



Northwestern Medical Center, Inc. and Subsidiaries

CONSOLIDATED FINANCIAL STATEMENTS
with
SUPPLEMENTARY INFORMATION

September 30, 2021 and 2020
With Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT

Board of Directors
Northwestern Medical Center, Inc. and Subsidiaries

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

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Northwestern Medical Center, Inc. and Subsidiaries as of September 30, 2021 and 2020, and the results of their operations, changes in their net assets and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matters

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, in 2021, Northwestern Medical Center, Inc. and Subsidiaries adopted Financial Accounting Standards Board Accounting Standards Update No. 2014-09, *Revenues from Contracts with Customers*, and related guidance. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information contained in Schedule 1 is presented for purposes of additional analysis, rather than to present the financial position of the individual entities, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Berry Dunn McNeil & Parker, LLC

Manchester, New Hampshire
January 6, 2022
Registration No. 92-0000278

**NORTHWESTERN MEDICAL CENTER, INC.
AND SUBSIDIARIES**

Consolidated Balance Sheets

September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 26,020,000	\$ 30,569,535
Patient accounts receivable, net	9,042,305	9,908,593
Contributions receivable, net	-	179,155
Short-term investments	9,983,728	8,002,895
Other current assets	<u>4,081,704</u>	<u>13,228,178</u>
Total current assets	49,127,737	61,888,356
Assets limited as to use	9,218,423	24,993,359
Investments	52,094,910	29,063,665
Property and equipment, net	69,585,327	71,558,921
Other long-term assets	<u>151,222</u>	<u>142,054</u>
Total assets	<u>\$ 180,177,619</u>	<u>\$ 187,646,355</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 4,343,284	\$ 3,533,382
Salaries, wages and payroll taxes	4,684,425	4,357,717
Other accrued expenses	517,839	9,992,212
U.S. Department of Health and Human Services (HHS) deferred stimulus revenue	-	3,653,507
Third-party accelerated payments	154,261	5,875,196
Estimated third-party settlements, net	1,986,913	6,145,746
Current portion of long-term debt	<u>1,700,032</u>	<u>1,648,008</u>
Total current liabilities	13,386,754	35,205,768
Deferred compensation	4,684,496	3,724,033
Long-term debt, net of current portion and unamortized bond issuance costs	28,046,911	29,738,139
Interest rate swaps	<u>1,319,919</u>	<u>2,455,542</u>
Total liabilities	<u>47,438,080</u>	<u>71,123,482</u>
Net assets		
Without donor restrictions	129,041,863	112,887,254
With donor restrictions	<u>3,697,676</u>	<u>3,635,619</u>
Total net assets	<u>132,739,539</u>	<u>116,522,873</u>
Total liabilities and net assets	<u>\$ 180,177,619</u>	<u>\$ 187,646,355</u>

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

**NORTHWESTERN MEDICAL CENTER, INC.
AND SUBSIDIARIES**

Consolidated Statements of Operations

Years Ended September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Revenues, gains, and other support without donor restrictions		
Patient service revenue (net of contractual allowances and discounts)	\$ 97,727,310	\$ 85,083,765
Less provision for bad debts	<u>-</u>	<u>8,153,915</u>
Net patient service revenue	97,727,310	76,929,850
Other operating revenue	4,638,406	3,403,713
HHS stimulus revenue	4,023,054	14,191,882
Fixed prospective revenue	20,157,746	20,352,953
Net assets released from restriction used for operations	<u>2,404,649</u>	<u>3,433,699</u>
Total revenues, gains and other support without donor restrictions	<u>128,951,165</u>	<u>118,312,097</u>
Expenses		
Salaries and wages	55,004,260	55,317,275
Employee benefits	12,093,841	14,013,937
Supplies	14,219,293	11,635,429
Contracted services	18,884,665	17,234,453
Depreciation	6,098,074	5,808,281
Travelers' expense	4,046,484	2,754,103
Health care improvement tax	6,152,744	6,361,131
Other operating	5,600,042	5,617,736
Interest	<u>738,866</u>	<u>764,150</u>
Total expenses	<u>122,838,269</u>	<u>119,506,495</u>
Income (loss) from operations	<u>6,112,896</u>	<u>(1,194,398)</u>
Nonoperating gains (losses)		
Net investment income (loss)	9,288,054	(373,749)
Unrealized gains (losses) on interest rate swaps	1,135,623	(1,143,129)
Unrealized (losses) gains on investments	(734,537)	919,242
Other	<u>352,573</u>	<u>419,931</u>
Nonoperating gains (losses), net	<u>10,041,713</u>	<u>(177,705)</u>
Excess (deficiency) of revenues, gains and other support over expenses and losses, and change in net assets without donor restrictions	<u>\$ 16,154,609</u>	<u>\$ (1,372,103)</u>

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

**NORTHWESTERN MEDICAL CENTER, INC.
AND SUBSIDIARIES**

Consolidated Statements of Changes in Net Assets

Years Ended September 30, 2021 and 2020

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Balances, October 1, 2019	\$ <u>114,259,357</u>	\$ <u>4,654,653</u>	\$ <u>118,914,010</u>
Deficiency of revenues, gains and other support over expenses and losses	(1,372,103)	-	(1,372,103)
Contributions	-	2,424,305	2,424,305
Depreciation in beneficial interest in perpetual trusts	-	(2,525)	(2,525)
Net investment loss	-	(7,115)	(7,115)
Net assets released from restriction used for operations	<u>-</u>	<u>(3,433,699)</u>	<u>(3,433,699)</u>
Change in net assets	<u>(1,372,103)</u>	<u>(1,019,034)</u>	<u>(2,391,137)</u>
Balances, September 30, 2020	<u>112,887,254</u>	<u>3,635,619</u>	<u>116,522,873</u>
Excess of revenues, gains and other support over expenses and losses	16,154,609	-	16,154,609
Contributions	-	2,405,121	2,405,121
Appreciation in beneficial interest in perpetual trusts	-	192,824	192,824
Net investment loss	-	(131,239)	(131,239)
Net assets released from restriction used for operations	<u>-</u>	<u>(2,404,649)</u>	<u>(2,404,649)</u>
Change in net assets	<u>16,154,609</u>	<u>62,057</u>	<u>16,216,666</u>
Balances, September 30, 2021	<u>\$ 129,041,863</u>	<u>\$ 3,697,676</u>	<u>\$ 132,739,539</u>

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

**NORTHWESTERN MEDICAL CENTER, INC.
AND SUBSIDIARIES**

Consolidated Statements of Cash Flows

Years Ended September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Change in net assets	\$ 16,216,666	\$ (2,391,137)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	6,109,869	5,820,076
Provision for bad debts	-	8,153,915
Gain on sale of property and equipment	(185,870)	(22,500)
Net realized and unrealized (gains) losses on investments	(7,681,256)	656,027
Net change in beneficial interest in perpetual trusts	(192,824)	2,525
Unrealized (gains) losses on interest rate swaps	(1,135,623)	1,143,129
Increase in		
Patient accounts receivable, net	866,288	(7,858,757)
Contributions receivable	179,155	-
Other assets	9,137,306	(3,259,502)
(Decrease) increase in		
Accounts payable and accrued expenses	(6,696,635)	4,310,617
HHS stimulus deferred revenue	(3,653,507)	3,653,507
Third-party accelerated payments	(5,720,935)	5,875,196
Estimated third-party settlements	(4,158,833)	3,907,771
Net cash provided by operating activities	<u>3,083,801</u>	<u>19,990,867</u>
Cash flows from investing activities		
Purchase of property and equipment	(5,659,283)	(6,839,910)
Net proceeds from sale of property and equipment	79,545	22,500
Purchase of investments	(11,582,166)	(967,220)
Proceeds from sale of investments	<u>11,179,567</u>	<u>12,472,469</u>
Net cash (used) provided by investing activities	<u>(5,982,337)</u>	<u>4,687,839</u>
Cash flows from financing activities		
Contributions received for long-term purposes	-	90,315
Principal payments on long-term debt	(1,650,999)	(1,536,622)
Net cash used by financing activities	<u>(1,650,999)</u>	<u>(1,446,307)</u>
Net (decrease) increase in cash and cash equivalents	<u>(4,549,535)</u>	23,232,399
Cash and cash equivalents, beginning of year	<u>30,569,535</u>	<u>7,337,136</u>
Cash and cash equivalents, end of year	<u>\$ 26,020,000</u>	<u>\$ 30,569,535</u>
Supplemental disclosures of cash flow information		
Cash paid for interest	<u>\$ 724,524</u>	<u>\$ 752,355</u>
Acquisition of property and equipment with issuance of a capital lease	<u>\$ -</u>	<u>\$ 1,641,128</u>

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

**NORTHWESTERN MEDICAL CENTER, INC.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

September 30, 2021 and 2020

Organization

Northwestern Medical Center, Inc. (Hospital or NMC) is a 70-bed, not-for-profit hospital in St. Albans, Vermont. The Hospital is the sole-owning member of Northwestern Occupational Health, LLC (NOH), a for-profit entity that provides medical rehabilitative and urgent care services. In April 2018, NOH's operations were transferred to NMC. As a result, there was minimal activity related to NOH in the 2021 and 2020 statement of operations. NOH anticipates transferring all assets and liabilities to the Hospital in 2022. The consolidated financial statements also include the accounts of the Northwestern Medical Center Auxiliary, Inc. (Auxiliary) which is organized specifically for the promotion and support of the Hospital. The Hospital is the sole-owning member of the Auxiliary. Auxiliary volunteers provide the Hospital approximately 10,200 hours of support annually, as well as financial support.

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

1. Summary of Significant Accounting Policies

Newly Adopted Accounting Pronouncement

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. generally accepted accounting principles (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. This ASU was adopted by the Hospital during the year ended September 30, 2021 and elected the modified retrospective method; therefore, the consolidated financial statements and related notes have been presented accordingly.

Principles of Consolidation

The consolidated financial statements include the accounts of the Hospital and its subsidiaries, NOH and Auxiliary (collectively, Organization). All significant intercompany transactions have been eliminated in consolidation.

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Notes to Consolidated Financial Statements

September 30, 2021 and 2020

Basis of Presentation

Net assets and revenues, expenses, and gains are classified based on the existence or absence of donor-imposed restrictions in accordance with FASB Accounting Standards Codification (ASC) Topic 958, *Not-For-Profit Entities*, as described below. Under FASB ASC Topic 958 and FASB ASC Topic 954, *Health Care Entities*, all not-for-profit healthcare organizations are required to provide a balance sheet, a statement of operations, a statement of changes in net assets, and a statement of cash flows. FASB ASC Topic 954 requires reporting amounts for an organization's total assets, liabilities, and net assets in a balance sheet; reporting the change in an organization's net assets in statements of operations and changes in net assets; and reporting the change in its cash and cash equivalents in a statement of cash flows.

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

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

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the consolidated statements of operations and changes in net assets.

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

**NORTHWESTERN MEDICAL CENTER, INC.
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Revenue Recognition and Accounts Receivable

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

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

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

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

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discounts based on contractual agreements, its discount policies, and historical experience. The Hospital determines its estimate of implicit price concessions based on its historical collection experience with this class of patients and records these as a direct reduction to net patient service revenue. Management continually reviews the contractual estimation process to consider and incorporate updates to laws and regulations and changes in commercial contractual terms resulting from contract negotiations and renewals.

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

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

Medicare

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

Outpatient services rendered to Medicare program beneficiaries are paid at prospectively-determined rates. These rates vary according to an ambulatory payment classification system that is based on clinical, diagnostic, and other factors. Final settlements have been determined for all years through September 30, 2017.

Medicaid

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

Blue Cross and Commercial

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

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

Revenue from the Medicare and Medicaid programs accounted for approximately 25% and 9%, respectively, of the Hospital's patient revenue (net of contractual allowances and discounts) for the year ended 2021, and 30% and 8%, respectively, of the Hospital's patient revenue (net of contractual allowances and discounts) for the year ended 2020.

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

Settlements with third-party payors for retroactive revenue adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Hospital's historical settlement activity, including a determination it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from changes in transaction price in 2021 and 2020 increased net patient service revenue by approximately \$4,600,000 and \$2,600,000, 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 criteria for charity care consider family income, net worth, and extent of financial obligations, including healthcare costs.

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The net cost of charity care provided was \$1,158,843 in 2021 and \$702,205 in 2020. The total cost estimate is based on the Hospital's cost accounting system. The cost accounting system derives a cost estimate by allocating expense at a detail charge level.

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

Some examples of healthcare related programs are described below:

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

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Hospital also provides services to uninsured patients and offers those uninsured patients a discount, either by policy or law, from standard charges. The Hospital estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions based on historical collection experience. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense for the years ended September 30, 2021 and 2020 was not significant.

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

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

For the years ended September 30, 2021 and 2020, the Hospital determined revenue recognized from goods and services that transfer to the customer at a point in time is not material to the consolidated financial statements.

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

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

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

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

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

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

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

Employee Fringe Benefits

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

Property and Equipment

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

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

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

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

The CARES Act provided funds to eligible healthcare providers to prevent, prepare for and respond to the Coronavirus Disease (COVID-19). The funds were appropriated to reimburse healthcare providers for healthcare related expenses or lost revenues that are attributable to COVID-19. The CARES Act provides the U.S. Department of Health and Human Services (HHS) with discretion to operate the program and determine the reporting requirements. During 2020, the Hospital received \$12,200,000 of HHS Provider Relief Stimulus 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. At September 30, 2021 and 2020, the Hospital recognized \$3,653,507 and \$8,546,493, respectively, of the Funds in other

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operating revenue in the consolidated statements of operations. Management believes the conditions on which the Funds depend were substantially met. Management believes the position taken is a reasonable interpretation of the rules currently available. Due to the complexity of the reporting requirements and the continued issuance of clarifying guidance, there is at least a reasonable possibility the amount of income recognized related to the lost revenues and qualifying expenses may change by a material amount. Any difference between amounts previously estimated and amounts subsequently determined to be recoverable or payable will be included in income in the year that such amounts become known.

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

Interest Rate Swaps

The Hospital uses interest rate swap contracts to mitigate the cash flow exposure of interest rate movements on variable-rate debt. The Hospital has adopted FASB ASC Topic 815, *Derivatives and Hedging*, to account for its interest rate swap contracts. The interest rate swaps do not qualify as cash flow hedges. Gains and losses on derivative financial instruments that do not qualify as hedges are required to be included in the performance indicator. As a result, the unrealized gains and losses on the interest rate swaps for 2021 and 2020, respectively, have been included in the excess (deficiency) of revenues, gains, and other support over expenses and losses.

Nonoperating Gains (Losses)

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

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

The consolidated statement of operations includes excess (deficiency) of revenues, gains and other support over expenses and losses. Changes in net assets without donor restrictions which are excluded from this measure, consistent with industry practice, include permanent transfers of assets and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

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Donor-Restricted Gifts

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

Subsequent Events

For purposes of the preparation of these consolidated financial statements in conformity with U.S. GAAP, the Organization has considered transactions of events occurring through January 6, 2022, the date the consolidated financial statements were available for issuance.

On January 1, 2022, the Organization transitioned ownership of their St. Albans and Enosburg pediatric offices to Primary Care Health Partners.

2. Availability and Liquidity of Financial Assets

The Organization maintains a general operating account that has average days (based on normal expenditures) cash and cash equivalents on hand of 81 and 98 at September 30, 2021 and 2020, respectively. In addition, the Organization has working capital of \$35,740,983 and \$26,682,588 at September 30, 2021 and 2020, respectively.

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	\$ 26,020,000	\$ 30,569,535
Patient accounts receivable, net	9,042,305	9,908,593
Other receivables	820,393	9,880,288
Investments	<u>62,078,638</u>	<u>37,066,560</u>
Financial assets available at year end for current use	\$ <u>97,961,336</u>	\$ <u>87,424,976</u>

At September 30, 2020, cash and cash equivalents included \$5,875,196 specifically related to third-party accelerated payments. At September 30, 2020, average days cash and cash equivalents on hand, excluding the third-party accelerated payments and HHS stimulus funds, was 68.

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The Organization has short-term and long-term investments which are available for general expenditure within one year in the normal course of operations with Board approval. Accordingly, these assets have been included in the quantitative information above. The Organization also has assets limited as to use that are designated for future capital acquisition of \$849,782 and \$17,632,862 as of September 30, 2021 and 2020, respectively, which are more fully described in Note 5, that have not been included in the quantitative information above. These assets limited as to use are not available for general expenditure within the next year; however, the amounts could be made available if necessary.

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

3. Net Patient Service Revenue

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

	<u>2021</u>	<u>2020</u>
Gross patient service revenue		
Inpatient services	\$ 43,399,341	\$ 41,491,811
Outpatient services	<u>195,655,850</u>	<u>151,662,040</u>
	239,055,191	193,153,851
Less contractual allowances and discounts	<u>141,327,881</u>	<u>108,070,086</u>
	97,727,310	85,083,765
Less provision for bad debts	<u>-</u>	<u>(8,153,915)</u>
	\$ 97,727,310	\$ 76,929,850

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.

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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.

As disclosed in Note 1 to these consolidated 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 consolidated statement of operations for the year ended September 30, 2021 follows:

	<u>As Reported</u>	<u>Balance Without ASC 606 Adoption</u>	<u>Effect of Change</u>
Net patient service revenue before provision for bad debts		\$ 104,988,885	
Less: Provision for bad debts		<u>7,261,575</u>	
Net patient service revenue	\$ <u>97,727,310</u>	\$ <u>97,727,310</u>	\$ <u> -</u>

Net patient service revenue recognized for the years ended September 30, 2021 and 2020 from these major payors is as follows:

	<u>2021</u>	<u>2020</u>
Medicare and Medicaid	\$ 33,242,329	\$ 29,605,957
Commercial and other	63,223,222	46,177,463
Self-pay	<u>1,261,759</u>	<u>1,146,430</u>
Total	\$ <u>97,727,310</u>	\$ <u>76,929,850</u>

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4. Property and Equipment

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

	<u>2021</u>	<u>2020</u>
Land	\$ 1,020,532	\$ 1,020,529
Land improvements	3,891,198	3,887,009
Buildings	88,679,447	83,731,081
Major moveable equipment	<u>49,091,913</u>	<u>44,195,421</u>
	142,683,090	132,834,040
Less accumulated depreciation	<u>74,419,950</u>	<u>68,688,940</u>
	68,263,140	64,145,100
Construction-in-progress	<u>1,322,187</u>	<u>7,413,821</u>
	\$ <u>69,585,327</u>	\$ <u>71,558,921</u>

5. Assets Limited as to Use and Investments

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

	<u>2021</u>	<u>2020</u>
Assets Limited as to Use		
Internally designated for capital acquisition		
Cash equivalents	\$ 50,195	\$ 13,935
Equities	-	7,662,018
Fixed income	-	7,682,460
Alternative investment – hedge funds	<u>799,587</u>	<u>2,274,449</u>
	<u>849,782</u>	<u>17,632,862</u>
Donor-restricted		
Cash equivalents	1,825,625	1,842,991
Equities	457,689	301,737
Fixed income	268,600	372,329
Beneficial interest in perpetual trusts	<u>1,132,231</u>	<u>939,407</u>
	<u>3,684,145</u>	<u>3,456,464</u>
Held by bank as collateral on property		
Cash equivalents	-	<u>180,000</u>
Other investments		
Deferred compensation	<u>4,684,496</u>	<u>3,724,033</u>
	\$ <u>9,218,423</u>	\$ <u>24,993,359</u>

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Investments

Cash equivalents	\$ 5,975,046	\$ 1,811,823
Certificates of deposit with maturity dates exceeding twelve months	202,254	154,857
Fixed income	15,177,324	16,969,484
Equities	39,524,633	13,828,682
Alternative investment – hedge funds	<u>1,199,381</u>	<u>4,301,714</u>
 Total	 62,078,638	 37,066,560
 Less short-term investments	 <u>9,983,728</u>	 <u>8,002,895</u>
 Long-term investments	 <u>\$ 52,094,910</u>	 <u>\$ 29,063,665</u>

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

	<u>2021</u>	<u>2020</u>
Interest and dividend income, net of fees	\$ 872,261	\$ 1,201,520
Realized gains (losses), net	<u>8,415,793</u>	<u>(1,575,269)</u>
	9,288,054	(373,749)
Unrealized (losses) gains, net	<u>(734,537)</u>	<u>919,242</u>
	<u>\$ 8,553,517</u>	<u>\$ 545,493</u>

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

6. Beneficial Interest in Perpetual Trusts

The Hospital is the beneficiary of various trusts for which it is not the trustee, consisting of \$1,132,231 and \$939,407 in irrevocable perpetual trusts at September 30, 2021 and 2020, respectively. The Hospital has reflected as assets in the consolidated balance sheets, included in donor-restricted assets limited as to use, its share of the fair value of the underlying investments in the trusts. Receipts of income are included as investment income without donor restrictions when received. Receipts from the trusts were approximately \$26,400 and \$25,600 for the years ended September 30, 2021 and 2020, respectively, and were recorded in net investment (loss) income.

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7. Borrowings

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

	<u>2021</u>	<u>2020</u>
Vermont Educational and Health Building Finance Agency Hospital Revenue Bonds 2016 Series A, currently held by People's United Bank, interest, at a variable rate based on 75% of the one-month London Inter-bank Offered Rate (LIBOR) plus 0.71% (0.77% at September 30, 2021), plus principal are paid monthly; due through June 1, 2036; collateralized by substantially all of the Hospital's assets	\$ 28,349,023	\$ 29,915,439
Capital lease payable, with interest at 3.0%, due in monthly installments of \$11,333, including interest, through 2035	<u>1,571,901</u>	<u>1,656,484</u>
	29,920,924	31,571,923
Less: unamortized bond issuance costs	173,981	185,776
Less: current portion	<u>1,700,032</u>	<u>1,648,008</u>
Long-term debt, net of current portion and unamortized bond issuance costs	<u>\$ 28,046,911</u>	<u>\$ 29,738,139</u>

Maturities on long-term debt, before unamortized debt issuance costs, for fiscal years subsequent to September 30, 2021 are as follows:

2022	\$ 1,700,032
2023	1,740,026
2024	1,784,338
2025	1,831,966
2026	1,878,720
Thereafter	<u>20,985,842</u>
	<u>\$ 29,920,924</u>

The 2016A bond issue requires the Hospital to meet certain covenants. As of September 30, 2021, the Hospital was in compliance with those covenants.

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Interest Rate Swaps

The Hospital has entered into three swap agreements. During 2021 and 2020, the interest rate swap agreements did not qualify for hedge accounting.

The Hospital is required to include the fair value of the swaps in the balance sheet, and annual changes, if any, in the fair value of the swaps in the statement of operations. For example, during the Bonds' holding period, the annually calculated value of the swaps will be reported as assets if expected interest rates increase above those expected on the date the swaps were entered into (and as an unrealized gain in the statement of operations), which will generally be indicative that the net fixed rate the Hospital is paying is below market expectations of rates during the remaining term of the swap. The swaps will be reported as a liability (and as an unrealized loss in the statement of operations) if expected interest rates decrease below those expected on the date the swaps were entered into, which will generally be indicative that the net fixed rate the Hospital is paying on the swap is above market expectations of rates during the remaining term of the swap. These annual accounting adjustments of value changes in the swap transaction are non-cash recognition requirements. The Hospital retains the sole right to terminate the swap agreements should the need arise; however, such termination may result in a payment or receipt based on interest rate expectations at that time. The Hospital recorded the swaps at their liability position of \$1,319,919 and \$2,455,542 at September 30, 2021 and 2020, respectively. The interest rate swap contract disclosures are summarized as follows:

<u>Fixed Rate Paid</u>	<u>Variable Rate Received</u>	<u>Current Notional Amount</u>	<u>Fair Value as of September 30, 2021</u>	<u>Fair Value as of September 30, 2020</u>	<u>Termination Date</u>	<u>Counterparty</u>
1.2075%	0.0585%	\$ 21,884,024	\$ (578,079)	\$ (1,372,387)	06/01/2028	People's United Bank
0.1514%	0.0571%	310,000	(736)	(10,623)	10/01/2021	Morgan Stanley
3.228%	0.0826%	6,155,000	<u>(741,104)</u>	<u>(1,072,532)</u>	10/01/2030	Deutsche Bank AG
			<u>\$ (1,319,919)</u>	<u>\$ (2,455,542)</u>		

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

8. Retirement Plans

The Hospital sponsors a 403(b) retirement plan for its employees. To be eligible to participate in the 403(b) plan, an employee must meet certain requirements as specified in the Plan documents. The Hospital matches 1% if the employee contributes 2% or 3% of their annual salary, and the Hospital contributes 2% if the employee contributes 4% or more of their annual salary. Total expense under the 403(b) retirement plan was \$921,783 and \$926,545 in 2021 and 2020, respectively.

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The Hospital sponsors a Money Purchase Pension Plan covering substantially all of its employees. The Hospital's contributions are determined for, and allocated to, eligible participants based on a predetermined percent of compensation paid. Individual benefits at retirement are the amounts which can be provided by the sums contributed to each participant's account. The plan, which may be terminated at any time by the Board, provides for employee vesting over a six-year period. Retirement plan expenses charged to operations were \$1,282,221 and \$1,271,343 in 2021 and 2020, respectively.

The Hospital has a nonqualified deferred compensation plan established under Section 457 of the Code. The plan permits certain management and highly compensated employees to defer portions of their compensation based on Internal Revenue Service guidelines. The Hospital has cumulatively recorded \$4,684,496 and \$3,724,033 at September 30, 2021 and 2020, respectively, related to this plan. The related investments are segregated in a separate account and reported in the balance sheet along with the Hospital's related liability to the employees.

9. Commitments and Contingencies

Operating Leases

The Hospital has operating leases for medical care space, and has various leases for medical and office equipment with expiration dates through 2025. Certain of these leases have renewal options and contain an annual Consumer Price Index increase provision. The Hospital's future minimum payments under these leases are as follows:

Years ending September 30,	
2022	\$ 266,000
2023	266,000
2024	266,000
2025	266,000
2026	<u>266,000</u>
	<u>\$ 1,330,000</u>

Rental expense for the years ended September 30, 2021 and 2020 was \$799,238 and \$800,574, respectively.

Professional Liability Insurance and Litigation

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

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The Hospital is subject to complaints, claims and litigation due to potential claims which arise in the normal course of business. U.S. GAAP require the Hospital to accrue the ultimate cost of malpractice claims when the incident that gives rise to the claim occurs, without consideration of insurance recoveries. Expected recoveries are presented as a separate asset. Amounts accrued under this provision are included in other current assets and other accrued expenses in the consolidated balance sheets. The Hospital at various times during the year may be involved in other legal proceedings of a nature considered normal to its business. The Hospital has evaluated its exposure to losses arising from identifiable potential claims and has properly accounted for them in the consolidated balance sheets for the years ended September 30, 2021 and September 30, 2020.

QHR, LLC

The Hospital contracts with QHR, LLC for management advisory services. Total expenses related to the QHR, LLC contract, and charged to operations, were \$781,351 and \$1,500,206 for the years ended September 30, 2021 and 2020, respectively.

Self-Funded Health Insurance

The Hospital maintains a self-funded health insurance plan. A reserve of \$319,515 and \$659,125 in 2021 and 2020, respectively, has been established to allow for incurred but not reported claims for healthcare services based on claim history. The self-funded policy had an individual stop loss of \$125,000 in 2021 and 2020. The Hospital's aggregate stop loss coverage begins at 125% of expected claims, excluding claim amounts which are paid under the individual stop loss coverage.

OneCare Vermont, LLC

The Hospital is a participant in OneCare Vermont, LLC (OneCare), a statewide Accountable Care Organization (ACO). Beginning January 1, 2017, the Hospital entered into a risk bearing arrangement through the Vermont Medicaid program. Beginning January 1, 2018, the Hospital accepted additional risk as a member of OneCare by participating in the Medicare Next Generation Model and Blue Cross. Under the Medicare Next Generation Model, Blue Cross/Blue Shield of Vermont, and Vermont Medicaid program, the Hospital receives monthly fixed prospective payments for services provided to attributed members. The ACO is responsible for both the cost and quality of care for each attributed member. This is true whether that person uses little or no care or whether they require services consistently throughout the year. The Hospital recognizes its share of annual contract settlements as an increase or decrease to fixed prospective revenue in the statement of operations.

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10. Health Care Improvement Tax

A health care improvement tax is imposed on hospitals, nursing homes, and home health agencies as part of a program to upgrade services in Vermont. Hospitals in Vermont are assessed as a percentage of net patient revenue which is determined annually by the General Assembly. The Hospital tax rate was 6% in 2021 and 2020.

11. Concentration of Credit Risk

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

	<u>2021</u>	<u>2020</u>
Medicare	30 %	32 %
Medicaid	11	14
Blue Cross	12	15
Other third-party payors	21	18
Patients	<u>26</u>	<u>21</u>
	<u>100 %</u>	<u>100 %</u>

12. Functional Expenses

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

	<u>2021</u>	<u>Healthcare Services</u>	<u>Support Services</u>	<u>Total</u>
Salaries and wages	\$ 34,982,709	\$ 20,021,551	\$ 55,004,260	
Employee benefits	7,691,683	4,402,158	12,093,841	
Supplies	9,043,470	5,175,823	14,219,293	
Contracted services	12,010,647	6,874,018	18,884,665	
Depreciation	3,878,375	2,219,699	6,098,074	
Travelers' expense	2,573,564	1,472,920	4,046,484	
Health care improvement tax	6,152,744	-	6,152,744	
Other operating	3,561,627	2,038,415	5,600,042	
Interest	469,919	268,947	738,866	
	<u>\$ 80,364,738</u>	<u>\$ 42,473,531</u>	<u>\$ 122,838,269</u>	

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<u>2020</u>	Healthcare <u>Services</u>	Support <u>Services</u>	<u>Total</u>
Salaries and wages	\$ 34,866,478	\$ 20,450,797	\$ 55,317,275
Employee benefits	8,832,984	5,180,953	14,013,937
Supplies	7,333,811	4,301,618	11,635,429
Contracted services	10,862,876	6,371,577	17,234,453
Depreciation	3,660,960	2,147,321	5,808,281
Travelers' expense	1,735,911	1,018,192	2,754,103
Health care improvement tax	6,361,131	-	6,361,131
Other operating	3,540,859	2,076,877	5,617,736
Interest	<u>481,644</u>	<u>282,506</u>	<u>764,150</u>
	<u>\$ 77,676,654</u>	<u>\$ 41,829,841</u>	<u>\$ 119,506,495</u>

13. Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes for the years ended September 30 are as follows:

	<u>2021</u>	<u>2020</u>
Purpose restricted		
Community wellness initiatives	\$ 1,721,778	\$ 1,902,203
Capital expenditures	188,128	188,128
Education assistance	37,710	24,377
Free care assistance	123,557	103,751
Other community programs	<u>290,741</u>	<u>274,222</u>
	<u>2,361,914</u>	<u>2,492,681</u>
Perpetual in nature		
Beneficial Interest in Trusts, the income is without donor restrictions	1,132,231	939,407
Sowles Memorial Fund, the income to be used for charity care	<u>203,531</u>	<u>203,531</u>
	<u>1,335,762</u>	<u>1,142,938</u>
	<u>\$ 3,697,676</u>	<u>\$ 3,635,619</u>

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

	<u>2021</u>	<u>2020</u>
Internally designated for capital acquisition	\$ 849,782	\$ 17,632,862
Undesignated	<u>128,192,081</u>	<u>95,254,392</u>
	<u>\$ 129,041,863</u>	<u>\$ 112,887,254</u>

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14. Fair Value Measurement

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

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

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

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

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

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

**NORTHWESTERN MEDICAL CENTER, INC.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

September 30, 2021 and 2020

Assets measured at fair value at September 30, 2020 are summarized below:

	<u>Fair Value Measurements Using</u>			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets:				
Assets limited as to use				
Cash equivalents	\$ 2,036,926	\$ -	\$ -	\$ 2,036,926
Fixed income	7,914,007	140,782	-	8,054,789
Equities	7,963,755	-	-	7,963,755
Deferred compensation plan assets	3,724,033	-	-	3,724,033
Beneficial interest in perpetual trusts	<u>-</u>	<u>-</u>	<u>939,407</u>	<u>939,407</u>
	<u>\$ 21,638,721</u>	<u>\$ 140,782</u>	<u>\$ 939,407</u>	22,718,910
Alternative investment – hedge funds				<u>2,274,449</u>
				<u>\$ 24,993,359</u>
Total assets limited as to use				
Investments				
Cash equivalents	\$ 1,811,823	\$ -	\$ -	\$ 1,811,823
Certificates of deposit with maturity dates exceeding twelve months	154,857	-	-	154,857
Fixed income	11,805,654	5,163,830	-	16,969,484
Equities	<u>13,828,682</u>	<u>-</u>	<u>-</u>	<u>13,828,682</u>
	<u>\$ 27,601,016</u>	<u>\$ 5,163,830</u>	<u>\$ -</u>	32,764,846
Alternative investment – hedge funds				<u>4,301,714</u>
				<u>\$ 37,066,560</u>
Total investments				
Interest rate swaps	<u>\$ -</u>	<u>\$ 2,455,542</u>	<u>\$ -</u>	<u>\$ 2,455,542</u>

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

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

**NORTHWESTERN MEDICAL CENTER, INC.
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

September 30, 2021 and 2020

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

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

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

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

	<u>2021</u>	<u>2020</u>
Fair value, beginning of year	\$939,407	\$ 941,932
Net appreciation (depreciation)	<u>192,824</u>	<u>(2,525)</u>
Fair value, end of year	<u>\$1,132,231</u>	<u>\$939,407</u>

SUPPLEMENTARY INFORMATION

**NORTHWESTERN MEDICAL CENTER, INC.
AND SUBSIDIARIES**

Consolidating Balance Sheet

September 30, 2021

(With Comparative Totals for September 30, 2020)

	<u>2021</u>			<u>Total</u>	<u>2020</u>
	<u>NMC</u>	<u>NOH</u>	<u>Eliminations</u>		<u>Total</u>
ASSETS					
Current assets					
Cash and cash equivalents	\$ 24,604,232	\$ 1,415,768	\$ -	\$ 26,020,000	\$ 30,569,535
Patient accounts receivable, net	9,042,305	-	-	9,042,305	9,908,593
Contributions receivable, net	-	-	-	-	179,155
Short-term investments	9,983,728	-	-	9,983,728	8,002,895
Other current assets	<u>4,776,053</u>	<u>-</u>	<u>(694,349)</u>	<u>4,081,704</u>	<u>13,228,178</u>
Total current assets	48,406,318	1,415,768	(694,349)	49,127,737	61,888,356
Assets limited as to use	9,218,423	-	-	9,218,423	24,993,359
Investments	52,094,910	-	-	52,094,910	29,063,665
Property and equipment, net	68,978,338	606,989	-	69,585,327	71,558,921
Other long-term assets	<u>1,501,807</u>	<u>-</u>	<u>(1,350,585)</u>	<u>151,222</u>	<u>142,054</u>
Total assets	<u>\$180,199,796</u>	<u>\$ 2,022,757</u>	<u>\$(2,044,934)</u>	<u>\$180,177,619</u>	<u>\$187,646,355</u>
LIABILITIES AND NET ASSETS					
Current liabilities					
Accounts payable	\$ 4,365,461	\$ 640,986	\$ (663,163)	\$ 4,343,284	\$ 3,533,382
Salaries, wages and payroll taxes	4,684,425	-	-	4,684,425	4,357,717
Other accrued expenses	517,839	-	-	517,839	9,992,212
HHS Stimulus deferred revenue	-	-	-	-	3,653,507
Third-party accelerated payments	154,261	-	-	154,261	5,875,196
Estimated third-party settlements	1,986,913	-	-	1,986,913	6,145,746
Current portion of long-term debt	<u>1,700,032</u>	<u>31,186</u>	<u>(31,186)</u>	<u>1,700,032</u>	<u>1,648,008</u>
Total current liabilities	13,408,931	672,172	(694,349)	13,386,754	35,205,768
Deferred compensation	4,684,496	-	-	4,684,496	3,724,033
Long-term debt, net	28,046,911	492,588	(492,588)	28,046,911	29,738,139
Interest rate swaps	<u>1,319,919</u>	<u>-</u>	<u>-</u>	<u>1,319,919</u>	<u>2,455,542</u>
Total liabilities	<u>47,460,257</u>	<u>1,164,760</u>	<u>(1,186,937)</u>	<u>47,438,080</u>	<u>71,123,482</u>
Net assets					
Without donor restrictions	129,041,863	-	-	129,041,863	112,887,254
Member's equity	-	857,997	(857,997)	-	-
With donor restrictions	<u>3,697,676</u>	<u>-</u>	<u>-</u>	<u>3,697,676</u>	<u>3,635,619</u>
Total net assets	<u>132,739,539</u>	<u>857,997</u>	<u>(857,997)</u>	<u>132,739,539</u>	<u>116,522,873</u>
Total liabilities and net assets	<u>\$180,199,796</u>	<u>\$ 2,022,757</u>	<u>\$(2,044,934)</u>	<u>\$180,177,619</u>	<u>\$187,646,355</u>

**NORTHWESTERN MEDICAL CENTER, INC.
AND SUBSIDIARIES**

Consolidating Statement of Operations

**Year Ended September 30, 2021
(With Comparative Totals for the Year Ended September 30, 2020)**

	2021			Total	2020
	<u>NMC</u>	<u>NOH</u>	<u>Eliminations</u>		<u>Total</u>
Revenues, gains and other support without donor restrictions					
Patient service revenue (net of contractual allowances and discounts)	\$ 97,727,310	\$ -	\$ -	\$ 97,727,310	\$ 85,083,765
Less provision for bad debts	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,153,915</u>
Net patient service revenue	97,727,310	-	-	97,727,310	76,929,850
Other operating revenue	4,637,036	1,370	-	4,638,406	3,403,713
HHS stimulus revenue	4,023,054	-	-	4,023,054	14,191,882
Fixed prospective revenue	20,157,746	-	-	20,157,746	20,352,953
Net assets released from restriction used for operations	<u>2,404,649</u>	<u>-</u>	<u>-</u>	<u>2,404,649</u>	<u>3,433,699</u>
Total revenues, gains and other support without donor restrictions	<u>128,949,795</u>	<u>1,370</u>	<u>-</u>	<u>128,951,165</u>	<u>118,312,097</u>
Expenses					
Salaries and wages	55,004,260	-	-	55,004,260	55,317,275
Employee benefits	12,093,841	-	-	12,093,841	14,013,937
Supplies	14,219,293	-	-	14,219,293	11,635,429
Contracted services	18,884,665	-	-	18,884,665	17,234,453
Depreciation	6,098,074	-	-	6,098,074	5,808,281
Travelers' expense	4,046,484	-	-	4,046,484	2,754,103
Healthcare improvement tax	6,152,744	-	-	6,152,744	6,361,131
Other operating	5,594,459	5,583	-	5,600,042	5,617,736
Interest	<u>721,309</u>	<u>17,557</u>	<u>-</u>	<u>738,866</u>	<u>764,150</u>
Total expenses	<u>122,815,129</u>	<u>23,140</u>	<u>-</u>	<u>122,838,269</u>	<u>119,506,495</u>
Income (loss) from operations	<u>6,134,666</u>	<u>(21,770)</u>	<u>-</u>	<u>6,112,896</u>	<u>(1,194,398)</u>
Nonoperating gains (losses)					
Net investment income (loss)	9,266,284	-	21,770	9,288,054	(373,749)
Unrealized gains (losses) on interest rate swaps	1,135,623	-	-	1,135,623	(1,143,129)
Unrealized (losses) gains on investments	(734,537)	-	-	(734,537)	919,242
Other	<u>352,573</u>	<u>-</u>	<u>-</u>	<u>352,573</u>	<u>419,931</u>
Nonoperating gains (losses), net	<u>10,019,943</u>	<u>-</u>	<u>21,770</u>	<u>10,041,713</u>	<u>(177,705)</u>
Excess (deficiency) of revenues, gains and other support over expenses and losses, and change in net assets without donor restrictions	<u>\$ 16,154,609</u>	<u>\$ (21,770)</u>	<u>\$ 21,770</u>	<u>\$ 16,154,609</u>	<u>\$ (1,372,103)</u>