



Northwestern Medical Center, Inc.

FINANCIAL STATEMENTS

September 30, 2022 and 2021

With Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Northwestern Medical Center, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Northwestern Medical Center, Inc., which comprise the balance sheets as of September 30, 2022 and 2021, and the related statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Northwestern Medical Center, Inc. as of September 30, 2022 and 2021, and the results of its operations, changes in its net assets, and its cash flows for the years ended, in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with U.S. generally accepted auditing standards. 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 Northwestern Medical Center, Inc. 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.

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. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Northwestern Medical Center, Inc.'s ability to continue as a going concern within one year after the date that the 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 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. generally accepted auditing standards will always detect a material misstatement when it exists.

Board of Trustees
Northwestern Medical Center, Inc. and Subsidiaries

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 financial statements.

In performing an audit in accordance with U.S. generally accepted auditing standards, 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 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 Northwestern Medical Center, Inc.'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Northwestern Medical Center, Inc.'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 audits.

Berry Dunn McNeil & Parker, LLC

Manchester, New Hampshire

January 6, 2023, except for Note 7 debt covenant disclosure, as to which the date is January 30, 2023

Registration No. 92-0000278

NORTHWESTERN MEDICAL CENTER, INC.

Balance Sheets

September 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
Current assets		
Cash and cash equivalents	23,199,690	26,020,000
Patient accounts receivable, net	10,010,921	9,042,305
Short-term investments	8,718,859	9,983,728
Other current assets	<u>4,391,775</u>	<u>4,081,704</u>
Total current assets	46,321,245	49,127,737
Assets limited as to use	7,368,816	9,218,423
Investments	44,462,524	52,094,910
Property and equipment, net	67,554,197	69,585,327
Other long-term assets	148,611	151,222
Interest rate swaps, net	<u>1,132,363</u>	<u>-</u>
Total assets	<u>\$ 166,987,756</u>	<u>\$ 180,177,619</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 4,296,088	\$ 3,343,284
Salaries, wages and payroll taxes	5,065,831	5,684,425
Other accrued expenses	854,605	517,839
Third-party accelerated payments	-	154,261
Estimated third-party settlements, net	4,165,848	1,986,913
Current portion of long-term debt	<u>1,740,026</u>	<u>1,700,032</u>
Total current liabilities	16,122,398	13,386,754
Deferred compensation	3,863,293	4,684,496
Long-term debt, net of current portion and unamortized bond issuance costs	26,318,927	28,046,911
Interest rate swaps	<u>-</u>	<u>1,319,919</u>
Total liabilities	<u>46,304,618</u>	<u>47,438,080</u>
Net assets		
Without donor restrictions	117,312,710	129,041,863
With donor restrictions	<u>3,370,428</u>	<u>3,697,676</u>
Total net assets	<u>120,683,138</u>	<u>132,739,539</u>
Total liabilities and net assets	<u>\$ 166,987,756</u>	<u>\$ 180,177,619</u>

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

NORTHWESTERN MEDICAL CENTER, INC.

Statements of Operations

Years Ended September 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Revenues, gains, and other support without donor restrictions		
Patient service revenue (net of contractual allowances and discounts)	\$ 93,398,649	\$ 97,727,310
Other operating revenue	4,863,209	4,638,406
U.S. Department of Health and Human Services (HHS) stimulus revenue	324,792	4,023,054
Fixed prospective revenue	21,376,266	20,157,746
Net assets released from restriction used for operations	<u>1,646,258</u>	<u>2,404,649</u>
Total revenues, gains and other support without donor restrictions	<u>121,609,174</u>	<u>128,951,165</u>
Expenses		
Salaries and wages	47,713,122	55,004,260
Employee benefits	12,645,291	12,093,841
Supplies	14,750,734	14,219,293
Contracted services	20,985,119	18,884,665
Depreciation	6,351,176	6,098,074
Travelers' expense	10,003,114	4,046,484
Health care improvement tax	6,857,254	6,152,744
Other operating	6,902,645	5,600,042
Interest	<u>617,285</u>	<u>738,866</u>
Total expenses	<u>126,825,740</u>	<u>122,838,269</u>
(Loss) income from operations	<u>(5,216,566)</u>	<u>6,112,896</u>
Nonoperating gains (losses)		
Net investment income	189,609	9,288,054
Unrealized gains on interest rate swaps	2,452,282	1,135,623
Unrealized losses on investments	(9,741,159)	(734,537)
Other	<u>586,681</u>	<u>352,573</u>
Nonoperating (losses) gains, net	<u>(6,512,587)</u>	<u>10,041,713</u>
(Deficiency) excess of revenues, gains and other support over expenses and losses, and change in net assets without donor restrictions	<u>\$(11,729,153)</u>	<u>\$ 16,154,609</u>

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

NORTHWESTERN MEDICAL CENTER, INC.

Statements of Changes in Net Assets

Years Ended September 30, 2022 and 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balances, October 1, 2020	\$ <u>112,887,254</u>	\$ <u>3,635,619</u>	\$ <u>116,522,873</u>
Excess of revenues, gains and other support over expenses and losses	16,154,609	-	16,154,609
Contributions	-	2,405,121	2,405,121
Appreciation in beneficial interest in perpetual trusts	-	192,824	192,824
Net investment loss	-	(131,239)	(131,239)
Net assets released from restriction used for operations	<u>-</u>	<u>(2,404,649)</u>	<u>(2,404,649)</u>
Change in net assets	<u>16,154,609</u>	<u>62,057</u>	<u>16,216,666</u>
Balances, September 30, 2021	<u>129,041,863</u>	<u>3,697,676</u>	<u>132,739,539</u>
Deficiency of revenues, gains and other support over expenses and losses	(11,729,153)	-	(11,729,153)
Contributions	-	1,497,631	1,497,631
Depreciation in beneficial interest in perpetual trusts	-	(242,224)	(242,224)
Net investment gain	-	63,603	63,603
Net assets released from restriction used for operations	<u>-</u>	<u>(1,646,258)</u>	<u>(1,646,258)</u>
Change in net assets	<u>(11,729,153)</u>	<u>(327,248)</u>	<u>(12,056,401)</u>
Balances, September 30, 2022	<u>\$ 117,312,710</u>	<u>\$ 3,370,428</u>	<u>\$ 120,683,138</u>

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

NORTHWESTERN MEDICAL CENTER, INC.

Statements of Cash Flows

Years Ended September 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities		
Change in net assets	\$ (12,056,401)	\$ 16,216,666
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	6,358,936	6,109,869
Gain on sale of property and equipment	-	(185,870)
Net realized and unrealized losses (gains) on investments	10,760,144	(7,681,256)
Net change in beneficial interest in perpetual trusts	242,224	(192,824)
Unrealized gains on interest rate swaps	(2,452,282)	(1,135,623)
Decrease (increase) in		
Patient accounts receivable, net	(968,616)	866,288
Contributions receivable	-	179,155
Other assets	(307,460)	9,137,306
(Decrease) increase in		
Accounts payable and accrued expenses	565,559	(6,696,635)
HHS stimulus deferred revenue	-	(3,653,507)
Third-party accelerated payments	(154,261)	(5,720,935)
Estimated third-party settlements	<u>2,178,935</u>	<u>(4,158,833)</u>
Net cash provided by operating activities	<u>4,166,778</u>	<u>3,083,801</u>
Cash flows from investing activities		
Purchase of property and equipment	(4,214,629)	(5,659,283)
Net proceeds from sale of property and equipment	-	79,545
Purchase of investments	(3,095,427)	(11,582,166)
Proceeds from sale of investments	<u>2,018,718</u>	<u>11,179,567</u>
Net cash used by investing activities	<u>(5,291,338)</u>	<u>(5,982,337)</u>
Cash flows from financing activities		
Principal payments on long-term debt	<u>(1,695,750)</u>	<u>(1,650,999)</u>
Net cash used by financing activities	<u>(1,695,750)</u>	<u>(1,650,999)</u>
Net decrease in cash and cash equivalents	<u>(2,820,310)</u>	<u>(4,549,535)</u>
Cash and cash equivalents, beginning of year	<u>26,020,000</u>	<u>30,569,535</u>
Cash and cash equivalents, end of year	<u>\$ 23,199,690</u>	<u>\$ 26,020,000</u>
Supplemental disclosures of cash flow information		
Cash paid for interest	<u>\$ 609,525</u>	<u>\$ 724,524</u>
Acquisition of property and equipment included in accounts payable	<u>\$ 105,417</u>	<u>\$ -</u>

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

NORTHWESTERN MEDICAL CENTER, INC.

Notes to Financial Statements

September 30, 2022 and 2021

Organization

Northwestern Medical Center, Inc. (Hospital or NMC) is a 70-bed, not-for-profit hospital in St. Albans, Vermont. The Hospital was the sole-owning member of Northwestern Occupational Health, LLC (NOH), a for-profit entity that provides medical rehabilitative and urgent care services. In April 2018, NOH's operations were transferred to NMC. There was minimal activity related to NOH in the 2021 statement of operations. NOH was absorbed into the Hospital during 2022 and all assets and liabilities were transferred to the Hospital in 2022. The financial statements also include the accounts of the Northwestern Medical Center Auxiliary, Inc. (Auxiliary) prior to its dissolution which is organized specifically for the promotion and support of the Hospital. The Hospital and the Auxiliary are collectively referred to as the Organization. The Hospital is the sole-owning member of the Auxiliary. Auxiliary volunteers provide the Hospital approximately 13,300 hours of support annually, as well as financial support.

The Hospital and Auxiliary are tax-exempt corporations pursuant to Section 501(c)(3) of the Internal Revenue Code (Code) and, as such, are not subject to certain income and property taxes. As a single member LLC, NOH was considered a disregarded tax entity and its results of operations are with the Hospital.

1. Summary of Significant Accounting Policies

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 described below. 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.

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 Hospital. These net assets may be used at the discretion of the Hospital'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 Hospital or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor 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.

NORTHWESTERN MEDICAL CENTER, INC.

Notes to Financial Statements

September 30, 2022 and 2021

Use of Estimates

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

Cash and Cash Equivalents

Cash equivalents include money market funds with a maturity of three months or less when purchased. The Hospital maintains its cash in deposit accounts which, at times, may exceed federal depository insurance limits. Management believes credit risk related to these investments is minimal. The Hospital has not experienced any losses in such accounts.

Revenue Recognition and Accounts Receivable

Patient service revenue is reported at the amount that reflects the consideration to which the Hospital 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 Hospital 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 Hospital 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 Hospital'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 Hospital 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 Hospital. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Hospital 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 Hospital 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 Hospital does not believe it is required to provide additional goods or services related to that sale.

NORTHWESTERN MEDICAL CENTER, INC.

Notes to Financial Statements

September 30, 2022 and 2021

Because all of its performance obligations relate to contracts with a duration of less than one year, the Hospital 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 Hospital 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 Hospital's policy, and implicit price concessions provided to uninsured patients. The Hospital determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The Hospital 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 net 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.

The Hospital 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

Due to its geographic location, the Hospital is deemed to be a sole community hospital. Under this designation, it is reimbursed at a prospectively-determined rate per inpatient discharge based upon its historical costs from a base period. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

Outpatient services rendered to Medicare program beneficiaries are paid at prospectively-determined rates. These rates vary according to an ambulatory payment classification system that is based on clinical, diagnostic, and other factors. Final settlements have been determined for all years through September 30, 2019.

NORTHWESTERN MEDICAL CENTER, INC.

Notes to Financial Statements

September 30, 2022 and 2021

Medicaid

Inpatient services rendered to Medicaid program beneficiaries are reimbursed at acuity-based prospectively-determined rates per discharge. Outpatient services rendered to Medicaid program beneficiaries are paid at prospectively-determined rates. The Hospital's Medicaid cost reports have been audited by the fiscal intermediary through September 30, 2013.

Blue Cross and Commercial

Inpatient and outpatient services rendered to Blue Cross Blue Shield of Vermont (Blue Cross) and MVP Health Care subscribers are reimbursed at submitted charges less a discount. Physician professional fees are reimbursed on a fee schedule. The amounts paid to the Hospital are not subject to any retroactive adjustments.

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

Revenue from the Medicare and Medicaid programs accounted for approximately 22% and 7%, respectively, of the Hospital's patient revenue (net of contractual allowances and discounts) for the year ended 2022, and 24% and 8%, respectively, of the Hospital's patient revenue (net of contractual allowances and discounts) for the year ended 2021.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. 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 Hospital'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 Hospital. In addition, the contracts the Hospital 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 Hospital'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 2022 and 2021 increased net patient service revenue by approximately \$3,180,000 and \$4,600,000, respectively.

NORTHWESTERN MEDICAL CENTER, INC.

Notes to Financial Statements

September 30, 2022 and 2021

Consistent with the Hospital's mission, care is provided to patients regardless of their ability to pay. Therefore, the Hospital 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 Hospital expects to collect based on its collection history with those patients.

Patients who meet the Hospital'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 criteria for charity care consider family income, net worth, and extent of financial obligations, including healthcare costs.

The net cost of charity care provided was approximately \$876,000 in 2022 and \$1,159,000 in 2021. The total cost estimate is based on the Hospital's cost accounting system. The cost accounting system derives a cost estimate by allocating expense at a detail charge level.

As part of its mission, the Hospital underwrites a number of healthcare related programs that may not be otherwise available to the community. These activities directly align with the Community Health Needs Assessment, targeting the priorities both directly and indirectly.

Some examples of healthcare related programs are described below:

- The Healthy Hearts community health fair focuses on improved cardiovascular health with free screenings, educational booths, opportunities to try fitness activities, engaging kids' activities, healthy snacks, and opportunities to discuss screening results and health questions with providers.
- NMC's Lifestyle Medicine Department offers various community wellness and prevention programming, including media pieces, special events, smoking cessation activities, public lectures, and health related support groups.
- NMC invests staff time and production costs to dedicate space in hospital publications, paid advertising, proactive traditional media, and social media to raise awareness of health issues, prevention efforts, wellness activities, and supportive offerings put forth by the Hospital as well as community providers, who often lack the staff or resources to fully communicate these important messages to the target audiences in the community.
- NMC underwrites and voluntarily participates in local United Way programs and outreach with a focus on health, education, and income, all of which contribute to improved quality of life and overall community health.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Hospital also provides services to uninsured patients and offers those uninsured patients a discount, either by policy or law, from standard charges.

NORTHWESTERN MEDICAL CENTER, INC.

Notes to Financial Statements

September 30, 2022 and 2021

The Hospital 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. Bad debt expense for the years ended September 30, 2022 and 2021 was not significant.

The Hospital 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)
- Hospital's program that provided the service

For the years ended September 30, 2022 and 2021, the Hospital determined revenue recognized from goods and services that transfer to the customer at a point in time is not material to the financial statements.

Short-Term Investments, Assets Limited as to Use, and Investments

Short-term investments include money market funds, certificates of deposit and highly liquid debt instruments with a maturity of one year or less when purchased. These funds represent excess cash from operations that are available for day-to-day operational needs, as required.

Assets limited as to use include donor-restricted investments, funds collateralizing property financed by bank loans, bond proceeds to be used for capital projects, deferred compensation plan assets and designated assets set aside by the Board for future capital improvements, over which the Board retains control and which it may, at its discretion, use for other purposes.

Investments represent donations without donor restrictions received over the years, as well as excess funds generated from the operations of the Hospital. These funds, collectively, may only be used upon Board approval. While these funds are identified and referred to as the Hospital's endowment, they are not endowment funds as defined by the Uniform Prudent Management of Institutional Funds Act (UPMIFA) or U.S. GAAP and are not subject to any donor limitations or guidelines with respect to withdrawals.

Investments also include the non-current portion of short-term investments.

NORTHWESTERN MEDICAL CENTER, INC.

Notes to Financial Statements

September 30, 2022 and 2021

Investments in equity securities are reported at readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheets. The Hospital has adopted FASB ASC Topic 825, *Financial Instruments*, and has elected the fair value option relative to its investments which consolidates all investment performance activity within the excess (deficiency) of revenues, gains and other support over expenses and losses in the statements of operations to simplify the presentation of these amounts.

Investment income or loss on investments, including realized gains and losses on investments, unrealized gains and losses on investments, and interest and dividends is included in nonoperating gains (losses), unless the income or loss is restricted by donor or law.

Employee Fringe Benefits

The Hospital has an "earned time" plan to provide certain fringe benefits for its employees; however, certain employees are not eligible for this plan. Under this plan, each employee "earns" paid leave for each payroll period. Accumulated hours may be used for vacations, holidays, or illnesses. Hours earned, but not used, vest with the employees up to established limits. The Hospital accrues the cost of these benefits as they are earned.

Property and Equipment

Property and equipment acquisitions are recorded at cost or, if contributed, at fair market value determined at the date of donation. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method.

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

The Hospital reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. The factors considered by management in performing this assessment include current operating results, trends and prospects, as well as the effects of obsolescence, demand, competition and other economic factors.

NORTHWESTERN MEDICAL CENTER, INC.

Notes to Financial Statements

September 30, 2022 and 2021

Coronavirus Aid, Relief, and Economic Security Act (CARES Act) Provider Relief Stimulus Funds

The CARES Act provided funds to eligible healthcare providers to prevent, prepare for and respond to the Coronavirus Disease (COVID-19). The funds were appropriated to reimburse healthcare providers for healthcare related expenses or lost revenues that are attributable to COVID-19. The CARES Act provides the U.S. Department of Health and Human Services (HHS) with discretion to operate the program and determine the reporting requirements. During 2022 and 2020, the Hospital received \$324,792 and \$12,200,000, respectively, of HHS Provider Relief Stimulus Funds (HHS Funds) and attested to the receipt of the HHS Funds and agreement with the associated terms and conditions. The Hospital has chosen to follow the conditional contribution model for the HHS Funds. At September 30, 2022 and 2021, the Hospital recognized stimulus funds in the amount of \$324,792 and \$3,653,507, respectively, of HHS Funds in other operating revenue in the statements of operations. Management believes the conditions on which the HHS Funds 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, there is at least a reasonable possibility the amount of income recognized related to the lost revenues and qualifying expenses 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.

In response to the COVID-19 pandemic, the Centers for Medicare and Medicaid Services (CMS) and Blue Cross made available an accelerated and advance payment program to providers. The Hospital received \$5,875,196 of accelerated advanced payments during 2020. CMS recoups payment from claims payments one year from the date the respective advances were made to the Hospital. At September 30, 2021, the balance of accelerated advanced payments was \$154,261. At September 30, 2022, all accelerated CMS payments have been recouped. Blue Cross began recouping payment from claims payments starting in October 2020 and as of September 30, 2021, all accelerated payments had been recouped by Blue Cross.

Interest Rate Swaps

The Hospital uses interest rate swap contracts to mitigate the cash flow exposure of interest rate movements on variable-rate debt. The Hospital has adopted FASB ASC Topic 815, *Derivatives and Hedging*, to account for its interest rate swap contracts. The interest rate swaps do not qualify as cash flow hedges. Gains and losses on derivative financial instruments that do not qualify as hedges are required to be included in the performance indicator. As a result, the unrealized gains and losses on the interest rate swaps for 2022 and 2021, respectively, have been included in the (deficiency) excess of revenues, gains, and other support over expenses and losses.

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Nonoperating Gains (Losses)

Activities other than those in connection with providing healthcare services are considered to be nonoperating. Nonoperating gains and losses consist primarily of income and gains and losses on invested funds, contributions without donor restrictions, and unrealized gains and (losses) on interest rate swaps.

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

The statements of operations include (deficiency) excess of revenues, gains and other support 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 and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

Donor-Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received and the conditions are met. The gifts are reported as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, the net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statements of operations as net assets released from restriction. Donor-restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restrictions in the accompanying financial statements.

Subsequent Events

For purposes of the preparation of these financial statements in conformity with U.S. GAAP, the Organization has considered transactions of events occurring through January 6, 2023, the date the financial statements were available for issuance.

2. Availability and Liquidity of Financial Assets

The Organization maintains a general operating account that has average days (based on normal expenditures) cash and cash equivalents on hand of 70 and 81 at September 30, 2022 and 2021, respectively. In addition, the Organization has working capital of \$30,198,847 and \$35,740,983 at September 30, 2022 and 2021, respectively.

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

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 23,199,690	\$ 26,020,000
Patient accounts receivable, net	10,010,921	9,042,305
Other receivables	721,157	820,393
Investments	<u>53,181,383</u>	<u>62,078,638</u>
Financial assets available at year end for current use	<u>\$ 87,113,151</u>	<u>\$ 97,961,336</u>

At September 30, 2021, cash and cash equivalents included \$5,875,196 specifically related to third-party accelerated payments. At September 30, 2021, average days cash and cash equivalents on hand, excluding the third-party accelerated payments and HHS stimulus funds, was 68.

The Organization has short-term and long-term investments which are available for general expenditure within one year in the normal course of operations with Board approval. Accordingly, these assets have been included in the quantitative information above. The Organization also had assets limited as to use that are designated for future capital acquisition of \$849,782 as of September 30, 2021, which are more fully described in Note 5, that have not been included in the quantitative information above. These assets limited as to use are not available for general expenditure within the next year; however, the amounts could be made available if necessary.

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to optimize the investment of its available funds. The Organization reports monthly to the Finance Committee and Board the days cash on hand, estimated cost report settlements to Medicare and Medicaid and estimated settlement due to a third-party payor who pays the Organization under a Prospective Interim Payment system. The Hospital's goal is generally to maintain financial assets to meet 200 days of operating expenses.

3. Net Patient Service Revenue

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

	<u>2022</u>	<u>2021</u>
Gross patient service revenue		
Inpatient services	\$ 48,679,849	\$ 43,399,341
Outpatient services	<u>186,055,840</u>	<u>195,655,850</u>
	234,735,689	239,055,191
Less contractual allowances and discounts	<u>141,337,040</u>	<u>141,327,881</u>
Net patient service revenue	<u>\$ 93,398,649</u>	<u>\$ 97,727,310</u>

NORTHWESTERN MEDICAL CENTER, INC.

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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 Hospital has elected the portfolio approach. This portfolio approach is being used as the Hospital has a large volume of similar contracts with similar classes of customers. The Hospital 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.

Net patient service revenue recognized for the years ended September 30, 2022 and 2021 from these major payors is as follows:

	<u>2022</u>	<u>2021</u>
Medicare and Medicaid	\$ 29,196,992	\$ 33,242,329
Commercial and other	62,933,258	63,223,222
Self-pay	<u>1,268,399</u>	<u>1,261,759</u>
Total	<u>\$ 93,398,649</u>	<u>\$ 97,727,310</u>

4. Property and Equipment

The major categories of property and equipment are as follows as of September 30:

	<u>2022</u>	<u>2021</u>
Land	\$ 1,020,531	\$ 1,020,532
Land improvements	3,809,868	3,891,198
Buildings	89,698,576	88,679,447
Major moveable equipment	<u>46,032,510</u>	<u>49,091,913</u>
	140,561,485	142,683,090
Less accumulated depreciation	<u>74,859,849</u>	<u>74,419,950</u>
	65,701,636	68,263,140
Construction-in-progress	<u>1,852,561</u>	<u>1,322,187</u>
	<u>\$ 67,554,197</u>	<u>\$ 69,585,327</u>

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At September 30, 2022 and 2021, construction in progress included approximately \$943,500 and \$545,400, respectively, related to expansion and renovation of the emergency room. The total capital amount budgeted for this project is \$10,800,000. The project is being funded through operations and is expected to be completed in September 2023.

5. Assets Limited as to Use and Investments

The composition of assets limited as to use and investments as of September 30 is as follows:

	<u>2022</u>	<u>2021</u>
Assets Limited as to Use		
Internally designated for capital acquisition		
Cash equivalents	\$ -	\$ 50,195
Equities	-	-
Fixed income	-	-
Alternative investment – hedge funds	<u>-</u>	<u>799,587</u>
	<u>-</u>	<u>849,782</u>
Donor-restricted		
Cash equivalents	1,969,379	1,825,625
Equities	396,787	457,689
Fixed income	249,350	268,600
Beneficial interest in perpetual trusts	<u>890,007</u>	<u>1,132,231</u>
	<u>3,505,523</u>	<u>3,684,145</u>
Other investments		
Deferred compensation	<u>3,863,293</u>	<u>4,684,496</u>
	<u>\$ 7,368,816</u>	<u>\$ 9,218,423</u>

NORTHWESTERN MEDICAL CENTER, INC.

Notes to Financial Statements

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Investments

Cash equivalents	\$ 2,726,092	\$ 5,975,046
Certificates of deposit with maturity dates exceeding twelve months	-	202,254
Fixed income	18,937,563	15,177,324
Equities	31,517,728	39,524,633
Alternative investment – hedge funds	<u>-</u>	<u>1,199,381</u>
Total	53,181,383	62,078,638
Less short-term investments	<u>8,718,859</u>	<u>9,983,728</u>
Long-term investments	<u>\$ 44,462,524</u>	<u>\$ 52,094,910</u>

Investment income and gains and (losses) without donor restrictions for assets limited as to use and investments are comprised of the following:

	<u>2022</u>	<u>2021</u>
Interest and dividend income, net of fees	\$ 1,208,594	\$ 872,261
Realized (losses) gains, net	<u>(1,018,985)</u>	<u>8,415,793</u>
Unrealized losses, net	<u>189,609</u> <u>(9,741,159)</u>	9,288,054 <u>(734,537)</u>
	<u>\$ (9,551,550)</u>	<u>\$ 8,553,517</u>

On May 5, 2009, the Governor of Vermont signed UPMIFA as regulation over donor-restricted endowment funds. Under UPMIFA, the amount of the original gifts is not expendable, although the value of the investments purchased may occasionally fall below that amount. UPMIFA describes “historic dollar value” as the amount that is not expendable. Income not specifically restricted by donors is reported as net assets with donor restrictions until appropriated by the Board and expended.

6. Beneficial Interest in Perpetual Trusts

The Hospital is the beneficiary of various trusts for which it is not the trustee, consisting of \$890,007 and \$1,132,231 in irrevocable perpetual trusts at September 30, 2022 and 2021, respectively. The Hospital has reflected as assets in the balance sheets, included in donor-restricted assets limited as to use, its share of the fair value of the underlying investments in the trusts. Receipts of income are included as investment income without donor restrictions when received. Receipts from the trusts were approximately \$133,100 and \$26,400 for the years ended September 30, 2022 and 2021, respectively, and were recorded in net investment (loss) income.

NORTHWESTERN MEDICAL CENTER, INC.

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7. Borrowings

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

	<u>2022</u>	<u>2021</u>
Vermont Educational and Health Building Finance Agency Hospital Revenue Bonds 2016 Series A, currently held by People's United Bank, interest, at a variable rate based on 75% of the one-month London Inter-bank Offered Rate (LIBOR) plus 0.71% (2.45% at September 30, 2022), plus principal are paid monthly; due through June 1, 2036; collateralized by substantially all of the Hospital's assets	\$ 26,743,328	\$ 28,349,023
Capital lease payable, with interest at 3.0%, due in monthly installments of \$11,333, including interest, through 2035	<u>1,477,811</u>	<u>1,571,901</u>
	28,221,139	29,920,924
Less: unamortized bond issuance costs	162,186	173,981
Less: current portion	<u>1,740,026</u>	<u>1,700,032</u>
Long-term debt, net of current portion and unamortized bond issuance costs	<u>\$ 26,318,927</u>	<u>\$ 28,046,911</u>

Maturities on long-term debt, before unamortized debt issuance costs, for fiscal years subsequent to September 30, 2022 are as follows:

2023	\$ 1,740,026
2024	1,784,338
2025	1,831,966
2026	1,878,720
2027	1,927,370
Thereafter	<u>19,058,719</u>
	<u>\$ 28,221,139</u>

The 2016A bond issue requires the Hospital to meet certain covenants. As of September 30, 2022, the Hospital was not in compliance with certain of those covenants. As a result the Hospital is required to engage a consultant to make recommendations to achieve compliance within the next 24 months.

NORTHWESTERN MEDICAL CENTER, INC.

Notes to Financial Statements

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Interest Rate Swaps

The Hospital has entered into three swap agreements. During 2022 and 2021, the interest rate swap agreements did not qualify for hedge accounting.

The Hospital is required to include the fair value of the swaps in the balance sheet, and annual changes, if any, in the fair value of the swaps in the statement of operations. For example, during the Bonds' holding period, the annually calculated value of the swaps will be reported as assets if expected interest rates increase above those expected on the date the swaps were entered into (and as an unrealized gain in the statement of operations), which will generally be indicative that the net fixed rate the Hospital is paying is below market expectations of rates during the remaining term of the swap. The swaps will be reported as a liability (and as an unrealized loss in the statement of operations) if expected interest rates decrease below those expected on the date the swaps were entered into, which will generally be indicative that the net fixed rate the Hospital is paying on the swap is above market expectations of rates during the remaining term of the swap. These annual accounting adjustments of value changes in the swap transaction are non-cash recognition requirements. The Hospital retains the sole right to terminate the swap agreements should the need arise; however, such termination may result in a payment or receipt based on interest rate expectations at that time. The Hospital recorded the swaps at their asset position of \$1,132,363 and liability position of \$1,319,919 at September 30, 2022 and 2021, respectively. The interest rate swap contract disclosures are summarized as follows:

Fixed Rate Paid	Variable Rate Received	Current Notional Amount	Fair Value as of September 30, 2022	Fair Value as of September 30, 2021	Termination Date	Counterparty
1.2075%	1.7435%	20,813,328	1,257,951	(578,079)	06/01/2028	M&T Bank
.1514%	.0571%	-	-	(736)	10/01/2021	M&T Bank
3.228%	2.2897%	5,930,000	<u>(125,588)</u>	<u>(741,104)</u>	10/01/2030	Deutsche Bank AG
			<u>\$ 1,132,363</u>	<u>\$ (1,319,919)</u>		

The variable rate for the interest rate swaps is based on 68% of the one-month USD-LIBOR-BBA rate.

8. Retirement Plans

The Hospital sponsors a 403(b) retirement plan for its employees. To be eligible to participate in the 403(b) plan, an employee must meet certain requirements as specified in the Plan documents. The Hospital matches 1% if the employee contributes 2% or 3% of their annual salary, and the Hospital contributes 2% if the employee contributes 4% or more of their annual salary. Total expense under the 403(b) retirement plan was \$833,628 and \$921,783 in 2022 and 2021, respectively.

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The Hospital also sponsors a Money Purchase Pension Plan covering substantially all of its employees. The Hospital's contributions are determined for, and allocated to, eligible participants based on a predetermined percent of compensation paid. Individual benefits at retirement are the amounts which can be provided by the sums contributed to each participant's account. The plan, which may be terminated at any time by the Board, provides for employee vesting over a six-year period. Retirement plan expenses charged to operations were \$1,529,017 and \$1,282,221 in 2022 and 2021, respectively.

The Hospital has a nonqualified deferred compensation plan established under Section 457 of the Code. The plan permits certain management and highly compensated employees to defer portions of their compensation based on Internal Revenue Service guidelines. The Hospital has cumulatively recorded \$3,863,293 and \$4,684,496 at September 30, 2022 and 2021, respectively, related to this plan. The related investments are segregated in a separate account and reported in the balance sheet along with the Hospital's related liability to the employees.

9. Commitments and Contingencies

Operating Leases

The Hospital has operating leases for medical care space, and has various leases for medical and office equipment with expiration dates through 2027. Certain of these leases have renewal options and contain an annual Consumer Price Index increase provision. The Hospital's future minimum payments under these leases are as follows:

Years ending September 30,	
2023	\$ 512,000
2024	414,000
2025	289,000
2026	206,000
2027	<u>209,000</u>
	<u>\$ 1,630,000</u>

Rental expense for the years ended September 30, 2022 and 2021 was \$798,696 and \$799,238, respectively.

Professional Liability Insurance and Litigation

The Hospital carries malpractice insurance coverage under a claims-made policy. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, would be uninsured. The Hospital intends to renew its coverage on a claims-made basis and has no reason to believe that it may be prevented from renewing such coverage.

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The Hospital is subject to complaints, claims and litigation due to potential claims which arise in the normal course of business. U.S. GAAP require the Hospital to accrue the ultimate cost of malpractice claims when the incident that gives rise to the claim occurs, without consideration of insurance recoveries. Expected recoveries are presented as a separate asset. Amounts accrued under this provision are included in other current assets and other accrued expenses in the balance sheets. The Hospital at various times during the year may be involved in other legal proceedings of a nature considered normal to its business. The Hospital has evaluated its exposure to losses arising from identifiable potential claims and has properly accounted for them in the balance sheets for the years ended September 30, 2022 and 2021.

QHR, LLC

The Hospital contracts with QHR, LLC for management advisory services. Total expenses related to the QHR, LLC contract, and charged to operations, were \$608,880 and \$781,351 for the years ended September 30, 2022 and 2021, respectively.

Self-Funded Health Insurance

The Hospital maintains a self-funded health insurance plan. A reserve of \$683,175 and \$319,515 in 2022 and 2021, respectively, has been established to allow for incurred but not reported claims for healthcare services based on claim history. The self-funded policy had an individual stop loss of \$125,000 in 2022 and 2021. The Hospital's aggregate stop loss coverage begins at 125% of expected claims, excluding claim amounts which are paid under the individual stop loss coverage.

OneCare Vermont, LLC

The Hospital is a participant in OneCare Vermont, LLC (OneCare), a statewide Accountable Care Organization (ACO). Beginning January 1, 2017, the Hospital entered into a risk bearing arrangement through the Vermont Medicaid program. Beginning January 1, 2018, the Hospital accepted additional risk as a member of OneCare by participating in the Medicare Next Generation Model and Blue Cross. Under the Medicare Next Generation Model, Blue Cross/Blue Shield of Vermont, and Vermont Medicaid program, the Hospital receives monthly fixed prospective payments for services provided to attributed members. The ACO 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. The Hospital recognizes its share of annual contract settlements as an increase or decrease to fixed prospective revenue in the statement of operations.

10. Health Care Improvement Tax

A health care improvement tax is imposed on hospitals, nursing homes, and home health agencies as part of a program to upgrade services in Vermont. Hospitals in Vermont are assessed as a percentage of net patient revenue which is determined annually by the General Assembly. The Hospital tax rate was 6% in 2022 and 2021.

NORTHWESTERN MEDICAL CENTER, INC.

Notes to Financial Statements

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11. Concentration of Credit Risk

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

	<u>2022</u>	<u>2021</u>
Medicare	23 %	30 %
Medicaid	11	11
Blue Cross	12	12
Other third-party payors	32	21
Patients	<u>22</u>	<u>26</u>
	<u>100 %</u>	<u>100 %</u>

12. Functional Expenses

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

	<u>2022</u>	<u>Healthcare Services</u>	<u>Support Services</u>	<u>Total</u>
Salaries and wages	\$ 30,765,421	\$ 16,947,701	\$ 47,713,122	
Employee benefits	8,153,684	4,491,607	12,645,291	
Supplies	9,511,273	5,239,461	14,750,734	
Contracted services	13,531,205	7,453,914	20,985,119	
Depreciation	4,095,238	2,255,938	6,351,176	
Travelers' expense	6,450,008	3,553,106	10,003,114	
Health care improvement tax	6,857,254	-	6,857,254	
Other operating	4,450,825	2,451,820	6,902,645	
Interest	<u>398,025</u>	<u>219,260</u>	<u>617,285</u>	
	<u>\$ 84,212,933</u>	<u>\$ 42,612,807</u>	<u>\$ 126,825,740</u>	
		<u>Healthcare Services</u>	<u>Support Services</u>	<u>Total</u>
<u>2021</u>				
Salaries and wages	\$ 34,982,709	\$ 20,021,551	\$ 55,004,260	
Employee benefits	7,691,683	4,402,158	12,093,841	
Supplies	9,043,470	5,175,823	14,219,293	
Contracted services	12,010,647	6,874,018	18,884,665	
Depreciation	3,878,375	2,219,699	6,098,074	
Travelers' expense	2,573,564	1,472,920	4,046,484	
Health care improvement tax	6,152,744	-	6,152,744	
Other operating	3,561,627	2,038,415	5,600,042	
Interest	<u>469,919</u>	<u>268,947</u>	<u>738,866</u>	
	<u>\$ 80,364,738</u>	<u>\$ 42,473,531</u>	<u>\$ 122,838,269</u>	

NORTHWESTERN MEDICAL CENTER, INC.

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13. Net Assets with Donor Restrictions

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

	<u>2022</u>	<u>2021</u>
Purpose restricted		
Community wellness initiatives	\$ 1,723,674	\$ 1,721,778
Capital expenditures	188,128	188,128
Education assistance	42,660	37,710
Free care assistance	67,163	123,557
Other community programs	<u>255,265</u>	<u>290,741</u>
	<u>2,276,890</u>	<u>2,361,914</u>
Perpetual in nature		
Beneficial Interest in Trusts, the income is without donor restrictions	890,007	1,132,231
Sowles Memorial Fund, the income to be used for charity care	<u>203,531</u>	<u>203,531</u>
	<u>1,093,538</u>	<u>1,335,762</u>
	<u>\$ 3,370,428</u>	<u>\$ 3,697,676</u>

Net assets without donor restrictions are available for the following purposes at September 30:

	<u>2022</u>	<u>2021</u>
Internally designated for capital acquisition	\$ -	\$ 849,782
Undesignated	<u>117,312,710</u>	<u>128,192,081</u>
	<u>\$ 117,312,710</u>	<u>\$ 129,041,863</u>

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14. 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. ASC Topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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

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

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

Assets and liabilities measured at fair value at September 30, 2022 are summarized below:

	<u>Fair Value Measurements Using</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Assets limited as to use				
Cash equivalents	\$ 1,969,379	\$ -	\$ -	\$ 1,969,379
Fixed income	128,076	121,274	-	249,350
Equities	396,787	-	-	396,787
Deferred compensation plan assets	3,863,293	-	-	3,863,293
Beneficial interest in perpetual trusts	-	-	890,007	890,007
	<u>\$ 6,357,535</u>	<u>\$ 121,274</u>	<u>\$ 890,007</u>	<u>\$ 7,368,816</u>
Investments				
Cash equivalents	\$ 2,726,092	\$ -	\$ -	\$ 2,726,092
Fixed income	16,416,804	2,520,759	-	18,937,563
Equities	31,517,728	-	-	31,517,728
	<u>\$ 50,660,624</u>	<u>\$ 2,520,759</u>	<u>\$ -</u>	<u>\$ 53,181,383</u>
Interest rate swaps	<u>\$ -</u>	<u>\$ 1,132,363</u>	<u>\$ -</u>	<u>\$ 1,132,363</u>

NORTHWESTERN MEDICAL CENTER, INC.

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Assets measured at fair value at September 30, 2021 are summarized below:

	Fair Value Measurements Using			Total
	Level 1	Level 2	Level 3	
Assets:				
Assets limited as to use				
Cash equivalents	\$ 1,875,820	\$ -	\$ -	\$ 1,875,820
Fixed income	128,259	140,341	-	268,600
Equities	457,689	-	-	457,689
Deferred compensation plan assets	4,684,496	-	-	4,684,496
Beneficial interest in perpetual trusts	<u>-</u>	<u>-</u>	<u>1,132,231</u>	<u>1,132,231</u>
	<u>\$ 7,146,264</u>	<u>\$ 140,341</u>	<u>\$ 1,132,231</u>	8,418,836
Alternative investment – hedge funds				<u>799,587</u>
				<u>\$ 9,218,423</u>
Investments				
Cash equivalents	\$ 5,975,046	\$ -	\$ -	\$ 5,975,046
Certificates of deposit with maturity dates exceeding twelve months	202,254	-	-	202,254
Fixed income	11,757,409	3,419,915	-	15,177,324
Equities	<u>39,524,633</u>	<u>-</u>	<u>-</u>	<u>39,524,633</u>
	<u>\$ 57,459,342</u>	<u>\$ 3,419,915</u>	<u>\$ -</u>	60,879,257
Alternative investment – hedge funds				<u>1,199,381</u>
				<u>\$ 62,078,638</u>
Liabilities:				
Interest rate swaps	<u>\$ -</u>	<u>\$ 1,319,919</u>	<u>\$ -</u>	<u>\$ 1,319,919</u>

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in certain instances, there are no quoted market prices for the Hospital's various financial instruments included in Level 2.

The Hospital's hedge fund alternative investments were valued based on the net asset values (NAV) in accordance with U.S. GAAP as a practical expedient. The Hospital invested in hedge funds, which were calculated NAV per share in accordance with FASB guidance relative to investment companies, and these investments were reported at fair value based on the NAV per share as reported by the investee. In accordance with U.S. GAAP, the investments for which fair value is measured at fair value using the practical expedient have not been categorized in the fair value hierarchy.

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Notes to Financial Statements

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The fair value of the interest rate swap agreements is based on the income approach using a discounted cash flow analysis of the future cash inflows and cash outflows based on the notional amount of the interest rate swap agreement, market expectations regarding the variable rate as outlined in the Series 2016A bonds, and the fixed interest rate of the swap agreement.

The hedge fund investment primarily invested in limited partnerships and similar pooled investment vehicles often referred to as portfolio funds. These funds were managed by independent portfolio managers that employ diverse alternative investment strategies across a variety of asset classes. The alternative investment involved certain risks due to a lack of a public market and certain time restrictions on withdrawals such as lock-up periods which could be two years or longer. After expiration of the lock-up period, withdrawals typically were permitted only on a limited basis, such as monthly, quarterly, semi-annually, or annually.

Because the Hospital will never receive the assets held in the perpetual trusts, the beneficial interest in the perpetual trusts has been categorized as a Level 3 measurement. The fair value of the perpetual trusts is based on an estimate of the Hospital's portion of the fair value of the assets held by the perpetual trusts. The fair value of the assets held by the perpetual trusts is based on the market value of the underlying assets. Due to the level of risk associated with the fair value of the underlying securities and the level of uncertainty related to changes in their value, it is at least reasonably possible that changes in risks in the near term would materially affect the amounts reported in the balance sheets.

Changes in the beneficial interest in perpetual trusts are comprised of the following for the years ended September 30:

	<u>2022</u>	<u>2021</u>
Fair value, beginning of year	\$1,132,231	\$ 939,407
Net (depreciation) appreciation	<u>(242,224)</u>	<u>192,824</u>
Fair value, end of year	<u>\$ 890,007</u>	<u>\$1,132,231</u>