



FINANCIAL STATEMENTS

September 30, 2021 and 2020

With Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Northeastern Vermont Regional Hospital, Inc.

We have audited the accompanying financial statements of Northeastern Vermont Regional Hospital, Inc., a subsidiary of Northeastern Vermont Regional Corp., which comprise the balance sheets as of September 30, 2021 and 2020, 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes 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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Northeastern Vermont Regional Hospital, Inc. as of September 30, 2021 and 2020, 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.

Board of Trustees
Northeastern Vermont Regional Hospital, Inc.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in 2021 Northeastern Vermont Regional Hospital, Inc. adopted Financial Accounting Standards Board Accounting Standards Update No. 2014-09, *Revenues from Contracts with Customers (Topic 606)*, and related guidance. Our opinion is not modified with respect to this matter.

Berry Dunn McNeil & Parker, LLC

Portland, Maine
December 22, 2021
Registration No. 92-0000278

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Balance Sheets

September 30, 2021 and 2020

ASSETS

	<u>2021</u>	<u>2020</u>
Current assets		
Cash and cash equivalents	\$ 24,574,811	\$ 28,733,062
Patient accounts receivable, net of allowances for doubtful accounts and contractual allowances of \$13,818,876 in 2021 and \$14,429,421 in 2020	9,167,011	8,715,262
Supplies	1,631,732	1,561,263
Prepaid expenses	719,777	587,732
Other accounts receivable	<u>1,794,278</u>	<u>1,372,756</u>
Total current assets	<u>37,887,609</u>	<u>40,970,075</u>
Assets limited as to use		
Restricted or internally designated for		
Capital acquisitions	19,506,672	16,390,932
Funded depreciation	4,921,511	4,031,929
Donor restricted – other	<u>378,857</u>	<u>370,630</u>
Total assets limited as to use	<u>24,807,040</u>	<u>20,793,491</u>
Property and equipment, net	24,760,941	22,455,672
Due from Parent	4,016,435	3,616,024
Beneficial interest in net assets of Parent	1,512,075	1,143,726
Other long-term assets	<u>3,086,992</u>	<u>2,682,913</u>
Total assets	<u>\$ 96,071,092</u>	<u>\$ 91,661,901</u>

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

LIABILITIES AND NET ASSETS

	<u>2021</u>	<u>2020</u>
Current liabilities		
Current portion of long-term debt	\$ 807,584	\$ 796,909
Current portion of capital lease obligation	920,484	-
Accounts payable and accrued expenses	10,991,182	9,669,638
Provider relief and other stimulus funds	-	6,263,821
Current portion of Medicare accelerated payments	10,514,280	2,946,638
Estimated third-party payor settlements	7,240,367	4,580,535
Other current liabilities	<u>749,006</u>	<u>635,508</u>
Total current liabilities	31,222,903	24,893,049
Long-term debt, less current portion	7,799,787	8,583,050
Capital lease obligation, less current portion	1,745,959	-
Medicare accelerated payments, less current portion	-	10,778,846
Other long-term liabilities	<u>1,910,009</u>	<u>1,463,430</u>
Total liabilities	<u>42,678,658</u>	<u>45,718,375</u>
Net assets		
Without donor restriction	51,299,642	44,226,805
With donor restriction	<u>2,092,792</u>	<u>1,716,721</u>
Total net assets	<u>53,392,434</u>	<u>45,943,526</u>
Total liabilities and net assets	<u>\$ 96,071,092</u>	<u>\$ 91,661,901</u>

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Statements of Operations

Years Ended September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Revenues, gains, and other support without donor restriction		
Patient service revenue (net of contractual allowances and discounts)	\$ 91,407,947	\$ 88,346,229
Less provision for bad debts	<u>-</u>	<u>2,570,476</u>
Net patient service revenue	91,407,947	85,775,753
Other revenues	<u>12,141,922</u>	<u>8,076,504</u>
Total revenues, gains, and other support without donor restriction	<u>103,549,869</u>	<u>93,852,257</u>
Expenses		
Salaries and benefits	59,980,482	55,182,917
Supplies and other	35,521,456	31,616,045
Insurance	1,254,815	2,006,062
Depreciation and amortization	3,389,397	3,196,677
Interest	<u>255,820</u>	<u>231,981</u>
Total expenses	<u>100,401,970</u>	<u>92,233,682</u>
Operating income	<u>3,147,899</u>	<u>1,618,575</u>
Nonoperating gains (losses)		
Unrealized investment gains	2,914,245	2,678,638
Realized investment gains (losses)	838,060	(1,091,387)
Gifts and bequests without donor restriction	158,190	332,034
Income from assets limited as to use	175,845	229,849
Nonoperating facility expense	(19,672)	(26,110)
Contribution expense	<u>(141,730)</u>	<u>(141,855)</u>
Nonoperating gains, net	<u>3,924,938</u>	<u>1,981,169</u>
Excess of revenues, gains, and other support over expenses and losses and increase in net assets without donor restriction	<u>\$ 7,072,837</u>	<u>\$ 3,599,744</u>

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, 2021 and 2020

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Balances, October 1, 2019	\$ <u>40,627,061</u>	\$ <u>1,728,058</u>	\$ <u>42,355,119</u>
Excess of revenues, gains, and other support over expenses and losses	3,599,744	-	3,599,744
Change in beneficial interest in net assets of Parent	-	(18,602)	(18,602)
Restricted investment income	<u>-</u>	<u>7,265</u>	<u>7,265</u>
Change in net assets	<u>3,599,744</u>	<u>(11,337)</u>	<u>3,588,407</u>
Balances, September 30, 2020	<u>44,226,805</u>	<u>1,716,721</u>	<u>45,943,526</u>
Excess of revenues, gains, and other support over expenses and losses	7,072,837	-	7,072,837
Change in beneficial interest in net assets of Parent	-	368,349	368,349
Restricted investment income	<u>-</u>	<u>7,722</u>	<u>7,722</u>
Change in net assets	<u>7,072,837</u>	<u>376,071</u>	<u>7,448,908</u>
Balances, September 30, 2021	\$ <u>51,299,642</u>	\$ <u>2,092,792</u>	\$ <u>53,392,434</u>

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

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Statements of Cash Flows

Years Ended September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Change in net assets	\$ 7,448,908	\$ 3,588,407
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities		
Depreciation and amortization	3,402,192	3,209,472
Provision for bad debts	-	2,570,476
Gain on sale of property and equipment	(239,315)	-
Realized and unrealized gains on investments	(3,752,305)	(1,587,251)
Change in beneficial interest in net assets of Parent	(368,349)	18,602
(Increase) decrease in		
Patient accounts receivable	(451,749)	(2,033,997)
Due from Parent	(400,411)	194,622
Supplies	(70,469)	(131,475)
Prepaid expenses	(132,045)	145,588
Other accounts receivable	(421,522)	560,378
Increase (decrease) in		
Accounts payable and accrued expenses	1,321,544	1,392,215
Provider relief funds	(6,263,821)	5,713,821
Medicare accelerated payments	(3,211,204)	13,725,484
Estimated third-party payor settlements	2,659,832	(1,275,269)
Other current liabilities	113,498	274,305
Net cash (used) provided by operating activities	<u>(365,216)</u>	<u>26,365,378</u>
Cash flows from investing activities		
Purchases of property and equipment	(2,805,442)	(2,518,669)
Proceeds from sale of property and equipment	589,315	-
Purchases of investments	(816,763)	(31,583,326)
Proceeds from sales of investments	563,746	31,265,395
(Increase) decrease in other long-term assets	(75,000)	100,000
Decrease in accounts payable for purchases of property and equipment	-	(113,426)
Net cash used by investing activities	<u>(2,544,144)</u>	<u>(2,850,026)</u>
Cash flows from financing activities		
Payments on long-term debt	(785,383)	(577,489)
Payments on capital lease obligations	(455,281)	-
Net cash used by financing activities	<u>(1,240,664)</u>	<u>(577,489)</u>
Net (decrease) increase in cash, cash equivalents and restricted cash	(4,150,024)	22,937,863
Cash, cash equivalents and restricted cash, beginning of year	<u>29,103,692</u>	<u>6,165,829</u>
Cash, cash equivalents and restricted cash, end of year	<u>\$ 24,953,668</u>	<u>\$ 29,103,692</u>
Composition of cash, cash equivalents and restricted cash, end of year:		
Cash and cash equivalents	\$ 24,574,811	\$ 28,733,062
Restricted cash included in assets whose use is limited	378,857	370,630
	<u>\$ 24,953,668</u>	<u>\$ 29,103,692</u>
Supplemental disclosures of cash flow information		
Cash paid for interest	\$ 217,586	\$ 231,981
Purchases of equipment through capital leases	<u>\$ 3,121,724</u>	<u>\$ -</u>

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

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2021 and 2020

Organization

Northeastern Vermont Regional Hospital, Inc. (Hospital) is a Critical Access Hospital located in St. Johnsbury, Vermont. 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.

Newly Adopted Accounting Pronouncements

In 2021, the Hospital adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and related guidance, which supersedes accounting standards that previously existed under U.S. GAAP and provides a single revenue model to address revenue recognition to be applied by all companies. Under the new standard, companies recognize revenue when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services. ASU No. 2014-09 also requires companies to disclose additional information, including the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Hospital adopted this ASU for the year ended September 30, 2021 and elected the modified retrospective method; therefore, the financial statements and related notes have been presented accordingly.

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.

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2021 and 2020

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.

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 FASB Accounting Standards Codification Topic (ASC) 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 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.

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2021 and 2020

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 \$332,917 and \$215,417 accumulated amortization in 2021 and 2020, 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 capital 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 \$817,000 and \$874,000 as of September 30, 2021 and 2020, 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 \$1,870,847 and \$1,771,252 for the years ended September 30, 2021 and 2020, 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 \$1,910,009 and \$1,463,430 as of September 30, 2021 and 2020, respectively.

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2021 and 2020

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. The Hospital received \$13,725,484 in April 2020. During 2021, CMS began recouping payment from claim payments, one year after the advance was made for a period of seventeen months.

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 related expenses or lost revenues that are attributable to COVID-19. During 2020, the Hospital received \$6,805,012 of HHS Provider Relief Funds (Funds) and attested to the receipt of the Funds and agreement with the associated terms and conditions. The Hospital has chosen to follow the conditional contribution model for the Funds. For the years ended September 30, 2021 and 2020, the Hospital has recognized \$5,602,856 and \$1,004,310, respectively, in other revenues in the statements of operations. Management determined the conditions on which the Funds depend were substantially met, with the exception of \$197,846 which was returned. Management believes the position taken is a reasonable interpretation of the rules currently available. Due to the complexity of the reporting requirements and the continued issuance of clarifying guidance, it is possible the amount of income recognized related to the lost revenues and COVID-related costs may change by a material amount. Any difference between amounts previously estimated and amounts subsequently determined to be recoverable or payable will be included in income in the year that such amounts become known.

In November and December 2021, HHS released additional Funds and American Rescue Plan Rural Payments to providers who serve rural Medicaid and Medicare beneficiaries. The Hospital received approximately \$2,393,000.

Net Patient Service Revenue and Patient Accounts Receivable

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

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2021 and 2020

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.

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2021 and 2020

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 by the Medicare fiscal intermediary through September 30, 2016. Revenues from the Medicare program accounted for approximately 33% of the Hospital's net patient revenue for the years ended September 30, 2021 and 2020.

Medicaid

Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors, and are not subject to retroactive adjustment. The Hospital's Medicaid cost reports have been audited by the fiscal intermediary through September 30, 2015. Revenues from the Medicaid program accounted for approximately 14% and 13% of the Hospital's net patient revenue for the years ended September 30, 2021 and 2020, respectively.

Effective January 1, 2019, the Hospital started participating in the State of Vermont's alternative payment model (all-payor system). Under this model, the Hospital entered into a risk-bearing agreement with OneCare Vermont, LLC for the Vermont Medicaid attributed lives in the Hospital's service area. This is a capitated-based payment agreement with pre-established risk corridors.

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.

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2021 and 2020

Settlements with third-party payors for retroactive revenue adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Hospital's historical settlement activity, including a determination it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from changes in transaction price in 2021 and 2020 increased net patient service revenue by approximately \$594,700 and \$634,600, respectively.

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 Organization estimates the costs associated with providing charity care by calculating a ratio of total cost to total gross charges, and then multiplying that ratio by the gross uncompensated charges associated with providing care to patients eligible for free care. The estimated cost of caring for charity care patients was approximately \$847,000 and \$1,430,000 for 2021 and 2020, 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.

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2021 and 2020

For the years ended September 30, 2021 and 2020, 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 December 22, 2021, which was the date the financial statements were available to be issued.

2. Availability and Liquidity of Financial Assets

As of September 30, 2021 and 2020, the Hospital has working capital of \$6,664,706 and \$16,077,026, respectively, and average days (based on normal expenditures) cash and cash equivalents on hand of 92 and 118, respectively. On average, it takes the hospital 35 days to convert an account receivable account into cash based on 2021 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:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents, net of restricted amounts	\$ 24,478,074	\$ 22,374,086
Patient accounts receivable, net	9,167,011	8,715,262
Other receivables	<u>1,794,278</u>	<u>1,372,756</u>
Financial assets available at year end for current use	\$ <u>35,439,363</u>	\$ <u>32,462,104</u>

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 U.S. government securities.

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2021 and 2020

Additionally, the Hospital maintains a \$2,000,000 line of credit. The Hospital did not draw on the line of credit during 2021 and 2020.

3. Net Patient Service Revenue

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

	<u>2021</u>	<u>2020</u>
Gross patient service revenue	\$ <u>190,985,738</u>	\$ <u>169,222,081</u>
Less contractual allowances	<u>97,938,578</u>	78,252,456
Less charity care	<u>1,639,213</u>	<u>2,623,396</u>
	<u>99,577,791</u>	<u>80,875,852</u>
Patient service revenue (net of contractual allowances and discounts)	<u>91,407,947</u>	88,346,229
Less provision for bad debts	<u>-</u>	<u>2,570,476</u>
Net patient service revenue	<u>\$ 91,407,947</u>	<u>\$ 85,775,753</u>

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.

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2021 and 2020

As disclosed in Note 1 to these financial statements, the Hospital adopted ASU No. 2014-09 and related guidance for the year ended September 30, 2021, electing to use the modified retrospective method. Accordingly, amounts in the comparative period have not been restated and continue to be reported under the accounting standards in effect for that year. The impact of adoption on the statement of operations for the year ended September 30, 2021 follows:

	<u>As Reported</u>	Balance Without ASC 606 Adoption	<u>Effect of Change</u>
Net patient service revenue before provision for bad debts		\$ 94,792,046	
Less: Provision for bad debts		<u>3,384,099</u>	
Net patient service revenue	\$ <u>91,407,947</u>	\$ <u>91,407,947</u>	\$ <u>-</u>

Net patient service revenue recognized for the years ended September 30, 2021 and 2020 by payor is as follows:

	<u>2021</u>	<u>2020</u>
Medicare and Medicaid	\$ 42,450,618	\$ 38,898,372
Commercial	46,205,189	44,308,052
Self-pay	<u>2,752,140</u>	<u>2,569,329</u>
Total	\$ <u>91,407,947</u>	\$ <u>85,775,753</u>

4. Assets Limited as to Use

The composition of assets limited as to use as of September 30, 2021 and 2020 is set forth in the following table. Investments are stated at fair value.

	<u>2021</u>	<u>2020</u>
Restricted or internally designated for capital acquisitions		
Cash and short-term investments	\$ 427,555	\$ 645,488
Restricted cash and short-term investments	238,526	237,907
Mutual funds	5,563,325	5,220,758
Equities	<u>13,277,266</u>	<u>10,286,779</u>
	<u>19,506,672</u>	<u>16,390,932</u>
Internally designated to fund depreciation		
Cash and short-term investments	156,434	156,450
Mutual funds	1,746,183	1,410,521
Equities	<u>3,018,894</u>	<u>2,464,958</u>
	<u>4,921,511</u>	<u>4,031,929</u>
Restricted by donor for other purposes – cash and short-term investments	<u>378,857</u>	<u>370,630</u>
	\$ <u>24,807,040</u>	\$ <u>20,793,491</u>

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2021 and 2020

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

	<u>2021</u>	<u>2020</u>
Income without donor restriction		
Interest and dividend income	\$ 436,753	\$ 478,795
Unrealized and realized gains	3,752,305	1,587,251
Investment management fees	<u>(59,942)</u>	<u>(60,251)</u>
	<u>\$ 4,129,116</u>	<u>\$ 2,005,795</u>
Changes in net assets with donor restriction		
Investment income	<u>\$ 7,722</u>	<u>\$ 7,265</u>

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

	<u>2021</u>	<u>2020</u>
Other revenues	\$ 200,966	\$ 188,695
Nonoperating gains	<u>3,928,150</u>	<u>1,817,100</u>
	<u>\$ 4,129,116</u>	<u>\$ 2,005,795</u>

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.

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2021 and 2020

Assets measured at fair value on a recurring basis are summarized below:

	<u>Fair Value Measurements at September 30, 2021:</u>		
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Assets:			
Cash and cash equivalents	\$ 1,201,372	\$ 1,201,372	\$ -
Mutual funds	7,309,508	7,309,508	-
Equities	<u>16,296,160</u>	<u>16,296,160</u>	<u>-</u>
Total assets limited as to use	24,807,040	24,807,040	-
Beneficial interest in net assets of Parent	1,512,075	-	1,512,075
Investments to fund deferred compensation			
Mutual funds	<u>1,910,009</u>	<u>1,910,009</u>	<u>-</u>
Total assets	<u>\$ 28,229,124</u>	<u>\$ 26,717,049</u>	<u>\$ 1,512,075</u>

	<u>Fair Value Measurements at September 30, 2020:</u>		
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
Assets:			
Cash and cash equivalents	\$ 1,410,475	\$ 1,410,475	\$ -
Mutual funds	6,631,279	6,631,279	-
Equities	<u>12,751,737</u>	<u>12,751,737</u>	<u>-</u>
Total assets limited as to use	20,793,491	20,793,491	-
Beneficial interest in net assets of Parent	1,143,726	-	1,143,726
Investments to fund deferred compensation			
Mutual funds	<u>1,463,430</u>	<u>1,463,430</u>	<u>-</u>
Total assets	<u>\$ 23,400,647</u>	<u>\$ 22,256,921</u>	<u>\$ 1,143,726</u>

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2021 and 2020

6. Property and Equipment

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

	<u>2021</u>	<u>2020</u>
Land and land improvements	\$ 1,698,055	\$ 1,698,055
Buildings and improvements	34,632,272	34,446,488
Fixed equipment	1,974,457	2,324,457
Major moveable equipment	<u>36,900,836</u>	<u>31,185,620</u>
	75,205,620	69,654,620
Less accumulated depreciation	<u>50,715,348</u>	<u>47,443,450</u>
	24,490,272	22,211,170
Construction in progress	<u>270,669</u>	<u>244,502</u>
Property and equipment, net	<u>\$ 24,760,941</u>	<u>\$ 22,455,672</u>

7. Borrowings

Long-Term Debt

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

	<u>2021</u>	<u>2020</u>
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 \$807,584 to \$963,011 in 2030.	\$ 8,729,988	\$ 9,515,372
Unamortized deferred issuance costs	<u>(122,617)</u>	<u>(135,413)</u>
Total long-term debt	8,607,371	9,379,959
Less current portion	<u>(807,584)</u>	<u>(796,909)</u>
Long-term debt, excluding current portion	<u>\$ 7,799,787</u>	<u>\$ 8,583,050</u>

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, 2021.

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2021 and 2020

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

<u>Fiscal</u> <u>Year Ending</u>	
2022 (included in current liabilities)	\$ 807,584
2023	825,778
2024	843,978
2025	863,396
2026	882,849
Thereafter	<u>4,506,403</u>
	<u>\$ 8,729,988</u>

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, 2021 and 2020 was \$69,305 and \$56,509, respectively.

Capital Leases

In 2021, the Hospital entered into noncancelable capital leases in the amount of \$3,121,724 for various pieces of equipment. The leases bear an interest rate of 2.78% and expiration dates range from July 2022 through December 2025.

The following is a schedule by years of future minimum payments required under the leases, together with their present value, as of September 30, 2021:

2022	\$ 967,244
2023	930,327
2024	667,959
2025	143,221
2026	<u>35,805</u>
Total minimum lease payments	2,744,556
Less interest at 2.78%	<u>78,113</u>
Present value of minimum lease payments	<u>\$ 2,666,443</u>

Amortization of assets under the capital lease obligations is included in depreciation and amortization expense.

Line of Credit

The Hospital has available \$2,000,000 in an unsecured line of credit with a bank with interest at the Wall Street Journal prime rate adjusted monthly (3.25% at September 30, 2021). The line expires December 31, 2021. As of September 30, 2021 and 2020, there was no balance outstanding on the line.

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2021 and 2020

8. Net Assets with Donor Restriction

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

	<u>2021</u>	<u>2020</u>
Plant replacement, included in assets limited as to use	\$ 238,526	\$ 237,907
Special purpose, included in cash and cash equivalents	245,454	239,933
Beneficial interest in net assets of Parent	<u>1,162,075</u>	<u>793,726</u>
	<u>\$ 1,646,055</u>	<u>\$ 1,271,566</u>

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

	<u>2021</u>	<u>2020</u>
Investments to be held in perpetuity, included in cash and cash equivalents	\$ 96,737	\$ 95,155
Beneficial interest in net assets of Parent	<u>350,000</u>	<u>350,000</u>
	<u>\$ 446,737</u>	<u>\$ 445,155</u>

9. Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of who 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:

	<u>2021</u>	<u>2020</u>
Medicare	19 %	29 %
Medicaid	12	16
Blue Cross	14	7
Commercial	32	27
Self pay	<u>23</u>	<u>21</u>
	<u>100 %</u>	<u>100 %</u>

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.

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2021 and 2020

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. The Hospital has evaluated its exposure to losses arising from potential claims and determined that no such accrual is necessary for the years ended 2021 and 2020. 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, 2021 which, in the opinion of management, will be settled for amounts in excess of insurance coverage.

Operating Leases

The Hospital leases equipment under operating leases that expire in September 2026. Total rental expense for the years ended September 30, 2021 and 2020 was approximately \$992,668 and \$936,592, respectively.

The following is a schedule by year of future minimum lease payments under operating leases as of September 30, 2021 that have initial or remaining lease terms in excess of one year.

Year ending September 30,	
2022	\$ 894,838
2023	729,180
2024	716,888
2025	512,370
2026	<u>328,985</u>
	<u>\$ 3,182,261</u>

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 \$218,544 per annum.

NORTHEASTERN VERMONT REGIONAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2021 and 2020

As of September 30, 2021 and 2020, the total amounts due from NVRC, which arose in part from these transactions, were \$4,016,435 and \$3,616,024, respectively. No fixed repayment terms have been established. 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:

<u>2021</u>	<u>Healthcare Service</u>	<u>Administrative Support</u>	<u>Total</u>
Salaries and benefits	\$ 53,005,077	\$ 6,975,405	\$ 59,980,482
Supplies and other	30,300,792	5,220,664	35,521,456
Insurance	1,068,648	186,167	1,254,815
Depreciation	2,046,884	1,342,513	3,389,397
Interest	<u>154,492</u>	<u>101,328</u>	<u>255,820</u>
	<u>\$ 86,575,893</u>	<u>\$ 13,826,077</u>	<u>\$ 100,401,970</u>
<u>2020</u>	<u>Healthcare Service</u>	<u>Administrative Support</u>	<u>Total</u>
Salaries and benefits	\$ 48,367,190	\$ 6,815,727	\$ 55,182,917
Supplies and other	27,000,163	4,615,882	31,616,045
Insurance	1,847,553	158,509	2,006,062
Depreciation	1,881,023	1,315,654	3,196,677
Interest	<u>136,505</u>	<u>95,476</u>	<u>231,981</u>
	<u>\$ 79,232,434</u>	<u>\$ 13,001,248</u>	<u>\$ 92,233,682</u>