# Gifford Health Care, Inc. and Subsidiaries

CONSOLIDATED FINANCIAL STATEMENTS

and

SUPPLEMENTARY INFORMATION

September 30, 2023 and 2022

With Independent Auditor's Report

**GIFFORD HEALTH CARE, INC. AND SUBSIDIARIES**

**September 30, 2023 and 2022**

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**INDEPENDENT AUDITOR'S REPORT**

Board of Directors
Gifford Health Care, Inc. and Subsidiaries

**Opinion**

We have audited the accompanying consolidated financial statements of Gifford Health Care, Inc. and Subsidiaries (Organization), which comprise the consolidated balance sheets as of September 30, 2023 and 2022, 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of September 30, 2023 and 2022, and the results of its operations, changes in its net assets, and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles (U.S. GAAP).

**Basis for Opinion**

We conducted our audits in accordance with U.S. generally accepted auditing standards (U.S. GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Change in Accounting Principle**

As discussed in Note 1 to the consolidated financial statements, during the year ended September 30, 2023, the Organization adopted new accounting guidance, Financial Accounting Standards Board Accounting Standards Codification Topic 842, Leases. Our opinion is not modified with respect to that matter.

**Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

**Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with U.S. GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with U.S. GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

**Report on Supplementary Information**

Our audits were 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 rather than to present the financial position and results of operations of the individual entities, 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 financial statements. The information has been subjected to the auditing procedures applied in the audits 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. GAAS. 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 30, 2024
Registration No. 92-0000278

**GIFFORD HEALTH CARE, INC. AND SUBSIDIARIES**

**Consolidated Balance Sheets**

**September 30, 2023 and 2022**

## ASSETS

| | 2023 | 2022 |
|---|---|---|
| Current assets | | |
| Cash and cash equivalents | **$ 2,080,382** | $ 5,405,320 |
| Short-term investments | **25,642** | 25,418 |
| Patient accounts receivable, net | **6,817,681** | 10,858,121 |
| Other receivables | **723,076** | 787,648 |
| Estimated amounts due from third parties | **23,990** | 657,087 |
| Supplies | **1,086,077** | 1,150,676 |
| Prepaid expenses and other | **1,739,114** | 1,661,160 |
| Total current assets | **12,495,962** | 20,545,430 |
| Assets limited as to use | **20,799,687** | 21,173,954 |
| Long-term investments | **8,405,107** | 11,232,551 |
| Property and equipment, net | **44,254,400** | 46,092,539 |
| Deferred system development costs | **1,494,858** | 624,709 |
| Right-of-use assets - operating leases | **2,736,601** | - |
| Total assets | **$ 90,186,615** | $ 99,669,183 |

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

## LIABILITIES AND NET ASSETS

| | 2023 | 2022 |
|---|---|---|
| Current liabilities | | |
| Current maturities of long-term debt | **$ 1,688,430** | $ 1,615,730 |
| Current portion lease liabilities - operating | **758,195** | - |
| Accounts payable | **2,619,466** | 3,280,641 |
| Accrued expenses | **8,622,442** | 6,990,772 |
| Accelerated payments from third parties | **-** | 1,509,041 |
| Estimated amounts due to third-party payers | **1,446,625** | - |
| Other | **139,980** | 107,820 |
| Total current liabilities | **15,275,138** | 13,504,004 |
| Long-term debt, excluding current maturities | **17,952,521** | 19,694,588 |
| Lease liabilities - operating, net of current portion | **1,978,406** | - |
| Deferred compensation | **3,636,495** | 3,415,129 |
| Refundable entrance fees | **6,687,734** | 6,731,715 |
| Deferred revenue from entrance fees | **2,330,877** | 2,546,101 |
| Deferred annuities | **512,629** | 567,593 |
| Total liabilities | **48,373,800** | 46,459,130 |
| Net assets | | |
| Without donor restrictions | **39,054,704** | 50,530,823 |
| With donor restrictions | **2,758,111** | 2,679,230 |
| Total net assets | **41,812,815** | 53,210,053 |
| Total liabilities and net assets | **$ 90,186,615** | $ 99,669,183 |

## GIFFORD HEALTH CARE, INC. AND SUBSIDIARIES

## Consolidated Statements of Operations

## Years Ended September 30, 2023 and 2022

| | **2023** | 2022 |
|---|---|---|
| Revenues, gains, and other support without donor restrictions | | |
| Patient service revenue (net of contractual allowances and discounts) | **$ 62,422,744** | $ 65,500,482 |
| Fixed prospective revenue | **3,963,519** | 4,131,934 |
| Other revenues | **10,268,520** | 10,395,718 |
| U.S. Department of Health and Human Services (HHS) stimulus revenue | **-** | 2,064,830 |
| Net assets released from restrictions used for operations | **269,282** | 242,510 |
| Total revenues, gains, and other support without donor restrictions | **76,924,065** | 82,335,474 |
| Expenses | | |
| Salaries and wages | **42,580,340** | 38,192,788 |
| Employee benefits | **10,177,245** | 10,346,180 |
| Purchased services and professional fees | **16,771,350** | 16,071,368 |
| Supplies and other | **16,878,552** | 16,444,139 |
| Depreciation and amortization | **4,428,870** | 4,316,246 |
| Interest | **633,504** | 652,573 |
| Total expenses | **91,469,861** | 86,023,294 |
| Operating loss | **(14,545,796)** | (3,687,820) |
| Nonoperating gains (losses) | | |
| Investment return (losses), net | **2,911,514** | (4,822,526) |
| Other income | **14,088** | 104,530 |
| Net nonoperating gains (losses) | **2,925,602** | (4,717,996) |
| Deficiency of revenues, gains, other support, and nonoperating gains over expenses and losses | **(11,620,194)** | (8,405,816) |
| Net assets released from restrictions for acquisition of property and equipment | **144,075** | 90,346 |
| Decrease in net assets without donor restrictions | **$ (11,476,119)** | $ (8,315,470) |

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, 2023 and 2022

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| Balances, October 1, 2021 | $ 58,846,293 | $ 2,347,366 | $ 61,193,659 |
| Deficiency of revenues, gains, other support, and nonoperating gains over expenses and losses before net assets released from restrictions | (8,648,326) | - | (8,648,326) |
| Contributions | - | 664,720 | 664,720 |
| Net assets released from restrictions used for operations | 242,510 | (242,510) | - |
| Net assets released from restrictions for acquisition of property and equipment | 90,346 | (90,346) | - |
| Change in net assets | (8,315,470) | 331,864 | (7,983,606) |
| Balances, September 30, 2022 | 50,530,823 | 2,679,230 | 53,210,053 |
| Deficiency of revenues, gains, other support, and nonoperating gains under expenses and losses before net assets released from restrictions | **(11,889,476)** | **-** | **(11,889,476)** |
| Contributions | **-** | **492,238** | **492,238** |
| Net assets released from restrictions used for operations | **269,282** | **(269,282)** | **-** |
| Net assets released from restrictions for acquisition of property and equipment | **144,075** | **(144,075)** | **-** |
| Change in net assets | **(11,476,119)** | **78,881** | **(11,397,238)** |
| Balances, September 30, 2023 | **$ 39,054,704** | **$ 2,758,111** | **$ 41,812,815** |

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, 2023 and 2022

| | 2023 | 2022 |
|---|---|---|
| Cash flows from operating activities | | |
| Change in net assets | $ (11,397,238) | $ (7,983,606) |
| Adjustments to reconcile change in net assets to net cash used by operating activities | | |
| Depreciation and amortization | 4,428,870 | 4,316,246 |
| Amortization of deferred revenue | (498,649) | (473,111) |
| Amortization of debt issuance costs | 20,889 | 20,889 |
| Net (gain) loss on investments | (1,956,364) | 5,678,199 |
| Net loss (gain) on sale of property and equipment | 34,062 | (70,094) |
| Proceeds from entrance fees - deferred revenue | 283,425 | 483,324 |
| Restricted contributions | (492,238) | (664,720) |
| Decrease (increase) in | | |
| Patient accounts receivable, net | 4,040,440 | (3,757,134) |
| Supplies | 64,599 | (3,730) |
| Increase (decrease) in | | |
| Estimated amounts due from and to third-party payers | 2,079,722 | (1,662,996) |
| Accelerated payments | (1,509,041) | (3,868,646) |
| Accounts payable and accrued expenses | 970,495 | 714,835 |
| Other assets and liabilities | (36,186) | 226,478 |
| Net cash used by operating activities | (3,967,214) | (7,044,066) |
| Cash flows from investing activities | | |
| Purchases of property and equipment | (2,624,793) | (3,654,054) |
| Increase in deferred system development costs | (870,149) | (624,709) |
| Proceeds from the sale of property and equipment | - | 70,094 |
| Purchase of investments | (6,607,565) | (5,907,458) |
| Proceeds from disposition of investments | 11,986,782 | 7,150,857 |
| Net cash provided (used) by investing activities | 1,884,275 | (2,965,270) |
| Cash flows from financing activities | | |
| Proceeds from entrance fees – refundable | 1,062,177 | 1,139,056 |
| Refunds of entrance fees | (1,106,158) | (672,544) |
| Restricted contributions | 492,238 | 664,720 |
| Principal payments on long-term debt | (1,690,256) | (1,616,733) |
| Net cash used by financing activities | (1,241,999) | (485,501) |
| Decrease in cash and cash equivalents | (3,324,938) | (10,494,837) |
| Cash and cash equivalents, beginning of year | 5,405,320 | 15,900,157 |
| Cash and cash equivalents, end of year | $ 2,080,382 | $ 5,405,320 |
| Supplemental cash flows information: | | |
| Interest paid | $ 612,615 | $ 631,684 |
| Implementation of ASC 842 (Note 1) recognition of operating leases | $ 3,355,886 | $ - |
| Purchase of property and equipment in accounts payable | $ - | $ 137,617 |

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

**Cash and Cash Equivalents**

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, 2023 and 2022, 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, 2023 and 2022, the Organization held $1,742,236 and $1,022,583, respectively, in repurchase and sweep accounts.

**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 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 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 net realizable value.

**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 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 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.

**Deficiency of Revenues, Gains, Other Support, and Nonoperating Gains Over Expenses and Losses**

The consolidated statements of operations include 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. Residents can choose between three different deposit options. Two of the deposit options are 80% or 50% 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% or 50%, respectively, of each deposit is nonrefundable and is amortized into income over the life expectancy of the resident. Life expectancies are adjusted annually. The third deposit option is 100% nonrefundable.

| | **2023** | | | | |
|---|---|---|---|---|---|
| Contract Type - Refundable Entrance Deposits | Proceeds Received | Refundable Entrance Fees | Deferred Revenue from Entrance Fees | Amortization of Deferred Revenue - Entrance Fees | Refunds of Entrance Deposits |
| 50% Refundable | **$ 162,104** | **$ 191,719** | **$ 151,663** | **$ 18,774** | **$ -** |
| 80% Refundable | **1,226,406** | **6,496,015** | **1,086,977** | **298,237** | **1,106,158** |
| 100% Nonrefundable | **150,665** | **-** | **1,092,237** | **181,638** | **-** |
| | **$ 1,539,175** | **$ 6,687,734** | **$ 2,330,877** | **$ 498,649** | **$ 1,106,158** |

| | 2022 | | | | |
|---|---|---|---|---|---|
| Contract Type - Refundable Entrance Deposits | Proceeds Received | Refundable Entrance Fees | Deferred Revenue from Entrance Fees | Amortization of Deferred Revenue - Entrance Fees | Refunds of Entrance Deposits |
| 50% Refundable | $ - | $ 110,667 | $ 89,385 | $ 21,282 | $ - |
| 80% Refundable | 1,231,767 | 6,621,048 | 1,216,349 | 276,648 | 672,544 |
| 100% Refundable | 279,814 | - | 1,240,367 | 175,181 | - |
| | $ 1,511,581 | $ 6,731,715 | $ 2,546,101 | $ 473,111 | $ 672,544 |

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, 2023 and 2022 was $652,609 and $675,413, respectively, and is included in "other" current liabilities. At September 30, 2023 and 2022, the internally designated assets to satisfy the future payments were $1,911,196 and $1,756,835, respectively, and are included in long-term investments.

**Patient Service Revenue and Patient Accounts Receivable**

Patient service revenue and patient accounts receivable are reported at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Organization bills the patients and third-party payors several days after the services are performed or the patient is discharged from the hospital. Revenue is recognized as performance obligations are satisfied.

The Organization has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the Organization's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, the Organization does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

Performance obligations are determined based on the nature of the services provided by the Organization. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Organization believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in hospitals receiving inpatient acute care services or patients receiving services in outpatient centers. The Organization measures the performance obligation from admission into the hospital or the commencement of an outpatient service to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services. Revenue from performance obligations satisfied at a point in time is generally recognized when the goods are provided to patients and customers in a retail setting (for example, cafeteria) and the Organization does not believe it is required to provide additional goods or services related to that sale.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Organization has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

The Organization determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Organization's policy, and implicit price concessions provided to uninsured patients. The Organization determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The Organization determines its estimate of implicit price concessions based on its historical collection experience with this class of patients and records these as a direct reduction to patient service revenue. Management continually reviews the contractual estimation process to consider and incorporate updates to laws and regulations and changes in commercial contractual terms resulting from contract negotiations and renewals.

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 individual accounts 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. Patient accounts receivable at October 1, 2021 was $7,100,987.

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*

As a Critical Access Hospital, inpatient acute services rendered to Medicare program beneficiaries are paid under a cost reimbursement methodology. Outpatient services are paid based on a combination of reimbursed cost and fee schedules. The Organization is reimbursed for cost reimbursable items at an interim rate with final settlement determined after submission of annual cost reports by the Organization and audits thereof by the Medicare fiscal intermediary. The Organization's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2017. Revenues from the Medicare program accounted for approximately 41% and 48% of the Organization's patient revenue for the years ended September 30, 2023 and 2022, respectively.

*Medicaid*

Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors, and are not subject to retroactive adjustment. The Organization's Medicaid cost reports have been audited by the fiscal intermediary through September 30, 2014. Revenues from the Medicaid program accounted for approximately 12% of the Organization's patient revenue for the years ended September 30, 2023 and 2022, respectively.

Effective January 1, 2019, the Organization began participating in the State of Vermont's alternative payment model (all-payor system). Under this model, the Organization entered into a risk-bearing agreement with OneCare Vermont, LLC (OneCare) for the Vermont Medicaid attributed lives in the Corporation's service area. This is a capitated-based payment agreement with pre-established risk corridors. OneCare is responsible for both the cost and quality of care for each attributed member. This is true whether that person uses little or no care or whether they require services consistently throughout the year. As a participant in OneCare, the Organization acknowledges that calculations are based on a prospective attribution model and that adjustments will be made during the year for factors such as changes in attribution. The Organization's maximum settlement exposure is calculated by applying the number of shares in OneCare to the total program exposure. The maximum financial exposure to the Organization for the OneCare Medicaid payor program for 2023 and 2022 is approximately $617,500 and $301,500 respectively, of which $301,500 was reserved for 2023 and 2022, respectively. The Organization recognizes its share of annual contract settlements as an increase or decrease to fixed prospective revenue in the statement of operations.

*Other*

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

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs. The Organization continually assesses areas that represent potential for billing errors. The impact of potential billing errors are addressed and included within the estimated third-party payor settlements amount in the financial statements at September 30, 2023. As a result of investigations by governmental agencies, various healthcare organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Organization's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Organization. In addition, the contracts the Organization has with commercial and other payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive revenue adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the Organization's historical settlement activity, including a determination it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from changes in transaction price in 2023 and 2022 increased patient service revenue by approximately $40,000 and $285,000, respectively.

The following table summarizes the Organization's settlements and settlement activity with its significant third-party payors:

As of September 30, 2023:

| | **Beginning of Year Settlement Balance** | **Fiscal Year Estimate** | **Prior Year Settlements and Adjustments** | **Current Year Receipts** | **End of Year Settlement Balance** | **Open Settlement Years** |
|---|---|---|---|---|---|---|
| Medicare | **$ 659,728** | **$ -** | **$ (241,415)** | **$ (1,551,152)** | **$ (1,132,839)** | **2018-2023** |
| Medicaid | **(50,000)** | **-** | **-** | **-** | **(50,000)** | **2022 - 2023** |
| OneCare | **47,359** | **(301,500)** | **281,588** | **(267,243)** | **(239,796)** | **2022-2023** |
| Total | **$ 657,087** | **$ (301,500)** | **$ 40,173** | **$ (1,818,395)** | **$ (1,422,635)** | |

As of September 30, 2022:

| | Beginning of Year Settlement Balance | Fiscal Year Estimate | Prior Year Settlements and Adjustments | Current Year Payments (Receipts) | End of Year Settlement Balance | Open Settlement Years |
|---|---|---|---|---|---|---|
| Medicare | $ (1,620,406) | $ 2,000,000 | $ (423,986) | $ 704,120 | $ 659,728 | 2015-2022 |
| Medicaid | (50,000) | - | - | - | (50,000) | 2022 |
| OneCare | 664,497 | (301,500) | 709,248 | (1,024,886) | 47,359 | |
| Total | $ (1,005,909) | $ 1,698,500 | $ 285,262 | $ (320,766) | $ 657,087 | |

Consistent with the Organization's mission, care is provided to patients regardless of their ability to pay. Therefore, the Organization has determined it has provided implicit price concessions to uninsured patients and other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represents the difference between amounts billed to patients and the amounts the Organization expects to collect based on its collection history with those patients.

Patients who meet the Organization's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue. The Organization estimates the costs associated with providing charity care by calculating a ratio of total cost to total gross charges, and then multiplying that ratio by the gross uncompensated charges associated with providing care to patients eligible for free care. The estimated cost of caring for charity care patients was approximately $320,000 and $301,000 for 2023 and 2022, respectively.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Organization also provides services to uninsured patients and offers those uninsured patients a discount, either by policy or law, from standard charges. The Organization estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions based on historical collection experience. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

The Organization has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors:

- Payors (for example, Medicare, Medicaid, managed care or other insurance, patient) have different reimbursement and payment methodologies;
- Length of the patient's service or episode of care;
- Method of reimbursement (fee for service or fixed prospective payment); and
- Organization's program that provided the service.

For the years ended September 30, 2023 and 2022, the Organization determined any revenue recognized from goods and services that transfer to the customer at a point in time is not material to the financial statements.

## Grant Revenue

The Organization is the recipient of a Consolidated Health Centers (CHC) grant from U.S. Department of Health and Human Services (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, 2023 and 2022, CHC grant revenue of $2,637,789 and $2,368,872 was recognized, respectively. The Organization’s present CHC grant award covers the grant period ending January 31, 2024, and is approved at $1,704,120. 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 $1,669,739 and $1,646,126 for 2023 and 2022, 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 $756,287 and $450,000 as of September 30, 2023 and 2022, 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.

## Medicare Accelerated Payments

In response to the 2019 Novel Coronavirus Disease (COVID-19) pandemic, the Centers for Medicare & Medicaid Services (CMS) made available an accelerated and advanced payment program to Medicare providers. The Organization received $9,238,305 in April 2020. During 2021, CMS began recouping payment from claim payments one year after the advance was made. During 2023, the remaining amount was recouped.

## 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 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 2022, the Organization received $2,064,830 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, 2022 the Organization recognized all $2,064,830 of the PRF for COVID-related expenses, in other revenues in the consolidated statements of operations. Management determined the conditions on which the PRF depend were substantially met. 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.

**Right-of-Use Assets and Lease Liabilities**

Effective October 1, 2022, the Organization adopted FASB ASC Topic 842, *Leases* (Topic 842). The Organization determines if an arrangement is a lease or contains a lease at inception of a contract. A contract is determined to be or contain a lease if the contract conveys the right to control the use of identified property, plant, or equipment (an identified asset) in exchange for consideration. The Organization determines these assets are leased because the Organization has the right to obtain substantially all of the economic benefit from and the right to direct the use of the identified asset. Assets in which the supplier or lessor has the practical ability and right to substitute alternative assets for the identified asset and would benefit economically from the exercise of its right to substitute the asset are not considered to be or contain a lease because the Organization determines it does not have the right to control and direct the use of the identified asset. The Organization's lease agreements do not contain any material residual values guarantees or material restrictive covenants.

In evaluating its contracts, the Organization separately identifies lease and non-lease components, such as maintenance costs, in calculating the right-of-use (ROU) assets and lease liabilities for its facility and equipment leases. The Organization has elected the practical expedient to not separate lease and non-lease components and classifies the contract as a lease if consideration in the contract allocated to the lease component is greater than the consideration allocated to the non-lease agreement.

Leases result in the recognition of ROU assets and lease liabilities on the consolidated balance sheet. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. The Organization determines lease classification as operating or finance at the lease commencement date.

At lease inception, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives. Topic 842 requires the use of the implicit rate in the lease when readily determinable. As the leases do not provide an implicit rate, the Organization elected to use their incremental borrowing rate when the rate of the lease is not implicit in the lease agreement.

The lease term may include options to extend or to terminate the lease that the Organization is reasonably certain to exercise. Lease expense for operating leases is recognized on a straight-line basis over the lease term.

The Organization has elected not to record leases with an initial term of 12 months or less on the balance sheet. Lease expense on such leases is recognized on a straight-line basis over the lease term.

Upon adoption of Topic 842, the Organization elected the package of practical expedients permitted under the transition guidance within the new standard which includes the following: relief from determination of lease contracts included in existing or expiring leases at the point of adoption, and relief from reevaluate the classification of leases in effect a the point of adoption, and relief from reevaluation of existing leases that have initial direct costs associated with the execution of the lease contract.

The adoption of Topic 842 resulted in the recognition of the following assets and liabilities on October 1, 2022:

| | |
|---|---|
| Right-of-use assets - operating lease | $3,355,886 |
| Current portion of lease liabilities - operating | $ 721,624 |
| Lease liabilities - operating, net of current portion | 2,634,262 |
| Lease liabilities | $3,355,886 |

## Subsequent Events

For purposes of the preparation of these consolidated financial statements, the Organization has considered transactions or events occurring through January 30, 2024, which was the date the consolidated financial statements were available to be issued.

## 2. Availability and Liquidity of Financial Assets

The Organization had average days (based on normal expenditures) cash and cash equivalents on hand of 9 and 24 at September 30, 2023 and 2022, respectively.

The Organization's goal is to maintain financial assets to meet 75 days of operating expenses, approximately $18,795,150 and $17,676,000 at September 30, 2023 and 2022, respectively. The annual operating budget is determined with the goal of generating sufficient 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:

| | **2023** | 2022 |
|---|---|---|
| Financial assets at year end | | |
| Cash and cash equivalents | **$ 2,080,382** | $ 5,405,320 |
| Short-term investments | **25,642** | 25,418 |
| Patient accounts receivable, net | **6,817,681** | 10,858,121 |
| Estimated amounts due from third parties | **23,990** | 657,087 |
| Other receivables | **723,076** | 787,648 |
| Financial assets available to meet general expenditures within one year | **$ 9,670,771** | $ 17,733,594 |

Cash and cash equivalents included $1,509,041 at September 30, 2022, specifically related to Medicare Accelerated Payments and unexpended CARES Act Funds received from HHS. This equates to seven days cash and cash equivalents on hand.

The Organization has long-term investments and assets limited as to use of $29,204,794 and $32,406,505 at September 30, 2023 and 2022, respectively, that are designated assets set aside by the Board for future capital improvements. These long-term investments and 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.

## 3. Patient Service Revenue

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

| | **2023** | 2022 |
|---|---|---|
| Gross patient service revenue | **$ 139,061,955** | $ 138,159,625 |
| Less contractual allowances | **76,157,042** | 72,181,411 |
| Less charity care | **482,169** | 477,732 |
| Patient service revenue | **$ 62,422,744** | $ 65,500,482 |

Each performance obligation is separately identifiable from other promises in the customer contract. As the performance obligations are met (i.e., room, board, ancillary services, level of care), revenue is recognized based upon the allocated transaction price. The transaction price is allocated to separate performance obligations based upon the relative standalone selling price. In instances where management determines there are multiple performance obligations across multiple months, the transaction price is allocated by applying an estimated implicit and explicit rate to gross charges based on the separate performance obligations.

In assessing collectibility, the Organization has elected the portfolio approach. This portfolio approach is being used as the Organization has a large volume of similar contracts with similar classes of customers. The Organization reasonably expects that the effect of applying a portfolio approach to a group of contracts would not differ materially from considering each contract separately. Management's judgment to group the contracts by portfolio is based on the payment behavior expected in each portfolio category. As a result, aggregating all of the contracts (which are at the patient level) by the particular payor or group of payors, will result in the recognition of the same amount of revenue as applying the analysis at the individual patient level.

Patient service revenue recognized for the years ended September 30, 2023 and 2022 from these major payors is as follows:

| | 2023 | 2022 |
|---|---|---|
| Payor: | | |
| Medicare and Medicaid | **$ 32,935,454** | $ 39,568,705 |
| Commercial | **26,573,106** | 24,778,976 |
| Self pay | **2,914,184** | 1,152,801 |
| Total | **$ 62,422,744** | $ 65,500,482 |

## 4. 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:

| | 2023 | 2022 |
|---|---|---|
| Medicare | **42 %** | 44 % |
| Medicaid | **13** | 17 |
| Blue Cross and other third-party payers | **29** | 27 |
| Patients | **16** | 12 |
| | **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.

## 5. Investments

Investments consist of the following at September 30:

| | 2023 | 2022 |
|---|---|---|
| Internally designated investments | **$ 12,285,755** | $ 12,789,947 |
| Deferred compensation | **3,636,495** | 3,415,129 |
| Endowment and investment with donor restrictions | **9,630,052** | 9,603,493 |
| Other investments | **3,678,134** | 6,623,354 |
| | **$ 29,230,436** | $ 32,431,923 |

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

| | **2023** | 2022 |
|---|---|---|
| Cash equivalents | **$ 307,059** | $ 732,614 |
| Certificates of deposit | **79,171** | 78,947 |
| Fixed income, including mutual funds | **10,854,875** | 12,339,293 |
| Equity securities and other | **3,417,770** | 16,235,005 |
| Mutual funds | **14,571,561** | 3,046,064 |
| | **$ 29,230,436** | $ 32,431,923 |

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

| | **2023** | 2022 |
|---|---|---|
| Interest and dividend income | **$ 955,150** | $ 855,672 |
| Realized gains on sales of securities | **840,306** | 2,229,106 |
| Unrealized gains (losses) on securities | **1,116,058** | (7,907,304) |
| | **$ 2,911,514** | $ (4,822,526) |

**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, 2023:

| | | 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 | **$ 307,059** | **$ 307,059** | **$ -** | **$ -** |
| Certificates of deposit | **79,171** | **79,171** | **-** | **-** |
| Equity securities | **14,571,561** | **14,571,561** | **-** | **-** |
| Mutual funds | **3,636,495** | **3,636,495** | **-** | **-** |
| Corporate obligations | **8,931,182** | **-** | **8,931,182** | **-** |
| U.S. agency obligations | **1,704,968** | **-** | **1,704,968** | **-** |
| Total investments and cash equivalents | **$ 29,230,436** | **$ 18,594,286** | **$ 10,636,150** | **$ -** |

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, 2022:

| | | 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 | $ 732,614 | $ 732,614 | $ - | $ - |
| Certificates of deposit | 78,947 | 78,947 | - | - |
| Equity securities | 16,235,005 | 16,235,005 | - | - |
| Mutual funds | 3,415,129 | 3,415,129 | - | - |
| Corporate obligations | 10,908,786 | - | 10,908,786 | - |
| U.S. agency obligations | 1,061,442 | - | 1,061,442 | - |
| Total investments and cash equivalents | $ 32,431,923 | $ 20,461,695 | $ 11,970,228 | $ - |

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, 2023.

**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.

## 6. Property and Equipment

Property and equipment consists of the following at September 30, 2023 and 2022:

| | 2023 | 2022 |
|---|---|---|
| Land and land improvements | **$ 6,274,529** | $ 6,268,314 |
| Buildings and building improvements | **49,203,506** | 47,964,716 |
| Equipment | **53,098,300** | 52,783,277 |
| Construction in progress | **1,517,387** | 3,054,931 |
| | **110,093,722** | 110,071,238 |
| Less accumulated depreciation | **65,839,322** | 63,978,699 |
| Property and equipment, net | **$ 44,254,400** | $ 46,092,539 |

At September 30, 2023, 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 $4,234,000, with funding from cash from operations and existing cash, cash equivalents, and investments.

## 7. Net Assets

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

| | 2023 | 2022 |
|---|---|---|
| Purpose restricted: | | |
| Indigent care | **$ 23,668** | $ 24,739 |
| Community outreach initiatives | **812,812** | 769,125 |
| Education | **95,797** | 60,945 |
| Buildings and maintenance | **3,000** | 3,000 |
| Operations | **138,098** | 137,931 |
| | **1,073,375** | 995,740 |
| 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 | **154,775** | 153,529 |
| Perpetual in nature, the income of which is unrestricted | **699,239** | 699,239 |
| | **1,684,736** | 1,683,490 |
| | **$ 2,758,111** | $ 2,679,230 |

## 8. Borrowings

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

| | **2023** | 2022 |
|---|---|---|
| Vermont Education and Health Buildings Financing Agency (Agency) Series 2021A, tax-exempt fixed rate bonds at 2.89%. Payable in 188 monthly principal and interest payments. Monthly principal payments range from $66,493 in 2023 to $119,517 in 2033; collateralized by substantially all assets. | **$ 15,003,316** | $15,818,662 |
| Independent Living 1 mortgage note payable to Northfield Savings Bank, in 90 monthly installments of $88,710, including interest (at a fixed rate of 3.50%), through October 2028; collateralized by mortgaged property. | **4,867,862** | 5,742,771 |
| | **19,871,178** | 21,561,433 |
| Less current maturities | **1,688,430** | 1,615,730 |
| Less unamortized debt issuance costs | **230,227** | 251,115 |
| Long-term debt, excluding current maturities | **$ 17,952,521** | $19,694,588 |

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

| | |
|---|---|
| 2024 | $ 1,688,430 |
| 2025 | 1,844,074 |
| 2026 | 1,927,941 |
| 2027 | 2,015,228 |
| 2028 | 2,105,637 |
| Thereafter | 10,289,868 |
| | $ 19,871,178 |

The indentures related to the Agency bonds contain provisions regarding debt service coverage ratio and minimum days cash on hand. The Organization was not in compliance with these requirements at September 30, 2023 with respect to the historical maximum annual debt service coverage ratio but has obtained a waiver as of September 30, 2023.

In January 2024, the covenants were revised as follows:

- For the fiscal quarter ending December 31, 2023, the Organization shall generate income available for debt service of not less than ($2,000,000) as of December 31, 2023 on a trailing three month basis.
- For the fiscal quarter ending March 31,2024, the Organization shall generate income available for debt service of not less than zero, calculated as of March 31, 2024, on a trailing six month basis.

- Commencing with the fiscal quarter ending June 30, 2024, and each March 31, June 30, September 30 and December 31 thereafter (each, a testing date) as of the end of each fiscal quarter, the Organization shall maintain a historical debt service coverage ratio at 1.10:1.00 and 1.40:1.00 for June 30, 2024 and September 30, 2024 and each testing date thereafter, respectively.

- The Organization shall maintain days cash on hand of at least 80 as of March 31, 2024 and maintain days cash on hand of at least 75 as of September 30, 2024 and each March 31 and September 30 thereafter.

**Lease Obligations**

The Organization has entered the following lease arrangements:

Operating Leases

The Organization has equipment leases that expire from 2024 through 2028. These leases generally, contain renewal options. Termination of the leases is generally prohibited unless there is a violation under the lease agreements.

Short-Term Leases

The Organization has certain leases that are for a period of 12 months of less or contains renewals for periods of 12 months or less. The Organization does not include short-term leases within the balance sheet since it has elected the practical expedient not to include these leases within the recognized operating lease ROU assets and lease liabilities.

Lease Costs

Lease costs for the year ended September 30, 2023 is as follows:

| | |
|---|---|
| Operating and short term lease costs: | $ 815,742 |

Other Information

| | |
|---|---|
| Operating leases | |
| Weighted average remaining terms: | 3.86 years |
| Weighted average discount rates: | 2.89% |

Future Minimum Lease Payments and Reconciliation to the Balance Sheet

| | Operating Leases |
|---|---|
| 2024 | $ 827,293 |
| 2025 | 753,957 |
| 2026 | 680,412 |
| 2027 | 502,100 |
| 2028 | 129,300 |
| Total minimum lease payments | 2,893,062 |
| Amounts representing interest | (156,461) |
| Present value of future minimum lease payments | 2,736,601 |
| Less: current portion | (758,195) |
| | $ 1,978,406 |

## 9. 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 U.S. 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 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, 2023 and 2022 were:

| | **2023** | | |
|---|---|---|---|
| | **Without Donor Restrictions** | **With Donor Restrictions** | **Total** |
| Endowment net assets, beginning of year | **$ 7,920,003** | **$ 1,683,490** | **$ 9,603,493** |
| Investment income, net of fees | **239,587** | **99,090** | **338,677** |
| Net gains | **477,930** | **78,846** | **556,776** |
| Contributions received | **100,000** | **-** | **100,000** |
| Distributions and releases | **(792,204)** | **(176,690)** | **(968,894)** |
| Endowment net assets, end of year | **$ 7,945,316** | **$ 1,684,736** | **$ 9,630,052** |

| | 2022 | | |
|---|---|---|---|
| | Without Donor Restrictions | With Donor Restrictions | Total |
| Endowment net assets, beginning of year | $ 9,935,947 | $ 1,583,490 | $ 11,519,437 |
| Investment income, net of fees | 194,021 | 78,690 | 272,711 |
| Net gains | (2,018,832) | 111,939 | (1,906,893) |
| Contributions received | 100,000 | 100,000 | 200,000 |
| Distributions and releases | (291,133) | (190,629) | (481,762) |
| Endowment net assets, end of year | $ 7,920,003 | $ 1,683,490 | $ 9,603,493 |

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.

## 10. 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.

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

| **2023** | Program Services | General and Administrative | Fundraising | Total |
|---|---|---|---|---|
| Salaries and wages | **$ 33,363,940** | **$ 9,207,884** | **$ 8,516** | **$ 42,580,340** |
| Employee benefits | **8,247,561** | **1,927,649** | **2,035** | **10,177,245** |
| Purchased serves and professional fees | **13,595,429** | **3,172,571** | **3,350** | **16,771,350** |
| Supplies and other | **13,674,194** | **3,200,978** | **3,380** | **16,878,552** |
| Depreciation and amortization | **3,589,122** | **838,862** | **886** | **4,428,870** |
| Interest | **513,387** | **119,990** | **127** | **633,504** |
| | **$ 72,983,633** | **$ 18,467,934** | **$ 18,294** | **$ 91,469,861** |

| 2022 | Program Services | General and Administrative | Fundraising | Total |
|---|---|---|---|---|
| Salaries and wages | $ 30,386,739 | $ 7,798,410 | $ 7,639 | $ 38,192,788 |
| Employee benefits | 7,421,912 | 2,922,199 | 2,069 | 10,346,180 |
| Purchased serves and professional fees | 11,524,655 | 4,537,500 | 3,213 | 16,065,368 |
| Supplies and other | 11,800,552 | 4,646,295 | 3,292 | 16,450,139 |
| Depreciation and amortization | 3,096,288 | 1,219,095 | 863 | 4,316,246 |
| Interest | 468,127 | 184,315 | 131 | 652,573 |
| | $ 64,698,273 | $ 21,307,814 | $ 17,207 | $ 86,023,294 |

## 11. 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 $1,578,127 and $1,442,486 for 2023 and 2022, 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.

## 12. Commitments

In March 2023, the Organization entered into a master service agreement (MSA) with Mazars USA, LLP to provide various consulting services. The services in the MSA include revenue cycle management support, hospital price transparency consulting, interim chief financial officer services, coding process enhancement and billing related process enhancement. The initial term of the MSA began in March 2023 and will continue for three consecutive years, eligible for automatic renewal for an additional three years. Either party may elect not to renew the MSA by providing a notice to the other party at least sixty business days prior to the expiration of the initial term. The Organization has a minimum commitment for fiscal year 2024 of $1,536,900 plus 3.5% of cash collected from billings under the MSA associated with the current statements of work.

### Medical Malpractice Claims

The Organization 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 Organization 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 Organization 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 Organization to accrue the ultimate cost of malpractice claims when the incident that gives rise to the claim occurs, without consideration of insurance recoveries. Amounts that cannot be reasonably estimated are not accrued. While it is not feasible to predict or determine the outcome of these claims, there were no known malpractice claims outstanding as of September 30, 2023 which, in the opinion of management, will be settled for amounts in excess of insurance coverage.

### Deferred System Development Costs

During 2022, the Organization entered into an agreement with Medical Information Technology, Inc. (Meditech) to implement a hospital-wide electronic health record (EHR) system. The Meditech agreement has an initial term of three years with successive 12-month terms. The costs incurred by the Organization related to the implementation of the EHR system through the date the EHR system is placed in service have been deferred and will be amortized over the remaining term of the Meditech agreement. The EHR system was placed into service in October 2023.

The following is a schedule of future amortization of deferred system development costs as of September 30, 2023:

| | |
|---|---|
| 2024 | $ 644,450 |
| 2025 | 644,450 |
| 2026 | 644,450 |
| | $ 1,933,350 |

The following schedule reflects the Organization's minimum payments to Meditech under the agreement for future capital, subscription, transaction, and maintenance services:

| | |
|---|---|
| 2024 | $ 1,979,589 |
| 2025 | 2,026,109 |
| 2026 | 168,842 |
| | $ 4,174,540 |

## 13. Financial Improvement Plan

Fiscal Year (FY) 2023 financial performance was impacted by a combination of both unfavorable variances in revenue and expenses.

Net patient revenue was impacted by lower than expected inpatient volumes, higher than anticipated emergency department visits, and an increase in lower acuity surgical cases. This resulted in overall higher than budget gross revenue but lower net patient care revenue. The volume variances were primarily driven by the provider vacancies.

Net patient revenue was also impacted by lower than expected accounts receivable collection rates. This was driven by suboptimal revenue cycle performance resulting in higher than anticipated denials, adjustments, and write-offs.

In FY 2023, GHC made a significant investment in an Electronic Medical Record (EMR) conversion, including the cost of running parallel systems, consulting and project management expenses and other contracted labor costs. These expenses will not continue in FY 2024.

In addition, GHC continued to rely on contract labor to fill vacant clinical positions, most notably nursing and physicians.

GHC implemented a financial improvement plan during FY 2023 and expected to continue through FY 2024. The financial improvement plan includes initiatives that will reduce expenses and improve revenue.

Expense reduction initiatives include:

- Reduction of agency/traveler expenses
  - Implemented nurse training and development programs including a nursing residency program, participation in the Vermont Talent Pipeline, in-house Licensed Nurse Assistant and Medical Assistant training program.
  - Updated staffing models to better meet volume
  - Affiliation with Vermont State University on nurse educator partnership
- Replaced Medical Doctor (MD) positions with Nurse Practitioners and Physician Assistants
- Closed/consolidated a physical therapy location
- Consolidation of management positions
- Sunsetting project management expenses related to new EMR and legacy electronic health record system expenses.

Revenue improvement initiatives include:

- Onboarded vacant specialist-Orthopedic surgeon (October 2023) and two new Obstetric/Gynecology (May 2023 and January 2024) providers
- Increased access to primary care through opening schedules
- Commercial insurance contracting initiatives
- Revenue cycle optimization plan
  - Chargemaster and pricing update
  - Workflow and process improvements related to new EMR
  - Outsourced coding and billing services

# SUPPLEMENTARY INFORMATION

# GIFFORD HEALTH CARE, INC. AND SUBSIDIARIES

## Consolidating Schedule – Balance Sheet

## September 30, 2023

### ASSETS

| | GMC | GRC | GHC | Eliminations | Total |
|---|---|---|---|---|---|
| Current assets | | | | | |
| Cash and cash equivalents | $ 1,275,201 | $ 438,631 | $ 366,550 | $ - | $ 2,080,382 |
| Short-term investments | 25,642 | - | - | - | 25,642 |
| Patient accounts receivable | 5,795,480 | 304,337 | 717,864 | - | 6,817,681 |
| Other receivables | 161,409 | 202,986 | 358,681 | - | 723,076 |
| Estimated amounts due from third parties | - | - | 23,990 | - | 23,990 |
| Supplies | 1,081,795 | 4,282 | - | - | 1,086,077 |
| Prepaid expenses and other | 1,463,577 | 163,905 | 111,632 | - | 1,739,114 |
| Due from affiliate | 25,101,012 | - | - | (25,101,012) | - |
| Total current assets | 34,904,116 | 1,114,141 | 1,578,717 | (25,101,012) | 12,495,962 |
| Assets limited as to use | 20,799,687 | - | - | - | 20,799,687 |
| Long-term investments | 8,220,345 | 184,762 | - | - | 8,405,107 |
| Property and equipment, net | 34,672,216 | 9,361,463 | 220,721 | - | 44,254,400 |
| Deferred system development costs | 1,494,858 | - | - | - | 1,494,858 |
| Right-of-use assets - operating leases | 2,348,642 | - | 387,959 | - | 2,736,601 |
| Total assets | $102,439,864 | $ 10,660,366 | $ 2,187,397 | $ (25,101,012) | $ 90,186,615 |

## LIABILITIES AND NET ASSETS (DEFICIT)

| | GMC | GRC | GHC | Eliminations | Total |
|---|---|---|---|---|---|
| Current liabilities | | | | | |
| Current maturities of long-term debt | $ 859,686 | $ 828,744 | $ - | $ - | $ 1,688,430 |
| Current portion of lease liabilities - operating | 613,723 | - | 144,472 | - | 758,195 |
| Accounts payable | 2,228,623 | 35,666 | 355,177 | - | 2,619,466 |
| Accrued expenses | 6,031,505 | 1,101,008 | 1,489,929 | - | 8,622,442 |
| Accelerated payments | - | - | - | - | - |
| Estimated amounts due to third-party payers | 1,446,625 | - | - | - | 1,446,625 |
| Other | 124,160 | 15,820 | - | - | 139,980 |
| Due to affiliate | - | 9,505,819 | 15,595,193 | (25,101,012) | - |
| Total current liabilities | 11,304,322 | 11,487,057 | 17,584,771 | (25,101,012) | 15,275,138 |
| Long-term debt, excluding current maturities | 13,940,838 | 4,011,683 | - | - | 17,952,521 |
| Lease liabilities - operating, net of current portion | 1,734,919 | - | 243,487 | - | 1,978,406 |
| Deferred compensation | 3,636,495 | - | - | - | 3,636,495 |
| Refundable entrance fees | - | 6,687,734 | - | - | 6,687,734 |
| Deferred revenue from entrance fees | - | 2,330,877 | - | - | 2,330,877 |
| Deferred annuities | 441,266 | 71,363 | - | - | 512,629 |
| Total liabilities | 31,057,840 | 24,588,714 | 17,828,258 | (25,101,012) | 48,373,800 |
| Net assets (deficit) | | | | | |
| Without donor restrictions | 68,719,821 | (13,999,265) | (15,665,852) | - | 39,054,704 |
| With donor restrictions | 2,662,203 | 70,917 | 24,991 | - | 2,758,111 |
| Total net assets (deficit) | 71,382,024 | (13,928,348) | (15,640,861) | - | 41,812,815 |
| Total liabilities and net assets (deficit) | $102,439,864 | $ 10,660,366 | $ 2,187,397 | $ (25,101,012) | $ 90,186,615 |

## GIFFORD HEALTH CARE, INC. AND SUBSIDIARIES

## Consolidating Schedule – Statement of Operations

## Year Ended September 30, 2023

| | GMC | GRC | GHC | Eliminations | Total |
|---|---|---|---|---|---|
| Revenues, gains, and other support without donor restrictions | | | | | |
| Patient service revenue (net of contractual allowances and discounts) | $ 50,397,017 | $ 4,071,766 | $ 7,953,961 | $ - | $ 62,422,744 |
| Fixed prospective revenue | 3,963,519 | - | - | - | 3,963,519 |
| Other revenues | 13,831,707 | 2,319,047 | 6,366,776 | (12,249,010) | 10,268,520 |
| Net assets released from restrictions used for operations | 247,966 | 3,044 | 18,272 | - | 269,282 |
| Total revenues, gains, and other support without donor restrictions | 68,440,209 | 6,393,857 | 14,339,009 | (12,249,010) | 76,924,065 |
| Expenses | | | | | |
| Salaries and wages | 29,232,457 | 3,410,426 | 9,937,457 | - | 42,580,340 |
| Employee benefits | 7,075,513 | 886,981 | 2,214,751 | - | 10,177,245 |
| Purchased service and professional fees | 12,989,009 | 1,709,669 | 2,072,672 | - | 16,771,350 |
| Supplies and other | 20,663,355 | 3,200,192 | 5,264,015 | (12,249,010) | 16,878,552 |
| Depreciation and amortization | 3,607,034 | 745,940 | 75,896 | - | 4,428,870 |
| Interest | 438,402 | 195,102 | - | - | 633,504 |
| Total expenses | 74,005,770 | 10,148,310 | 19,564,791 | (12,249,010) | 91,469,861 |
| Operating loss | (5,565,561) | (3,754,453) | (5,225,782) | - | (14,545,796) |
| Nonoperating gains | | | | | |
| Investment return, net | 2,885,795 | 23,875 | 1,844 | - | 2,911,514 |
| Other income (loss) | 23,829 | (10,172) | 431 | - | 14,088 |
| Net nonoperating gains | 2,909,624 | 13,703 | 2,275 | - | 2,925,602 |
| Deficiency of revenues, gains, other support, and nonoperating gains over expenses and losses | (2,655,937) | (3,740,750) | (5,223,507) | - | (11,620,194) |
| Net assets released for acquisition of property and equipment | 144,075 | - | - | - | 144,075 |
| Decrease in net assets without donor restrictions | $ (2,511,862) | $ (3,740,750) | $ (5,223,507) | $ - | $ (11,476,119) |