

**Carlos G. Otis Health Care Center, Inc.  
and Subsidiary**

**Audited Consolidated Financial Statements  
and Other Financial Information**

*Years Ended September 30, 2021 and 2020  
With Independent Auditors' Report*

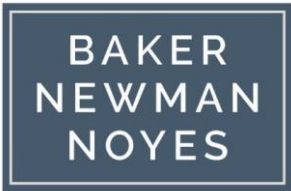
# CARLOS G. OTIS HEALTH CARE CENTER, INC. AND SUBSIDIARY

## Audited Consolidated Financial Statements and Other Financial Information

September 30, 2021 and 2020

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**INDEPENDENT AUDITORS' REPORT**

Board of Trustees  
Carlos G. Otis Health Care Center, Inc. and Subsidiary

We have audited the accompanying consolidated financial statements of Carlos G. Otis Health Care Center, Inc. and Subsidiary, which comprise the consolidated balance sheets as of September 30, 2021 and 2020, the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

*Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

*Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Carlos G. Otis Health Care Center, Inc. and Subsidiary as of September 30, 2021 and 2020, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Baker Newman & Noyes LLC*

Manchester, New Hampshire  
March 30, 2022

**CARLOS G. OTIS HEALTH CARE CENTER, INC. AND SUBSIDIARY**

**CONSOLIDATED BALANCE SHEETS**

September 30, 2021 and 2020

ASSETS

	<u>2021</u>	<u>2020</u>
Current assets:		
Cash and cash equivalents	\$ 8,857,627	\$ 8,910,369
Accounts receivable	2,397,743	1,906,817
Meaningful use receivable	–	8,500
Other accounts receivable	30,533	–
Inventories	953,554	1,045,041
Prepaid expenses and other current assets	<u>197,550</u>	<u>197,813</u>
Total current assets	12,437,007	12,068,540
Property and equipment, net	4,021,103	3,064,117
Assets whose use is limited or restricted:		
Restricted cash and cash equivalents	720,388	1,173,771
Investments	7,601,856	6,156,552
Contributions receivable from charitable remainder trusts	36,302	32,744
Beneficial interest in perpetual trust	2,018,311	1,756,773
Deposits with trustee	<u>58,180</u>	<u>58,251</u>
Total assets whose use is limited or restricted	10,435,037	9,178,091
	_____	_____
Total assets	<u>\$26,893,147</u>	<u>\$24,310,748</u>

## LIABILITIES AND NET ASSETS

	<u>2021</u>	<u>2020</u>
Current liabilities:		
Accounts payable	\$ 349,383	\$ 476,384
Accrued compensated absences	892,253	662,643
Accrued expenses	884,980	801,303
Estimated third-party settlements payable	2,359,535	66,653
Current portion of charitable gift annuities liability	23,292	6,492
Current portion of other long-term liabilities	3,958,532	471,340
Current portion of long-term debt and capital lease obligations	<u>555,423</u>	<u>421,256</u>
Total current liabilities	9,023,398	2,906,071
Charitable gift annuities liability, less current portion	176,878	30,730
Other long-term liabilities	–	5,365,046
Long-term debt and capital lease obligations, less current portion	<u>1,348,858</u>	<u>4,252,786</u>
Total liabilities	10,549,134	12,554,633
Net assets:		
Without donor restrictions	12,617,752	7,858,116
With donor restrictions	<u>3,726,261</u>	<u>3,897,999</u>
Total net assets	<u>16,344,013</u>	<u>11,756,115</u>
Total liabilities and net assets	<u>\$26,893,147</u>	<u>\$24,310,748</u>

See accompanying notes.

**CARLOS G. OTIS HEALTH CARE CENTER, INC. AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF OPERATIONS  
AND CHANGES IN NET ASSETS**

Years Ended September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Revenue without donor restrictions and other support:		
Patient service revenue	\$20,583,564	\$19,400,687
Other revenue	4,795,130	6,227,686
Net assets released from restrictions for operations	<u>934,407</u>	<u>412,945</u>
Total revenue without donor restrictions and other support	26,313,101	26,041,318
Expenses:		
Salaries and benefits	18,120,099	17,579,979
Supplies and other	7,047,713	6,647,439
State provider taxes	607,935	664,049
Depreciation and amortization	798,977	678,580
Interest	<u>86,529</u>	<u>127,206</u>
Total expenses	<u>26,661,253</u>	<u>25,697,253</u>
(Loss) income from operations	(348,152)	344,065
Nonoperating gains (losses):		
Investment return, net	892,667	338,966
Contributions and program support	1,104,910	549,449
Other nonoperating (losses) gains	(26,062)	64
Forgiveness of Paycheck Protection Program loan	<u>2,973,589</u>	<u>—</u>
Nonoperating gains, net	<u>4,945,104</u>	<u>888,479</u>
Excess of revenue, gains and other support over expenses	4,596,952	1,232,544

Continued next page.

**CARLOS G. OTIS HEALTH CARE CENTER, INC. AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF OPERATIONS  
AND CHANGES IN NET ASSETS (CONTINUED)**

Years Ended September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Excess of revenue, gains and other support over expenses	\$ 4,596,952	\$ 1,232,544
Net assets released from restrictions for capital purchases	<u>162,684</u>	<u>220,076</u>
Change in net assets without donor restrictions	4,759,636	1,452,620
Net assets with donor restrictions:		
Contributions	660,257	1,061,077
Net assets released from restrictions for operations	(934,407)	(412,945)
Net assets released from restrictions for capital purchases	(162,684)	(220,076)
Net change in charitable remainder trusts	3,558	(982)
Change in beneficial interest in perpetual trust	<u>261,538</u>	<u>49,839</u>
Change in net assets with donor restrictions	<u>(171,738)</u>	<u>476,913</u>
Change in net assets	4,587,898	1,929,533
Net assets, beginning of year	<u>11,756,115</u>	<u>9,826,582</u>
Net assets, end of year	<u>\$16,344,013</u>	<u>\$11,756,115</u>

See accompanying notes.

**CARLOS G. OTIS HEALTH CARE CENTER, INC. AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years Ended September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Change in net assets	\$ 4,587,898	\$ 1,929,533
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	798,977	678,580
Net realized and unrealized changes in the fair value of investments	(814,590)	(249,309)
Debt issuance cost amortization	4,021	4,021
Gain on disposal of equipment	(600)	-
Forgiveness of Paycheck Protection Program loan	(2,973,589)	-
Change in charitable remainder trusts	(3,558)	982
Change in beneficial interest in perpetual trust	(261,538)	(49,839)
Restricted contributions	660,257	(1,061,077)
Changes in operating assets and liabilities:		
Accounts receivable	(490,926)	11,169
Estimated third-party payor settlements	2,292,882	482,283
Meaningful use receivable	8,500	8,500
Other accounts receivable	(30,533)	-
Inventories	91,487	802,426
Prepaid expenses and other current assets	263	23,458
Accounts payable	(127,001)	(937,220)
Accrued compensated absences	229,610	163,170
Accrued expenses	83,677	(457,749)
Other long-term liabilities	<u>(1,877,854)</u>	<u>5,836,386</u>
Net cash provided by operating activities	2,177,383	7,185,314
Cash flows from investing activities:		
Purchases of property and equipment	(1,084,536)	(559,787)
Proceeds from sale of property and equipment	600	-
Proceeds from sale and maturities of investments	3,603,864	2,850,500
Purchases of investments	(4,234,578)	(2,789,303)
Deposits with trustee	<u>71</u>	<u>(1,633)</u>
Net cash used by investing activities	(1,714,579)	(500,223)
Cash flows from financing activities:		
Net payments on line of credit	-	(1,946,913)
Proceeds from issuance of long-term debt	-	1,000,000
Proceeds from Paycheck Protection Program loan	-	2,973,589
Payments on long-term debt and capital lease obligations	(471,620)	(478,039)
Restricted contributions	(660,257)	1,061,077
Change in charitable gift annuities	<u>162,948</u>	<u>(5,627)</u>
Net cash (used) provided by financing activities	<u>(968,929)</u>	<u>2,604,087</u>
Net change in cash, cash equivalents and restricted cash	(506,125)	9,289,178
Cash, cash equivalents and restricted cash at beginning of year	<u>10,084,140</u>	<u>794,962</u>
Cash, cash equivalents and restricted cash at end of year	\$ <u>9,578,015</u>	\$ <u>10,084,140</u>



**CARLOS G. OTIS HEALTH CARE CENTER, INC. AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**

Years Ended September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ <u>82,508</u>	\$ <u>123,185</u>
Noncash investing and financing activities:		
Equipment financed by capital lease obligations	\$ <u>671,427</u>	\$ <u>—</u>
Reconciliation of the statements of cash flows to the balance sheets:		
Cash and cash equivalents	\$ 8,857,627	\$ 8,910,369
Restricted cash and cash equivalents (asset whose use is limited or restricted)	<u>720,388</u>	<u>1,173,771</u>
Total cash, cash equivalents and restricted cash	\$ <u>9,578,015</u>	\$ <u>10,084,140</u>

See accompanying notes.

# CARLOS G. OTIS HEALTH CARE CENTER, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2021 and 2020

### 1. Description of Organization and Summary of Significant Accounting Policies

#### Organization

Carlos G. Otis Health Care Center, Inc. (OHCC) is a not-for-profit organization located in Townshend, Vermont consisting of Grace Cottage Hospital (a Critical Access Hospital), Messenger Valley Pharmacy, and Grace Cottage Family Health (a Rural Health Clinic). The accompanying consolidated financial statements include the accounts of all these entities.

OHCC is the sole corporate member of Grace Cottage Foundation (the Foundation), a not-for-profit corporation, established to solicit contributions from the general public solely for the funding of health care services by OHCC.

The accounting policies that affect the more significant elements of the consolidated financial statements are summarized below:

#### Principles of Consolidation

The accompanying consolidated financial statements include the accounts of OHCC and its subsidiary organization, the Foundation (together the Organization). All significant intercompany accounts and transactions have been eliminated in consolidation.

#### Basis of Accounting

The accompanying consolidated financial statements have been prepared on an accrual basis of accounting.

#### Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Net Assets With Donor Restrictions

Gifts are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (when a stipulated time restriction ends or purpose restriction is accomplished), restricted net assets are reclassified as net assets without donor restrictions and reported in the consolidated statements of operations as either net assets released from restrictions for operations (for noncapital-related items) or net assets released from restrictions for capital purchases (for capital-related items). Some net assets with donor restrictions have been restricted by donors to be maintained by the Organization in perpetuity.

# CARLOS G. OTIS HEALTH CARE CENTER, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2021 and 2020

### 1. Description of Organization and Summary of Significant Accounting Policies (Continued)

#### Cash and Cash Equivalents

Cash and cash equivalents include all demand deposit accounts, investments with original maturities of three months or less when purchased and money market funds, excluding assets whose use is limited or restricted. Restricted cash and cash equivalents are limited as to use for long-term purposes by donor-imposed restrictions.

#### Accounts Receivable

Patient accounts receivable for which the unconditional right to payment exists are receivables if the right to consideration is unconditional and only the passage of time is required before payment of that consideration is due. Accounts receivable at September 30, 2021 and 2020 reflect the fact that any estimated uncollectible amounts are generally considered implicit price concessions that are a direct reduction to accounts receivable rather than allowance for doubtful accounts. At September 30, 2021 and 2020, estimated implicit price concessions of \$686,211 and \$502,000, respectively, have been recorded as reductions to accounts receivable balances to enable the Organization to record revenues and accounts receivable at the estimated amounts expected to be collected.

#### Inventories

Inventories of supplies and pharmaceuticals are carried at the lower of cost (determined by the first-in, first-out method) or net realizable value.

#### Deposits With Trustee

Deposits with trustee under revenue bond agreements are recorded at fair value and are comprised of short-term investments and United States government obligations.

#### Investments and Investment Income

Investments are measured at fair value in the accompanying consolidated balance sheets. Investment income or loss (including realized and unrealized gains and losses on investments, and interest and dividends) is included in the excess of revenue, gains and other support over expenses as the Organization has elected to reflect changes in the fair value of investments and assets whose use is limited, including both increases and decreases in value whether realized or unrealized, in nonoperating gains or losses unless the income or loss is restricted by donor or law, in which case it is reported as an increase or decrease in net assets with donor restrictions.

# CARLOS G. OTIS HEALTH CARE CENTER, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2021 and 2020

### 1. Description of Organization and Summary of Significant Accounting Policies (Continued)

#### Endowment, Investment and Spending Policies

In accordance with the *Uniform Prudent Management of Institutional Funds Act* (UPMIFA), the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (a) the duration and preservation of the fund; (b) the purpose of the organization and the donor-restricted endowment fund; (c) general economic conditions; (d) the possible effect of inflation and deflation; (e) the expected total return from income and the appreciation of investments; (f) other resources of the organization; and (g) the investment policies of the organization.

The goal of the investments is to support the Organization's future capital expenditures and other major program needs, and to generally increase the financial strength of the Organization. In addition to occasional capital expenditures, board designated funds are invested in a prudent manner with regard to preserving principal while providing reasonable returns.

The goal of the endowment funds is to provide a source of financial support to the Organization's patient care activities. The Organization appropriates the earnings from the endowment funds to offset the costs of patient care activities according to the intent of the donor. The endowment funds are invested in a prudent manner with regard to preserving principal while providing reasonable returns.

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 capital appreciation and current yield. The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objective within prudent risk constraints.

The Organization has adopted a formal spending policy on its endowment fund of 4% per fiscal year of the average fair value of the endowment fund for the trailing twelve quarters.

#### Assets Whose Use is Limited or Restricted

Assets whose use is limited or restricted include assets held by trustees under indenture agreements, quasi-endowment funds, designated assets set aside by the Board of Trustees over which the Board retains control and may, at its discretion, subsequently use for other purposes, and donor-restricted investments, including certain cash and cash equivalents.

#### Property and Equipment

Property and equipment is stated at cost or, if donated, at fair value at the date of donation, less accumulated depreciation. The Organization's policy is to capitalize expenditures for major improvements and charge maintenance and repairs currently for expenditures which do not extend the life of the related assets. When assets are retired or disposed of, the assets and related accumulated depreciation are eliminated from the accounts and any resulting gain or loss is reflected in the accompanying consolidated statements of operations.

Depreciation is computed using the straight-line method in a manner intended to amortize the cost of the assets over their estimated useful lives.

# CARLOS G. OTIS HEALTH CARE CENTER, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2021 and 2020

### 1. Description of Organization and Summary of Significant Accounting Policies (Continued)

#### Deferred Financing Costs

Costs incurred in obtaining long-term financing are being amortized to interest expense using the straight-line method, which approximates the effective interest method, over the repayment period of the related debt obligation. Debt issuance costs are presented as a reduction of long-term debt.

#### Compensated Absences

The Organization provides and accrues for paid time off for vacation, holiday and sick leave under an earned time system. Hours earned, but not used, are capped and vested with the employee.

#### Performance Indicator

For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenues and expenses. Peripheral transactions are reported as nonoperating gains or losses.

The consolidated statements of operations include excess of revenue, gains and other support over expenses. Changes in net assets without donor restrictions which are excluded from excess of revenue, gains and other support over expenses, consistent with industry practice, include net assets released from restrictions for capital purchases.

#### Patient Service Revenue

Revenues generally relate to contracts with patients in which the Organization's performance obligations are to provide health care services to patients. Revenues are recorded during the period obligations to provide health care services are satisfied. Performance obligations for inpatient services are generally satisfied over a period of days. Performance obligations for outpatient services are generally satisfied over a period of less than one day. The contractual relationships with patients, in most cases, also involve a third-party payor (Medicare, Medicaid, managed care health plans and commercial insurance companies, including plans offered through the health insurance exchanges) and the transaction prices for the services provided are dependent upon the terms provided by Medicare and Medicaid or negotiated with managed care health plans and commercial insurance companies, the third-party payors. The payment arrangements with third-party payors for the services provided to related patients typically specify payments at amounts less than standard charges. Medicare generally pays for inpatient and outpatient services under an allowable cost reimbursement methodology. Services provided to patients having Medicaid coverage are generally paid on a prospectively determined rate per day of hospitalization for inpatient services and under a fee schedule reimbursement methodology for outpatient services. Agreements with commercial insurance carriers, managed care and preferred provider organizations generally provide for payments based upon predetermined rates per diagnosis, per diem rates or discounted fee-for-service rates. Management continually reviews the revenue recognition process to consider and incorporate updates to laws and regulations and the frequent changes in managed care contractual terms resulting from contract renegotiations and renewals.

# CARLOS G. OTIS HEALTH CARE CENTER, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2021 and 2020

### 1. Description of Organization and Summary of Significant Accounting Policies (Continued)

The collection of outstanding receivables for Medicare, Medicaid, managed care payers, other third-party payors and patients is the Organization's primary source of cash and is critical to its operating performance. The primary collection risks relate to uninsured patient accounts, including patient accounts for which the primary insurance carrier has paid the amounts covered by the applicable agreement, but patient responsibility amounts (deductibles and copayments) remain outstanding. Implicit price concessions relate primarily to amounts due directly from patients. Estimated implicit price concessions are recorded for all uninsured accounts, regardless of the aging of those accounts. Accounts are written off when all reasonable internal and external collection efforts have been performed. The estimates for implicit price concessions are based upon management's assessment of historical write-offs and expected net collections, business and economic conditions, trends in federal, state and private employer health care coverage and other collection indicators. Management relies on the results of detailed reviews of historical write-offs and collections at facilities that represent a majority of hospital revenues and accounts receivable (the "hindsight analysis") as a primary source of information in estimating the collectability of accounts receivable. Management performs the hindsight analysis regularly, utilizing rolling twelve-months' accounts receivable collection and write-off data. Management believes its regular updates to the estimated implicit price concession amounts provide reasonable estimates of revenues and valuations of accounts receivable. These routine, regular changes in estimates have not resulted in material adjustments to the valuations of accounts receivable or period-to-period comparisons of operations.

The Organization receives payment for Medicare and Medicaid inpatient and outpatient services on a reasonable cost basis which are settled with retroactive adjustments upon completion and audit of related cost reports. Differences between amounts previously estimated and amounts subsequently determined to be recoverable or payable are included in patient service revenue in the year that such amounts become known. For the year ended September 30, 2021, patient service revenue in the accompanying consolidated statement of operations increased by approximately \$53,000, due to actual settlements and changes in assumptions underlying estimated future third-party settlements. For the year ended September 30, 2020, there were no significant adjustments recorded for changes to prior year estimates.

#### Retirement Plan

The Organization has a defined contribution 401(k) plan covering substantially all of its employees. Employees who have completed one year of service, in which they were employed at least 1,000 hours, and have attained age 21 are eligible to participate in the plan. The Plan was amended effective January 1, 2020 to change the eligibility requirements to 18 years of age and the completion of three months of service. The plan provides for an automatic deferral provision. The Organization may make discretionary matching contributions that are allocated to all employees eligible to participate in the plan, in proportion to their eligible earnings compared to the eligible earnings of the other employees who will also share in the contributions. The Organization's matching contributions to the plan, charged to operations, were approximately \$348,000 and \$301,000 for the years ended September 30, 2021 and 2020, respectively.

# CARLOS G. OTIS HEALTH CARE CENTER, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2021 and 2020

### 1. Description of Organization and Summary of Significant Accounting Policies (Continued)

#### Charity Care

OHCC provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Because OHCC does not pursue collection of amounts determined to qualify as charity care, they are not reported as patient service revenue. OHCC determines the costs associated with providing charity care by calculating a ratio of expenses to gross charges, and then multiplying that ratio by the gross uncompensated charges associated with providing care to patients eligible for free care. See Note 4.

#### Income Taxes

OHCC and the Foundation are tax-exempt corporations as described in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code. In addition, the Foundation qualifies for the charitable contribution deduction under Section 170(b)(1)(a) and had been classified as an organization that is not a private foundation under Section 509(a)(3). Management evaluated the Organization's tax positions and concluded the Organization has maintained its tax-exempt status, does not have any significant unrelated business income and had taken no uncertain tax positions that require adjustment to or disclosure in the accompanying consolidated financial statements.

#### Functional Expense Allocation

The costs of providing program services and other activities have been summarized on a functional basis in Note 15. Accordingly, costs have been allocated among program services and supporting services benefitted.

#### Advertising Expense

Advertising costs are expensed as incurred and totaled approximately \$78,000 and \$57,000 in 2021 and 2020, respectively.

#### Recent Accounting Pronouncements

In August 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement* ASU 2018-13. The amendments in this ASU modify the disclosure requirements for fair value measurements for Level 3 assets and liabilities, and eliminate the requirement to disclose transfers between Levels 1 and 2 of the fair value hierarchy, among other modifications. ASU 2018-08 was effective for the Organization on October 1, 2020. ASU 2018-13 did not have a material impact on the Organization's consolidated financial statements.

# CARLOS G. OTIS HEALTH CARE CENTER, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2021 and 2020

### 1. Description of Organization and Summary of Significant Accounting Policies (Continued)

#### Prospective Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires that lease arrangements longer than twelve months result in an entity recognizing an asset and liability. The pronouncement is effective for the Organization on October 1, 2022. Early adoption is permitted and the guidance may be adopted retrospectively. Management is currently evaluating the impact this guidance will have on the Organization's consolidated financial statements.

In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. ASU 2020-07 enhances the presentation of disclosure requirements for contributed nonfinancial assets. ASU 2020-07 requires entities to present contributed nonfinancial assets as a separate line item in the statement of operations and disclose the amount of contributed nonfinancial assets recognized within the statement of operations by category that depicts the type of contributed nonfinancial assets, as well as a description of any donor-imposed restrictions associated with the contributed nonfinancial assets and the valuation techniques used to arrive at a fair value measure at initial recognition. ASU 2020-07 is effective for the Organization beginning October 1, 2021. Management is currently evaluating the impact this guidance will have on the Organization's consolidated financial statements.

#### Subsequent Events

Management of the Organization evaluated events occurring between the end of its fiscal year and March 30, 2022, the date the consolidated financial statements were available to be issued.

### 2. Risks and Uncertainties

On March 11, 2020, the World Health Organization declared the outbreak of coronavirus (COVID-19) a pandemic. The COVID-19 pandemic has significantly affected employees, patients, systems, communities and business operations, as well as the U.S. economy and financial markets. Patient volumes and revenues experienced gradual improvement beginning in the latter part of April 2020, and continuing through fiscal year 2021, however uncertainty still exists as the future is unpredictable. The Organization's pandemic response plan has multiple facets and evolves as conditions warrant. The Organization has taken precautionary steps to enhance its operational and financial flexibility, and react to the risks the COVID-19 pandemic presents in its operations, including the following:

- Implemented certain cost reduction initiatives;
- Reduced certain planned projects and capital expenditures;
- OHCC obtained a \$2,973,589 Paycheck Protection Program (PPP) loan established by the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act) (forgiven during fiscal year 2021 as discussed in Note 10);
- Since the declaration of the pandemic, OHCC received approximately \$5.8 million of accelerated Medicare payments (Note 3) and approximately \$4.4 million in general and targeted Provider Relief Fund distributions, all as provided for under the CARES Act.



# CARLOS G. OTIS HEALTH CARE CENTER, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2021 and 2020

### 2. Risks and Uncertainties (Continued)

Distributions from the Provider Relief Fund are not subject to repayment, provided OHCC is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for healthcare-related expenses or lost revenue attributable to COVID-19. Such payments are accounted for as government grants, and are recognized on a systematic and rational basis as other income once there is reasonable assurance that the applicable terms and conditions required to retain the funds will be met. Based on an analysis of the compliance and reporting requirements of the Provider Relief Fund and the impact of the pandemic on operating results through September 30, 2021 and 2020, OHCC recognized approximately \$500,000 and \$2.0 million related to these funds, which is recorded within other revenue in the consolidated statements of operations for the years ended September 30, 2021 and 2020, respectively. The remaining \$1.8 million and \$2.3 million is included in estimated third-party settlements payable in the accompanying 2021 and 2020 balance sheets, respectively. Subsequent to year end, OHCC returned approximately \$1.8 million of unused Provider Relief Funds to the Department of Health and Human Services.

OHCC will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and other potential assistance programs and available grants, and the impact of the pandemic on revenues and expenses. If OHCC is unable to attest to or comply with current or future terms and conditions, OHCC's ability to retain some or all of the distributions received may be impacted.

### 3. Estimated Third-Party Settlements

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

#### Medicare

OHCC was granted critical access hospital (CAH) designation on December 1, 2000. Under CAH, OHCC is primarily reimbursed allowable costs for its inpatient and outpatient services provided to Medicare patients.

OHCC is reimbursed for cost reimbursable items at tentative rates, with final settlement determined after submission of annual cost reports by OHCC and audits thereof by the Medicare fiscal intermediary. OHCC's Medicare cost reports have been settled by the Medicare Administrative Contractor (MAC) through September 30, 2019.

#### Medicaid

Inpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates per day of hospitalization. The prospectively determined per-diem rates are not subject to retroactive adjustment. Outpatient services rendered to Medicaid program beneficiaries are reimbursed under a fee schedule methodology. OHCC's Medicaid cost reports have been settled by the fiscal intermediary through September 30, 2019.

# CARLOS G. OTIS HEALTH CARE CENTER, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2021 and 2020

### 3. Estimated Third-Party Settlements (Continued)

The State of Vermont imposes a health care provider tax (State provider taxes) based on the net patient service revenues of the Organization. The amount of tax incurred by the Organization for fiscal 2021 and 2020 was \$607,935 and \$664,049, respectively.

#### Blue Cross

Inpatient and outpatient services rendered to Blue Cross subscribers are reimbursed at submitted charges less a discount withholding or through a per diem or fee schedule. The amounts paid to OHCC are not subject to any retroactive adjustments. Revenue from Blue Cross accounted for approximately 11% and 9% of OHCC's patient service revenues for the years ended September 30, 2021 and 2020, respectively.

#### Physicians Clinics

Physicians clinics represent primary care and other specialty physician services provided to patients at OHCC. The clinics are reimbursed either on a cost reimbursement or fee schedule basis.

#### Other

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

Revenues from the Medicare and Medicaid programs accounted for approximately 63% and 65% of OHCC's patient service revenues for the years ended September 30, 2021 and 2020, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. OHCC believes that it is in compliance with all applicable laws and regulations, and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, 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.

#### Accelerated Medicare Payments

As discussed in Note 2, during fiscal year 2020, OHCC requested accelerated Medicare payments as provided for in the CARES Act, which allows for eligible health care facilities to request up to six months of advance Medicare payments for acute care hospitals, or up to three months of advance Medicare payments for other health care providers. Beginning one year from the date of receipt of the advance payments, 25% of the advances will be recouped in the first eleven months. An additional 25% of the advances will be recouped in the next six months, with the entire amount repayable in 29 months. Any outstanding balance after 29 months is repayable at a 4% interest rate. During the third and fourth quarters of fiscal 2020, OHCC received approximately \$5.8 million from these accelerated Medicare payment requests. At September 30, 2021 and 2020, the current portion due within a year, totaling approximately \$4.0 million and \$471,000, respectively, is recorded under the caption "current portion of other long-term liabilities", and the long-term portion at September 30, 2020, totaling approximately \$5.4 million, in the caption "other long-term liabilities" in the accompanying consolidated balance sheets. There is no long-term portion as of September 30, 2021.

**CARLOS G. OTIS HEALTH CARE CENTER, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2021 and 2020

**4. Charity Care**

OHCC 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. Funds received from gifts and grants to subsidize uncompensated care were approximately \$28,000 in 2020. No such funds were received in 2021. The following information measures the level of charity care provided during the years ended September 30:

	<u>2021</u>	<u>2020</u>
Charges foregone, based on established rates (Note 1)	\$ <u>271,000</u>	\$ <u>291,000</u>
Estimated costs incurred to provide charity care	\$ <u>184,000</u>	\$ <u>208,000</u>
Equivalent percentage of charity care services to all services	<u>0.79%</u>	<u>0.97%</u>

**5. Concentration of Credit Risk**

Financial instruments which subject the Organization to credit risk consist of cash equivalents, accounts and other receivables and certain investments. The risk with respect to cash equivalents is minimized by the Organization's policy of investing in financial instruments with short-term maturities issued by highly rated financial institutions. The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant risk at September 30, 2021. The Organization's investments consist of diversified securities and, while subject to market risk, do not represent any significant concentrations in any sectors.

OHCC grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of gross patient accounts receivable at September 30, 2021 and 2020 was as follows:

	<u>2021</u>	<u>2020</u>
Medicare	52%	40%
Medicaid	7	12
Blue Cross	7	6
Other third-party payors	13	23
Patients	<u>21</u>	<u>19</u>
	<u>100%</u>	<u>100%</u>

**CARLOS G. OTIS HEALTH CARE CENTER, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2021 and 2020

**6. Assets Whose Use is Limited or Restricted**

Investments included in assets whose use is limited or restricted at September 30, 2021 and 2020 consist of the following:

	<u>Cost</u> <u>2021</u>	<u>Fair</u> <u>Value</u> <u>2021</u>	<u>Cost</u> <u>2020</u>	<u>Fair</u> <u>Value</u> <u>2020</u>
Cash and cash equivalents	\$ 195,615	\$ 195,615	\$ 147,177	\$ 147,177
Brokered certificates of deposit	24,800	25,166	24,800	25,701
Mutual funds	2,437,131	2,838,711	1,892,111	2,101,680
Government and municipal bonds	1,065,947	1,086,441	731,710	779,326
Corporate bonds	1,020,817	1,032,185	809,446	866,350
Common stock	<u>1,496,101</u>	<u>2,423,738</u>	<u>1,452,684</u>	<u>2,236,318</u>
	<u>\$6,240,411</u>	<u>\$7,601,856</u>	<u>\$5,057,928</u>	<u>\$6,156,552</u>

Investment income, net realized gains and the net unrealized gains on assets whose use is limited or restricted, cash and cash equivalents, and other investments are as follows at September 30:

	<u>2021</u>	<u>2020</u>
Without donor restrictions:		
Investment income	\$ 78,077	\$ 89,657
Net realized gains on sales of securities	551,769	50,608
Net unrealized gains on investments	<u>262,821</u>	<u>198,701</u>
	<u>\$892,667</u>	<u>\$338,966</u>

The endowment includes both endowment funds restricted in perpetuity from expenditure by donors (accounted for in net assets with donor restrictions) and other funds for which the governing board or state regulations require that such funds be treated in a manner similar to endowments. These other funds are accounted for in net assets without donor restrictions. Gains on donor established endowments are, absent donor stipulations, included in net assets with donor restrictions until appropriated for expenditure by the governing board.

The endowment funds, including quasi endowments restricted by the Board, as of September 30, 2021 and 2020 are as follows:

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>Total</u>
<b>2021</b>			
Board-designated endowment funds	\$3,152,104	\$ –	\$3,152,104
Donor-restricted endowment funds:			
Original donor-restricted gift amounts and amounts required to be maintained in perpetuity by donor	–	1,063,118	1,063,118
Accumulated investment gains	<u>422,917</u>	<u>–</u>	<u>422,917</u>
	<u>\$3,575,021</u>	<u>\$1,063,118</u>	<u>\$4,638,139</u>

**CARLOS G. OTIS HEALTH CARE CENTER, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2021 and 2020

**6. Assets Whose Use is Limited or Restricted (Continued)**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>2020</b>			
Board-designated endowment funds	\$2,559,301	\$ –	\$2,559,301
Donor-restricted endowment funds:			
Original donor-restricted gift amounts and amounts required to be maintained in perpetuity by donor	–	1,047,662	1,047,662
Accumulated investment gains	<u>388,280</u>	<u>–</u>	<u>388,280</u>
	<u>\$2,947,581</u>	<u>\$1,047,662</u>	<u>\$3,995,243</u>

The changes in the Organization's endowment funds for the years ended September 30, 2021 and 2020 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>
Endowment funds, September 30, 2019	\$3,087,924	\$1,041,966
Contributions	–	5,696
Investment return, net	62,186	–
Amounts released under spending policy	<u>(202,529)</u>	<u>–</u>
Endowment funds, September 30, 2020	2,947,581	1,047,662
Contributions	465,450	15,456
Investment return, net	386,720	–
Amounts released under spending policy	<u>(224,730)</u>	<u>–</u>
Endowment funds, September 30, 2021	<u>\$3,575,021</u>	<u>\$1,063,118</u>

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Organization has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At September 30, 2021 and 2020, the Organization had no underwater endowments.

The Organization is the beneficiary of two remainder trusts. The charitable remainder trusts provide for certain distributions to designated beneficiaries over the trusts' term. At the end of the term, the income and the remaining assets are available for the Organization's use without donor restrictions. Assets held in charitable remainder trusts totaled \$36,302 and \$32,744 as of September 30, 2021 and 2020, respectively. The Organization's interest in charitable remainder trusts is recognized as an asset based on the fair value of the underlying assets.

# CARLOS G. OTIS HEALTH CARE CENTER, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2021 and 2020

### 6. Assets Whose Use is Limited or Restricted (Continued)

The Organization is the beneficiary of a perpetual trust fund, which is administered by Bank of America. The terms of the perpetual trust require that income or a percentage of income be paid to the Organization in perpetuity. The Organization's interest in the perpetual trust is recognized as an asset based on the fair value of the underlying assets, which approximates the net present value of the future income stream, and totaled \$2,018,311 and \$1,756,773 as of September 30, 2021 and 2020, respectively. Changes in the carrying value of this asset are included in net assets with donor restrictions.

Fair value of a financial instrument is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Organization uses various methods including market, income and cost approaches. Based on these approaches, the Organization often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Organization utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Organization is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.

Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

In determining the appropriate levels, the Organization performs a detailed analysis of the assets and liabilities that are subject to the fair value guidance. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

**CARLOS G. OTIS HEALTH CARE CENTER, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2021 and 2020

**6. Assets Whose Use is Limited or Restricted (Continued)**

The following presents the balances of assets whose use is limited or restricted measured at fair value on a recurring basis at September 30:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>2021</u>				
Cash and cash equivalents	\$ 974,757	\$ –	\$ –	\$ 974,757
Brokered certificates of deposit	–	25,166	–	25,166
Mutual funds:				
Fixed income	1,047,630	–	–	1,047,630
Equity	1,735,865	–	–	1,735,865
Real assets	90,945	–	–	90,945
Government and municipal bonds	–	1,086,441	–	1,086,441
Corporate bonds	–	1,032,185	–	1,032,185
Common stock:				
Materials	136,842	–	–	136,842
Real estate	68,798	–	–	68,798
Industrials	298,743	–	–	298,743
Consumer discretionary	281,035	–	–	281,035
Consumer staples	121,119	–	–	121,119
Energy	91,925	–	–	91,925
Financial institutions	468,820	–	–	468,820
Healthcare	318,075	–	–	318,075
Utilities	88,956	–	–	88,956
Information technology	170,599	–	–	170,599
Telecommunication services	378,825	–	–	378,825
Beneficial interest in trust	<u>–</u>	<u>–</u>	<u>2,018,311</u>	<u>2,018,311</u>
	<u>\$6,272,934</u>	<u>\$2,143,792</u>	<u>\$2,018,311</u>	<u>\$10,435,037</u>

**CARLOS G. OTIS HEALTH CARE CENTER, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2021 and 2020

**6. Assets Whose Use is Limited or Restricted (Continued)**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>2020</u>				
Cash and cash equivalents	\$ 1,379,773	\$ –	\$ –	\$ 1,379,773
Brokered certificates of deposit	–	25,701	–	25,701
Mutual funds:				
Fixed income	753,048	–	–	753,048
Equity	1,302,117	–	–	1,302,117
Real assets	78,685	–	–	78,685
Government and municipal bonds	–	779,326	–	779,326
Corporate bonds	–	866,350	–	866,350
Common stock:				
Materials	76,692	–	–	76,692
Real estate	48,529	–	–	48,529
Industrials	169,853	–	–	169,853
Consumer discretionary	297,874	–	–	297,874
Consumer staples	178,468	–	–	178,468
Energy	60,229	–	–	60,229
Financial institutions	300,234	–	–	300,234
Healthcare	372,040	–	–	372,040
Utilities	105,605	–	–	105,605
Information technology	547,264	–	–	547,264
Telecommunication services	79,530	–	–	79,530
Beneficial interest in trust	<u>–</u>	<u>–</u>	<u>1,756,773</u>	<u>1,756,773</u>
	<u>\$ 5,749,941</u>	<u>\$ 1,671,377</u>	<u>\$ 1,756,773</u>	<u>\$ 9,178,091</u>

Cash and cash equivalents, mutual funds and common stock are based upon quoted prices in active markets for identical assets and are reflected as Level 1.

Brokered certificates of deposit and municipal and corporate bonds were determined based upon market information from less active markets, including broker or dealer quotations, external pricing providers, or alternative pricing sources with reasonable levels of transparency, and have been included in Level 2.

The Organization's Level 3 investments consist of a beneficial interest in trust. The Organization's legal interest is in its pro rata portion of the trust and not the trust's underlying assets. The Organization's interest is valued based upon its pro rata ownership of the total trust. As the actual assets are not readily available to the Organization, the asset is considered to be Level 3. There were no significant purchases, issues or transfers into or out of Level 3 for the years ended September 30, 2021 or 2020.

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 fair value of investments will occur in the near term and that such changes could materially affect the amounts reported in the accompanying consolidated balance sheets and statements of operations.



**CARLOS G. OTIS HEALTH CARE CENTER, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2021 and 2020

**6. Assets Whose Use is Limited or Restricted (Continued)**

Other financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses, estimated third-party payor settlements and lines of credit. The fair value of these financial instruments approximates their relative book values as these financial instruments have short-term maturities. The charitable gift annuities liability is reported at estimated fair value based on the life expectancy of the beneficiaries and the present value of expected cash flows using a discount rate at the time of the gift. The fair value of the Organization's long-term obligations is estimated using discounted cash flow analyses, based on the Organization's current incremental borrowing rates for similar types of borrowing arrangements. There was no significant difference in the carrying value and fair value of long-term obligations at September 30, 2021 and 2020.

**7. Property and Equipment**

Property and equipment consists of the following at September 30:

	<u>2021</u>	<u>2020</u>
Land and land improvements	\$ 331,380	\$ 254,806
Building and building improvements	8,146,709	7,819,892
Fixed equipment	719,112	719,112
Major movable equipment	3,812,790	3,462,992
Minor equipment	648,119	648,119
Vehicles	68,101	68,101
Other equipment	3,179,404	3,166,570
Construction in progress	<u>122,913</u>	<u>166,812</u>
	17,028,528	16,306,404
Less accumulated depreciation	<u>(13,007,425)</u>	<u>(13,242,287)</u>
	<u>\$ 4,021,103</u>	<u>\$ 3,064,117</u>

Depreciation expense for the years ended September 30, 2021 and 2020 amounted to \$798,977 and \$678,580, respectively.

**8. Charitable Gift Annuities**

The Organization administers various charitable gift annuities. Under these charitable gift annuity agreements, the donor contributes assets to the Organization in exchange for distributions of a fixed amount to the donor or other designated beneficiaries for their remaining lives. The assets contributed are recorded at fair value on the date the agreement is recognized and are available for the Organization's use for various purposes as determined by the donor. On a quarterly basis, the Organization makes distributions to the designated beneficiaries, the liability for which is calculated based on actuarial assumptions. The Organization's liability of \$200,170 and \$37,222 at September 30, 2021 and 2020, respectively, is based on the present value of the estimated future payments, and calculated using a discount rate ranging from 0.60% to 7.40% and applicable mortality rates.

**CARLOS G. OTIS HEALTH CARE CENTER, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2021 and 2020

**9. Line of Credit**

The Organization has a revolving line of credit with a bank with maximum borrowings as of September 30, 2021 and 2020 of \$1,500,000. There was no outstanding balance on the line of credit at September 30, 2021 and 2020. Interest on the line of credit is assessed at the prime rate with a minimum of 4.00% (4.00% as of September 30, 2021), and this line is secured by investments. The line of credit has a maturity date of March 26, 2023, pending issuance of these consolidated financial statements.

**10. Long-Term Obligations**

Long-term obligations consist of the following at September 30:

	<u>2021</u>	<u>2020</u>
Vermont Educational and Health Buildings Financing Agency (VEHBFA) Hospital Revenue Bonds Series 1997-1, variable interest rate (0.69% as of September 30, 2021); due in full in 2022; secured by property and business assets of OHCC and the letter of credit as described below	\$ 190,000	\$ 360,000
Note payable to United States Department of Agriculture (USDA), with interest fixed at 3.125%; due in monthly installments of \$2,283 through February 2036; secured by substantially all business assets	317,535	334,706
PPP loan – see below	–	2,973,589
Note payable to a bank, with variable interest rate (4.75% as of September 30, 2021); due in monthly installments of \$18,788 through January 2025; secured by property and business assets	689,061	878,451
Capital lease obligations	<u>712,026</u>	<u>135,658</u>
	1,908,622	4,682,404
Less current portion	(555,423)	(421,256)
Less unamortized debt issuance costs	<u>(4,341)</u>	<u>(8,362)</u>
	<u>\$ 1,348,858</u>	<u>\$ 4,252,786</u>

Under the terms of the revenue bond indenture, OHCC is required to maintain certain deposits with a trustee. Such deposits totaled \$58,180 and \$58,251 at September 30, 2021 and 2020, respectively. The revenue bond indenture also places limits on the incurrence of additional borrowings, and requires that OHCC satisfy certain measures of financial performance as long as the bonds are outstanding. OHCC was in compliance with financial covenants for the years ended September 30, 2021 and 2020.

As of September 30, 2021 and 2020, OHCC has a standby letter of credit for \$192,811 and \$365,326, respectively, which expires on June 20, 2022. The letter of credit is part of the bond agreements and is available to make principal and interest payments on the respective bonds.

**CARLOS G. OTIS HEALTH CARE CENTER, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2021 and 2020

**10. Long-Term Obligations (Continued)**

On April 14, 2020, OHCC entered into a promissory note for an unsecured loan in the amount of \$2,973,589 through the PPP loan established by the CARES Act and administered by the U.S. Small Business Administration (SBA). The PPP provides loans to qualifying businesses for amounts up to 2.5 times the average monthly payroll expenses of the qualifying business. The loan and accrued interest had original terms that were forgivable after eight weeks as long as the borrower used the loan proceeds for eligible purposes, including payroll, benefits, rent, and utilities, and maintains its payroll levels. The amount of loan forgiveness would be reduced if the borrower terminated employees or reduced salaries during the eight-week period. Certain modifications to PPP loan terms were signed into law in June 2020 that changed the forgiveness, covered period and forgiveness periods. The PPP loan was made for the purpose of securing funding for salaries and wages of employees that may have otherwise been displaced by the outbreak of COVID-19 and the resulting detrimental impact on OHCC's business.

When the proceeds were received in 2020, OHCC accounted for the PPP loan in accordance with FASB ASC Topic 470 and included the full \$2,973,589 as debt in the consolidated balance sheet as of September 30, 2020. During June 2021, OHCC received notification of forgiveness from the SBA. Upon such notification, OHCC recognized \$2,973,589 as revenue related to the forgiveness in the accompanying 2021 consolidated statements of operations and changes in net assets.

The Organization leases equipment under leases which have been capitalized and are included in property and equipment. The assets recorded under the capital leases have a net book value of \$679,180 and \$136,375 at September 30, 2021 and 2020, respectively, with accumulated amortization of \$278,320 and \$322,803, respectively. Annual amortization has been included in depreciation expense. The capital lease obligations have been recorded as a long-term obligation. Future minimum lease payments under the capital lease obligations at September 30, 2021 are as follows:

Total remaining payments	\$ 795,051
Less amounts representing interest	(83,025)
Less current portion of capital lease obligations	<u>(151,230)</u>
Long-term obligations under capital leases	\$ <u>560,796</u>

Maturities for long-term obligations in subsequent fiscal years are as follows:

2022	\$ 555,423
2023	383,126
2024	391,383
2025	225,132
2026	130,080
Thereafter	<u>223,478</u>
	<u>\$1,908,622</u>

**CARLOS G. OTIS HEALTH CARE CENTER, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2021 and 2020

**11. Net Assets With Donor Restrictions**

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

	<u>2021</u>	<u>2020</u>
Purpose restrictions:		
Capital acquisition and improvement at OHCC	\$ 421,030	\$ 873,320
Time restrictions:		
Contributions receivable from charitable remainder trusts	36,302	32,744
Grant (see note 13)	<u>187,500</u>	<u>187,500</u>
	223,802	220,244
Perpetual in nature:		
Investments to be held in perpetuity, the income from which is expendable to support operations	1,063,118	1,047,662
Beneficial interest in perpetual trust	<u>2,018,311</u>	<u>1,756,773</u>
	<u>3,081,429</u>	<u>2,804,435</u>
	<u>\$3,726,261</u>	<u>\$3,897,999</u>

**12. Patient Service Revenue**

An estimated breakdown of patient service revenue by major payor sources is as follows for the years ended September 30:

	<u>2021</u>	<u>2020</u>
Private payor	\$ 5,006,613	\$ 4,042,613
Blue Cross	2,244,656	1,594,529
Medicare	11,633,416	12,157,766
Medicaid	1,512,519	1,207,574
Self-pay	<u>186,360</u>	<u>398,205</u>
	<u>\$20,583,564</u>	<u>\$19,400,687</u>

**13. Commitments and Contingencies**

Malpractice Insurance

The Organization insures its medical malpractice risks on a claims made basis. The Organization's claims made policy provides specific coverage for potential claims reported by the Organization during the policy term.

# CARLOS G. OTIS HEALTH CARE CENTER, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2021 and 2020

### 13. Commitments and Contingencies (Continued)

At September 30, 2021, there were no known malpractice claims outstanding which, in the opinion of management, will be settled for amounts in excess of insurance coverage. Additionally, there were no known unasserted claims or incidents which might require loss accrual for amounts in excess of insurance coverage. The Organization intends to renew coverage on a claims made basis and anticipates that such coverage will be available.

#### Litigation

The Organization is involved in litigation arising in the ordinary course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Organization's financial position, results of operations or cash flows.

#### Self-Insurance Program

The Organization self-insures a portion of its employee health benefits and estimates and accrues amounts to meet its expected obligations under the program. The plan is administered by an insurance company which will assist in determining the current funding requirements of participants under the terms of the plan and the liability for claims and assessments that would be payable at any given point in time. The Organization provides services to employees covered by the plan. Stop loss insurance coverage is in effect which mitigates the Organization's exposure to loss on an individual and aggregate basis. Estimated unpaid claims, and those claims incurred but not reported at September 30, 2021 and 2020, have been recorded as a liability of approximately \$492,000 and \$449,000, respectively, and are reflected within accrued expenses in the accompanying consolidated balance sheets.

#### Grant Awards

During fiscal year 2019, the Organization was awarded a grant totaling \$1,000,000 to be paid over four years. The grant payments are subject to certain satisfactory compliance with prefunding conditions and reporting requirements, as defined within the grant agreement. The grant award is to support general operations of the Organization. During 2021 and 2020, the Organization received and expended \$250,000 related to the grant. The unexpended amount totaling \$187,500 is included in donor restricted net assets at September 30, 2021. No other amounts related to this grant are reflected within the accompanying consolidated financial statements given the contingencies related to the grant payments.

### 14. Volunteer Services (Unaudited)

In 2021 and 2020, total volunteer service hours received by OHCC were approximately 1,500 and 2,100, respectively. The volunteers provide nonspecialized services to OHCC, none of which have been recognized as revenue or expense in the consolidated statements of operations.

**CARLOS G. OTIS HEALTH CARE CENTER, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2021 and 2020

**15. Functional Expenses**

OHCC provides general health care services to residents within its geographic location. Expenses related to providing these services are as follows for the years ended September 30:

	<u>Healthcare</u>	<u>General and Administrative</u>	<u>Fund- raising</u>	<u>Total</u>
<u>2021</u>				
Salaries and benefits	\$15,905,127	\$1,937,330	\$277,642	\$18,120,099
Supplies and other	6,540,516	445,972	61,225	7,047,713
State provider taxes	607,935	-	-	607,935
Depreciation and amortization	798,977	-	-	798,977
Interest	<u>72,366</u>	<u>14,163</u>	<u>-</u>	<u>86,529</u>
	<u>\$23,924,921</u>	<u>\$2,397,465</u>	<u>\$338,867</u>	<u>\$26,661,253</u>
<u>2020</u>				
Salaries and benefits	\$15,504,289	\$1,805,124	\$270,566	\$17,579,979
Supplies and other	6,171,324	430,562	45,553	6,647,439
State provider taxes	664,049	-	-	664,049
Depreciation and amortization	678,580	-	-	678,580
Interest	<u>105,292</u>	<u>21,914</u>	<u>-</u>	<u>127,206</u>
	<u>\$23,123,534</u>	<u>\$2,257,600</u>	<u>\$316,119</u>	<u>\$25,697,253</u>

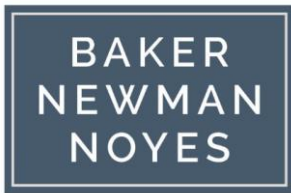
The consolidated financial statements report certain expense categories that are attributable to more than one healthcare service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, such as, depreciation and amortization, and interest, are allocated to a function based on square footage. Supporting activities that are not directly identifiable with one or more healthcare programs are classified as general and administrative. Specifically identifiable costs are assigned to the function which they are identified to.

**16. Financial Assets and Liquidity Resources**

As of September 30, 2021, 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, consisted of the following:

Cash and cash equivalents	\$ 8,857,627
Accounts receivable	<u>2,397,743</u>
	<u>\$11,255,370</u>

To manage liquidity, the Organization maintains sufficient cash and cash equivalent balances to support daily operations throughout the year. Cash and cash equivalents include bank deposits, money market funds, and other similar vehicles that generate a return on cash and provide daily liquidity to the Organization. In addition, the Organization has board-designated assets without donor restrictions that can be utilized at the discretion of management to help fund both operational needs and/or capital projects. As of September 30, 2021, the balance in board-designated assets was approximately \$3.1 million.



**INDEPENDENT AUDITORS' REPORT  
ON OTHER FINANCIAL INFORMATION**

Board of Trustees  
Carlos G. Otis Health Care Center, Inc. and Subsidiary

We have audited the consolidated financial statements of Carlos G. Otis Health Care Center, Inc. and Subsidiary as of and for the years ended September 30, 2021 and 2020, and have issued our report thereon, which contains an unmodified opinion on those consolidated financial statements. See page 1. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for purposes of additional analysis rather than to present the financial position, results of operations and cash flows of the individual entities and is 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 consolidating 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 auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Baker Newman & Noyes LLC*

Manchester, New Hampshire  
March 30, 2022

**CARLOS G. OTIS HEALTH CARE CENTER, INC. AND SUBSIDIARY**

CONSOLIDATING BALANCE SHEETS

September 30, 2021 and 2020

ASSETS

	Carlos G. Otis Health Care Center, Inc.		Grace Cottage Foundation		Eliminations		Consolidated	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Current assets:								
Cash and cash equivalents	\$ 8,857,627	\$ 8,910,369	\$ –	\$ –	\$ –	\$ –	\$ 8,857,627	\$ 8,910,369
Accounts receivable	2,397,743	1,906,817	–	–	–	–	2,397,743	1,906,817
Meaningful use receivable	–	8,500	–	–	–	–	–	8,500
Other receivables	30,533	–	(6,910)	(30,473)	6,910	30,473	30,533	–
Inventories	953,554	1,045,041	–	–	–	–	953,554	1,045,041
Prepaid expenses	<u>197,550</u>	<u>197,813</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>197,550</u>	<u>197,813</u>
Total current assets	12,437,007	12,068,540	(6,910)	(30,473)	6,910	30,473	12,437,007	12,068,540
Property and equipment, net	4,021,103	3,064,117	–	–	–	–	4,021,103	3,064,117
Assets whose use is limited or restricted:								
Restricted cash and cash equivalents	–	–	720,388	1,173,771	–	–	720,388	1,173,771
Investments	–	–	7,601,856	6,156,552	–	–	7,601,856	6,156,552
Contributions receivable from charitable remainder trusts	–	–	36,302	32,744	–	–	36,302	32,744
Beneficial interest in perpetual trust	–	–	2,018,311	1,756,773	–	–	2,018,311	1,756,773
Deposits with trustee	58,180	58,251	–	–	–	–	58,180	58,251
Beneficial interest in net assets of Grace Cottage Foundation	<u>10,169,777</u>	<u>9,052,145</u>	<u>–</u>	<u>–</u>	<u>(10,169,777)</u>	<u>(9,052,145)</u>	<u>–</u>	<u>–</u>
Total assets whose use is limited or restricted	<u>10,227,957</u>	<u>9,110,396</u>	<u>10,376,857</u>	<u>9,119,840</u>	<u>(10,169,777)</u>	<u>(9,052,145)</u>	<u>10,435,037</u>	<u>9,178,091</u>
Total assets	<u>\$26,686,067</u>	<u>\$24,243,053</u>	<u>\$10,369,947</u>	<u>\$ 9,089,367</u>	<u>\$(10,162,867)</u>	<u>\$(9,021,672)</u>	<u>\$26,893,147</u>	<u>\$24,310,748</u>



LIABILITIES AND NET ASSETS

	Carlos G. Otis Health Care Center, Inc.		Grace Cottage Foundation		Eliminations		Consolidated	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Current liabilities:								
Accounts payable	\$ 342,473	\$ 445,911	\$ –	\$ –	\$ 6,910	\$ 30,473	\$ 349,383	\$ 476,384
Accrued compensated absences	892,253	662,643	–	–	–	–	892,253	662,643
Accrued expenses	884,980	801,303	–	–	–	–	884,980	801,303
Estimated third-party settlement payable	2,359,535	66,653	–	–	–	–	2,359,535	66,653
Current portion of charitable gift annuities liability	–	–	23,292	6,492	–	–	23,292	6,492
Current portion of other long-term liabilities	3,958,532	471,340	–	–	–	–	3,958,532	471,340
Current portion of long-term debt and capital lease obligations	<u>555,423</u>	<u>421,256</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>555,423</u>	<u>421,256</u>
Total current liabilities	8,993,196	2,869,106	23,292	6,492	6,910	30,473	9,023,398	2,906,071
Charitable gift annuities liability, less current portion	–	–	176,878	30,730	–	–	176,878	30,730
Other long-term liabilities	–	5,365,046	–	–	–	–	–	5,365,046
Long-term debt and capital lease obligations, less current portion	<u>1,348,858</u>	<u>4,252,786</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,348,858</u>	<u>4,252,786</u>
Total liabilities	10,342,054	12,486,938	200,170	37,222	6,910	30,473	10,549,134	12,554,633
Net assets:								
Without donor restrictions	12,617,752	7,858,116	6,443,516	5,154,146	(6,443,516)	(5,154,146)	12,617,752	7,858,116
With donor restrictions	<u>3,726,261</u>	<u>3,897,999</u>	<u>3,726,261</u>	<u>3,897,999</u>	<u>(3,726,261)</u>	<u>(3,897,999)</u>	<u>3,726,261</u>	<u>3,897,999</u>
Total net assets	<u>16,344,013</u>	<u>11,756,115</u>	<u>10,169,777</u>	<u>9,052,145</u>	<u>(10,169,777)</u>	<u>(9,052,145)</u>	<u>16,344,013</u>	<u>11,756,115</u>
Total liabilities and net assets	<u>\$26,686,067</u>	<u>\$24,243,053</u>	<u>\$10,369,947</u>	<u>\$ 9,089,367</u>	<u>\$(10,162,867)</u>	<u>\$(9,021,672)</u>	<u>\$26,893,147</u>	<u>\$24,310,748</u>

**CARLOS G. OTIS HEALTH CARE CENTER, INC. AND SUBSIDIARY**

CONSOLIDATING STATEMENTS OF OPERATIONS

Years Ended September 30, 2021 and 2020

	Carlos G. Otis Health Care Center, Inc.		Grace Cottage Foundation		Eliminations		Consolidated	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Revenue without donor restrictions and other support:								
Patient service revenue	\$20,583,564	\$19,400,687	\$ —	\$ —	\$ —	\$ —	\$20,583,564	\$19,400,687
Other revenue	5,093,781	6,504,883	33,851	29,652	(332,502)	(306,849)	4,795,130	6,227,686
Net assets released from restrictions for operations	<u>—</u>	<u>—</u>	<u>934,407</u>	<u>412,945</u>	<u>—</u>	<u>—</u>	<u>934,407</u>	<u>412,945</u>
Total revenue without donor restrictions and other support	25,677,345	25,905,570	968,258	442,597	(332,502)	(306,849)	26,313,101	26,041,318
Expenses:								
Salaries and benefits	18,120,099	17,579,979	—	—	—	—	18,120,099	17,579,979
Supplies and other	7,009,697	6,619,328	38,016	28,111	—	—	7,047,713	6,647,439
State provider taxes	607,935	664,049	—	—	—	—	607,935	664,049
Transfers to parent	—	—	1,445,821	907,375	(1,445,821)	(907,375)	—	—
Depreciation and amortization	798,977	678,580	—	—	—	—	798,977	678,580
Interest	<u>86,529</u>	<u>127,206</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>86,529</u>	<u>127,206</u>
Total expenses	<u>26,623,237</u>	<u>25,669,142</u>	<u>1,483,837</u>	<u>935,486</u>	<u>(1,445,821)</u>	<u>(907,375)</u>	<u>26,661,253</u>	<u>25,697,253</u>
(Loss) income from operations	(945,892)	236,428	(515,579)	(492,889)	1,113,319	600,526	(348,152)	344,065
Nonoperating gains (losses):								
Investment return, net	918	801	891,749	338,165	—	—	892,667	338,966
Contributions and program support	1,445,821	907,375	1,104,910	549,449	(1,445,821)	(907,375)	1,104,910	549,449
Other nonoperating (losses) gains	(4,170)	1,121	(21,892)	(1,057)	—	—	(26,062)	64
Forgiveness of Paycheck Protection Program loan	<u>2,973,589</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,973,589</u>	<u>—</u>
Nonoperating gains, net	<u>4,416,158</u>	<u>909,297</u>	<u>1,974,767</u>	<u>886,557</u>	<u>(1,445,821)</u>	<u>(907,375)</u>	<u>4,945,104</u>	<u>888,479</u>
Excess of revenue, gains and other support over expenses	3,470,266	1,145,725	1,459,188	393,668	(332,502)	(306,849)	4,596,952	1,232,544
Increase in net assets without donor restrictions of Foundation	1,289,370	306,895	—	—	(1,289,370)	(306,895)	—	—
Net transfers to affiliate	—	—	(332,502)	(306,849)	332,502	306,849	—	—
Net assets released from restrictions for capital purchases	<u>—</u>	<u>—</u>	<u>162,684</u>	<u>220,076</u>	<u>—</u>	<u>—</u>	<u>162,684</u>	<u>220,076</u>
Increase in net assets without donor restrictions	<u>\$ 4,759,636</u>	<u>\$ 1,452,620</u>	<u>\$ 1,289,370</u>	<u>\$ 306,895</u>	<u>\$ (1,289,370)</u>	<u>\$ (306,895)</u>	<u>\$ 4,759,636</u>	<u>\$ 1,452,620</u>

**CARLOS G. OTIS HEALTH CARE CENTER, INC.**  
**(Parent Company Only)**

SCHEDULES OF OPERATING INCOME (LOSS)

Years Ended September 30, 2021 and 2020

	2021					2020				
	Grace Cottage Hospital	Messenger Valley Pharmacy	Grace Cottage Family Health	Corporate	Total	Grace Cottage Hospital	Messenger Valley Pharmacy	Grace Cottage Family Health	Corporate	Total
Patient service revenue	\$16,724,264	\$ (43,208)	\$3,902,508	\$ –	\$20,583,564	\$16,216,545	\$ (38,803)	\$3,222,945	\$ –	\$19,400,687
Other revenue	<u>2,260,788</u>	<u>2,557,634</u>	<u>270,109</u>	<u>5,250</u>	<u>5,093,781</u>	<u>3,327,288</u>	<u>2,912,798</u>	<u>245,562</u>	<u>19,235</u>	<u>6,504,883</u>
Total revenues without donor restrictions and other support	18,985,052	2,514,426	4,172,617	5,250	25,677,345	19,543,833	2,873,995	3,468,507	19,235	25,905,570
Expenses:										
Salaries and benefits	13,158,377	741,888	4,219,834	–	18,120,099	12,974,733	660,893	3,944,353	–	17,579,979
Supplies and other and state provider taxes	5,304,461	2,040,026	261,267	11,878	7,617,632	4,343,080	2,661,651	272,474	6,172	7,283,377
Depreciation and amortization	768,153	30,458	366	–	798,977	646,216	31,998	366	–	678,580
Interest	<u>–</u>	<u>–</u>	<u>–</u>	<u>86,529</u>	<u>86,529</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>127,206</u>	<u>127,206</u>
Total expenses	<u>19,230,991</u>	<u>2,812,372</u>	<u>4,481,467</u>	<u>98,407</u>	<u>26,623,237</u>	<u>17,964,029</u>	<u>3,354,542</u>	<u>4,217,193</u>	<u>133,378</u>	<u>25,669,142</u>
(Loss) income from operations	\$ <u>(245,939)</u>	\$ <u>(297,946)</u>	\$ <u>(308,850)</u>	\$ <u>(93,157)</u>	\$ <u>(945,892)</u>	\$ <u>1,579,804</u>	\$ <u>(480,547)</u>	\$ <u>(748,686)</u>	\$ <u>(114,143)</u>	\$ <u>236,428</u>