

North Country Health Systems, Inc.

Independent Auditor's Report and
Consolidated Financial Statements

September 30, 2021 and 2020

North Country Health Systems, Inc.
September 30, 2021 and 2020

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Independent Auditor's Report

Board of Trustees
North Country Health Systems, Inc.
Newport, Vermont

We have audited the accompanying consolidated financial statements of North Country Health Systems, Inc. and its subsidiaries (the "Health System"), which comprise the consolidated balance sheets as of September 30, 2021 and 2020, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with 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 auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of North Country Health Systems, Inc. and its subsidiaries as of September 30, 2021 and 2020, and the results of their operations, changes in net assets, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in *Note 1* to the consolidated financial statements, in 2021, the Health System adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Springfield, Missouri
January 19, 2022

North Country Health Systems, Inc.
Consolidated Balance Sheets
September 30, 2021 and 2020

Assets

	2021	2020
Current Assets		
Cash and cash equivalents	\$ 18,929,533	\$ 22,246,471
Patient accounts receivable, net of 2020 allowance of \$9,100,000	8,869,936	6,605,257
Other receivables	1,275,328	1,047,245
Supplies	2,940,529	2,631,841
Estimated amounts due from third-party payors	155,663	171,660
Prepaid expenses and other	1,048,414	954,983
Total current assets	33,219,403	33,657,457
Assets Limited As To Use		
Internally designated	56,105,563	46,269,199
Externally restricted by donors	5,601,956	4,587,942
Held by trustee	3,470,737	3,034,510
Under deferred compensation arrangements	3,470,737	3,034,510
	65,178,256	53,891,651
Property and Equipment, At Cost		
Less accumulated depreciation	77,987,481	76,076,905
	54,565,059	53,249,122
	23,422,422	22,827,783
Assets Held for Sale		
	337,058	-
Other Assets		
	48,606	141,567
Total assets	\$ 122,205,745	\$ 110,518,458

Liabilities and Net Assets

	<u>2021</u>	<u>2020</u>
Current Liabilities		
Current maturities of long-term debt	\$ 1,152,534	\$ 1,127,217
Accounts payable	3,822,916	3,933,961
Accrued expenses	7,177,414	5,910,797
Due to affiliate	13,111	54,159
Contract liabilities and deferred revenue	7,563,249	5,487,103
Estimated amounts due to third-party payors	2,163,838	1,678,464
	<u>21,893,062</u>	<u>18,191,701</u>
Deferred Compensation and Other	3,580,636	3,138,188
Contract Liabilities	948,255	7,610,056
Long-Term Debt	14,173,257	15,404,285
Interest Rate Swap Agreements	<u>1,343,472</u>	<u>1,530,179</u>
Total liabilities	<u>41,938,682</u>	<u>45,874,409</u>
Net Assets		
Without donor restrictions		
Health System	74,538,194	59,750,387
Noncontrolling interest	339,853	325,656
	<u>74,878,047</u>	<u>60,076,043</u>
With donor restrictions	<u>5,389,016</u>	<u>4,568,006</u>
Total net assets	<u>80,267,063</u>	<u>64,644,049</u>
Total liabilities and net assets	<u>\$ 122,205,745</u>	<u>\$ 110,518,458</u>

North Country Health Systems, Inc.
Consolidated Statements of Operations
Years Ended September 30, 2021 and 2020

	2021	2020
Revenues, Gains, and Other Support Without Donor Restrictions		
Patient service revenue (net of contractual discounts and allowances)		\$ 72,269,833
Provision for uncollectible accounts		(3,323,546)
Patient service revenue	\$ 78,351,748	68,946,287
Fixed payment revenue	11,144,979	8,118,782
Other revenue	9,400,388	13,006,220
Net assets released from restriction used for operations	70,003	137,826
Total revenues, gains, and other support without donor restrictions	98,967,118	90,209,115
Expenses and Losses		
Salaries	42,303,385	40,248,133
Employee benefits	13,266,062	11,725,605
Supplies and other	34,900,732	30,672,993
Depreciation	3,492,994	3,856,943
Interest	506,473	596,013
Total expenses and losses	94,469,646	87,099,687
Operating Income	4,497,472	3,109,428
Other Income (Expense)		
Contributions received	431,173	9,113
Investment return, net	9,592,899	3,947,109
Investment return – change in fair value of investments accounted for under the fair value option of FASB ASC Topic 825	(22,033)	(116,391)
Other	(6,607)	326,276
Total other income	9,995,432	4,166,107
Excess of Revenues Over Expenses	14,492,904	7,275,535
Change in fair value of interest rate swap agreements	186,707	32,474
Contributions for property and equipment	-	171,043
Contributions from (distributions to) noncontrolling interest	75,000	(100,000)
Grants for acquisition of property and equipment	47,393	-
Increase in Net Assets Without Donor Restrictions	\$ 14,802,004	\$ 7,379,052

North Country Health Systems, Inc.
Consolidated Statements of Changes in Net Assets
Years Ended September 30, 2021 and 2020

	2021	2020
Net Assets Without Donor Restrictions Attributable to the Health System		
Excess of revenues over expenses	\$ 14,553,707	\$ 7,263,559
Change in fair value of interest rate swap agreements	186,707	32,474
Contributions from controlling interest	-	-
Contributions for property and equipment	-	171,043
Grants for acquisition of property and equipment	47,393	-
Increase in net assets without donor restrictions attributable to the Health System	14,787,807	7,467,076
Net Assets Without Donor Restrictions Attributable to Noncontrolling Interest		
Excess (deficiency) of revenues over expenses	(60,803)	11,976
Contributions from (distributions to) noncontrolling interest	75,000	(100,000)
Increase (decrease) in net assets without donor restrictions attributable to noncontrolling interest	14,197	(88,024)
Increase in net assets without donor restrictions	14,802,004	7,379,052
Net Assets With Donor Restrictions		
Contributions received	37,189	109,611
Investment return – change in unrealized gains and losses on other than trading securities	853,824	323,366
Net assets released from restriction	(70,003)	(137,826)
Increase in net assets with donor restrictions	821,010	295,151
Change in Net Assets	15,623,014	7,674,203
Net Assets, Beginning of Year	64,644,049	56,969,846
Net Assets, End of Year	\$ 80,267,063	\$ 64,644,049

North Country Health Systems, Inc.
Consolidated Statements of Cash Flows
Years Ended September 30, 2021 and 2020

	2021	2020
Operating Activities		
Change in net assets	\$ 15,623,014	\$ 7,674,203
Items not requiring (providing) cash		
Loss on disposal of property and equipment	17,891	95,226
Depreciation	3,492,994	3,856,943
Net unrealized and realized gains on investments	(9,629,732)	(3,426,544)
Change in fair value of interest rate swap agreements	(186,707)	(32,474)
Restricted contributions received	(37,189)	(109,611)
Contributions from (to) noncontrolling interest	(75,000)	100,000
Changes in		
Patient accounts receivable	(2,264,679)	310,539
Estimated amounts due from and to third-party payors	501,371	333,945
Accounts payable and accrued expenses	1,000,763	1,959,324
Other assets and liabilities	(5,473,043)	12,399,888
	<u>2,969,683</u>	<u>23,161,439</u>
Investing Activities		
Proceeds from disposition of assets limited as to use	3,392,438	41,303,733
Purchases of assets limited as to use	(4,206,458)	(44,515,370)
Purchase of property and equipment	(3,726,424)	(2,843,643)
Proceeds from sale of property and equipment	18,550	-
	<u>(4,521,894)</u>	<u>(6,055,280)</u>
Financing Activities		
Distributions from (to) noncontrolling interest	75,000	(100,000)
Proceeds from restricted contributions	37,189	109,611
Principal payments on long-term debt	(1,470,290)	(1,252,240)
	<u>(1,358,101)</u>	<u>(1,242,629)</u>
Increase (Decrease) in Cash, Cash Equivalents, Restricted Cash, and Restricted Cash Equivalents	(2,910,312)	15,863,530
Cash, Cash Equivalents, Restricted Cash, and Restricted Cash Equivalents, Beginning of Year	<u>24,770,954</u>	<u>8,907,424</u>
Cash, Cash Equivalents, Restricted Cash, and Restricted Cash Equivalents, End of Year	<u>\$ 21,860,642</u>	<u>\$ 24,770,954</u>

North Country Health Systems, Inc.
Consolidated Statements of Cash Flows
Years Ended September 30, 2021 and 2020

	2021	2020
Reconciliation of Cash, Cash Equivalents, and Restricted Cash Equivalents to the Consolidated Balance Sheets		
Cash and cash equivalents	\$ 18,929,533	\$ 22,246,471
Assets limited as to use	2,931,109	2,524,483
Total cash and cash equivalents shown in the statements of cash flows	\$ 21,860,642	\$ 24,770,954
Supplemental Cash Flows Information		
Interest paid	\$ 506,473	\$ 596,013
Accounts payable incurred for property and equipment	11,901	166,710
Capital lease obligations incurred for property and equipment	242,841	500,432

North Country Health Systems, Inc.
Notes to Consolidated Financial Statements
September 30, 2021 and 2020

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

North Country Health Systems, Inc. and its subsidiaries collectively do business as North Country Health System.

North Country Health Systems, Inc. (Health System or NCHS) is the parent holding company for its wholly owned subsidiary, North Country Hospital and Health Center, Inc. (Hospital).

North Country Hospital and Health Center, Inc. operates a 25-bed acute care hospital facility in Newport, Vermont. The Hospital primarily earns revenues by providing inpatient, outpatient, and emergency care services to patients in Newport, Vermont, and the surrounding area. The Hospital also operates a number of physician clinics in the same geographic area.

North Country Hospital and Health Center, Inc. is the majority general shareholder of Northeast Kingdom Healthcare Collaborative, LLC (NEK), which is a limited liability corporation. The Hospital controls Northeast Kingdom Healthcare Collaborative, LLC through its 60 percent majority interest of the general partnership membership units. The noncontrolling interest represents the proportionate share of Northeast Kingdom Healthcare Collaborative, LLC equity owned by a third party.

Principles of Consolidation

The consolidated financial statements include the financial statements of North Country Health Systems, Inc., its wholly owned subsidiaries, North Country Hospital and Health Center, Inc., and the majority owned Northeast Kingdom Healthcare Collaborative, LLC (collectively, NCHS). All material intercompany accounts and transactions have been eliminated in consolidation.

Noncontrolling Interest

Noncontrolling interest represents the third-party member's equity contribution and the proportionate share of income or loss in NEK. Income passes through to its members and any associated income taxes are paid by the members under their respective income tax status.

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 and the reported amounts of revenues, expenses, gains, losses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

North Country Health Systems, Inc.
Notes to Consolidated Financial Statements
September 30, 2021 and 2020

Cash and Cash Equivalents

NCHS considers all liquid investments with original maturities of three months or less to be cash equivalents. Uninvested cash and cash equivalents included in investment accounts, including endowment accounts and assets limited as to use, are considered to be cash and cash equivalents. Deposit accounts restricted internally by the Board and/or externally by regulators are considered to be cash and cash equivalents. At September 30, 2021 and 2020, cash equivalents consisted primarily of repurchase agreements in sweep accounts with financial institutions.

At September 30, 2021, NCHS's cash accounts exceeded federally insured limits by approximately \$396,700.

Debt Investments

Debt securities held by the Health System generally are classified and recorded in the consolidated financial statements as follows:

Classified as	Description	Recorded at
Trading	Securities that are bought and held principally for the purpose of selling in the near term and, therefore, held for only a short period of time	Fair value, with changes in fair value included in excess (deficiency) revenues over expenses
Other than trading	Securities not classified as trading	Fair value, with unrealized gains and losses recorded below excess (deficiency) revenues over expenses

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

When the fair value of securities is below the amortized cost, the Health System accounting treatment for an other-than-temporary impairment (OTTI) is as follows:

Circumstances of Impairment Considerations	Accounting Treatment for OTTI Components	
	Credit Component	Remaining Portion
Not intended for sale and more likely than not that the Health System will not have to sell before recovery of cost basis	Recognized in excess (deficiency) revenues over expenses	Recognized below excess (deficiency) revenues over expenses
Intended for sale or more likely than not that the Health System will be required to sell before recovery of cost basis	Recognized in excess (deficiency) revenues over expenses	

North Country Health Systems, Inc.
Notes to Consolidated Financial Statements
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When a credit loss component is separately recognized in earnings, the amount is identified as the total of principal cash flows not expected to be received over the remaining term of the security, as projected based on cash flow projections.

Equity Investments

The Health System measures equity securities, other than investments that qualify for the equity method of accounting, at fair value with changes recognized in excess (deficiency) revenues over expenses. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Assets Held for Sale

As of September 30, 2021 and 2020, the Health System has listed for sale certain real property. These transactions are expected to be complete within one year and the Health System has classified \$337,058 and \$0, respectively, of land, buildings, and equipment as held for sale on the consolidated balance sheets. Assets held for sale are measured at the lower of their carrying amount or fair value, less the cost to sell.

Net Investment Return

Investment return includes dividend, interest, and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments, less external and direct internal investment expenses.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restrictions. Other investment return is reflected in the consolidated statements of operations and changes in net assets as with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

Assets Limited As To Use

Assets limited as to use include (1) assets held by trustees under bond indentures and deferred compensation agreements, (2) assets restricted by donors, and (3) assets set aside by the Board of Trustees for future capital improvements and debt service over which the Board retains control and may at its discretion subsequently use for other purposes. Amounts required to meet current liabilities of NCHS are included in current assets.

North Country Health Systems, Inc.
Notes to Consolidated Financial Statements
September 30, 2021 and 2020

Patient Accounts Receivable

Subsequent to Adoption of ASU 2014-09, Revenue from Contracts with Customers (Topic 606)

Patient accounts receivable reflects the outstanding amount of consideration to which the Health System 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. As a service to the patient, the Health System bills third-party payors directly and bills the patient when the patient's responsibility for copays, coinsurance, and deductibles is determined. Patient accounts receivable are due in full when billed.

The Health System performs individual credit risk assessments which evaluates the individual circumstances, abilities, and intentions of each patient prior to providing the patient services. If subsequent to providing the services the Health System becomes aware of patient-specific events, facts, or circumstances indicating patients no longer have the ability or intention to pay the amount of consideration to which the Health System expected to be entitled for providing the patient services, then the related patient receivable balances are written off as bad debt expense and reported in the statement of operations as other operating expenses.

Prior to Adoption of ASU 2014-09, Revenue from Contracts with Customers (Topic 606)

Accounts receivable were reduced by an allowance for uncollectible accounts. In evaluating the collectability of accounts receivable, the Health System analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for uncollectible accounts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts.

For receivables associated with services provided to patients who have third-party coverage, the Health System analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for uncollectible accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Health System records a significant provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

NCHS's allowance for uncollectible accounts for self-pay patients was 83 percent of self-pay accounts receivable at September 30, 2020. NCHS's write-offs were approximately \$2,282,000 for the year ended September 30, 2020.

North Country Health Systems, Inc.
Notes to Consolidated Financial Statements
September 30, 2021 and 2020

Contract Assets and Liabilities

Amounts related to health care services provided to patients which have not been billed and that do not meet the conditions of an unconditional right to payment at the end of the reporting period are contract assets. Contract asset balances consist primarily of health care services provided to patients who are still receiving inpatient care in the Health System at the end of the year. Contract assets are included in patient accounts receivable at September 30, 2021 and 2020.

Amounts received related to health care services that have not yet been provided to patients are contract liabilities. Contract liabilities consist of Medicare advanced payments received in April 2020 under the provisions of the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act). In general, advanced amounts will be recouped from remittances starting 12 months after the advance was made, see *Note 21*.

Supplies

Supply inventories are stated at the lower of cost or net realizable value. Costs are determined using the first-in, first-out (FIFO) method.

Property and Equipment

Property and equipment acquisitions over \$2,000 are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization is charged to expense on the straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are amortized over the shorter of the lease term or respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Land improvements	5 – 25 years
Buildings	10 – 40 years
Fixed equipment	5 – 20 years
Moveable equipment	2 – 20 years
Vehicles	4 years
Equipment under capital lease	4 – 5 years

Donations of property and equipment are reported at fair value as an increase in net assets without donor restrictions unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in net assets without donor restrictions when the donated asset is placed in service.

North Country Health Systems, Inc.
Notes to Consolidated Financial Statements
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Long-Lived Asset Impairment

NCHS evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended September 30, 2021 and 2020.

Debt Issuance Costs

Debt issuance costs represent costs incurred in connection with the issuance of long-term debt. The Health System records these costs as direct deductions from the related debt. Such costs are being amortized over the term of the respective debt using the straight-line method.

Net Assets With Donor Restrictions

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor restrictions.

Net assets without donor restrictions are available for use in general operations and not subject to donor or certain grantor restrictions. The governing board has designated, from net assets without donor or certain grantor restrictions, net assets for an operating reserve and board-designated endowment.

Net assets with donor restrictions are subject to donor or certain grantor restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other restrictions are perpetual in nature, where the donor or grantor stipulates that resources be maintained in perpetuity.

Patient Service Revenue

Subsequent to Adoption of ASU 2014-09, Revenue from Contracts with Customers (Topic 606)

Patient service revenue is recognized as the Health System satisfies performance obligations under its contracts with patients. Patient service revenue is reported at the estimated transaction price or amount that reflects the consideration to which the Health System expects to be entitled in exchange for providing patient care. The Health System 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 Health System's policies, and implicit price concessions provided to uninsured patients.

North Country Health Systems, Inc.

Notes to Consolidated Financial Statements

September 30, 2021 and 2020

The Health System determines its estimates of explicit price concessions which represent adjustments and discounts based on contractual agreements, its discount policies, and historical experience by payor groups. The Health System determines its estimate of implicit price concessions based on its historical collection experience by classes of patients. The estimated amounts also include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations by third-party payors.

Prior to Adoption of ASU 2014-09, Revenues from Contracts with Customers (Topic 606)

The Health System has agreements with third-party payors that provide for payments to the Health System at amounts different from its established rates. Net Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Fixed Prospective Revenue

Beginning January 1, 2018, the Hospital began to receive monthly fixed prospective payments for services provided by the Hospital and Hospital-owned physician practices participating in the Vermont Medicaid Next Generation Accountable Care Organization (ACO) Pilot Program, and beginning January 1, 2019, expanded the program to include some commercial payors in addition to Medicaid. This is a monthly, per member payment received in advance of the services being performed and is recognized as revenue in the month to which it relates. The revenues for the Medicare and Medicaid programs are recorded on the fixed payment line on the statement of operations. Revenues recorded under these arrangements represent the fixed, agreed-upon amounts as a result of the Hospital's stand-ready performance obligation to provide health care services to qualified beneficiaries.

The Hospital recognizes its share of annual contract settlements as an increase or decrease to fixed prospective revenue. Medicaid fee-for-service payments continue for all other nonhospital providers in the ACO, for all providers who are not part of the ACO, and for all services that are not in the fixed prospective payment. The ACO is responsible for both the cost and the quality of care for each attributed member, regardless of individual member's utilization. The Hospital is subject to an annual contracted maximum risk corridor, of which for calendar 2021 and 2020 is a maximum potential gain or loss of zero for both years. As of September 30, 2021 and 2020, the Hospital has recorded a liability related to this risk corridor of \$0 and \$235,000, respectively, which is recorded within estimated amounts due to third-party payors.

Charity Care

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

North Country Health Systems, Inc.
Notes to Consolidated Financial Statements
September 30, 2021 and 2020

The Health System’s direct and indirect costs for services furnished under its charity care policy aggregated approximately \$874,000 and \$639,000 during the years ending September 30, 2021 and 2020, respectively.

Contributions

Contributions are provided to NCHS either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

Nature of Gift	Value Recognized
<i>Conditional gifts, with or without restrictions</i>	
Gifts that depend on NCHS overcoming a donor-imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, <i>i.e.</i> , the donor-imposed barrier is met
<i>Unconditional gifts, with or without restriction</i>	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment, and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of operations as net assets released from restrictions. Absent explicit donor restrictions for gifts of land, buildings, equipment, and other long-lived assets are reported when those assets are placed in service.

North Country Health Systems, Inc.
Notes to Consolidated Financial Statements
September 30, 2021 and 2020

Gifts having donor stipulations which are satisfied in the period the gift is received are reported as revenue and net assets without donor restrictions.

Conditional contributions having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

Professional Liability Claims

The Hospital recognizes an accrual for claim liabilities based on estimated ultimate losses and costs associated with settling claims and a receivable to reflect the estimated insurance recoveries, if any. Professional liability claims are described more fully in *Note 6*.

Estimated Self-Insurance Costs

NCHS accrues estimated liabilities for self-insurance losses associated with employee health insurance, employee unemployment claims, and workers' compensation claims by estimating the ultimate costs for both reported claims, and claims incurred but not reported. NCHS has purchased insurance that limits its exposure for individual claims.

Income Taxes

NCHS and its subsidiaries have been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, NCHS and its subsidiaries are subject to federal income tax on any unrelated business taxable income.

NCHS files tax returns in the U.S. federal jurisdiction. With a few exceptions, NCHS is no longer subject to U.S. federal examinations by tax authorities for years before 2018.

Excess of Revenues Over Expenses

The consolidated statements of operations include excess of revenues over expenses. Changes in net assets without donor restrictions which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, the change in fair value of interest rate swap agreements, and distributions to (from) noncontrolling interest.

Contract Pharmacy Program

NCHS participates in the 340B outpatient drug discount program administered by the Office of Pharmacy Affairs of the Health Resources and Services Administration (HRSA). NCHS contracts with local retail pharmacies under the program, which resulted in significant additional revenues and discounts of outpatient pharmaceuticals. In 2021 and 2020, net revenue from this program was approximately \$2,820,000 and \$4,185,000, respectively, greater than the direct cost of operating the program. The benefits from this program allow NCHS to continue to provide, improve, and expand access to health care services in the surrounding communities. Laws and regulations surrounding the 340B drug program are complex and are subject to interpretation and change.

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Changes in Accounting Principles

Topic 606 Revenue from Contracts with Customers

On October 1, 2020, the Health System adopted Topic 606, *Revenue from Contracts with Customers (Topic 606)*, using a modified retrospective method of adoption to all contracts with clients. The core guidance in Topic 606 is to recognize revenue to depict the transfer of promised goods or services to customers or clients in an amount that reflects the consideration to which the Health System expects to be entitled in exchange for those goods or services. The amount to which the Health System expects to be entitled is calculated as the transaction price and recorded as revenue in exchange for providing client care services to its patients. Adoption of Topic 606 resulted in changes in presentation of the consolidated financial statements and related disclosures in the notes to the consolidated financial statements. Prior to the adoption of Topic 606, the majority of the provision for uncollectible accounts related to clients without insurance, as well as client responsibility balances for copays, coinsurance, and deductibles for clients with insurance. Under Topic 606, the estimated amounts due from clients for which the Health System does not expect to be entitled or collect from the clients are considered implicit price concessions and excluded from the Health System's estimation of the transaction price or revenue recorded.

The following table presents the related effect of the adoption of Topic 606 on the consolidated statement of operations for the year ended September 30, 2021:

	September 30, 2021		
	Balances Without Adoption of Topic 606	As Reported	Effect of Adoption
Statement of Operations			
Revenues, Gains, and Other Support Without Donor Restrictions			
Patient service revenue (net of contractual discounts and allowances)	\$ 78,590,284		\$ (78,590,284)
Provision for uncollectible accounts	<u>(238,536)</u>		<u>238,536</u>
Net patient service revenue less provision for uncollectible accounts	<u>\$ 78,351,748</u>	<u>\$ 78,351,748</u>	<u>\$ -</u>

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Note 2: Patient Service Revenue

Patient service revenue is reported at the amount that reflects the consideration to which the Health System 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 Health System bills the patients and third-party payors several days after the services are performed or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance Obligations

Performance obligations are determined based on the nature of the services provided by the Health System. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. The Health System 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 the Health System receiving inpatient acute care services or patients receiving services in its outpatient. The Health System measures the performance obligation from inpatient admission, 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 for performance obligations satisfied at a point in time is generally recognized when goods are provided to its patients and customers in a retail setting (for example, pharmaceuticals and medical equipment) and the Health System does not believe it is required to provide additional goods related to the patient.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Health System 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.

Transaction Price

The Health System 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 Health System's policy, and implicit price concessions provided to uninsured patients. The Health System determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The Health System determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

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Third-Party Payors

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

Medicare. The Hospital is designated as a critical access hospital and is paid based on cost formulas for most inpatient and outpatient services from the Medicare program.

The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor. The most recent Hospital cost report audited by the Medicare Administrative Contractor is for the period ended September 30, 2015.

Medicaid. Reimbursements for Medicaid services are generally paid at prospectively determined rates per discharge, per occasion of service, or per covered member.

Other. Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care 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 Health System'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 Health System. In addition, the contracts the Health System has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive 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 Health System's historical settlement activity, including an assessment to ensure that 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 based on newly available information or as years are settled or are no longer subject to such audits, reviews, and investigations.

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Refund Liabilities

From time to time the Health System will receive overpayments of patient balances from third-party payors or patients resulting in amounts owed back to either the patients or third-party payors. These amounts are excluded from revenues and are recorded as liabilities until they are refunded. As of September 30, 2021, the Health System has a liability for refunds to third-party payors and patients recorded of approximately \$149,000 and it is included in accrued expenses on the consolidated balance sheet.

Patient and Uninsured Payors

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

Patients who meet the Health System'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.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Health System also provides services to uninsured patients and offers those uninsured patients a discount, either by policy or law, from standard charges. The Health System 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. For the years ended September 30, 2021 and 2020, changes in its estimates of implicit price concessions, discounts, and contractual adjustments for performance obligations satisfied in prior years was not significant. 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.

Revenue Composition

The Health System 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
- Health System's line of business that provided the service (for example, hospital inpatient, hospital outpatient, etc.)

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The composition of patient care service revenue by primary payor for the year ended September 30, 2021, is as follows:

Medicare	\$ 30,910,602
Medicaid	2,231,128
Other third-party payors	22,301,607
Blue Cross	21,698,306
Self-pay	<u>1,210,105</u>
Total	<u><u>\$ 78,351,748</u></u>

Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the year ended September 30, 2020, was approximately:

Medicare	\$ 31,222,524
Medicaid	3,185,870
Other third-party payors	16,100,998
Blue Cross	20,374,119
Self-pay	<u>1,386,322</u>
Total	<u><u>\$ 72,269,833</u></u>

The composition of patient care service revenue based on lines of business for the year ended September 30, 2021, is as follows:

Hospital inpatient	\$ 11,477,546
Hospital outpatient	54,988,668
Physician services	<u>11,885,534</u>
Total	<u><u>\$ 78,351,748</u></u>

The composition of the Health System's method of reimbursement is primarily fee for service. Nearly all revenue is related to health care services which are transferred and rendered over time, except for pharmacy revenue of \$2,820,000 for 2021, which is point in time.

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Contract Assets and Liabilities

Contract assets consist primarily of health care services provided to patients who are still receiving inpatient care in the Health System at the end of the year. Contract assets are transferred to receivables when the rights become unconditional. Contract liabilities represent the Health System's obligation to provide services to patients when consideration has already been received from the patient or a third-party payor. During the year ended September 30, 2020, the Health System received \$9,613,000 in advanced payments from Medicare (*Note 21*), which are included in contract liabilities on the balance sheet. These funds were recouped from monthly remittances beginning in April 2021.

The following table provides information about the Medical Center's receivables, contract assets, and contract liabilities from contracts with customers:

Accounts receivable, beginning of year	\$ 6,605,257
Accounts receivable, end of year	8,869,936
Contract liabilities, beginning of year	\$ 13,097,159
Contract liabilities, end of year	8,511,504

Financing Costs

The Health System has applied the practical expedient provided by FASB ASC 340-40-25-4 and incremental customer contract acquisition costs are expensed as they are incurred, as the amortization period of the asset that the Health System otherwise would have recognized is one year or less in duration.

Note 3: Concentration of Credit Risk

NCHS grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payor agreements. The mix of net receivables from patients and third-party payors at September 30, 2021 and 2020, is:

	2021	2020
Medicare	34%	36%
Medicaid	9%	11%
Other third-party payors	17%	20%
Blue Cross	22%	20%
Self-pay	18%	13%
	<u>100%</u>	<u>100%</u>

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Note 4: Investments and Investment Return

Assets Limited As To Use

Assets limited as to use, at September 30, 2021 and 2020, include:

	2021	2020
Internally designated		
Cash and cash equivalents	\$ 2,735,438	\$ 2,220,174
Equities	439,080	151,964
Exchange traded and mutual funds	52,200,200	43,145,801
Alternative investments	730,845	751,260
	<u>\$ 56,105,563</u>	<u>\$ 46,269,199</u>

The alternative investments were acquired to balance the investment portfolio risks associated with the volatility of fluctuations in the financial market through diversification and, as such, are subject to varying degrees of market and credit risks.

	2021	2020
Externally restricted by donors		
Cash and cash equivalents	\$ 195,671	\$ 175,870
Equities	33,112	12,038
Exchange traded and mutual funds	5,315,280	4,340,523
Alternative investments	57,893	59,511
	<u>\$ 5,601,956</u>	<u>\$ 4,587,942</u>

	2021	2019
Held by trustee under indenture agreements		
Life insurance policies and deferred compensation arrangements	\$ 2,726,855	\$ 2,438,472
Mutual funds	743,882	596,038
	<u>\$ 3,470,737</u>	<u>\$ 3,034,510</u>

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Investment Return

Total investment return is comprised of the following:

	2021	2020
Interest and dividend income	\$ 794,958	\$ 727,540
Realized and unrealized gains on other than trading securities	<u>9,629,732</u>	<u>3,426,544</u>
	<u><u>\$ 10,424,690</u></u>	<u><u>\$ 4,154,084</u></u>

Total investment return is reflected in the consolidated statements of operations and changes in net assets as follows:

	2021	2020
Net assets without donor restrictions		
Investment return, net	\$ 9,592,899	\$ 3,947,109
Change in fair value of investments accounted for under the fair value option of FASB ASC Topic 825	(22,033)	(116,391)
Net assets with donor restrictions		
Change in unrealized gains and losses on other than trading securities	<u>853,824</u>	<u>323,366</u>
	<u><u>\$ 10,424,690</u></u>	<u><u>\$ 4,154,084</u></u>

Unrealized Losses on Investments

NCHS's investments in marketable equity securities consist primarily of investments in companies in various industries in domestic and international markets. NCHS routinely conducts periodic reviews to identify and evaluate each investment security to determine whether an other-than-temporary impairment has occurred. For each security in the investment portfolio (including but not limited to those whose fair value is less than their amortized cost basis), an extensive, regular review is conducted to determine if an other-than-temporary impairment has occurred. Various inputs to the economic models are used to determine if an unrealized loss is other than temporary such as severity of loss, length of time in a loss position, and other significant factors.

No other-than-temporary impairment losses were recorded during the years ended September 30, 2021 and 2020.

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Alternative Investments

The fair value of alternative investments that have been estimated using the net asset value per share as a practical expedient consist of the following at September 30:

	September 30, 2021 Fair Value	September 30, 2020 Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Multistrategy hedge funds (A)	\$ 788,738	\$ 810,771	\$ -	Quarterly	65 days' written notice

(A) This category includes investments in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. For the investment, the Funds' primary investment objective is to provide capital appreciation consistent with the return characteristics of alternative investment portfolios of larger endowments through investments in the six asset classes of Opportunistic Equity, Enhanced Fixed Income, Absolute Return, Real Estate, Private Equity, and Energy and Natural Resources.

Note 5: Property and Equipment

Property and equipment are stated at cost. A summary of cost by category follows:

	2021	2020
Land	\$ 405,921	\$ 435,921
Land improvements	2,178,311	2,100,091
Buildings	46,535,522	46,454,111
Fixed equipment	4,359,517	2,393,174
Moveable equipment	20,568,932	21,565,402
Vehicles	45,790	100,640
Equipment under capital lease	2,633,301	2,390,460
Construction in progress	1,260,187	637,106
	<u>\$ 77,987,481</u>	<u>\$ 76,076,905</u>

Construction in progress at September 30, 2021, consisting of various projects with approximately \$500,000 of anticipated future costs to complete. All projects are anticipated to be completed during fiscal year 2022.

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Note 6: Contingent Liabilities

Professional Liability Claims

NCHS purchases medical malpractice insurance under a claims made policy. Under such a policy, only claims made and reported to the insurer during the policy term, regardless of when the incidents giving rise to the claims occurred, are covered. NCHS also purchases excess umbrella liability coverage, which provides additional coverage above the basic policy limits up to the amount specified in the umbrella policy.

Based upon the claims experience, no such accrual had been made for NCHS' estimated medical malpractice costs, including costs associated with litigating or settling claims, under its malpractice insurance policy, as of September 30, 2021 and 2020. It is reasonably possible that this estimate could change materially in the near term.

Self-Insurance

NCHS is self-insured for employee health claims and has accrued an estimate of the ultimate costs for reported claims and claims incurred but not reported. Actual results could differ from these estimates. NCHS has entered into a stop-loss insurance contract to protect assets against significant claims expense. Specific stop-loss insurance provides coverage on individual claims incurred in excess of \$175,000 at September 30, 2021 and 2020.

NCHS is self-insured for employee unemployment insurance benefits. The accrual for self-insurance is evaluated periodically throughout the fiscal year for adequacy based on staffing changes. Actual results could differ from these estimates.

NCHS is effectively self-insured for workers' compensation claims under a high-deductible policy and has accrued an estimate of the ultimate costs for reported claims and claims incurred but not reported. The policy provides a \$250,000 deductible for individual claims and \$600,000 for aggregate claims at September 30, 2021 and 2020.

Note 7: Lines of Credit

The Hospital has entered into a revolving bank line of credit with maximum borrowings of \$5,000,000, due in May 2022. At September 30, 2021 and 2020, there was \$0 borrowed against this line. The line is collateralized by substantially all of the Hospital's assets. Interest varies with the bank's prime rate, with a 0.75 percent margin subtracted from the prime rate, with a minimum rate of 4 percent. The rate was 4.00 percent at September 30, 2021 and 2020.

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Note 8: Long-Term Debt

	<u>2021</u>	<u>2020</u>
Hospital Revenue Bonds, Series 2016 (A)	\$ 14,523,533	\$ 15,387,819
Note payable (B)	142,054	166,101
Note payable (C)	-	293,088
Capital lease obligations (D)	<u>763,458</u>	<u>809,486</u>
	15,429,045	16,656,494
Less unamortized debt issuance costs	103,254	124,992
Less current maturities	<u>1,152,534</u>	<u>1,127,217</u>
	<u>\$ 14,173,257</u>	<u>\$ 15,404,285</u>

- (A) Vermont Educational and Health Buildings Financing Agency Revenue Refunding Bonds (North Country Hospital Project), Series 2016 A in the original amount of \$18,743,131 dated June 1, 2016, which bear interest at a variable rate equal to the sum of 68 percent of one-month LIBOR plus 78.2 basis points per annum (.84 percent and .83 percent at September 30, 2021 and 2020, respectively), and are due in graduated installments through October 2034, with a due on demand clause June 1, 2026, and thereafter. Proceeds from the bonds were used to repay the outstanding debt from the Series 2007 bonds. The Bonds are collateralized by equipment, personal property, hardware, supplies, and inventory of the Hospital. The Hospital is subject to certain financial covenants related to this bond issue. Unamortized debt issuance costs associated with the borrowing are \$103,254 and \$124,992 at September 30, 2021 and 2020, respectively.
- (B) Note payable to Vermont Economic Development Authority for assistance with development of renal dialysis services. Principal on the note is due annually and the rate of interest on this loan is 0 percent. The note is collateralized by an interest in the gross receipts of the Hospital.
- (C) Note payable originally issued in the amount of \$400,000 for capital improvements. Principal on the note is due monthly and the rate of interest on this loan is 4.00 percent until September 2023, with the interest rate varying thereafter. The note is collateralized by real estate at Derby Green. The note was paid in full during 2021.

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(D) Capital lease obligations at varying rates of imputed interest from 0.0 percent to 12.4 percent, collateralized by leased equipment expiring at various dates through 2026. Property and equipment include the following equipment under capital leases:

	2021	2020
Moveable equipment	\$ 2,633,301	\$ 2,390,460
Less accumulated depreciation	<u>1,892,210</u>	<u>1,681,720</u>
	<u>\$ 741,091</u>	<u>\$ 708,740</u>

Aggregate annual maturities and sinking fund requirements of long-term debt and payments on capital lease obligations at September 30, 2021, are:

	Long-Term Debt Excluding Capital Lease Obligations	Capital Lease Obligations
2022	\$ 918,212	\$ 238,452
2023	949,546	222,198
2024	981,463	189,128
2025	1,015,999	105,957
2026	1,050,290	28,154
Thereafter	<u>9,750,077</u>	<u>-</u>
	<u>\$ 14,665,587</u>	783,889
Less amount representing interest		<u>20,431</u>
Present value of future minimum lease payments		763,458
Less current maturities		<u>234,322</u>
Noncurrent portion		<u>\$ 529,136</u>

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Note 9: Derivative Financial Instruments

2007 Interest Rate Swap

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, NCHS entered into an interest rate swap agreement for \$15,466,750 of the outstanding Hospital Revenue Bonds, Series 2007, in December 2007. During the year ended September 30, 2016, the Hospital paid in full the Hospital Revenue Bonds, Series 2007 and entered into a new financing arrangement with the issuance of the Hospital Revenue Bonds, Series 2016 A. Upon execution of the Hospital Revenue Bonds, Series 2016 A, the Hospital elected to continue its strategy to limit its exposure to interest rate risk by applying this swap agreement to the 2016 debt.

The agreement provides for NCHS to receive interest from the counterparty of 68 percent of LIBOR and to pay interest to the counterparty at a fixed rate of 3.285 percent on notional amounts of \$9,837,750 and \$10,374,000 at September 30, 2021 and 2020, respectively. Under the agreement, NCHS pays or receives the net interest amount monthly, with the monthly settlements included in interest expense. The interest rate swap agreement terminates on November 1, 2027. This swap is valued at \$(1,513,477) and \$(1,758,065) at September 30, 2021 and 2020, respectively.

2016 Interest Rate Swap

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, NCHS entered into an interest rate swap agreement for \$6,396,381 of the outstanding Hospital Revenue Bonds, Series 2016, in June 2016.

The agreement provides for NCHS to receive interest from the counterparty of 68 percent of LIBOR and to pay interest to the counterparty at a fixed rate of 1.12 percent on a notional amount of \$4,685,783 and \$5,013,819 at September 30, 2021 and 2020, respectively. Under the agreement, NCHS pays or receives the net interest amount monthly, with the monthly settlements included in interest expense. The interest rate swap agreement terminates on June 1, 2026. The swap is valued at \$(110,005) and \$228,126 at September 30, 2021 and 2020, respectively.

Management has designated the interest rate swap agreements as cash flow hedging instruments. For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of net assets without donor restrictions and reclassified into excess revenues over expenses in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current excess revenues over expenses.

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The table below presents certain information regarding NCHS's interest rate swap agreements designated as cash flow hedges. NCHS did not have any derivative instruments at September 30, 2021 and 2020, that were not designated as hedging instruments.

	2021	2020
Other Liabilities		
Fair value of interest rate swap agreements	\$ (1,343,472)	\$ (1,530,179)
Changes in Net Assets Without Donor Restrictions		
Change in interest rate swap agreements	186,707	32,474
Interest Expense		
Loss reclassified from net assets without donor restrictions into excess of revenues over expenses	371,031	295,623

Note 10: Deferred Compensation

During the year ended September 30, 2002, the Hospital established the North Country Hospital Executive and Physician Stock Option Plan. This plan provides options as a form of compensation for a select group of management, physicians, or highly compensated employees of the Hospital and its affiliates. The balance in this plan was \$743,882 and \$596,038 at September 30, 2021 and 2020, respectively. At September 30, 2003, this plan was frozen and no more employee contributions will be put into the plan.

During the year ended September 30, 2003, the Hospital established the Split Dollar Insurance and Death Benefit Only Programs to certain key employees of the Hospital and its affiliates. Eligible employees may elect to have a minimum of \$10,000 withheld from their compensation, up to a maximum of 75 percent of annual gross compensation. At September 30, 2021 and 2020, respectively, one employee and two employees were participating in this plan with a balance of \$174,838 for both years.

The Hospital has established a 457(b) deferred compensation plan eligible to certain key employees of the Hospital and its affiliates. At September 30, 2021 and 2020, 28 employees were participating in this plan with a balance of \$2,552,017 and \$2,263,634, respectively.

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Note 11: Net Assets With Donor Restrictions

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

	<u>2021</u>	<u>2020</u>
Subject to expenditure for a specified purpose		
Healthcare services	\$ 617,839	\$ 566,055
Purchase of equipment	86,114	79,653
Nursing scholarships	173,702	160,485
	<u>877,655</u>	<u>806,193</u>
Endowments		
Subject to spending policies and appropriation		
Investments to be held in perpetuity, the income is expendable for operations	4,511,361	3,761,813
	<u>4,511,361</u>	<u>3,761,813</u>
	<u>\$ 5,389,016</u>	<u>\$ 4,568,006</u>

During 2021 and 2020, net assets of \$70,003 and \$137,826, respectively, were released from donor restriction by incurring expenses satisfying the restricted operating purposes or by occurrence of other events specified by donors. During both 2021 and 2020, net assets of \$0 were released to purchase equipment.

Note 12: Liquidity and Availability

NCCHS's financial assets available within one year of the balance sheet date for general expenditure are:

	<u>2021</u>	<u>2020</u>
Financial assets at year-end		
Cash and cash equivalents	\$ 18,929,533	\$ 22,246,471
Patient accounts receivable, net	8,869,936	6,605,257
Other receivables	1,275,328	1,047,245
Estimated amounts due from third-party payors	155,663	171,660
Assets limited as to use	65,178,256	53,891,651
Total financial assets	<u>94,408,716</u>	<u>83,962,284</u>
Less amounts not available to be used within one year		
Assets limited as to use		
Externally restricted by donors	5,601,956	4,587,942
Held by trustees	3,470,737	3,034,510
Financial assets not available to be used within one year	<u>9,072,693</u>	<u>7,622,452</u>
Financial assets available to meet general expenditures within one year	<u>\$ 85,336,023</u>	<u>\$ 76,339,832</u>

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NCHS has certain internally designated assets limited as to use which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included above for financial assets to meet general expenditures within one year, as the Board could make them available, if necessary.

As part of NCHS's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To help manage unanticipated liquidity needs, NCHS has committed lines of credit which are more fully described in *Note 7*.

Note 13: Endowments

NCHS's endowment consists of various individual funds established for a variety of purposes. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

NCHS' governing body has interpreted the State of Vermont Prudent Management of Institutional Funds Act (SPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, NCHS classifies as net assets with donor restrictions the original value of gifts donated to the endowment. The donor-restricted endowment funds are classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the NCHS in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the remaining portion of donor-restricted endowment funds is classified as net assets without donor restrictions as those assets have been appropriated for expenditure by NCHS in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Health System considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of NCHS and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the NCHS
7. Investment policies of the NCHS

North Country Health Systems, Inc.
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The composition of net assets by type of endowment fund and changes in net assets for the years ended September 30, 2021 and 2020, were:

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-Restricted Endowment Funds			
Endowment net assets, beginning of the year	\$ -	\$ 3,761,813	\$ 3,761,813
Investment return	-	749,548	749,548
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 4,511,361</u>	<u>\$ 4,511,361</u>
	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-Restricted Endowment Funds			
Endowment net assets, beginning of the year	\$ -	\$ 3,509,683	\$ 3,509,683
Investment return	-	252,130	252,130
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 3,761,813</u>	<u>\$ 3,761,813</u>

NCHS has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Under NCHS's policies, the primary investment goal is growth in the endowment accounts. NCHS expects its endowment funds to provide an average rate of return that exceeds benchmark returns indicated for various asset classes. Actual returns in any given year may vary.

To satisfy its long-term rate of return objectives, the NCHS relies on a strategy in which investment returns are achieved through both current yield and capital appreciation (both realized and unrealized). NCHS invests in a variety of securities to achieve its long-term return objectives within prudent risk constraints.

North Country Health Systems, Inc.
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Note 14: Functional Expenses

The Hospital provides general health care services to residents within its geographic area. Certain costs attributable to more than one function have been allocated among the health care services and general and administrative functional expense classifications based on the direct assignment, expenses, and other methods. The following schedule presents the natural classification of expenses by function as follows:

	Health Care Program Services	2021 General and Administrative	Total
Salaries	\$ 31,898,423	\$ 10,404,962	\$ 42,303,385
Employee benefits	11,648,575	1,617,487	13,266,062
Supplies and other	32,971,117	1,929,615	34,900,732
Depreciation	3,116,969	376,025	3,492,994
Interest	451,951	54,522	506,473
	<u>\$ 80,087,035</u>	<u>\$ 14,382,611</u>	<u>\$ 94,469,646</u>
	Health Care Program Services	2020 General and Administrative	Total
Salaries	\$ 30,136,874	\$ 10,111,259	\$ 40,248,133
Employee benefits	10,235,035	1,490,570	11,725,605
Supplies and other	29,008,048	1,664,945	30,672,993
Depreciation	3,437,204	419,739	3,856,943
Interest	530,662	65,351	596,013
	<u>\$ 73,347,823</u>	<u>\$ 13,751,864</u>	<u>\$ 87,099,687</u>

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Note 15: Pension Plan

The Hospital has a 403(b) defined contribution pension plan covering substantially all employees. Employee contributions, which are at the discretion of the employee, are matched by NCHS at a maximum of 50 percent of the employee's contributions not exceeding 5 percent of an employee's gross salary. Additional contributions are made to the plan based on amounts determined annually by the Board of Trustees. Pension expense was \$1,350,000 and \$1,250,000 for 2021 and 2020, respectively.

Note 16: Disclosures About Fair Value of Financial Instruments

Fair value 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 measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities.
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities.

Recurring Measurements

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2021 and 2020:

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	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2021				
Investments				
Money market funds	\$ 2,931,109	\$ 2,931,109	\$ -	\$ -
Mutual funds – equity	58,162,099	58,162,099	-	-
Equity securities	451,118	451,118	-	-
Exchange traded funds	118,337	118,337	-	-
Alternative investment measured at net asset value (A)	<u>788,738</u>			
Total investments	<u>62,451,401</u>			
Interest rate swap agreements	<u>(1,343,472)</u>	-	(1,343,472)	-
Total fair value of recurring measurements	<u>\$ 61,107,929</u>			
September 30, 2020				
Investments				
Money market funds	\$ 2,216,881	\$ 2,216,881	\$ -	\$ -
Mutual funds – equity	47,881,721	47,881,721	-	-
Equity securities	164,002	164,002	-	-
Exchange traded funds	72,202	72,202	-	-
Alternative investment measured at net asset value (A)	<u>810,771</u>	-	-	-
Total investments	<u>51,145,577</u>			
Interest rate swap agreements	<u>(1,530,179)</u>	-	(1,530,179)	-
Total fair value of recurring measurements	<u>\$ 49,615,398</u>			

(A) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the balance sheets.

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Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended September 30, 2021.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections, and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. At September 30, 2021 and 2020, there were no securities classified as Level 3 within the hierarchy.

Interest Rate Swap Agreements

The fair value is estimated using forward-looking interest rate curves and discounted cash flows that are observable or can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

Note 17: The Fair Value Option

As permitted by Topic 825, NCHS has elected to measure its hedge fund investment at fair value. Management has elected the fair value option for these items because it more accurately reflects the portfolio returns and financial position of NCHS. The fair value of the hedge investments at September 30, 2021 and 2020, is \$788,738 and \$810,771, respectively.

See *Note 4* for additional disclosures regarding fair value of the hedge fund listed in the preceding paragraph.

Changes in Fair Value

Changes in fair value for items for which the fair value option has been elected are reported as investment return in other income (expense) in the consolidated financial statements. The change for 2021 and 2020 was a decrease of \$22,033 and \$116,391, respectively, which reflects all investment return from the hedge fund investment.

North Country Health Systems, Inc.
Notes to Consolidated Financial Statements
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Note 18: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in *Note 1*.

Variable Consideration

Estimates of variable consideration in determining transaction price for patient service revenue are described in *Notes 1* and *2*.

Contingencies

Estimates related to the accrual for medical malpractice claims, employee health insurance, workers' compensation, and employee unemployment insurance are described in *Notes 1* and *6*.

Litigation

In the normal course of business, NCHS is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the NCHS's self-insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. NCHS evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Interest Rate Swap Agreements

As discussed in *Note 9*, NCHS has recorded a liability representing estimated fair value of the interest rate swap agreement.

Asset Retirement Obligation

As discussed in *Note 19*, NCHS has recorded a liability for its conditional asset retirement obligations related to asbestos abatement.

North Country Health Systems, Inc.
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Investments

The Hospital invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying consolidated balance sheets.

Note 19: Asset Retirement Obligation

Accounting principles generally accepted in the United States of America require that an asset retirement obligation (ARO) associated with the retirement of a tangible long-lived asset be recognized as a liability in the period in which it is incurred or becomes determinable (as defined by the standard). NCHS's conditional asset retirement obligations primarily relate to asbestos contained in buildings that NCHS owns. Environmental regulations exist that require NCHS to handle and dispose of asbestos in a special manner if a building undergoes major renovations or is demolished. A liability of \$109,898 and \$103,678 has been recognized in the accompanying 2021 and 2020 consolidated financial statements, respectively, for the portion of the liability that can be reasonably estimated.

Note 20: Other Information

Contractual Obligation

NCHS entered into a one-year agreement, with automatic optional renewal provisions, with a national information technology vendor to provide electronic medical records, billing, and clinical information systems. NCHS has agreed to pay a 2.67 percent service fee based on total net patient service revenue. For the years ended September 30, 2021 and 2020, the Hospital paid \$1,989,000 and \$1,488,000 related to this agreement, respectively.

NCHS also entered into a strategic information technology service agreement with Cerner Corporation (Cerner). Cerner has assumed operational and administrative responsibilities for NCHS's information technology environment and services, including remote hosting, monitoring, and system performance capabilities. The agreement is effective from March 24, 2021, through March 24, 2028. At the end of the initial term, the agreement will renew in seven-year increments. The payments on this agreement are recognized as expense when incurred.

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Notes to Consolidated Financial Statements
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Future minimum payments required under this agreement at September 30, 2021, are summarized as follows:

2022	\$ 828,192
2023	1,242,288
2024	1,242,288
2025	1,242,288
2026	1,242,288
Thereafter	<u>2,898,672</u>
Future minimum information technology commitments	<u>\$ 8,696,016</u>

Expenses under this agreement totaled \$904 and \$0 for the years ended September 30, 2021 and 2020, respectively.

Note 21: COVID-19

On March 11, 2020, the World Health Organization designated the SARS-CoV-2 virus and the incidence of COVID-19 (COVID-19) as a global pandemic. Patient volumes and the related revenues were significantly affected by COVID-19 as various policies were implemented by federal, state, and local governments in response to the pandemic that led many people to remain at home and forced the closure of or limitations on certain businesses, as well as suspended elective procedures by health care facilities.

While most of these policies have been eased and states have lifted moratoriums on nonemergent procedures, some restrictions remain in place, and some state and local governments re-imposed certain restrictions due to increasing rates of COVID-19 cases prior to the widespread availability of a vaccine.

The Health System's pandemic response plan has multiple facets and continues to evolve as the pandemic unfolds. The Health System has taken precautionary steps to enhance its operational and financial flexibility and react to the risks the COVID-19 pandemic presents to its business.

In addition, the Health System received approximately \$7,190,000 in general and targeted Provider Relief Fund distributions, both as provided for under the CARES Act, \$9,613,000 of accelerated Medicare payments and other COVID-19 funding of approximately \$197,000.

North Country Health Systems, Inc.

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The extent of the COVID-19 pandemic's adverse effect on the Medical Center's operating results and financial condition has been and will continue to be driven by many factors, most of which are beyond the Health System's control and ability to forecast. Such factors include, but are not limited to, the scope and duration of stay-at-home practices and business closures and restrictions, government-imposed or recommended suspensions of elective procedures, continued declines in patient volumes for an indeterminable length of time, increases in the number of uninsured and underinsured patients as a result of higher sustained rates of unemployment, incremental expenses required for supplies and personal protective equipment, and changes in professional and general liability exposure.

Because of these and other uncertainties, the Health System cannot estimate the length or severity of the effect of the pandemic on the Health System's business. Decreases in cash flows and results of operations may have an effect on debt covenant compliance and on the inputs and assumptions used in significant accounting estimates, including estimated implicit price concessions related to uninsured patient accounts, and potential impairments of goodwill and long-lived assets.

Provider Relief Funds

During the years ended September 30, 2021 and 2020, the Health System received \$400,000 and \$6,594,700, respectively, of distributions from the CARES Act Provider Relief Fund (collectively, the "Provider Relief Fund"). These distributions from the Provider Relief Fund are not subject to repayment, provided the Health System 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 qualifying expenses or lost revenue attributable to COVID-19, as defined by the Department of Health and Human Services.

The Health System has elected to account for such payments as conditional contributions in accordance with ASC Topic 958-605 – *Revenue Recognition*. Payments are recognized as contribution revenue once the applicable terms and conditions required to retain the funds have been substantially met. Based on an analysis of the compliance and reporting requirements of the Provider Relief Fund and the effect of the pandemic on the Health System's revenues and expenses through year-end, the Health System recognized \$2,167,705 and \$4,426,995, respectively, during the years ended September 30, 2021 and 2020, related to the distributions from the Provider Relief Fund, and these payments are recorded as other revenue in the accompanying consolidated statements of operations. The unrecognized amount of distributions from the Provider Relief Fund are recorded as deferred grant revenue in the accompanying consolidated balance sheets. Guidance for reporting use of Provider Relief Fund payments received has changed significantly since distributions were authorized through the CARES Act in March 2020. The Health System has evaluated the "Post-Payment Notice of Reporting Requirements" (Notice) and the Frequently Asked Questions (FAQs) issued by HHS subsequent to September 30, 2021, in accordance with ASC Topic 855.

North Country Health Systems, Inc.

Notes to Consolidated Financial Statements

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The Health System has recognized revenue from the Provider Relief Fund based on guidance issued by HHS as of September 30, 2021, and any clarifications issued by HHS subsequent to year-end, including any referenced above as recognized subsequent events. The Health System will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and the effect of the pandemic on the Health System's revenues and expenses. The terms and conditions governing the Provider Relief Fund are complex and subject to interpretation and change. If the Health System is unable to attest to or comply with current or future terms and conditions, its ability to retain some or all of the distributions received may be affected. Additionally, the amounts recorded in the consolidated financial statements compared to the Health System's Provider Relief Fund reporting could differ. Provider Relief Fund payments are subject to government oversight, including potential audits.

Vermont Grants

The Health System received a grant through the state of Vermont for \$0 and \$197,000 during the years ended September 30, 2021 and 2020, respectively, from the Medicaid retainer funding program. This grant is included in other operating revenues in the accompanying consolidated financial statements.

Medicare Accelerated and Advanced Payment Program

During the year ended September 30, 2020, the Health System 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 Health Systems or up to three months of advance Medicare payments for other health care providers. These amounts are expected to be recaptured by CMS according to the payback provisions.

Effective September 30, 2020, the payback provisions were revised and extended the payback period to begin one year after the issuance of the advance payment through a phased payback period approach. The first 11 months of the payback period will be at 25 percent of the remittance advice payment followed by a six-month payback period at 50 percent of the remittance advice payment. After 29 months, CMS expects any amount not paid back through the withhold amounts to be paid back in a lump sum or interest will begin to accrue subsequent to the 29th month at a rate of 4 percent.

During the year ended September 30, 2020, the Health System received approximately \$9,613,000 from these accelerated Medicare payment requests. During the years ended September 30, 2021 and 2020, Medicare has applied approximately \$1,525,000 from these accelerated Medicare payment requests against filed claims. The unapplied amount of accelerated Medicare payment requests are recorded under contract liabilities in the accompanying consolidated balance sheets.

Blue Cross Advance

During the year ended September 30, 2020, NCHS received an advance from Blue Cross of \$1,091,000, which was included in amounts due to third-party payors in the accompanying consolidated financial statements at September 30, 2020. During the year ended September 30, 2021, the Health System repaid this advance and no longer has an outstanding amount due to Blue Cross.

North Country Health Systems, Inc.
Notes to Consolidated Financial Statements
September 30, 2021 and 2020

Note 22: Future Changes in Accounting Principles

Accounting for Leases

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for the Health System's fiscal year ending September 30, 2023. The Health System is evaluating the impact the standard will have on the consolidated financial statements.

Accounting for Financial Instruments – Credit Losses

The Financial Accounting Standards Board amended its standards related to the accounting for credit losses on financial instruments. This amendment introduces new guidance for accounting for credit losses on instruments including trade receivables and finance receivables. The new standard is effective for the Health System's fiscal year ending September 30, 2023. The Health System is in the process of evaluating the impact the amendment will have on the consolidated financial statements.

Note 23: Subsequent Events

Subsequent events have been evaluated through January 19, 2022, which is the date the consolidated financials were available to be issued.

Supplementary Information

North Country Health Systems, Inc.
Consolidating Schedule – Balance Sheet Information
September 30, 2021

	North Country Hospital and Health Center	Northeast Kingdom Healthcare Collaborative, LLC	Eliminations	Consolidated North Country Hospital and Health Center	North Country Health Systems	Eliminations	Consolidated Total
Current Assets							
Cash and cash equivalents	\$ 18,444,388	\$ 148,583	\$ -	\$ 18,592,971	\$ 336,562	\$ -	\$ 18,929,533
Patient accounts receivable	8,712,558	157,378	-	8,869,936	-	-	8,869,936
Other receivables	1,275,328	-	-	1,275,328	-	-	1,275,328
Due from affiliate	70,734	-	-	70,734	-	(70,734)	-
Supplies	2,940,529	-	-	2,940,529	-	-	2,940,529
Estimated amounts due from third-party payors	155,663	-	-	155,663	-	-	155,663
Prepaid expenses and other	1,047,914	-	-	1,047,914	500	-	1,048,414
Total current assets	<u>32,647,114</u>	<u>305,961</u>	<u>-</u>	<u>32,953,075</u>	<u>337,062</u>	<u>(70,734)</u>	<u>33,219,403</u>
Assets Limited As To Use							
Internally designated	55,760,912	-	-	55,760,912	344,651	-	56,105,563
Externally restricted by donors Held by trustee	4,418,531	-	-	4,418,531	1,183,425	-	5,601,956
Under deferred compensation arrangements	3,470,737	-	-	3,470,737	-	-	3,470,737
	<u>63,650,180</u>	<u>-</u>	<u>-</u>	<u>63,650,180</u>	<u>1,528,076</u>	<u>-</u>	<u>65,178,256</u>
Property and Equipment, At Cost							
	77,150,161	837,320	-	77,987,481	-	-	77,987,481
Less accumulated depreciation	54,448,206	116,853	-	54,565,059	-	-	54,565,059
	<u>22,701,955</u>	<u>720,467</u>	<u>-</u>	<u>23,422,422</u>	<u>-</u>	<u>-</u>	<u>23,422,422</u>
Assets Held for Sale	<u>337,058</u>	<u>-</u>	<u>-</u>	<u>337,058</u>	<u>-</u>	<u>-</u>	<u>337,058</u>
Other Assets							
Interest in net assets of North Country Health Systems, Inc.	877,686	-	-	877,686	-	(877,686)	-
Other	502,885	-	(472,279)	30,606	18,000	-	48,606
	<u>1,380,571</u>	<u>-</u>	<u>(472,279)</u>	<u>908,292</u>	<u>18,000</u>	<u>(877,686)</u>	<u>48,606</u>
Total assets	<u>\$ 120,716,878</u>	<u>\$ 1,026,428</u>	<u>\$ (472,279)</u>	<u>\$ 121,271,027</u>	<u>\$ 1,883,138</u>	<u>\$ (948,420)</u>	<u>\$ 122,205,745</u>

North Country Health Systems, Inc.
Consolidating Schedule – Balance Sheet Information
September 30, 2021

	North Country Hospital and Health Center	Northeast Kingdom Healthcare Collaborative, LLC	Eliminations	Consolidated North Country Hospital and Health Center	North Country Health Systems	Eliminations	Consolidated Total
Current Liabilities							
Current maturities of long-term debt	\$ 1,152,534	\$ -	\$ -	\$ 1,152,534	\$ -	\$ -	\$ 1,152,534
Accounts payable	3,697,487	123,799	-	3,821,286	1,630	-	3,822,916
Accrued expenses	7,167,580	9,834	-	7,177,414	-	-	7,177,414
Due to affiliate	-	80,663	-	80,663	3,182	(70,734)	13,111
Contract liabilities and deferred revenue	7,563,249	-	-	7,563,249	-	-	7,563,249
Estimated amounts due to third-party payors	2,163,838	-	-	2,163,838	-	-	2,163,838
Total current liabilities	21,744,688	214,296	-	21,958,984	4,812	(70,734)	21,893,062
Deferred Compensation and Other	3,580,636	-	-	3,580,636	-	-	3,580,636
Contract Liabilities	948,255	-	-	948,255	-	-	948,255
Long-Term Debt	14,173,257	-	-	14,173,257	-	-	14,173,257
Interest Rate Swap Agreements	1,343,472	-	-	1,343,472	-	-	1,343,472
Total liabilities	41,790,308	214,296	-	42,004,604	4,812	(70,734)	41,938,682
Net Assets							
Without donor restrictions							
Health System	73,537,554	472,279	(472,279)	73,537,554	1,000,640	-	74,538,194
Noncontrolling interest	-	339,853	-	339,853	-	-	339,853
Total net assets without donor restrictions	73,537,554	812,132	(472,279)	73,877,407	1,000,640	-	74,878,047
With donor restrictions	5,389,016	-	-	5,389,016	877,686	(877,686)	5,389,016
Total net assets	78,926,570	812,132	(472,279)	79,266,423	1,878,326	(877,686)	80,267,063
Total liabilities and net assets	\$ 120,716,878	\$ 1,026,428	\$ (472,279)	\$ 121,271,027	\$ 1,883,138	\$ (948,420)	\$ 122,205,745

North Country Health Systems, Inc.
Consolidating Schedule – Statement of Operations Information
Year Ended September 30, 2021

	North Country Hospital and Health Center	Northeast Kingdom Healthcare Collaborative, LLC	Eliminations	Consolidated North Country Hospital and Health Center	North Country Health Systems	Eliminations	Consolidated Total
Revenues, Gains, and Other Support Without Donor Restrictions							
Patient service revenue	\$ 77,533,624	\$ 818,124	\$ -	\$ 78,351,748	\$ -	\$ -	\$ 78,351,748
Fixed payment revenue	11,144,979	-	-	11,144,979	-	-	11,144,979
Other revenue	9,400,154	234	-	9,400,388	-	-	9,400,388
Net assets released from restriction used for operations	-	-	-	-	70,003	-	70,003
Total revenues, gains, and other support without donor restrictions	<u>98,078,757</u>	<u>818,358</u>	<u>-</u>	<u>98,897,115</u>	<u>70,003</u>	<u>-</u>	<u>98,967,118</u>
Expenses and Losses							
Salaries	42,303,385	-	-	42,303,385	-	-	42,303,385
Employee benefits	13,266,062	-	-	13,266,062	-	-	13,266,062
Supplies and other	33,883,712	939,195	-	34,822,907	77,825	-	34,900,732
Depreciation	3,461,824	31,170	-	3,492,994	-	-	3,492,994
Interest	506,434	-	-	506,434	39	-	506,473
Total expenses and losses	<u>93,421,417</u>	<u>970,365</u>	<u>-</u>	<u>94,391,782</u>	<u>77,864</u>	<u>-</u>	<u>94,469,646</u>
Operating Income (Loss)	<u>4,657,340</u>	<u>(152,007)</u>	<u>-</u>	<u>4,505,333</u>	<u>(7,861)</u>	<u>-</u>	<u>4,497,472</u>
Other Income (Expense)							
Contributions received	-	-	-	-	431,173	-	431,173
Investment return, net	9,544,005	-	-	9,544,005	48,894	-	9,592,899
Investment return – change in fair value of investments accounted for under the fair value option of FASB ASC Topic 825	(22,033)	-	-	(22,033)	-	-	(22,033)
Gain (loss) on investments in equity investee	(16,204)	-	16,204	-	-	-	-
Other	(81,607)	-	75,000	(6,607)	-	-	(6,607)
Total other income	<u>9,424,161</u>	<u>-</u>	<u>91,204</u>	<u>9,515,365</u>	<u>480,067</u>	<u>-</u>	<u>9,995,432</u>
Excess (Deficiency) of Revenues Over Expenses	14,081,501	(152,007)	91,204	14,020,698	472,206	-	14,492,904
Grants for acquisition of property and equipment	47,393	-	-	47,393	-	-	47,393
Increase (Decrease) in Net Assets Without Donor Restrictions	<u>\$ 14,128,894</u>	<u>\$ (152,007)</u>	<u>\$ 91,204</u>	<u>\$ 14,068,091</u>	<u>\$ 472,206</u>	<u>\$ -</u>	<u>\$ 14,540,297</u>

North Country Health Systems, Inc.
Consolidating Schedule – Statement of Changes in Net Assets Information
Year Ended September 30, 2021

	North Country Hospital and Health Center	Northeast Kingdom Healthcare Collaborative, LLC	Eliminations	Consolidated North Country Hospital and Health Center	North Country Health Systems	Eliminations	Consolidated Total
Net Assets Without Donor Restrictions Attributable to the Health System							
Excess (deficiency) of revenues over expenses	\$ 14,081,501	\$ (91,204)	\$ 91,204	\$ 14,081,501	\$ 472,206	\$ -	\$ 14,553,707
Change in fair value of interest rate swap agreements	186,707	-	-	186,707	-	-	186,707
Contributions from controlling interest	-	75,000	(75,000)	-	-	-	-
Grants for acquisition of property and equipment	47,393	-	-	47,393	-	-	47,393
Increase (decrease) in net assets without donor restrictions attributable to the Health System	<u>14,315,601</u>	<u>(16,204)</u>	<u>16,204</u>	<u>14,315,601</u>	<u>472,206</u>	<u>-</u>	<u>14,787,807</u>
Net Assets Without Donor Restrictions Attributable to Noncontrolling Interest							
Excess of revenues over expenses	-	(60,803)	-	(60,803)	-	-	(60,803)
Contributions from controlling interest	-	75,000	-	75,000	-	-	75,000
Increase in net assets without donor restrictions attributable to noncontrolling interest	<u>-</u>	<u>14,197</u>	<u>-</u>	<u>14,197</u>	<u>-</u>	<u>-</u>	<u>14,197</u>
Increase (decrease) in net assets without donor restrictions	<u>14,315,601</u>	<u>(2,007)</u>	<u>16,204</u>	<u>14,329,798</u>	<u>472,206</u>	<u>-</u>	<u>14,802,004</u>
Net Assets With Donor Restrictions							
Contributions received		-	-	-	37,189	-	37,189
Change in interest in net assets of North Country Health Systems, Inc.	71,493	-	-	71,493	-	(71,493)	-
Investment return – change in unrealized gains and losses on other than trading securities	749,517	-	-	749,517	104,307	-	853,824
Net assets released from restriction	-	-	-	-	(70,003)	-	(70,003)
Increase (decrease) in net assets with donor restrictions	<u>821,010</u>	<u>-</u>	<u>-</u>	<u>821,010</u>	<u>71,493</u>	<u>(71,493)</u>	<u>821,010</u>
Change in Net Assets	<u>15,136,611</u>	<u>(2,007)</u>	<u>16,204</u>	<u>15,150,808</u>	<u>543,699</u>	<u>(71,493)</u>	<u>15,623,014</u>
Net Assets, Beginning of Year	<u>63,789,959</u>	<u>814,139</u>	<u>(488,483)</u>	<u>64,115,615</u>	<u>1,334,627</u>	<u>(806,193)</u>	<u>64,644,049</u>
Net Assets, End of Year	<u>\$ 78,926,570</u>	<u>\$ 812,132</u>	<u>\$ (472,279)</u>	<u>\$ 79,266,423</u>	<u>\$ 1,878,326</u>	<u>\$ (877,686)</u>	<u>\$ 80,267,063</u>

North Country Health Systems, Inc.
Consolidating Schedule – Balance Sheet Information
September 30, 2020

	North Country Hospital and Health Center	Northeast Kingdom Healthcare Collaborative, LLC	Eliminations	Consolidated North Country Hospital and Health Center	North Country Health Systems	Derby Green	Eliminations	Consolidated Total
Current Assets								
Cash and cash equivalents	\$ 21,667,613	\$ 178,971	\$ -	\$ 21,846,584	\$ 399,887	\$ -	\$ -	\$ 22,246,471
Patient accounts receivable, net of allowance	6,518,572	86,685	-	6,605,257	-	-	-	6,605,257
Other receivables	1,047,245	-	-	1,047,245	-	-	-	1,047,245
Due from affiliate	41,543	-	-	41,543	-	-	(41,543)	-
Supplies	2,631,841	-	-	2,631,841	-	-	-	2,631,841
Estimated amounts due from third-party payors	171,660	-	-	171,660	-	-	-	171,660
Prepaid expenses and other	954,483	-	-	954,483	500	-	-	954,983
Total current assets	<u>33,032,957</u>	<u>265,656</u>	<u>-</u>	<u>33,298,613</u>	<u>400,387</u>	<u>-</u>	<u>(41,543)</u>	<u>33,657,457</u>
Assets Limited As To Use								
Internally designated	46,269,199	-	-	46,269,199	-	-	-	46,269,199
Externally restricted by donors Held by trustee	3,666,401	-	-	3,666,401	921,541	-	-	4,587,942
Under deferred compensation arrangements	3,034,510	-	-	3,034,510	-	-	-	3,034,510
	<u>52,970,110</u>	<u>-</u>	<u>-</u>	<u>52,970,110</u>	<u>921,541</u>	<u>-</u>	<u>-</u>	<u>53,891,651</u>
Property and Equipment, At Cost	75,239,585	837,320	-	76,076,905	-	-	-	76,076,905
Less accumulated depreciation	53,163,440	85,682	-	53,249,122	-	-	-	53,249,122
	<u>22,076,145</u>	<u>751,638</u>	<u>-</u>	<u>22,827,783</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,827,783</u>
Assets Held for Sale	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other Assets								
Interest in net assets of North Country Health Systems, Inc.	806,193	-	-	806,193	-	-	(806,193)	-
Other	612,050	-	(488,483)	123,567	18,000	-	-	141,567
	<u>1,418,243</u>	<u>-</u>	<u>(488,483)</u>	<u>929,760</u>	<u>18,000</u>	<u>-</u>	<u>(806,193)</u>	<u>141,567</u>
Total assets	<u>\$ 109,497,455</u>	<u>\$ 1,017,294</u>	<u>\$ (488,483)</u>	<u>\$ 110,026,266</u>	<u>\$ 1,339,928</u>	<u>\$ -</u>	<u>\$ (847,736)</u>	<u>\$ 110,518,458</u>

North Country Health Systems, Inc.
Consolidating Schedule – Balance Sheet Information
September 30, 2020

	North Country Hospital and Health Center	Northeast Kingdom Healthcare Collaborative, LLC	Eliminations	Consolidated North Country Hospital and Health Center	North Country Health Systems	Derby Green	Eliminations	Consolidated Total
Current Liabilities								
Current maturities of long-term debt	\$ 1,127,217	\$ -	\$ -	\$ 1,127,217	\$ -	\$ -	\$ -	\$ 1,127,217
Accounts payable	3,816,276	153,928		3,970,204	4,671	-	(40,914)	3,933,961
Accrued expenses	5,915,728	(4,932)	-	5,910,796	1	-	-	5,910,797
Due to affiliate	-	54,159		54,159	629	-	(629)	54,159
Contract liabilities and deferred revenue	5,487,103			5,487,103				5,487,103
Estimated amounts due to third-party payors	1,678,464	-	-	1,678,464	-	-	-	1,678,464
Total current liabilities	18,024,788	203,155	-	18,227,943	5,301	-	(41,543)	18,191,701
Deferred Compensation and Other	3,138,188	-	-	3,138,188	-	-	-	3,138,188
Contract Liabilities	7,610,056	-	-	7,610,056	-	-	-	7,610,056
Long-Term Debt	15,404,285			15,404,285				15,404,285
Interest Rate Swap Agreements	1,530,179	-	-	1,530,179	-	-	-	1,530,179
Total liabilities	45,707,496	203,155	-	45,910,651	5,301	-	(41,543)	45,874,409
Net Assets								
Without donor restrictions								
Health System	59,221,953	488,483	(488,483)	59,221,953	528,434	-	-	59,750,387
Noncontrolling interest	-	325,656	-	325,656	-	-	-	325,656
Total net assets without donor restrictions	59,221,953	814,139	(488,483)	59,547,609	528,434	-	-	60,076,043
With donor restrictions	4,568,006	-	-	4,568,006	806,193	-	(806,193)	4,568,006
Total net assets	63,789,959	814,139	(488,483)	64,115,615	1,334,627	-	(806,193)	64,644,049
Total liabilities and net assets	\$ 109,497,455	\$ 1,017,294	\$ (488,483)	\$ 110,026,266	\$ 1,339,928	\$ -	\$ (847,736)	\$ 110,518,458

North Country Health Systems, Inc.
Consolidating Schedule – Statement of Operations Information
Year Ended September 30, 2020

	North Country Hospital and Health Center	Northeast Kingdom Healthcare Collaborative, LLC	Eliminations	Consolidated North Country Hospital and Health Center	North Country Health Systems	Derby Green	Eliminations	Consolidated Total
Revenues, Gains, and Other Support Without Donor Restrictions								
Net patient service revenue (net of contractual discounts and allowances)	\$ 70,606,050	\$ 754,938	\$ -	\$ 71,360,988	\$ 58,076	\$ 850,769	\$ -	\$ 72,269,833
Provision for uncollectible accounts	(3,320,713)	7,001	-	(3,313,712)	-	(9,834)	-	(3,323,546)
Net patient service revenue less provision for uncollectible accounts	67,285,337	761,939	-	68,047,276	58,076	840,935	-	68,946,287
Fixed prospective revenue	8,118,782	-	-	8,118,782	-	-	-	8,118,782
Other	12,967,321	-	-	12,967,321	-	38,899	-	13,006,220
Net assets released from restriction used for operations	-	-	-	-	137,826	-	-	137,826
Total revenues, gains, and other support without donor restrictions	<u>88,371,440</u>	<u>761,939</u>	<u>-</u>	<u>89,133,379</u>	<u>195,902</u>	<u>879,834</u>	<u>-</u>	<u>90,209,115</u>
Expenses and Losses								
Salaries	39,696,429	-	-	39,696,429	-	551,704	-	40,248,133
Employee benefits	11,440,595	-	-	11,440,595	-	285,010	-	11,725,605
Supplies and other	29,472,444	746,705	-	30,219,149	163,501	290,343	-	30,672,993
Depreciation	3,794,629	35,289	-	3,829,918	-	27,025	-	3,856,943
Interest	588,874	-	-	588,874	-	7,139	-	596,013
Total expenses and losses	<u>84,992,971</u>	<u>781,994</u>	<u>-</u>	<u>85,774,965</u>	<u>163,501</u>	<u>1,161,221</u>	<u>-</u>	<u>87,099,687</u>
Operating Income (Loss)	<u>3,378,469</u>	<u>(20,055)</u>	<u>-</u>	<u>3,358,414</u>	<u>32,401</u>	<u>(281,387)</u>	<u>-</u>	<u>3,109,428</u>
Other Income (Expense)								
Contributions received	-	-	-	-	9,113	-	-	9,113
Investment return, net	3,915,218	(5)	-	3,915,213	-	31,896	-	3,947,109
Investment return – change in fair value of investments accounted for under the fair value option of FASB ASC Topic 825	(116,391)	-	-	(116,391)	-	-	-	(116,391)
Gain (loss) on investments in equity investee	(32,036)	-	32,036	-	-	-	-	-
Other	(24,805)	-	-	(24,805)	-	351,081	-	326,276
Total other income (expense)	<u>3,741,986</u>	<u>(5)</u>	<u>32,036</u>	<u>3,774,017</u>	<u>9,113</u>	<u>382,977</u>	<u>-</u>	<u>4,166,107</u>
Excess (Deficiency) of Revenues Over Expenses	<u>\$ 7,120,455</u>	<u>\$ (20,060)</u>	<u>\$ 32,036</u>	<u>\$ 7,132,431</u>	<u>\$ 41,514</u>	<u>\$ 101,590</u>	<u>\$ -</u>	<u>\$ 7,275,535</u>

North Country Health Systems, Inc.
Consolidating Schedule – Statement of Changes in Net Assets Information
Year Ended September 30, 2020

	North Country Hospital and Health Center	Northeast Kingdom Healthcare Collaborative, LLC	Eliminations	Consolidated North Country Hospital and Health Center	North Country Health Systems	Derby Green	Eliminations	Consolidated Total
Net Assets Without Donor Restrictions								
Attributable to the Health System								
Excess (deficiency) of revenues over expenses	\$ 7,120,455	\$ (32,036)	\$ 32,036	\$ 7,120,455	\$ 41,514	\$ 101,590	\$ -	\$ 7,263,559
Change in fair value of interest rate swap agreements	32,474	-	-	32,474	-	-	-	32,474
Transfers to (from) affiliate	344,801	-	-	344,801	-	(344,801)	-	-
Contributions of property and equipment	171,043	-	-	171,043	-	-	-	171,043
Distributions to noncontrolling interest	-	(100,000)	100,000	-	-	-	-	-
Net assets released from restriction used for property and equipment	-	-	-	-	-	-	-	-
Increase (decrease) in net assets without donor restrictions attributable to the Health System	<u>7,668,773</u>	<u>(132,036)</u>	<u>132,036</u>	<u>7,668,773</u>	<u>41,514</u>	<u>(243,211)</u>	<u>-</u>	<u>7,467,076</u>
Net Assets Without Donor Restrictions								
Attributable to Noncontrolling Interest								
Excess of revenues over expenses	-	11,976	-	11,976	-	-	-	11,976
Distributions to noncontrolling interest	-	(100,000)	-	(100,000)	-	-	-	(100,000)
Increase in net assets without donor restrictions attributable to noncontrolling interest	<u>-</u>	<u>(88,024)</u>	<u>-</u>	<u>(88,024)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(88,024)</u>
Increase (decrease) in net assets without donor restrictions	<u>7,668,773</u>	<u>(220,060)</u>	<u>132,036</u>	<u>7,580,749</u>	<u>41,514</u>	<u>(243,211)</u>	<u>-</u>	<u>7,379,052</u>
Net Assets With Donor Restrictions								
Contributions received	-	-	-	-	109,611	-	-	109,611
Change in interest in net assets of North Country Health Systems, Inc.	43,021	-	-	43,021	-	-	(43,021)	-
Investment return – change in unrealized gains and losses on other than trading securities	252,130	-	-	252,130	71,236	-	-	323,366
Net assets released from restriction	-	-	-	-	(137,826)	-	-	(137,826)
Increase (decrease) in net assets with donor restrictions	<u>295,151</u>	<u>-</u>	<u>-</u>	<u>295,151</u>	<u>43,021</u>	<u>-</u>	<u>(43,021)</u>	<u>295,151</u>
Change in Net Assets	<u>7,963,924</u>	<u>(220,060)</u>	<u>132,036</u>	<u>7,875,900</u>	<u>84,535</u>	<u>(243,211)</u>	<u>(43,021)</u>	<u>7,674,203</u>
Net Assets, Beginning of Year	<u>55,826,035</u>	<u>1,034,199</u>	<u>(620,519)</u>	<u>56,239,715</u>	<u>1,250,092</u>	<u>243,211</u>	<u>(763,172)</u>	<u>56,969,846</u>
Net Assets, End of Year	<u>\$ 63,789,959</u>	<u>\$ 814,139</u>	<u>\$ (488,483)</u>	<u>\$ 64,115,615</u>	<u>\$ 1,334,627</u>	<u>\$ -</u>	<u>\$ (806,193)</u>	<u>\$ 64,644,049</u>