFFORD HEALTH CARE, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

September 30, 2020 and 2019

ASSETS

	2020	2019
Current assets		
Cash and cash equivalents	**$ 17,649,876**	$ 2,920,740
Short-term investments	**2,508,741**	2,428,671
Patient accounts receivable, net of allowance of $709,000 in 2020 and $2,218,000 in 2019	**7,111,161**	9,440,752
Other receivables	**302,300**	401,392
Supplies	**1,418,301**	1,300,997
Prepaid expenses and other	**1,488,073**	1,514,273
Total current assets	**30,478,452**	18,006,825
Assets limited as to use	**23,986,569**	24,702,502
Long-term investments	**10,356,109**	9,935,381
Property and equipment, net	**45,827,187**	48,070,173
Other assets	**-**	5,788
Total assets	**$110,648,317**	$100,720,669

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

LIABILITIES AND NET ASSETS

	2020	2019
Current liabilities		
Current maturities of long-term debt	**$ 1,225,325**	$ 1,200,827
Accounts payable	**3,602,929**	4,305,049
Accrued expenses	**5,192,629**	5,661,922
Interest rate swap agreement	**3,608,855**	2,928,417
Accelerated payments from third parties	**9,238,305**	-
Estimated amounts due to third-party payers	**1,649,681**	1,081,988
Other	**83,600**	70,596
Total current liabilities	**24,601,324**	15,248,799
Long-term debt, excluding current maturities	**20,577,397**	23,616,877
Deferred compensation	**3,792,037**	4,261,522
Refundable entrance fees	**4,999,992**	4,098,452
Deferred revenue from entrance fees	**1,020,473**	894,384
Deferred annuities	**475,237**	417,914
Total liabilities	**55,466,460**	48,537,948
Net assets		
Without donor restrictions	**52,621,908**	49,921,793
With donor restrictions	**2,559,949**	2,260,928
Total net assets	**55,181,857**	52,182,721
Total liabilities and net assets	**$110,648,317**	$100,720,669

GIFFORD HEALTH CARE, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

Years Ended September 30, 2020 and 2019

	2020	2019
Revenues, gains and other support without donor restrictions		
Patient service revenue (net of contractual allowances and discounts)	**$ 58,436,192**	$ 63,932,968
Provision for bad debts	**1,738,683**	2,776,665
Net patient service revenue	**56,697,509**	61,156,303
Fixed prospective revenue	**3,355,655**	2,112,278
Other revenues	**7,830,197**	6,674,446
U.S. Department of Health and Human Services (HHS) stimulus revenue	**7,158,403**	-
Net assets released from restrictions used for operations	**220,538**	217,322
Total revenues, gains and other support without donor restrictions	**75,262,302**	70,160,349
Expenses		
Salaries and wages	**36,210,181**	36,120,352
Employee benefits	**9,840,525**	9,539,239
Purchased services and professional fees	**9,091,449**	7,602,928
Supplies and other	**14,358,480**	13,252,374
Depreciation and amortization	**4,229,332**	4,200,703
Interest	**1,006,319**	1,337,235
Total expenses	**74,736,286**	72,052,831
Operating income (loss)	**526,016**	(1,892,482)
Nonoperating gains (losses)		
Investment return, net	**1,998,945**	1,443,972
Change in fair value of interest rate swap agreement	**(680,438)**	(1,482,182)
Other income	**569,112**	118,220
Net nonoperating gains	**1,887,619**	80,010
Excess (deficiency) of revenues, gains, other support, and nonoperating gains over expenses and losses	**2,413,635**	(1,812,472)
Net assets released from restrictions for acquisition of property and equipment	**286,480**	143,057
Increase (decrease) in net assets without donor restrictions	**$ 2,700,115**	$ (1,669,415)

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

GIFFORD HEALTH CARE, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Net Assets

Years Ended September 30, 2020 and 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Balances, October 1, 2018	$ 51,591,208	$ 2,399,762	$ 53,990,970
Deficiency of revenues, gains, other support, and nonoperating gains over expenses and losses before net assets released from restrictions	(2,029,794)	-	(2,029,794)
Contributions	-	221,545	221,545
Net assets released from restrictions used for operations	217,322	(217,322)	-
Net assets released from restrictions for acquisition of property and equipment	143,057	(143,057)	-
Change in net assets	(1,669,415)	(138,834)	(1,808,249)
Balances, September 30, 2019	49,921,793	2,260,928	52,182,721
Excess of revenues, gains, other support, and nonoperating gains over expenses and losses before net assets released from restrictions	**2,193,097**	**-**	**2,193,097**
Contributions	**-**	**806,039**	**806,039**
Net assets released from restrictions used for operations	**220,538**	**(220,538)**	**-**
Net assets released from restrictions for acquisition of property and equipment	**286,480**	**(286,480)**	**-**
Change in net assets	**2,700,115**	**299,021**	**2,999,136**
Balances, September 30, 2020	**$ 52,621,908**	**$ 2,559,949**	**$ 55,181,857**

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

GIFFORD HEALTH CARE, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years Ended September 30, 2020 and 2019

	2020	2019
Cash flows from operating activities		
Change in net assets	**$ 2,999,136**	$ (1,808,249)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	**4,229,332**	4,200,703
Provision for bad debts	**1,738,683**	2,776,665
Amortization of deferred revenue	**(158,610)**	(76,388)
Amortization of debt issuance costs	**26,540**	26,540
Net gain on investments	**(922,859)**	(640,774)
Net loss on sale of property and equipment	**211,492**	-
Change in fair value of interest rate swap agreement	**680,438**	1,482,182
Proceeds from entrance fees - deferred revenue	**284,699**	-
Restricted contributions	**(806,039)**	(221,545)
Decrease (increase) in		
Patient accounts receivable, net	**590,908**	(4,785,699)
Supplies	**(117,304)**	82,357
Increase (decrease) in		
Estimated amounts due from and to third-party payers	**567,693**	1,717,447
Accelerated payments	**9,238,305**	-
Accounts payable and accrued expenses	**(702,120)**	(1,078,364)
Other assets and liabilities	**(267,886)**	70,680
Net cash provided by operating activities	**17,592,408**	1,745,555
Cash flows from investing activities		
Purchases of property and equipment	**(2,522,838)**	(1,991,861)
Proceeds from the sale of property and equipment	**325,000**	-
Purchase of investments	**(14,831,382)**	(4,322)
Proceeds from disposition of investments	**15,499,891**	2,484,328
Net cash (used) provided by investing activities	**(1,529,329)**	488,145
Cash flows from financing activities		
Proceeds from entrance fees - refundable	**1,138,798**	1,609,917
Refunds of entrance fees	**(237,258)**	-
Restricted contributions	**806,039**	221,545
Principal payments on long-term debt	**(3,041,522)**	(2,454,226)
Net cash used by financing activities	**(1,333,943)**	(622,764)
Increase in cash and cash equivalents	**14,729,136**	1,610,936
Cash and cash equivalents, beginning of year	**2,920,740**	1,309,804
Cash and cash equivalents, end of year	**$ 17,649,876**	$ 2,920,740
Supplemental cash flows information:		
Interest paid	**$ 979,779**	$ 1,337,235
Purchase of property and equipment in accounts payable	**$ 76,558**	$ 537,167

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

Organization

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

GHC includes:

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

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

Collectively GHC, GMC and GRC are referred to as the Organization.

1. Significant Accounting Policies

Principles of Consolidation

These consolidated financial statements include the accounts of GHC and its subsidiaries, GMC and GRC. All significant intercompany transactions have been eliminated in consolidation.

Basis of Presentation

Net assets and revenues, expense, and gains are classified based on the existence or absence of donor-imposed restrictions in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958, *Not-For-Profit Entities*, as follows:

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

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

Under FASB ASC Topic 958 and FASB ASC Topic 954, *Health Care Entities*, all not-for-profit healthcare organizations are required to provide a balance sheet, a statement of operations, a statement of changes in net assets, and a statement of cash flows. FASB ASC Topic 954 requires reporting amounts for an organization's total assets, liabilities, and net assets in a balance sheet; reporting the change in an organization's net assets in statements of operations and changes in net assets; and reporting the change in its cash and cash equivalents in a statement of cash flows.

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

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The global coronavirus disease (COVID-19) pandemic has created and may continue to create significant uncertainty in macroeconomic conditions, which may cause further business disruptions and adversely impact the Organization's consolidated results of operations. As a result, the Organization's estimates and assumptions required increased judgment and carry a higher degree of variability and volatility. As events continue to evolve and additional information becomes available, actual results could materially differ from those estimates in future periods.

Cash and Cash Equivalents

All investments that are not limited as to use with a maturity of three months or less at the time of acquisition are considered cash equivalents. At September 30, 2020 and 2019, cash equivalents consisted primarily of sweep products. Repurchase and sweep products are utilized as part of the cash management policy, which are not federally insured, but are covered by separate agreements with the financial institution.

At September 30, 2020 and 2019, the Organization held $17,556,600 and $2,504,592, respectively, in repurchase and sweep accounts.

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 the current status of individual accounts. 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. Credit is extended without collateral.

In evaluating the collectibility of accounts receivable, the Organization 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 services provided to patients who have third-party coverage, the Organization analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary. For receivables associated with self-pay patients (which include both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Organization 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 on the basis of discounted rates, by State law, or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged against the allowance for doubtful accounts.

During 2020, the Organization decreased its estimate from $2,218,157 to $709,270 in the allowance for doubtful accounts relating to self-pay patients and, during 2019, the Organization decreased its estimate from $2,265,000 to $2,218,157 in the allowance for doubtful accounts relating to self-pay patients. During 2020, self-pay write-offs increased from $3,078,968 to $3,384,007, and during 2019 self-pay write-offs increased from $2,293,284 to $3,078,968. The increase in write-offs of accounts for which an allowance had previously been provided and an improvement in the aging of receivables resulted in a significant decrease in the allowance for doubtful accounts in 2020.

Investments and Investment Return

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value. To simplify the presentation of investment return, the Organization accounts for its investment portfolio in accordance with the fair value option in FASB ASC Topic 825, *Financial Instruments*, and, accordingly, investment income or loss (including realized gains and losses on investments, interest and dividends) and unrealized gains and losses are included in excess (deficiency) of revenues, gains, other support, and nonoperating gains over expenses and losses unless the income is restricted by donor or law.

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

Assets Limited as to Use

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

Supplies

Supplies inventory is stated at the lower of cost (first-in, first-out) or market.

Donor Contributions

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received to the extent estimated to be collectible by the Organization. Contributions received with donor restrictions that limit the use of the donated assets are reported as net assets with donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are included in nonoperating gains (losses) in the accompanying consolidated financial statements.

Property and Equipment

Property and equipment purchases are recorded at cost. Property and equipment donated for Organization operations are recorded at fair value at the date of receipt. Expenditures for repairs and maintenance are expensed when incurred and betterments are capitalized.

Gifts of long-lived assets such as land, buildings or equipment are reported as increases in net assets without donor restrictions at fair value and are excluded from the excess (deficiency) of revenues, gains, other support, and nonoperating gains over expenses and losses. 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 or construct long-lived assets are reported as support with donor restrictions. Absent explicit donor stipulation 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.

Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method.

Excess (Deficiency) of Revenues, Gains, Other Support and Nonoperating Gains Over Expenses and Losses

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

Debt Issuance Costs

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

Deferred Revenue

The Organization records deferred revenue from the occupancy of units in the retirement community. To enter the retirement community, residents are required to pay a deposit. The deposit is 80% refundable to the resident contingent upon the reoccupancy of the resident’s unit after the resident leaves the community. The refundable deposit is equal to the lesser of the original purchase price or resale price. The remaining 20% of each deposit is nonrefundable and is amortized into income over the life expectancy of the resident. Life expectancies are adjusted annually.

Proceeds received from entrance deposits total $1,423,497 in 2020 and $1,609,917 in 2019. Refunds of entrance deposits total $237,258 in 2020. No refunds were issued in 2019.

As of September 30, 2020 and 2019, the Organization is contingently liable for $4,999,992 and $4,098,452, respectively, which represents the 80% portion of current residents' entrance deposits.

As of September 30, 2020 and 2019, the portion of advance fees representing deferred revenue was $1,020,473 and $894,384, respectively, which represents the unamortized 20% portion of current residents' entrance deposits. The Organization reported deferred revenue amortization of $158,610 and $76,388 in 2020 and 2019, respectively, which is included in other revenues.

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

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

Deferred Annuities

Annuity obligations represent the amount of various planned giving instruments where the Organization has fiduciary responsibility for the safekeeping, investment management and distribution of such funds to designated individuals. Annuity obligations are valued at the actuarial present value of the expected payments based upon the life expectancy for the annuitants. The present value of the estimated future payments at September 30, 2020 and 2019, was $558,837 and $488,511, respectively, and is included in other current liabilities and deferred annuities. At September 30, 2020 and 2019, the internally designated assets to satisfy the future payments were $1,676,738 and $1,437,100, respectively, and are included in long-term investments.

Net Patient Service Revenue

The Organization has agreements with third-party payors that provide for payments to the Organization at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. 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.

The Organization 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 Organization recognizes revenue on the basis of its standard rates (or on the basis of discounted rates, by State law or provided by policy). Based on historical trends, a significant portion of the Organization's uninsured patients will be unable or unwilling to pay for the services rendered. Thus, the Organization records a provision for bad debts related to uninsured patients in the period the services are rendered.

Charity Care

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

Grant Revenue

The Organization is the recipient of a Consolidated Health Centers (CHC) grant from HHS (the granting agency). The general purpose of the grant is to provide expanded health care service delivery for residents of Randolph, Vermont, and surrounding areas. Terms of the grant generally provide for funding of the Organization's operations based on an approved budget.

Grant revenue is recognized as qualifying expenditures are incurred over the grant period. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required. During the years ended September 30, 2020 and 2019, CHC grant revenue of $2,100,096 and $1,908,011 was recognized, respectively. The Organization's present CHC grant award covers the grant period ending January 31, 2022, and is approved at $1,627,304. Future funding is to be determined by the granting agency based on an application to be submitted by the Organization prior to expiration of the present grant period.

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

Contract Pharmacy Program

The Organization participates in the 340B outpatient drug discount program administered by the Office of Pharmacy Affairs of the Health Resources and Services Administration. The Organization contracts with local retail pharmacies under the program, which resulted in additional revenues and discounts on outpatient pharmaceuticals. Net revenue from this program was approximately $1,745,000 and $1,515,000 for 2020 and 2019, respectively. Laws and regulations surrounding the 340B drug program are complex and are subject to interpretation and change.

Self-Insurance

The Organization has elected to self-insure employee dental and health benefits for services that are not provided at the Organization to participating employees and their covered dependents. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based upon prior lagging claims experience, recently incurred claims and other qualitative factors. The accrued self-insurance reserve was approximately $450,000 and $410,000 as of September 30, 2020 and 2019, respectively. It is reasonably possible that the Organization's estimate will change by a material amount in the near term. Stop-loss insurance has been purchased to cover unusually large claims for services not performed at the Organization. This stop-loss insurance coverage consists of $200,000 on each individual participating employee. There is no stop-loss insurance coverage for services performed at the Organization.

Income Taxes

The Organization has been determined by the Internal Revenue Service to be a tax-exempt charitable organization as described in Section 501(c)(3) of the Internal Revenue Code (Code), whereby, only unrelated business income, as defined by Section 512(a)(1) of the Code, is subject to federal income tax. Accordingly, no provision for federal income taxes has been recorded in the accompanying consolidated financial statements.

Newly Adopted Accounting Pronouncement

In 2020, the Organization adopted Financial Accounting Standards Board Accounting Standards Update No. 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, as management believes the standard improves the usefulness and understandability of the Organization's financial reporting. The impact of adoption to the years ended September 30, 2020 and 2019 resulted in no material differences to revenue.

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. As states begin to reopen, 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 Appropriations 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 Organization, management believes that a material impact on the Organization's consolidated financial position and results of future operations is reasonably possible.

In response to the COVID-19 pandemic, the Centers for Medicare and Medicaid Services (CMS) and Blue Cross Blue Shield (Blue Cross) made available an accelerated and advance payment program to Medicare and Blue Cross providers. The Hospital received $9,238,305 in 2020. Under the program CMS and Blue Cross will begin recouping payment from claim payments one year after the advance was made for a period of up to seventeen months. This amount is reported as a component of accelerated payments in the consolidated balance sheets as of September 30, 2020.

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 funds were appropriated to reimburse healthcare providers for healthcare related expenses or lost revenues that are attributable to COVID-19. The CARES Act provides HHS with discretion to operate the program and determine the reporting requirements. During 2020, the Organization received $7,158,403 of HHS Provider Relief Stimulus Funds (Funds) and attested to the receipt of the Funds and agreement with the associated terms and conditions. The Organization has chosen to follow the conditional contribution model for the Funds. During 2020, the Organization has recognized $7,158,403 of the Funds in revenue in the consolidated statements of operations. Management determined the conditions on which this portion of the Funds depends were substantially met based on the most recent guidance provided by HHS as modified by the $900 billion Consolidated Appropriations Act passed by Congress on December 22, 2020 and signed into law on December 27, 2020. The possibility exists that this guidance will be revised and some of the funds may need to be repaid in the future.

Subsequent Events

For purposes of the preparation of these consolidated financial statements, the Organization has considered transactions or events occurring through January 29, 2021, which was the date the consolidated financial statements were available to be issued.

2. Availability and Liquidity of Financial Assets

The Organization had working capital of $5,877,128 and $2,758,026 at September 30, 2020 and 2019, respectively. The Organization had average days (based on normal expenditures) cash and cash equivalents on hand of 86 and 15 at September 30, 2020 and 2019, respectively.

The Organization's goal is to maintain financial assets to meet 75 days of operating expenses, approximately $15,314,850 and $14,805,375 at September 30, 2020 and 2019, respectively. The annual operating budget is determined with the goal of generating sufficient net patient service revenue and cash flows to allow the Organization to be sustainable to support its mission and vision.

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:

	2020	2019
Financial assets at year end		
Cash and cash equivalents	**$ 17,649,876**	$ 2,920,740
Short-term investments	**2,508,741**	2,428,671
Patient accounts receivable, net	**7,111,161**	9,440,752
Other receivables	**302,300**	401,392
Long-term investments	**10,356,109**	9,935,381
Financial assets available to meet general expenditures within one year	**$ 37,928,187**	$25,126,936

Cash and cash equivalents included $7,392,355 at September 30, 2020 specifically related to Medicare Accelerated Payments and unexpended CARES Act Funds received from HHS. This equates to 38 days cash and cash equivalents on hand.

The Organization has other assets limited as to use of $23,986,569 and $24,702,502 at September 30, 2020 and 2019, respectively, that are designated assets set aside by the Board for future capital improvements. These assets limited as to use are not available for general expenditure within the next year; however, the internally designated amounts could be made available, if necessary.

As part of the Organization'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, the Organization also has a committed line of credit of $1,000,000, which it could draw upon, as disclosed in Note 9.

3. Net Patient Service Revenue

Net patient service revenue consists of the following for the years ended September 30:

	2020	2019
Patient services		
Inpatient	**$ 22,660,260**	$ 22,954,311
Outpatient	**67,763,133**	68,941,869
Swing bed	**1,642,356**	1,672,613
Clinic	**29,626,342**	30,927,682
Nursing facility	**4,578,263**	4,472,036
Gross patient service revenue	**126,270,354**	128,968,511
Less Medicare and Medicaid allowances	**49,083,722**	48,822,222
Less other contractual allowances	**18,150,327**	15,798,459
Less community care	**600,113**	414,862
	67,834,162	65,035,543
Patient service revenue (net of contractual allowances and discounts)	**58,436,192**	63,932,968
Less provision for bad debts	**1,738,683**	2,776,665
Net patient service revenue	**$ 56,697,509**	$ 61,156,303

Details of patient accounts receivable at September 30 are as follows:

	2020	2019
Gross patient accounts receivable	**$ 17,866,828**	$ 20,901,097
Less allowance for contractual adjustments	**10,046,397**	9,242,188
Less allowance for doubtful accounts	**709,270**	2,218,157
Net patient accounts receivable	**$ 7,111,161**	$ 9,440,752

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

Medicare

Under the CAH program, GMC is reimbursed at 101% of allowable cost for its inpatient and most outpatient services services provided to Medicare patients. GMC is reimbursed at tentative rates with final determination submission of annual cost reports by GMC and audits thereof by the Medicare fiscal intermediary. GMC's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2014.

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

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

Revenues from the Medicare program accounted for approximately 43% of the GMC's gross patient revenue for the years ended September 30, 2020 and 2019.

Medicaid

Inpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors, and are not subject to retroactive adjustment. Outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. GMC is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by GMC and audits thereof by the fiscal intermediary. The GMC's Medicaid cost reports have been audited by the fiscal intermediary through September 30, 2014. Revenues from the Medicaid program accounted for approximately 18% of GMC's gross patient revenue for the years ended September 30, 2020 and 2019.

Other

The Organization has entered into payment agreements with certain commercial insurance carriers and health maintenance organizations. The basis for payment to the Organization is primarily prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

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. In 2020 and 2019, net patient service revenue decreased approximately $222,000 and $283,000, respectively, due to the recognition of settlements or the removal of allowances no longer subject to audits, reviews, and investigations.

The Organization 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 community care, the Organization recognizes revenue on the basis of its standard rates (or on the basis of discounted rates, by State law or provided by policy). Based on historical trends, a significant portion of the Organization's uninsured patients will be unable or unwilling to pay for the services rendered. Thus, the Organization 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 the fiscal year ended September 30, 2020 totaled $58,436,192, of which $56,825,782 was revenue from third-party payors and $1,610,410 was revenue from self-pay patients, and for the fiscal year ended September 30, 2019 totaled $63,932,968, of which $61,579,556 was revenue from third-party payors and $2,353,412 was revenue from self-pay patients.

4. Charity Care

The Organization 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 during the years ended September 30:

	2020	2019
Charges foregone, based on established rates	**$ 600,000**	$ 415,000
Estimated costs incurred to provide charity care	**357,000**	232,000
Equivalent percentage of charity care services to all services	**0.48%**	0.32%

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

5. Concentration of Credit Risk

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

	2020	2019
Medicare	**40 %**	36 %
Medicaid	**16**	16
Blue Cross and other third-party payers	**28**	31
Patients	**16**	17
	100 %	100 %

Financial instruments that potentially expose the Organization to concentrations of credit and market risks consist primarily of cash and investments. The Organization maintains cash in bank deposit accounts, which, at times, may exceed federally insured limits. It has not experienced any losses in such accounts. The Organization's investments do not represent significant concentrations of market risk inasmuch as the Organization's investment portfolio is diversified among issuers.

6. Investments

Investments consist of the following at September 30:

	2020	2019
Internally designated investments	**$ 14,362,898**	14,120,629
Deferred compensation	**3,792,037**	4,261,522
Endowment and investment with donor restrictions	**8,379,140**	8,154,678
Other investments	**10,317,344**	10,529,725
	$ 36,851,419	$37,066,554

The composition of investments at September 30 is set forth in the following table. Investments are stated at fair value.

	2020	2019
Cash equivalents	**$ 101,977**	$ 328,069
Certificates of deposit	**769,961**	1,421,580
Fixed income	**13,670,866**	14,958,967
Equity securities and other	**18,988,602**	16,951,609
Mutual funds	**3,320,013**	3,406,329
	$ 36,851,419	$37,066,554

Investment income and gains (losses) on investments during the years ended September 30 are as follows:

	2020	2019
Interest and dividend income	**$ 1,076,086**	$ 803,198
Realized gains on sales of securities	**428,372**	2,156,958
Unrealized gains (losses) on securities	**494,487**	(1,516,184)
	$ 1,998,945	$ 1,443,972

Fair Value Measurement

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

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

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

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

FASB ASC Topic 825 provides the option to elect fair value as an alternative measurement for selected financial assets and liabilities not previously required to be recorded at fair value. The Organization carries its investments in accordance with ASC Topic 825, measured utilizing the framework provided by ASC Topic 820.

The following table summarizes the valuation of the Organization's assets and liabilities carried in accordance with ASC Topic 825 by the fair value hierarchy levels as of September 30, 2020:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments and cash equivalents				
Cash and cash equivalents	$ 101,977	$ 101,977	$ -	$ -
Certificates of deposit	769,961	769,961	-	-
Equity securities	18,988,602	18,988,602	-	-
Mutual funds	3,792,037	3,792,037	-	-
Corporate obligations	11,548,636	-	11,548,636	-
U.S. agency obligations	1,650,206	-	1,650,206	-
Total investments and cash equivalents	$ 36,851,419	$ 23,652,577	$ 13,198,842	$ -
Interest rate swap agreement	$ (3,608,855)	$ -	$ (3,608,855)	$ -

The following table summarizes the valuation of the Organization's assets and liabilities carried in accordance with ASC Topic 825 by the fair value hierarchy levels as of September 30, 2019:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments and cash equivalents				
Cash and cash equivalents	$ 328,069	$ 328,069	$ -	$ -
Certificates of deposit	1,421,580	1,421,580	-	-
Equity securities	16,829,214	16,829,214	-	-
Mutual funds	3,406,329	3,406,329	-	-
Corporate obligations	13,065,964	-	13,065,964	-
U.S. agency obligations	1,893,003	-	1,893,003	-
Other	122,395	-	122,395	-
Total investments and cash equivalents	$ 37,066,554	$ 21,985,192	$ 15,081,362	$ -
Interest rate swap agreement	$ (2,928,417)	$ -	$ (2,928,417)	$ -

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended September 30, 2020.

Investments and Cash Equivalents

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

Interest Rate Swap Agreement

The fair value is estimated using independently calculated mid-market value and credit adjusted fair value based on the market close rate data on the last business day of the fiscal year-end and, therefore, are classified within Level 2 of the valuation hierarchy.

7. Property and Equipment

Property and equipment consists of the following at September 30, 2020 and 2019:

	2020	2019
Land and land improvements	**$ 6,160,127**	$ 6,121,985
Buildings and building improvements	**46,597,532**	46,862,415
Equipment	**46,746,055**	45,602,676
Construction in progress	**2,356,008**	1,431,956
	101,859,722	100,019,032
Less accumulated depreciation	**56,032,535**	51,948,859
Property and equipment, net	**$ 45,827,187**	$ 48,070,173

At September 30, 2020, construction in progress represents costs incurred in connection with the construction of various additions and alterations to the Organization's facilities and equipment. The total cost to complete the projects is approximately $5,175,000, with funding from cash from operations and existing cash and investments.

8. Net Assets

Net assets with donor restrictions are available for the following purposes at September 30:

	2020	2019
Purpose restricted:		
Indigent care	**$ 41,707**	$ 41,707
Community outreach initiatives	**461,430**	373,600
Education	**18,118**	22,513
Buildings and maintenance	**365,400**	137,592
Operations	**89,804**	102,026
	976,459	677,438
Perpetual in nature, the income of which is restricted by donors for specific purposes		
Indigent care	**227,585**	227,585
Community outreach initiatives	**527,116**	527,116
Nursing	**35,025**	35,025
Buildings and maintenance	**40,996**	40,996
Operations	**53,529**	53,529
Perpetual in nature, the income of which is unrestricted	**699,239**	699,239
	1,583,490	1,583,490
	$ 2,559,949	$ 2,260,928

9. Borrowings

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

	2020	2019
Vermont Education and Health Buildings Financing Agency (Agency) Series 2014, tax-exempt variable rate bonds (1.33% at September 20, 2020). Payable in 264 monthly principal and interest payments. Monthly principal payments range from $48,049 in 2015 to $120,814 in 2036.	**$ 17,034,587**	$17,755,001
Vermont State Employees Credit Union note payable, secured by property, payable in monthly installments of $2,733 with interest at a rate of 8.75%. Paid off in 2020.	**-**	279,394
U.S. Small Business Administration note payable, collateralized by property, payable in monthly installments of $450 with interest at a rate of 3.00%. Paid off in 2020.	**-**	69,639
Independent Living 1 Construction note payable, collateralized by property, monthly principal and interest payments were due from October 2018 to January 2019. Interest only payments were due from January 2019 to December 2019. Starting January 2020 the note is payable in monthly instruments of $60,744 with interest at a rate of 4.35% through March 2028.	**4,777,982**	6,740,836
Bank vehicle loan, secured by property, payable in 60 monthly installments of $845 with interest at a rate of 3.50%	**21,117**	30,338
	21,833,686	24,875,208
Less current maturities	**1,225,325**	1,200,827
Less unamortized debt issuance costs	**30,964**	57,504
Long-term debt, excluding current maturities	**$ 20,577,397**	$23,616,877

In December 2014, Agency issued $20,840,000 of tax-exempt revenue bonds (Series 2014). Proceeds were used to extinguish the existing Series 2010 Bonds, pay certain costs incurred in the authorization and issuance of the Bonds and fund future capital projects. The bonds are collateralized by gross receipts of the Organization and a security interest in certain property of the Organization as defined by the bond documents.

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

2021	**$ 1,225,325**
2022	**1,343,424**
2023	**1,393,636**
2024	**1,452,586**
2025	**1,516,585**
Thereafter	**14,902,130**
	$ 21,833,686

The indentures related to the Agency bonds contain provisions regard debt service coverage ratio and minimum days' cash on hand. The Organization was in compliance with these requirements at September 30, 2020 and 2019.

The Organization also has a $1,000,000 unsecured line-of-credit agreement available, expiring on January 1, 2021. No amounts were outstanding at September 30, 2020 and 2019. If drawn, interest payments are due monthly at the prime rate plus 0.25%. The rate was 3.50% as of September 30, 2020.

10. Interest Rate Swap Agreement

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations on its own debt, the Organization entered into an interest rate swap agreement. The notional amount is adjusted every October 1. The notional amount was $16,075,000 and $16,690,000 at September 30, 2020 and 2019, respectively. The agreement provides for the Organization to receive interest from the counterparty equivalent to the sum of 68% of three-month LIBOR and pay interest to the counterparty at a fixed rate of 3.08%. The swap expires on October 1, 2036.

At September 30, 2020, the Organization has been notified by the swap counterparty that its failure to meet certain bond covenants for the year ended September 30, 2018 is deemed to be an Additional Termination Event under the terms of the swap agreement. This gives the counterparty the right, but not the obligation, to terminate the swap agreement at its discretion.

The table below presents certain information regarding the Organization’s interest rate swap agreement.

	2020	2019
Other liabilities		
Fair value of interest rate swap agreement	**$ 3,608,855**	$ 2,928,417
Change in interest rate swap agreement	**(680,438)**	(1,482,182)

11. Endowment

The Organization's endowment consists of various individual donor-restricted funds which were established for general operational and certain departmental purposes. As required by GAAP, net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, therefore, classifies amounts in its donor-restricted endowment fund as net assets with donor restrictions until the Board appropriates amounts for the expenditure and any purpose restrictions have been met. The Board of Directors of the Organization have interpreted UPMIFA as requiring the maintenance of only the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, the Organization would consider the fund to be underwater if the fair value of the fund is less than the sum of (1) the original value of initial and subsequent gifts donated to the fund and (2) any accumulations to the fund that are required to be maintained in the perpetuity in accordance with applicable donor gift instrument. The Organization has interpreted UPMIFA to permit spending from underwater funds in the accordance with prudent measures required under the law. The fund is not currently underwater. In accordance with UPMIFA, the Organization 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 the Organization 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 Organization
7. Investment policies of the Organization

Changes in endowment net assets for the years ended September 30, 2020 and 2019 were:

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 7,884,649	$ 1,583,490	$ 9,468,139
Investment income, net of fees	243,923	101,807	345,730
Net gains	186,795	41,349	228,144
Contributions received	100,000	-	100,000
Distributions and releases	(239,378)	(143,156)	(382,534)
Endowment net assets, end of year	$ 8,175,989	$ 1,583,490	$ 9,759,479

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 7,425,841	$ 1,582,890	$ 9,008,731
Investment income, net of fees	151,694	63,880	215,574
Net gains	368,541	213,122	581,663
Contributions received	-	600	600
Distributions and releases	(61,427)	(277,002)	(338,429)
Endowment net assets, end of year	$ 7,884,649	$ 1,583,490	$ 9,468,139

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the Organization must hold in perpetuity or for donor-specified periods, as well as those of board-designated endowment funds. Under the Organization's policies, endowment assets are invested in a manner that is intended to produce results equal to inflation plus 4%. Actual returns in any given year may vary from this amount.

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

The Organization has a spending policy of appropriating for expenditure each year 4% of its endowment fund's average fair value over the prior three years through the year end preceding the year in which expenditure is planned. It is the Organization's intent that the distribution rate will not exceed the total return of the endowment. In establishing this policy, the Organization considered the long-term expected return on its endowment. This is consistent with the Organization's objective to maintain the purchasing power of endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return. Donor restricted investment income whose restrictions are met within the same year as earned are included in nonoperating gains (losses) in the accompanying financial statements.

12. Functional Expenses

The Organization provides health care services to residents within its service area. Certain costs attributable to more than one function have been allocated among health care services, general and administrative and fundraising functional expense classifications based primarily on salary allocation.

A reclassification of functional expenses for the year ended September 30, 2019 was made to utilize an allocation based solely on salaries. As a result, program services and fundraising decreased $9,967,920 and $55,140, respectively and general and administrative increased $10,023,060 from those previously reported.

The following schedules present the natural classification of expenses by function as follows as of September 30:

2020	Program Services	General and Administrative	Fundraising	Total
Salaries and wages	**$ 29,149,522**	**$ 7,017,207**	**$ 43,452**	**$ 36,210,181**
Employee benefits	**9,145,366**	**683,350**	**11,809**	**9,840,525**
Purchased serves and professional fees	**5,747,119**	**3,333,632**	**10,698**	**9,091,449**
Supplies and other	**10,484,871**	**3,854,943**	**18,666**	**14,358,480**
Depreciation and amortization	**3,930,562**	**293,695**	**5,075**	**4,229,332**
Interest	**935,223**	**69,881**	**1,215**	**1,006,319**
	$ 59,392,663	**$ 15,252,708**	**$ 90,915**	**$ 74,736,286**

2019	Program Services	General and Administrative	Fundraising	Total
Salaries and wages	$ 29,065,363	$ 7,011,645	$ 43,344	$ 36,120,352
Employee benefits	8,865,365	662,427	11,447	9,539,239
Purchased serves and professional fees	4,974,963	2,619,015	8,950	7,602,928
Supplies and other	9,469,728	3,766,005	16,641	13,252,374
Depreciation and amortization	3,903,955	291,707	5,041	4,200,703
Interest	1,242,760	92,861	1,614	1,337,235
	$ 57,522,134	$ 14,443,660	$ 87,037	$ 72,052,831

13. Retirement Programs

The Organization has a defined contribution pension plan covering all employees meeting age and service requirements. The plan provides for immediate vesting of all eligible employees. Discretionary contributions are funded at 4% of covered compensation plus an additional 1% matching contribution to eligible employees. Pension expense was $1,413,605 and $1,455,989 for 2020 and 2019, respectively.

The Organization has a deferred compensation plan for the benefit of certain employees. The assets are included in assets limited as to use and a corresponding liability. Investments held in deferred compensation plans include equity and fixed income mutual funds.

14. Related Party Transactions

The Organization receives support from the Gifford Medical Center Auxiliary (Auxiliary), which is a not-for-profit thrift shop, located on the premises of the Organization. The purpose of the Auxiliary is to provide the Organization with funding for medical equipment and special hospital department needs. At September 30, 2020 and 2019, the Organization had a $175,625 and $128,125, respectively, pledge receivable from the Auxiliary, which is included in other current receivables and other long- term assets.

SUPPLEMENTARY INFORMATION

GIFFORD HEALTH CARE, INC. AND SUBSIDIARIES

Consolidating Schedule - Balance Sheet

September 30, 2020

ASSETS

	GMC	GRC	GHC	Eliminations	Total
Current assets					
Cash and cash equivalents	$ 17,207,592	$ 282,385	$ 159,899	$ -	$ 17,649,876
Short-term investments	2,508,741	-	-	-	2,508,741
Patient accounts receivable	6,275,425	278,656	557,080	-	7,111,161
Other receivables	197,184	-	105,116	-	302,300
Supplies	1,365,206	2,608	50,487	-	1,418,301
Prepaid expenses and other	1,375,890	26,865	85,318	-	1,488,073
Due from affiliate	8,880,630	-	-	(8,880,630)	-
Total current assets	37,810,668	590,514	957,900	(8,880,630)	30,478,452
Assets limited as to use	23,986,569	-	-	-	23,986,569
Long-term investments	10,164,283	191,826	-	-	10,356,109
Property and equipment, net	34,072,649	11,460,913	293,625	-	45,827,187
Total assets	$106,034,169	$ 12,243,253	$ 1,251,525	$ (8,880,630)	$110,648,317

LIABILITIES AND NET ASSETS (DEFICIT)

	GMC	GRC	GHC	Eliminations	Total
Current liabilities					
Current maturities of long-term debt	$ 697,080	$ 528,245	$ -	$ -	$ 1,225,325
Accounts payable	3,141,920	349,695	111,314	-	3,602,929
Accrued expenses	3,967,067	286,014	939,548	-	5,192,629
Interest rate swap agreement	3,608,855	-	-	-	3,608,855
Accelerated payments	8,945,950	-	292,355	-	9,238,305
Estimated amounts due to third-party payers	1,585,443	-	64,238	-	1,649,681
Other	69,400	14,200	-	-	83,600
Due to affiliate	-	5,592,845	3,287,785	(8,880,630)	-
Total current liabilities	22,015,715	6,770,999	4,695,240	(8,880,630)	24,601,324
Long-term debt, excluding current maturities	16,327,660	4,249,737	-	-	20,577,397
Deferred compensation	3,792,037	-	-	-	3,792,037
Refundable entrance fees	-	4,999,992	-	-	4,999,992
Deferred revenue from entrance fees	-	1,020,473	-	-	1,020,473
Deferred annuities	407,670	67,567	-	-	475,237
Total liabilities	42,543,082	17,108,768	4,695,240	(8,880,630)	55,466,460
Net assets (deficit)					
Without donor restrictions	61,086,874	(4,995,730)	(3,469,236)	-	52,621,908
With donor restrictions	2,404,213	130,215	25,521	-	2,559,949
Total net assets (deficit)	63,491,087	(4,865,515)	(3,443,715)	-	55,181,857
Total liabilities and net assets (deficit)	$106,034,169	$ 12,243,253	$ 1,251,525	$ (8,880,630)	$110,648,317

GIFFORD HEALTH CARE, INC. AND SUBSIDIARIES

Consolidating Schedule - Statement of Operations

Year Ended September 30, 2020

	GMC	GRC	GHC	Eliminations	Total
Revenues, gains and other support without donor restrictions					
Patient service revenue (net of contractual allowances and discounts)	$45,449,112	$ 3,921,901	$ 9,065,179	$ -	$ 58,436,192
Provision for bad debts	1,380,158	9,983	348,542	-	1,738,683
Net patient service revenue less provision for bad debts	44,068,954	3,911,918	8,716,637	-	56,697,509
Fixed prospective revenue	3,163,451	-	192,204	-	3,355,655
Other revenues	2,553,304	1,535,507	4,761,156	(1,019,770)	7,830,197
HHS Stimulus revenue	6,598,814	439,191	120,398	-	7,158,403
Net assets released from restrictions used for operations	104,734	94,147	21,657	-	220,538
Total revenues, gains and other support without donor restrictions	56,489,257	5,980,763	13,812,052	(1,019,770)	75,262,302
Expenses					
Salaries and wages	23,878,935	3,050,340	9,280,906	-	36,210,181
Employee benefits	6,850,002	836,128	2,154,395	-	9,840,525
Purchased service and professional fees	6,917,442	591,581	1,582,426	-	9,091,449
Supplies and other	11,260,923	2,089,776	2,027,551	(1,019,770)	14,358,480
Depreciation and amortization	3,365,847	811,829	51,656	-	4,229,332
Interest	726,101	280,052	166	-	1,006,319
Total expenses	52,999,250	7,659,706	15,097,100	(1,019,770)	74,736,286
Operating income (loss)	3,490,007	(1,678,943)	(1,285,048)	-	526,016
Nonoperating gains (losses)					
Investment return, net	1,978,970	17,477	2,498	-	1,998,945
Change in fair value of interest rate swap agreement	(680,438)	-	-	-	(680,438)
Other income (loss)	334,660	(548)	235,000	-	569,112
Net nonoperating gains	1,633,192	16,929	237,498	-	1,887,619
Excess (deficiency) of revenues, gains, other support, and nonoperating gains over expenses and losses	5,123,199	(1,662,014)	(1,047,550)	-	2,413,635
Net assets released for acquisition of property and equipment	286,480	-	-	-	286,480
Transfers (to) from affiliates	(2,072,287)	1,024,737	1,047,550	-	-
Increase (decrease) in net assets without donor restrictions	$ 3,337,392	$ (637,277)	$ -	$ -	$ 2,700,115