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NORTHEASTERN VERMONT REGIONAL HOSPITAL

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FINANCIAL STATEMENTS

September 30, 2023 and 2022

With Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Northeastern Vermont Regional Hospital, Inc.

Opinion

We have audited the accompanying financial statements of Northeastern Vermont Regional Hospital, Inc. (the Hospital), a subsidiary of Northeastern Vermont Regional Corp., which comprise the balance sheets as of September 30, 2023 and 2022, and the related statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

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

Basis for Opinion

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

Change in Accounting Principle

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S GAAP, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, no such opinion is expressed.

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

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

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

Berry Dunn McNeil & Parker, LLC

Portland, Maine
January 31, 2024
Registration No. 92-0000278

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Balance Sheets

September 30, 2023 and 2022

ASSETS

	2023	2022
Current assets		
Cash and cash equivalents	**$ 7,519,800**	$ 9,376,635
Patient accounts receivable, net of allowances for doubtful accounts and contractual allowances of $18,526,775 in 2023 and $19,603,785 in 2022	**10,189,127**	11,089,684
Supplies	**1,366,840**	1,463,406
Prepaid expenses	**1,022,418**	817,474
Other accounts receivable	**2,122,859**	8,141,083
Total current assets	**22,221,044**	30,888,282
Assets limited as to use		
Restricted or internally designated for		
Capital acquisitions	**18,545,835**	16,922,614
Funded depreciation	**4,907,278**	4,272,121
Donor restricted – other	**380,769**	379,757
Total assets limited as to use	**23,833,882**	21,574,492
Property and equipment, net	**24,551,836**	23,299,362
Due from Parent	**3,518,804**	4,143,153
Beneficial interest in net assets of Parent	**3,875,323**	1,530,874
Other long-term assets	**2,804,619**	2,737,579
Right-of-use assets - operating leases	**613,589**	-
Total assets	**$ 81,419,097**	$ 84,173,742

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

LIABILITIES AND NET ASSETS

	2023	2022
Current liabilities		
Current portion of long-term debt	**$ 843,978**	$ 825,152
Current portion of finance lease obligation	**1,299,287**	995,617
Current portion of lease liabilities - operating	**135,494**	-
Accounts payable and accrued expenses	**10,074,343**	9,236,103
Estimated third-party payor settlements	**4,588,170**	5,370,970
Other current liabilities	**874,190**	7,866,957
Total current liabilities	**17,815,462**	24,294,799
Long-term debt, less current portion	**6,164,724**	6,991,921
Finance lease obligation, less current portion	**828,525**	1,147,862
Lease liabilities - operating, net of current portion	**478,095**	
Other long-term liabilities	**1,862,636**	1,678,096
Total liabilities	**27,149,442**	34,112,678
Net assets		
Without donor restriction	**49,520,765**	47,820,854
With donor restriction	**4,748,890**	2,240,210
Total net assets	**54,269,655**	50,061,064
Total liabilities and net assets	**$ 81,419,097**	$ 84,173,742

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Statements of Operations

Years Ended September 30, 2023 and 2022

	2023	2022
Revenues, gains, and other support without donor restriction		
Net patient service revenue	**$ 101,924,710**	$ 96,504,571
Fixed prospective revenue	**10,239,246**	9,184,372
Other revenues	**9,376,955**	7,866,179
Net assets released from restrictions used for operations	**1,487**	-
Total revenues, gains, and other support without donor restriction	**121,542,398**	113,555,122
Expenses		
Salaries and benefits	**71,795,590**	68,855,731
Supplies and other	**42,780,079**	39,044,615
Insurance	**1,536,623**	1,523,948
Depreciation and amortization	**4,426,204**	3,890,402
Interest	**415,298**	223,980
Total expenses	**120,953,794**	113,538,676
Operating income	**588,604**	16,446
Nonoperating gains (losses)		
Unrealized investment gains (losses)	**1,470,092**	(4,108,088)
Realized investment gains	**294,276**	519,505
Gifts and bequests without donor restriction	**-**	174,500
Income from assets limited as to use	**371,044**	255,765
Nonoperating facility expense	**(40,275)**	(40,199)
Contribution expense	**(205,412)**	(296,717)
Nonoperating gains (losses), net	**1,889,725**	(3,495,234)
Excess (deficiency) of revenues, gains, and other support over expenses and losses	**2,478,329**	(3,478,788)
Transfer to Parent	**(778,418)**	-
Increase (decrease) in net assets without donor restrictions	**$ 1,699,911**	$ (3,478,788)

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

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Statements of Changes in Net Assets

Years Ended September 30, 2023 and 2022

	Without Donor Restriction	With Donor Restriction	Total
Balances, October 1, 2021	$ 51,299,642	$ 2,092,792	$ 53,392,434
Deficiency of revenues, gains, and other support under expenses and losses	(3,478,788)	-	(3,478,788)
Change in beneficial interest in net assets of Parent	-	18,799	18,799
Restricted investment income	-	778	778
Restricted contributions, net	-	127,841	127,841
Change in net assets	(3,478,788)	147,418	(3,331,370)
Balances, September 30, 2022	47,820,854	2,240,210	50,061,064
Excess of revenues, gains, and other support over expenses and losses	**2,476,842**	**-**	**2,476,842**
Change in beneficial interest in net assets of Parent	**-**	**2,344,449**	**2,344,449**
Restricted investment income	**-**	**904**	**904**
Restricted contributions	**-**	**164,814**	**164,814**
Net assets released from restrictions used for operations	**1,487**	**(1,487)**	**-**
Transfer to Parent	**(778,418)**	**-**	**(778,418)**
Change in net assets	**1,699,911**	**2,508,680**	**4,208,591**
Balances, September 30, 2023	**$ 49,520,765**	**$ 4,748,890**	**$ 54,269,655**

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

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Statements of Cash Flows

Years Ended September 30, 2023 and 2022

	2023	2022
Cash flows from operating activities		
Change in net assets	**$ 4,208,591**	$ (3,331,370)
Adjustments to reconcile change in net assets to net cash used by operating activities		
Depreciation and amortization	**4,438,999**	3,903,197
Transfer to Parent	**778,418**	-
Loss on sale of property and equipment	**17,723**	242,035
Realized and unrealized (gains) loss on investments	**(1,764,368)**	3,588,583
Change in beneficial interest in net assets of Parent	**(2,344,449)**	(18,799)
Decrease (increase) in		
Patient accounts receivable	**900,557**	(1,922,673)
Due from Parent	**(154,069)**	(126,718)
Supplies	**96,566**	168,326
Prepaid expenses	**(204,944)**	(97,697)
Other accounts receivable	**6,018,224**	(6,346,805)
Increase (decrease) in		
Accounts payable and accrued expenses	**838,240**	(1,255,079)
Medicare accelerated payments	**-**	(10,514,280)
Estimated third-party payor settlements	**(782,800)**	(1,869,397)
Other current liabilities	**(6,992,767)**	6,617,951
Net cash provided (used) by operating activities	**5,053,921**	(10,962,726)
Cash flows from investing activities		
Purchases of property and equipment	**(5,263,318)**	(2,110,603)
Proceeds from sale of property and equipment	**265,250**	-
Purchases of investments	**(755,070)**	(365,091)
Proceeds from sales of investments	**261,060**	9,956
Net cash used by investing activities	**(5,492,078)**	(2,465,738)
Cash flows from financing activities		
Payments on long-term debt	**(821,166)**	(803,093)
Payments on finance lease obligations	**(596,500)**	(965,719)
Net cash used by financing activities	**(1,417,666)**	(1,768,812)
Net decrease in cash, cash equivalents, and restricted cash	**(1,855,823)**	(15,197,276)
Cash, cash equivalents, and restricted cash, beginning of year	**9,756,392**	24,953,668
Cash, cash equivalents, and restricted cash, end of year	**$ 7,900,569**	$ 9,756,392
Composition of cash, cash equivalents and restricted cash, end of year:		
Cash and cash equivalents	**$ 7,519,800**	$ 9,376,635
Restricted cash included in assets whose use is limited	**380,769**	379,757
	$ 7,900,569	$ 9,756,392
Supplemental disclosures of cash flow information		
Cash paid for interest	**$ 402,504**	$ 211,186
Purchases of equipment through finance leases	**$ 580,833**	$ 442,755
Implementation of ASC 842 (Note 1) recognition of finance leases	**$ 928,379**	$ -
Implementation of ASC 842 (Note 1) recognition of operating leases	**$ 158,503**	$ -

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

Organization

Northeastern Vermont Regional Hospital, Inc. (the Hospital) is a Critical Access Hospital located in St. Johnsbury, Vermont. The the Hospital is controlled by Northeastern Vermont Regional Corp. (NVRC or Parent). A tax-exempt holding company, NVRC is the sole member of the Hospital.

1. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of the Hospital have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP), which require the Hospital to report information regarding its financial position and activities according to the following net asset classifications:

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

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

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with original maturities of three months or less, except for money market funds included with investments in assets limited as to use.

Cash is maintained at high-quality financial institutions and credit exposure is not limited to any one institution. Certain cash accounts may exceed federally insured limits. Management does not anticipate losses related to these accounts. The Hospital has not experienced any losses on its cash.

Supplies

Supplies are carried at the lower of cost (average cost method) or market.

Investments and Investment Income

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value. To simplify the presentation of investment return, the Hospital accounts for its investment portfolio in accordance with the fair value option in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 825, *Financial Instruments*, and, accordingly, investment income or loss (including realized gains and losses on investments, interest, and dividends) and unrealized gains and losses are included in excess of revenues, gains, and other support over expenses and losses and increase in net assets without donor restriction unless the income is restricted by donor or law.

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

Assets Limited as to Use

Assets limited as to use include assets designated by the Board for future capital improvements, over which the Board retains control and which it may, at its discretion, subsequently use for other purposes.

Donor-Restricted Gifts

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

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

Goodwill

Goodwill related to the acquisition of a physical therapy practice is included in other long-term assets in the balance sheet, net of $567,917 and $450,417 accumulated amortization in 2023 and 2022, respectively.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under finance lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

Accrued Self-Insurance

The Hospital has established a self-insured healthcare plan for substantially all of its employees. The Hospital has obtained reinsurance coverage to limit the Hospital's exposure associated with this plan of $105,000 per individual occurrence. The balance sheets include an accrual in accrued expenses for management's estimate of claims incurred, but not reported, of approximately $1,197,000 as of September 30, 2023 and 2022, respectively.

Benefit Plans

The Hospital sponsors a defined contribution retirement plan covering substantially all of its employees. Under this plan, the Hospital contributes a non-elective contribution of 3% of a participant's eligible compensation and a matching contribution equal to 100% of a participant's elective deferral, up to 1.5% of the participant's eligible compensation. Retirement plan expenses charged to operations were $2,297,736 and $2,238,627 for the years ended September 30, 2023 and 2022, respectively.

The Hospital provides the opportunity for certain members of management and employed physicians to contribute to a deferred compensation plan established under Section 457 of the Internal Revenue Code (Code). Contributions are voluntary on the part of qualifying employees and no contributions are made by the Hospital on their behalf. Contributions are recorded as other long-term assets and corresponding other long-term liabilities in the balance sheets and totaled $1,862,636 and $1,678,096 as of September 30, 2023 and 2022, respectively.

Medicare Accelerated Payments

In response to the 2019 Novel Coronavirus Disease (COVID-19) pandemic, the Centers for Medicare & Medicaid Services (CMS) made available an accelerated and advance payment program to Medicare providers. During 2021, CMS began recouping payment from claim payments, one year after the advance was made for a period of seventeen months. The advance was repaid during 2022.

Provider Relief Funds

The Coronavirus Aid, Relief, and Economic Security (CARES) Act provided $175 billion to eligible healthcare providers to prevent, prepare for, and respond to COVID-19. The CARES Act provides the U.S. Department of Health and Human Services (HHS) with discretion to operate the program and determine the reporting requirements. The funds have been appropriated to reimburse healthcare providers for COVID-19 related expenses or lost revenues that are attributable to COVID-19. During 2022, the Hospital received $2,392,711 of HHS and American Rescue Plan Rural Payments to providers who serve rural Medicaid and Medicare beneficiaries. The Hospital has chosen to follow the conditional contribution model for the Funds. Management believes the Hospital has met the conditions necessary to recognize all funds as revenue. For the year ended September 30, 2022, the Hospital recognized $2,392,711 in other revenues in the statements of operations. Management believes the position taken is a reasonable interpretation of the rules currently available. Due to the complexity of the reporting requirements and the continued issuance of clarifying guidance, it is possible the amount of income recognized related to the lost revenues and COVID-19-related costs may change by a material amount. Any difference between amounts previously estimated and amounts subsequently determined to be recoverable or payable will be included in income in the year that such amounts become known.

Right-of-Use Assets and Lease Liabilities

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

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

Leases result in the recognition of ROU assets and lease liabilities on the consolidated balance sheet. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. The Hospital determines lease classification as operating or finance at the lease commencement date. Finance leases are reported with long-term debt in Note 7 and costs and accumulated amortization of finance leases are disclosed in Note 6, property and equipment.

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

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

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

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

The impact of the adoption of Topic 842 on the balance sheets follows:

	Balance as of September 30, 2022	Topic 842 Adoption	Balance as of October 1, 2022
Assets			
Right of use assets - operating	$ -	$ 158,503	$ 158,503
Property and equipment, net	29,773,306	928,379	30,701,685

	Balance as of September 30, 2022	Topic 842 Adoption	Balance as of October 1, 2022
Liabilities			
Current portion of finance lease obligation	995,617	347,540	1,343,157
Current portion of lease liabilities - operating	7,866,957	50,889	7,917,846
Finance lease obligation, net of current portion	1,147,862	580,839	1,728,701
Lease liabilities - operating, net of current portion	-	107,614	107,614

The impact of the adoption of Topic 842 on the statement of operations for the year ended September 30, 2023 follows:

	As Reported	Balance without Topic 842 Adoption	Effect of Change
Depreciation and amortization	$ 4,426,204	$ 4,085,942	$ 340,262
Interest expense	415,298	327,565	87,733
Supplies and other	42,780,079	43,208,074	(427,995)
Total operating expenses	120,953,794	120,953,794	-

<u>Net Patient Service Revenue and Patient Accounts Receivable</u>

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

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

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

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

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

Patient accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to operations and a credit to a valuation allowance based on its assessment of individual accounts and historical adjustments. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to patient accounts receivable. Patient accounts receivable at October 1, 2021 was $9,167,011.

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

Medicare

As a Critical Access Hospital, inpatient acute services rendered to Medicare program beneficiaries are paid under a cost reimbursement methodology. Outpatient services are paid based on a combination of reimbursed cost and fee schedules. The Hospital is reimbursed for cost reimbursable items at an interim rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been audited and final settled by the Medicare fiscal intermediary through September 30, 2016. Revenues from the Medicare program accounted for approximately 50% and 48% of the Hospital's net patient revenue for the years ended September 30, 2023 and 2022, respectively.

Medicaid

Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors, and are not subject to retroactive adjustment. Revenues from the Medicaid program accounted for approximately 5% and 7% of the Hospital's net patient revenue for the years ended September 30, 2023 and 2022, respectively.

Effective January 1, 2019, the Hospital started participating in OneCare Vermont, LLC (OneCare), a statewide Accountable Care Organization (ACO). The Hospital accepted additional risk as a member of OneCare by participating in the Medicare Next Generation Model and Blue Cross. Under the Medicare Next Generation Model, Blue Cross/Blue Shield of Vermont, and Vermont Medicaid program, the Hospital receives monthly fixed prospective payments for services provided to attributed members. The ACO is responsible for both the cost and quality of care for each attributed member. This is true whether that person uses little or no care or whether they require services consistently throughout the year. As a participant in OneCare, the Hospital acknowledges that calculations are based on a prospective attribution model and that adjustments will be made during the year for factors such as changes in attribution. The Hospital's maximum settlement exposure is calculated by applying the number of shares in OneCare to the total program exposure. The maximum financial exposure to the Hospital for all ACO payor programs for 2023 and 2022 is approximately $855,900 and $571,000, respectively, which has been fully reserved for. The Hospital recognizes its share of annual contract settlements as an increase or decrease to fixed prospective revenue in the statement of operations.

Other

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

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

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

The following table summarizes the Hospital's settlements and settlement activity with its significant third-party payors at September 30, 2023 and 2022:

	Total Settlement Balance		Fiscal Year Estimate		Impact of Prior Year Settlements		Open Settlement
	2023	2022	2023	2022	2023	2022	Years
Medicare	$(4,169,789)	$(4,782,759)	$ (192,293)	$ (200,470)	$ 434,771	$ 1,609,390	2020-2023
OneCare	(418,381)	(588,211)	(418,381)	(588,211)	668,380	56,745	2021-2023

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

Patients who meet the Hospital's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue. The Hospital estimates the costs associated with providing charity care by calculating a ratio of total cost to total gross charges, and then multiplying that ratio by the gross uncompensated charges associated with providing care to patients eligible for free care. The estimated cost of caring for charity care patients was approximately $907,000 and $988,000 for 2023 and 2022, respectively.

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

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

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

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

Income Taxes

The Hospital is exempt from federal income taxes under Code Section 501(c)(3) whereby only unrelated business income, as defined by Section 512(a)(1) of the Code, is subject to federal income tax.

Subsequent Events

For purposes of the preparation of these financial statements in conformity with U.S. GAAP, the Hospital has considered transactions or events occurring through January 31, 2024, which was the date the financial statements were available to be issued.

2. Availability and Liquidity of Financial Assets

The Hospital maintains a general operating account to fund day to day expenditures. The Hospital also has investments that can be used to fund additional operating or capital needs. In addition, the Hospital has working capital of $4,405,582 and $6,593,483 at September 30, 2023 and 2022, respectively. On average, it takes the Hospital 38 days to convert an account receivable account into cash based on 2023 data.

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

	2023	2022
Cash and cash equivalents, net of restricted amounts	**$ 6,749,265**	$ 8,905,825
Patient accounts receivable, net	**10,189,127**	11,089,684
Other receivables	**2,122,859**	841,083
Financial assets available at year end for current use	**$ 19,061,251**	$ 20,836,592

The Hospital has assets limited as to use which are more fully described in Notes 4 and 8. These assets are not available for general expenditure within the next year, and are not reflected in the amount above.

The Hospital's goal is generally to maintain financial assets to meet 100 days of operating expenses. As part of its liquidity plan, cash is maintained in insured cash sweep accounts with excess cash invested in Certificate of Deposit Account Registry Service accounts.

Additionally, the Hospital maintains a $2,000,000 line of credit. The Hospital did not draw on the line of credit during 2023 and 2022.

3. Net Patient Service Revenue

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

	2023	2022
Gross patient service revenue	**$ 245,078,523**	$ 211,872,727
Less contractual allowances	**141,292,780**	113,499,415
Less charity care	**1,861,033**	1,868,741
	143,153,813	115,368,156
Net patient service revenue	**$ 101,924,710**	$ 96,504,571

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

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

Net patient service revenue recognized for the years ended September 30, 2023 and 2022 by payor is as follows:

	2023	2022
Medicare and Medicaid	**$ 55,759,882**	$ 54,359,251
Commercial	**43,324,562**	40,804,185
Self-pay	**2,840,266**	1,341,135
Total	**$ 101,924,710**	$ 96,504,571

4. Assets Limited as to Use

The composition of assets limited as to use as of September 30, 2023 and 2022 is set forth in the following table. Investments are stated at fair value.

	2023	2022
Restricted or internally designated for capital acquisitions		
Cash and short-term investments	**$ 597,419**	$ 504,271
Restricted cash and short-term investments	**238,526**	238,526
Mutual funds	**5,410,027**	5,211,556
Equities	**12,299,863**	10,968,261
	18,545,835	16,922,614
Internally designated to fund depreciation		
Cash and short-term investments	**23,394**	156,893
Mutual funds	**1,999,137**	1,725,679
Equities	**2,884,747**	2,389,549
	4,907,278	4,272,121
Restricted by donor for other purposes – cash and short-term investments	**380,769**	379,757
	$ 23,833,882	$ 21,574,492

Investment income and gains (losses) on investments are comprised of the following for the years ended September 30:

	2023	2022
Income without donor restriction		
Interest and dividend income	**$ 640,653**	$ 525,533
Net unrealized and realized gains (losses)	**1,764,368**	(3,588,583)
Investment management fees	**(60,882)**	(64,137)
	$ 2,344,139	$ (3,127,187)
Changes in net assets with donor restriction		
Investment income	**$ 904**	$ 778

Income (losses) on investments without donor restriction is reported as follows for the years ended September 30:

	2023	2022
Other revenues	**$ 208,727**	$ 205,631
Nonoperating gains (losses)	**2,135,412**	(3,332,818)
	$ 2,344,139	$ (3,127,187)

In 2009, Vermont law was amended to adopt the provisions of the Uniform Prudent Management of Institutional Funds Act. The Hospital has reviewed its policy to ensure compliance with the law, and there has been no material financial impact from this law.

5. Fair Value Measurements

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

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

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

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

Assets measured at fair value on a recurring basis are all considered Level 1, and consist of the following:

	Fair Value Measurement at September 30	
	2023	2022
Assets:		
Cash and cash equivalents	**$ 1,240,108**	$ 1,279,447
Mutual funds	**7,409,164**	6,937,235
Equities	**15,184,610**	13,357,810
Total assets limited as to use	**23,833,882**	21,574,492
Investments to fund deferred compensation		
Mutual funds	**1,862,636**	1,678,096
Total assets	**$ 25,696,518**	$ 23,252,588

6. Property and Equipment

A summary of property and equipment follows as of September 30:

	2023	2022
Land and land improvements	**$ 1,775,725**	$ 1,727,887
Buildings and improvements	**37,760,993**	35,631,677
Fixed equipment	**1,782,023**	1,974,457
Major moveable equipment	**26,864,938**	33,770,198
Equipment under finance lease obligations	**5,154,422**	3,882,267
	73,338,101	76,986,486
Less accumulated depreciation and amortization	**49,502,579**	54,402,532
	23,835,522	22,583,954
Construction in progress	**716,314**	715,408
Property and equipment, net	**$ 24,551,836**	$ 23,299,362

7. Borrowings

Long-Term Debt

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

	2023	2022
Vermont Educational and Health Buildings Finance Agency Hospital Revenue Bonds 2016 Series A, bearing interest of 2.23% until March 2026, thereafter variable, due April 2031. Principal payments are due in annual installments, ranging from $843,978 to $965,133 in 2030.	**$ 7,105,729**	$ 7,926,895
Unamortized deferred issuance costs	**(97,027)**	(109,822)
Total long-term debt	**7,008,702**	7,817,073
Less current portion	**(843,978)**	(825,152)
Long-term debt, excluding current portion	**$ 6,164,724**	$ 6,991,921

The 2016 Series A Bonds are unsecured. The bond agreement contains various restrictive covenants, which include compliance with certain financial ratios and a detail of events constituting defaults. The Hospital is in compliance with these requirements at September 30, 2023.

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

Fiscal Year Ending	
2024 (included in current liabilities)	$ 843,978
2025	863,396
2026	882,849
2027	902,738
2028	922,890
Thereafter	2,689,878
	$ 7,105,729

The Hospital incurred various costs in connection with the 2016 bond issuance totaling $191,922. These amounts are being amortized over the life of the bond on a straight-line basis. Accumulated amortization as of September 30, 2023 and 2022 was $94,895 and $82,100, respectively.

Lease Obligations

The Hospital has entered the following lease arrangements:

Finance Leases
The Hospital has various equipment leases used for operations. Termination of the leases generally are prohibited unless there is a violation under the lease agreements.

Operating Leases
The Hospital has equipment leases that expire from 2025 through 2029. These leases generally, contain renewal options. Termination of the leases is generally prohibited unless there is a violation under the lease agreements.

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

Lease Costs

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

Finance leases:	
Amortization of ROU asset	$ 1,349,863
Interest on lease liabilities	217,952
Operating and short term lease costs:	586,296
Total lease cost	$ 2,154,111

Other Information

Finance leases:	
Remaining terms:	May 2024 to October 2027
Interest rates:	2.78% to 5.85%
Operating leases	
Weighted average remaining terms:	5.01 years
Weighted average discount rates:	4.00%

Future Minimum Lease Payments and Reconciliation to the Balance Sheet

	Finance Lease	Operating Leases
2024	$ 1,347,815	$ 157,235
2025	605,253	145,484
2026	147,460	110,232
2027	97,848	103,257
2028	8,154	100,932
Thereafter	-	58,878
Total minimum lease payments	2,206,530	676,018
Amounts representing interest	(78,718)	(62,429)
Present value of future minimum lease payments	2,127,812	613,589
Less: current portion	(1,299,287)	(135,494)
	$ 828,525	$ 478,095

Line of Credit

The Hospital has an available $2,000,000 in an unsecured line of credit with a bank with interest at the Wall Street Journal prime rate adjusted monthly (8.50% at September 30, 2023). The line expires January 1, 2024. As of September 30, 2023 and 2022, there was no balance outstanding on the line.

8. Net Assets with Donor Restriction

Net assets subject to expenditure for a specified purpose consisted of the following at September 30:

	2023	2022
Plant replacement, included in assets limited as to use	**$ 238,526**	$ 238,526
Special purpose, included in cash and cash equivalents	**537,978**	373,892
Beneficial interest in net assets of Parent	**3,525,323**	1,180,874
	$ 4,301,827	$ 1,793,292

Net assets held in perpetuity consisted of the following at September 30:

	2023	2022
Investments to be held in perpetuity, included in cash and cash equivalents	**$ 97,063**	$ 96,918
Beneficial interest in net assets of Parent	**350,000**	350,000
	$ 447,063	$ 446,918

9. Concentrations of Credit Risk

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

	2023	2022
Medicare	**32 %**	39 %
Medicaid	**15**	15
Blue Cross	**20**	7
Commercial	**10**	19
Self pay	**23**	20
	100 %	100 %

The Hospital maintains its cash balances at several financial institutions located in Vermont that, at times, may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes it is not exposed to any significant risk on cash and cash equivalents.

10. Commitments and Contingencies

Medical Malpractice Claims

The Hospital carries malpractice insurance coverage under a claims-made policy. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured. The Hospital intends to renew its coverage on a claims-made basis and has no reason to believe that it may be prevented from renewing such coverage. The Hospital is subject to complaints, claims and litigation due to potential claims which arise in the normal course of business.U.S. GAAP requires the Hospital to accrue the ultimate cost of malpractice claims when the incident that gives rise to the claim occurs, without consideration of insurance recoveries. Amounts that cannot be reasonably estimated are not accrued. Expected recoveries are presented as an asset. In accordance with ASU No. 2010-24, *Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoverie*s, at September 30, 2023 and 2022, the Hospital recorded a liability included in other current liabilities on the balance sheets of $500,000 and $7,300,000, respectively, related to estimated professional liability losses relating to reported cases as well as potential incurred but not recorded claims. In addition, at September 30, 2023 and 2022, the Hospital recorded a receivable in other accounts receivable on the balance sheets of $500,000 and $7,300,000, respectively, related to estimated recoveries. While it is not feasible to predict or determine the outcome of these claims, there were no known malpractice claims outstanding as of September 30, 2023 which, in the opinion of management, will be settled for amounts in excess of insurance coverage.

11. Related Party Transactions

NVRC supports the activities and charitable purposes of the Hospital. NVRC holds funds for purposes of the Hospital, which are reflected in these financial statements as "Beneficial interest in net assets of Parent."

NVRC leases office space to the Hospital under a tenancy-at-will lease in the amount of $289,833 per annum.

As of September 30, 2023 and 2022, the total amounts due from NVRC, which arose in part from these transactions, were $3,518,804 and $4,143,153, respectively. During 2023, an equity transfer of $778,418 was made to reduce the amount payable by NVRC to the Hospital. No fixed repayment terms have been established on the remaining balance. NVRC has indicated it intends to reduce amounts due to the Hospital through transferring NVRC buildings and related equipment as well as capital campaign funds.

12. Functional Expenses

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

2023	**Healthcare Service**	**Administrative Support**	**Total**
Salaries and benefits	**$ 59,109,133**	**$ 12,686,457**	**$ 71,795,590**
Supplies and other	**34,684,079**	**8,096,000**	**42,780,079**
Insurance	**744,100**	**792,523**	**1,536,623**
Depreciation	**1,807,659**	**2,618,545**	**4,426,204**
Interest	**-**	**415,298**	**415,298**
	$ 96,344,971	**$ 24,608,823**	**$ 120,953,794**

2022	Healthcare Service	Administrative Support	Total
Salaries and benefits	$ 56,979,195	$ 11,876,536	$ 68,855,731
Supplies and other	32,003,927	7,040,688	39,044,615
Insurance	629,244	894,704	1,523,948
Depreciation	1,350,461	2,539,941	3,890,402
Interest	-	223,980	223,980
	$ 90,962,827	$ 22,575,849	$ 113,538,676