

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center

Independent Auditor's Report and Financial Statements

September 30, 2021 and 2020

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
September 30, 2021 and 2020

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Independent Auditor's Report

Board of Directors
The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Rutland, Vermont

We have audited the accompanying financial statements of The Rutland Hospital, Inc., d/b/a Rutland Regional Medical Center (RRMC), a subsidiary of Rutland Regional Health Services, Inc., 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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.

Board of Directors
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d/b/a Rutland Regional Medical Center
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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Rutland Hospital, Inc., d/b/a Rutland Regional Medical Center, as of September 30, 2021 and 2020, and the results of its operations, changes in net assets, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in *Note 1* to the financial statements, in 2021, RRMC adopted Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). Our opinion is not modified with respect to this matter.

BKD, LLP

Springfield, Missouri
January 19, 2022

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Balance Sheets
September 30, 2021 and 2020

Assets

	<u>2021</u>	<u>2020</u>
Current Assets		
Cash and cash equivalents	\$ 46,507,969	\$ 54,980,026
Patient accounts receivable, net of 2020 allowance of \$7,125,000	22,569,942	24,324,318
Other receivables	7,606,762	8,723,360
Due from affiliates	3,411,634	3,081,168
Supplies	2,848,526	2,835,878
Prepaid expenses and other	4,451,649	4,078,868
	<u>87,396,482</u>	<u>98,023,618</u>
Assets Limited As To Use		
Workers' compensation trust fund	2,435,970	1,747,409
Restricted by donors	4,913,338	4,431,806
Internally designated	172,349,015	146,789,705
	<u>179,698,323</u>	<u>152,968,920</u>
Property and Equipment, At Cost		
Land and land improvements	4,438,628	4,418,544
Buildings and leasehold improvements	133,710,824	129,602,831
Equipment	152,932,504	142,147,061
Construction in progress	927,981	4,453,071
	<u>292,009,937</u>	<u>280,621,507</u>
Less accumulated depreciation	192,305,291	180,785,058
	<u>99,704,646</u>	<u>99,836,449</u>
Other Assets		
Pledges receivable	-	10,196
Prepaid pension asset	7,594,793	2,781,446
Other	5,622,324	4,972,161
	<u>13,217,117</u>	<u>7,763,803</u>
Total assets	<u>\$ 380,016,568</u>	<u>\$ 358,592,790</u>

Liabilities and Net Assets

	2021	2020
Current Liabilities		
Current maturities of long-term debt	\$ 3,225,290	\$ 2,241,677
Accounts payable and accrued expenses	10,891,085	14,431,500
Accrued compensation and related taxes	13,856,632	18,350,232
Deferred revenue – provider relief funds	-	13,547,104
Current portion – contract liabilities	20,310,538	5,208,333
Estimated amounts due to and advances from third-party payors	<u>12,577,997</u>	<u>8,352,638</u>
Total current liabilities	60,861,542	62,131,484
Contract Liabilities	-	19,791,667
Other Liabilities	7,800,749	8,025,460
Long-Term Debt	<u>45,550,585</u>	<u>42,575,177</u>
Total liabilities	<u>114,212,876</u>	<u>132,523,788</u>
Net Assets		
Without donor restrictions	260,880,769	221,608,667
With donor restriction	<u>4,922,923</u>	<u>4,460,335</u>
Total net assets	<u>265,803,692</u>	<u>226,069,002</u>
Total liabilities and net assets	<u><u>\$ 380,016,568</u></u>	<u><u>\$ 358,592,790</u></u>

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Statements of Operations
Years Ended September 30, 2021 and 2020

	2021	2020
Revenues, Gains, and Other Support Without Donor Restrictions		
Patient service revenue (net of contractual discount and allowances)		\$ 236,825,186
Provision for uncollectible accounts		9,177,446
Patient service revenue	\$ 230,171,855	227,647,740
Fixed payment revenue	45,868,730	11,611,003
Provider relief funds	14,304,723	5,357,449
Other revenue	20,413,039	36,812,451
Net assets released from restrictions used for operations	597,546	466,351
Total revenues, gains, and other support without donor restrictions	311,355,893	281,894,994
 Expenses and Losses		
Salaries and benefits	177,804,198	170,927,566
Supplies and other	112,766,690	96,527,154
Depreciation and amortization	12,633,291	12,612,561
Interest	1,181,728	1,282,220
Total expenses and losses	304,385,907	281,349,501
 Operating Income	6,969,986	545,493
 Other Income (Expense)		
Investment return, net	7,659,764	3,443,152
Contributions received and other	1,457,195	194,343
Other components of net periodic pension costs	619,238	1,926,335
Change in unrealized gains and losses on trading securities	17,669,152	8,468,388
Gain (loss) on interest rate swap agreements	878,043	(278,176)
Total other income	28,283,392	13,754,042
 Excess of Revenues Over Expenses	35,253,378	14,299,535
Contributions received for purchase of property and equipment	-	886,995
Net assets released from restriction for purchase of property and equipment	324,615	234,200
Transfer to affiliates	(500,000)	-
Change in defined benefit pension plan	4,194,109	(2,085,563)
 Increase in Net Assets Without Donor Restrictions	\$ 39,272,102	\$ 13,335,167

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Statements of Changes in Net Assets
Years Ended September 30, 2021 and 2020

	2021	2020
Net Assets Without Donor Restrictions		
Excess of revenues over expenses	\$ 35,253,378	\$ 14,299,535
Grants and contributions received for purchase of property and equipment	-	886,995
Net assets released from restriction used for purchase of property and equipment	324,615	234,200
Transfer to affiliates	(500,000)	-
Change in defined benefit pension plan	4,194,109	(2,085,563)
Increase in net assets without donor restrictions	39,272,102	13,335,167
Net Assets With Donor Restrictions		
Contributions received	1,050,882	100,774
Investment return, net	333,867	141,309
Net assets released from restrictions	(922,161)	(700,551)
Increase (decrease) in net assets with donor restrictions	462,588	(458,468)
Change in Net Assets	39,734,690	12,876,699
Net Assets, Beginning of Year	226,069,002	213,192,303
Net Assets, End of Year	\$ 265,803,692	\$ 226,069,002

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Statements of Cash Flows
Years Ended September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating Activities		
Change in net assets	\$ 39,734,690	\$ 12,876,699
Items not requiring (providing) operating cash flow		
Depreciation and amortization	12,633,291	12,612,561
Gain on disposal of property and equipment	(109,599)	(6,441)
Net gain on investments	(21,883,645)	(8,577,549)
Restricted contributions received	(1,050,882)	(100,774)
Change in defined benefit pension and postretirement benefit plans	(4,194,109)	2,085,563
Change in fair value of interest rate swap agreements and loss on swap termination	(1,487,043)	278,176
Changes in		
Patient accounts receivable	1,754,376	5,420,978
Other receivables	1,103,106	(3,782,851)
Deferred revenue	(13,547,104)	13,547,104
Contract liabilities	(4,689,462)	25,000,000
Estimated third-party settlements and advances	4,225,359	(889,304)
Other current assets and liabilities	(4,708,791)	3,580,118
	<u>7,780,187</u>	<u>62,044,280</u>
Investing Activities		
Proceeds from disposition of trading securities	10,276,309	648,499
Purchases of trading securities	(14,060,781)	(4,145,965)
Net advances (to) from related parties	(330,466)	2,918,134
Proceeds from sale of property and equipment	258,370	24,000
Purchase of property and equipment	(15,761,167)	(23,345,401)
	<u>(19,617,735)</u>	<u>(23,900,733)</u>
Financing Activities		
Principal payments on long-term debt	(36,561,901)	(6,938,600)
Proceeds from issuance of long-term debt	40,677,561	13,784,759
Proceeds from restricted contributions	1,074,570	103,022
Payment of swap termination fee	(609,000)	-
Payment of debt issuance costs	(154,453)	(16,646)
	<u>4,426,777</u>	<u>6,932,535</u>
Increase (Decrease) in Cash, Cash Equivalents, Restricted Cash, and Restricted Cash Equivalents	(7,410,771)	45,076,082
Cash, Cash Equivalents, Restricted Cash, and Restricted Cash Equivalents, Beginning of Year	<u>57,173,057</u>	<u>12,096,975</u>
Cash, Cash Equivalents, Restricted Cash, and Restricted Cash Equivalents, End of Year	<u>\$ 49,762,286</u>	<u>\$ 57,173,057</u>

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Statements of Cash Flows
Years Ended September 30, 2021 and 2020

	2021	2020
Reconciliation of Cash, Cash Equivalents, Restricted Cash, and Restricted Cash Equivalents to the Balance Sheets		
Cash and cash equivalents	\$ 46,507,969	\$ 54,980,026
Workers' compensation trust fund	2,035,970	1,347,409
Internally designated	1,218,347	845,622
	\$ 49,762,286	\$ 57,173,057
Supplemental Cash Flows Information		
Interest paid	\$ 1,270,621	\$ 1,494,181
Property and equipment purchases in accounts payable	\$ 1,241,922	\$ 4,352,830

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2021 and 2020

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

Nature of Operations

The Rutland Hospital, Inc., d/b/a Rutland Regional Medical Center (RRMC), is a not-for-profit acute care hospital which provides inpatient, outpatient, emergency care, and physician services to residents in the Rutland, Vermont, area. RRMC is a controlled subsidiary of Rutland Regional Health Services, Inc. (RRHS). RRHS is a tax-exempt holding company, pursuant to Section 501(c)(3) of the Internal Revenue Code, organized to carry on planning, fundraising activities, and manage related investments.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the 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

RRMC considers all liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2021 and 2020, cash equivalents consisted primarily of money market accounts and short-term government obligations.

The FDIC's insurance limits have been permanently increased to \$250,000. RRMC has entered into an agreement with a local financial institution to purchase fully collateralized U.S. government securities with RRMC's funds that exceed FDIC insurance limits. At September 30, 2021, cash accounts did not exceed federally insured limits.

Debt Investments

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

Classified as	Description	Recorded at
Trading	Securities that are bought and held principally for the purpose of selling in the near term and, therefore, held for only a short period of time	Fair value, with changes in fair value included in excess (deficiency) revenues over expenses

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

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Equity Investments

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

RRMC measures equity securities and equity investments without a readily determinable fair value at cost, minus impairment, if any, plus or minus changes resulting from observable price changes for the identical or a similar investment.

Net Investment Return

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

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

RRMC maintains pooled investment accounts for its endowments. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated monthly to the individual endowments based on the relationship of the fair value of the interest of each endowment to the total fair value of the pooled investments accounts, as adjusted for additions to or deductions from those accounts.

Assets Limited As To Use

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

The Rutland Hospital, Inc.
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Notes to Financial Statements
September 30, 2021 and 2020

Patient Accounts Receivable

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

Patient accounts receivable reflects the outstanding amount of consideration to which RRMC expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs) and others. As a service to the patient, RRMC bills third-party payors directly and bills the patient when the patient's responsibility for co-pays, coinsurance and deductibles is determined. Patient accounts receivable are due in full when billed, unless the patient has previously been approved for an alternative payment plan or for patient financial assistance.

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

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

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

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

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), RRMC records a significant provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. For those who do not qualify for charity care the difference between the standard rates (or the discounted rates if negotiated or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

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RRMC's allowance for uncollectible accounts for self-pay patients was 89 percent of self-pay accounts receivable at September 30, 2020. In addition, RRMC's write-offs were approximately \$8,121,000 for the year ended September 30, 2020.

Contract Assets and Liabilities

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

Amounts received related to health care services that have not yet been provided to patients are contract liabilities. Contract liabilities consist of Medicare advanced payments received in April 2020 under the provisions of the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act). In general, advanced amounts will be recouped from remittances starting 12 months after the advance was made, see *Note 28*.

Supplies

Supply inventories are stated at the lower of cost, determined using the average cost method, or net realizable value.

Property and Equipment

Property and equipment acquisitions are recorded at cost and are depreciated on a straight-line basis over the estimated useful life of each asset. Leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

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

Land improvements	5 – 25 years
Buildings and leasehold improvements	4 – 40 years
Equipment	3 – 25 years

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

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Long-Lived Asset Impairment

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

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

Debt Issuance Costs

Debt issuance costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the straight line method.

Net Assets With Donor Restrictions

Net assets with donor restrictions are those whose use by RRMC has been limited by donors to a specific time period or purpose or have been restricted by donors to be maintained by RRMC in perpetuity.

Patient Service Revenue

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

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

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

The Rutland Hospital, Inc.
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Notes to Financial Statements
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Prior to Adoption of ASU 2014-09, Revenues from Contracts with Customers (Topic 606)

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

Fixed Prospective Revenue

Beginning January 1, 2019, RRMC began to receive monthly fixed prospective payments for services provided by the Hospital and Hospital-owned physician practices participating in the Vermont Medicaid next Generation Accountable Care Organization (ACO) Pilot Program, and beginning January 1, 2021, RRMC expanded its involvement within the program to include Medicare and some other commercial payors in addition to Medicaid. This is a monthly, per member payment received in advance of the services being performed and is recognized as revenue in the month to which it relates.

The revenues for the ACO are recorded on the fixed payment revenue line on the statement of operations. Revenues recorded under these arrangements represent the fixed, agreed upon amounts as a result of RRMC's stand-ready performance obligation to provide health care services to qualified beneficiaries. Fee-for-service payments continue for all other nonhospital providers in the ACO, for all providers who are not a part of the ACO, and for all services that are not included in the fixed prospective payment.

The ACO is responsible for both the cost and the quality of care for each attributed member, regardless of individual member's utilization. RRMC is subject to an annual contracted maximum risk corridor, of which for calendar 2021 and 2020 the risk corridor was waived due to the COVID-19 pandemic and therefore RRMC had zero down-side risk for both calendar years. As of September 30, 2021, RRMC has recorded a receivable related to the calendar year 2020 settlement of approximately \$2,149,660 which is recorded within other receivables. At September 30, 2020, RRMC had determined that a settlement estimate was not estimable for the calendar 2020 settlement and therefore no amounts were recorded. In addition, in fiscal year 2021, RRMC also estimated amounts due to and advances from third-party payors. In the previous fiscal year 2020, RRMC recorded a settlement liability of \$780,000 within estimated amounts due to and advances from third-party payors for the 2019 calendar year, this amount was paid in 2021.

Charity Care

RRMC provides charity care to patients who are unable to pay for services. The amount of charity care is included in net patient service revenue and is not separately classified from the provision for uncollectible accounts.

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Contributions

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

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

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

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

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

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

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Conditional contributions and investment income having donor stipulations which are satisfied when the gift is received, and the investment income is earned are recorded as revenue with donor restrictions and then released from restriction. Conditional contributions at September 30, 2021 and 2020, include Provider Relief Fund amounts of approximately \$0 and \$14,305,000, respectively (*Note 28*).

Professional Liability and Workers' Compensation Claims

RRMC recognizes an accrual for claim liabilities based on estimated ultimate losses and costs associated with settling claims and a receivable to reflect the estimated insurance recoveries, if any. Professional liability claims and workers' compensation claims are described more fully in *Note 5*.

Self-Insurance

RRMC accrues estimated liabilities for self-insurance losses associated with employee health insurance claims and includes an estimate of the ultimate costs for both reported claims and claims incurred but not reported. Costs resulting from self-insured claims are charged to expense when incurred. RRMC has purchased stop-loss coverage for any individual claim in excess of \$200,000.

Government Grants

Support funded by grants is recognized as RRMC meets the conditions prescribed by the grant agreement, performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Income Taxes

RRMC has been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, RRMC is subject to federal income tax on any unrelated business taxable income. RRMC files tax returns in the U.S. federal jurisdiction.

Excess of Revenues Over Expenses

The statements of operations include excess of revenues over expenses. Changes in net assets without donor restrictions which are excluded from excess of revenues over expenses, consistent with industry practice, include permanent transfers to and from affiliates for other than goods and services 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) and defined benefit plan changes.

The Rutland Hospital, Inc.
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September 30, 2021 and 2020

Change in Accounting Principles

Topic 606 Revenue from Contracts with Customers

During the year ended September 30, 2021, RRMC adopted *Topic 606, Revenue from Contracts with Customers* (Topic 606), using a modified-retrospective method of adoption to all contracts with patients. The core guidance in Topic 606 is to recognize revenue to depict the transfer of promised goods or services to customers or patients in an amount that reflects the consideration to which RRMC expects to be entitled in exchange for those goods or services. The amount to which RRMC expects to be entitled is calculated as the transaction price and recorded as revenue in exchange for providing patient care services to its patients. Adoption of Topic 606 resulted in changes in presentation of the financial statements and related disclosures in the notes to the financial statements. Prior to the adoption of Topic 606, the majority of the provision for uncollectible accounts related to patients without insurance, as well as patient responsibility balances for copays, coinsurance, and deductibles for patients with insurance. Under Topic 606, the estimated amounts due from patients for which RRMC does not expect to be entitled or collect from the patients are considered implicit price concessions and excluded from RRMC's estimation of the transaction price or revenue recorded.

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

	September 30, 2021		
	Balances Without Adoption of Topic 606	As Reported	Effect of Adoption
Statements of Operations			
Revenues, Gains, and Other Support Without Donor Restrictions			
Patient service revenue (net of contractual discounts and allowances)	\$ 235,687,333		\$ (235,687,333)
Provision for uncollectible accounts	<u>(5,515,478)</u>		<u>5,515,478</u>
Net patient service revenue less provision for uncollectible accounts	<u>\$ 230,171,855</u>	<u>\$ 230,171,855</u>	<u>\$ -</u>

The adoption had no impact on expenses and losses, operating income, overall change in net assets, or net cash provided by (used in) operating activities.

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Note 2: Patient Service Revenue

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

Performance Obligations

Performance obligations are determined based on the nature of the services provided by RRMC. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. RRMC 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 RRMC receiving inpatient acute care services or patients receiving services in its outpatient. RRMC measures the performance obligation from inpatient admission, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to its patients and customers in a retail setting (for example, pharmaceuticals and medical equipment) and RRMC does not believe it is required to provide additional goods related to the patient.

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

Transaction Price

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

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Third-Party Payors

RRMC has agreements with third-party payors that provide for payments to RRMC at amounts different from its established rates. These payment arrangements include:

Medicare. Inpatient acute care and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. RRMC is reimbursed for certain services at tentative rates with final settlements determined after submission of annual cost reports by RRMC and audits thereof by the Medicare administrative contractor. Beginning January 1, 2021, RRMC has entered into a contractual agreement with OneCare Vermont to include Medicare participation. Therefore, a significant portion of RRMC's patients now receive payments under a fixed prospective payment instead of the traditional payment methodology described above.

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. RRMC has entered into a contractual agreement with the state to care for patients with intensive inpatient psychiatric needs. RRMC is reimbursed for these services using a cost reimbursed methodology. RRMC has entered into a contractual agreement with One Care Vermont (OCV) to include Medicaid participation. Therefore, a significant portion of RRMC's patients now receive payments under a fixed prospective payment instead of the traditional payment methodology described above.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge RRMC'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 RRMC. In addition, the contracts RRMC has with commercial payors also provide for retroactive audit and review of claims.

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

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Refund Liabilities

From time to time RRMC will receive overpayments of patient balances from third-party payors or patients resulting in amounts owed back to either the patients or third-party payors. These amounts are excluded from revenues and are recorded as liabilities until they are refunded. As of September 30, 2021, RRMC has a liability for refunds to third-party payors and patients recorded of approximately \$450,387 and it is included in accounts payable and accrued expenses on the balance sheet.

Patient and Uninsured Payors

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

Patients who meet RRMC's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue.

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

Revenue Composition

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

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The composition of patient care service revenue and fixed payment revenue by primary payor for the years ended September 30, 2021 and 2020, is as follows:

	2021	2020
Medicare	\$ 104,857,616	\$ 91,066,951
Medicaid	37,988,592	18,950,346
Other third-party payors	124,813,475	117,513,601
Patients	8,380,902	9,294,288
	<u>\$ 276,040,585</u>	<u>\$ 236,825,186</u>

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

	2021	2020
Hospital inpatient	\$ 84,425,950	\$ 72,432,071
Hospital outpatient	162,782,507	139,656,991
Physician services	28,832,128	24,736,124
	<u>\$ 276,040,585</u>	<u>\$ 236,825,186</u>

Nearly all revenue is related to health care services which are transferred and rendered over time, except for retail and 340B contact pharmacy revenue of \$16,115,200 for 2021, which is point in time.

Note 3: Concentration of Credit Risk

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

	Concentration of Credit Risk	
	2021	2020
Medicare	31%	36%
Medicaid	4%	6%
Other third-party payors and patients	65%	58%
	<u>100%</u>	<u>100%</u>

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Note 4: Investments and Investment Return

Assets Limited As To Use

Assets limited as to use, at September 30, include:

	2021	2020
Cash	\$ 3,254,317	\$ 2,193,031
Mutual funds – equity	107,340,620	91,523,495
Mutual funds – fixed	68,687,416	58,908,281
Interest in assets of Vermont Community Foundation	389,331	315,499
Interest receivable	26,639	28,614
	<u>179,698,323</u>	<u>152,968,920</u>
Less worker’s compensation trust fund	2,435,970	1,747,409
Less restricted by donor	4,913,338	4,431,806
	<u>172,349,015</u>	<u>146,789,705</u>
Internally designated	<u>\$ 172,349,015</u>	<u>\$ 146,789,705</u>

Total investment return is comprised of the following:

	2021	2020
Interest and dividend income, net of investment expenses	\$ 3,779,138	\$ 3,475,300
Realized gains on trading securities	4,065,184	10,851
Unrealized gains on trading securities	17,818,461	8,566,698
	<u>\$ 25,662,783</u>	<u>\$ 12,052,849</u>

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

	2021	2020
Net assets without donor restrictions		
Investment return, net	\$ 7,659,764	\$ 3,443,152
Change in unrealized gains and losses on trading securities	17,669,152	8,468,388
Net assets with donor restrictions	<u>333,867</u>	<u>141,309</u>
	<u>\$ 25,662,783</u>	<u>\$ 12,052,849</u>

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Note 5: Professional Liability and Self-Insurance Claims

Professional Liability Claims

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

Based upon RRMC's claims experience, an accrual had been made for RRMC's estimated medical malpractice costs, including costs associated with litigating or settling claims, under its malpractice insurance policy. Claim liabilities are to be determined without regard for recoveries. Expected recoveries are presented separately. RRMC recorded \$2,090,000 and \$1,940,000, respectively, of estimated insurance coverage receivables and recorded \$3,670,000 and \$2,920,000, respectively, of estimated insurance liabilities as of September 30, 2021 and 2020. It is reasonably possible that this estimate could change materially in the near term.

Self-Insurance

RRMC is self-insured for employee health insurance and has accrued an estimate of the ultimate costs for both reported claims and claims incurred for the years ending September 30, 2021 and 2020. Actual results could differ from these estimates.

Estimated employee health insurance and dental claim liabilities recorded by RRMC totaled \$1,334,378 and \$1,114,700 as of September 30, 2021 and 2020, respectively.

Workers' Compensation

RRMC has purchased insurance that limits its exposure for individual workers' compensation claims with claim coverage of \$350,000 for individuals and \$1,600,000 in the aggregate with this coverage. RRMC has obtained an outstanding letter of credit to be used for outstanding workers' compensation claims as of September 30, 2021 and 2020, the balance of the letter of credit was \$0.

Note 6: Interest in Assets at the Vermont Community Foundation

RRMC has transferred assets to the Vermont Community Foundation and retained a beneficial interest in those assets. RRMC is to receive the interest annually, but none of the principal. RRMC has granted variance power to the Vermont Community Foundation to modify any restriction or condition on the distribution of funds for any specified charitable purposes or to a specified organization if, in the sole judgment of the Board of Trustees of the Vermont Community Foundation, such restriction or condition becomes, in effect, unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community served. The cumulative amount of the retained beneficial interest included in the balance sheets was \$389,331 and \$315,499 at September 30, 2021 and 2020, respectively (*Note 4*).

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Note 7: Lines of Credit

RRMC has a \$5,000,000 revolving bank line of credit that expires July 31, 2022. In addition, during 2020, RRMC also entered into a \$20,000,000 revolving bank line of credit which expires June 17, 2022. At September 30, 2021 and 2020, there was \$0 borrowed against these lines. The lines are collateralized by substantially all of RRMC's revenues without donor restrictions. Interest varies with the bank's prime rate but shall never be less than a rate of 3.25 percent per annum, which was 3.25 percent on September 30, 2021, and is payable monthly.

Note 8: Long-Term Debt

	2021	2020
Vermont Educational and Health Buildings Financing Agency (VEHBFA) Hospital Revenue Bonds, Rutland Regional Medical Center Project Series 2013A (A)	\$ 13,948,574	\$ 31,350,000
Note payable, bank (B)	-	1,056,064
Capital lease (C)	20,886	33,189
Note payable, bank (D)	201,869	259,125
Construction loan, bank (E)	-	12,691,064
USDA loans (F)	28,271,108	-
Note payable, bank (G)	3,698,164	-
Note payable, bank (H)	3,352,197	-
	<u>49,492,798</u>	<u>45,389,442</u>
Less unamortized costs of issuance	716,923	572,588
Less current maturities	<u>3,225,290</u>	<u>2,241,677</u>
	<u>\$ 45,550,585</u>	<u>\$ 42,575,177</u>

(A) VEHBFA Series 2013A Bonds (tax exempt), issued during the year ended September 30, 2013, bearing a variable interest rate of the one-month LIBOR plus 1.5 percent times 71 percent. Effective February 1, 2016, the variable interest rate was reduced to 70 percent of the one-month LIBOR rate plus 0.826 percent per annum with principal payments due in monthly installments beginning in April 2021, ranging from approximately \$77,000 to \$179,000, due on demand on September 1, 2023, and in the absence of such demand on September 1, 2033, with final payments of \$26,500,000. The bonds are secured by gross receipts of RRMC. The effective interest rate was .93 percent and 2.30 percent at September 30, 2021 and 2020, respectively. During the year ended September 30, 2021, a partial redemption of the Series 2013A bonds occurred of \$16,500,000. The partial redemption was funded by the new USDA loans (F).

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RRMC has entered into an interest rate swap agreement to help mitigate exposure to future changes in interest rates on the Series 2013A Bonds. See *Note 9* for additional discussion on the interest rate swap agreement.

- (B) Note payable (taxable) with a local financial institution, with a variable rate of LIBOR plus 1.5 percent, per annum based on a 360-day year, due in monthly installments, including principal and interest, maturing April 1, 2021, and is secured by certain property. Effective February 1, 2016, the variable interest rate was reduced to the one-month LIBOR rate plus 1.02 percent. The effective interest rate was 1.13 percent and 1.17 percent at September 30, 2021 and 2020, respectively. During 2021, the note was paid in full.

RRMC has entered into an interest rate swap agreement to help mitigate exposure to future changes in interest rates on the note payable. See *Note 9* for additional discussion on the interest rate swap agreement.

- (C) Capital lease obligation due in monthly installments of \$2,437 through June 2021; collateralized by certain equipment of RRMC.
- (D) Note payable in the original amount of \$550,000 secured by real property that was purchased during the year ended September 30, 2015, bearing a fixed interest rate of 3.59 percent, with principal and interest payments of \$5,475 due monthly beginning on January 1, 2015, and continuing until the maturity date of December 1, 2024.
- (E) During the year ended September 30, 2019, RRMC obtained a \$17,400,000 construction loan to partially finance the construction of a new facility. This loan represents a bridge loan with a local financial institution which will partially convert to a USDA loan in 2021. At September 30, 2020, there was \$12,691,064 borrowed against this loan. During 2021 the loan was paid in full with the issuance of the long-term USDA debt, see (F), and has a balance of \$0 at September 30, 2021. Interest was accrued at a rate of 3.10 percent and is added to the loan balance each month.
- (F) During the year ended September 30, 2021, RRMC obtained four USDA loans totaling \$28,271,108, secured by real property, bearing a fixed interest rate of 2.5 percent, with principal and interest payments of \$97,328 due monthly beginning October 10, 2021, and continuing until the maturity date of September 23, 2056.
- (G) During the year ended September 30, 2021, RRMC obtained a \$3,698,164 loan, secured by real property and guaranteed by the USDA, bearing a fixed interest rate of 1.1 percent, with varying principal and interest payments due monthly beginning November 1, 2021, and continuing until the maturity date of October 1, 2031.
- (H) During the year ended September 30, 2021, RRMC obtained a \$3,352,197 loan, secured by real property and guaranteed by the USDA, bearing a fixed interest rate of 1.1 percent, with varying principal and interest payments due monthly beginning November 1, 2021, and continuing until the maturity date of October 1, 2031.

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The bonds and notes contain certain restrictive covenants, which among other provisions, require that RRMC maintain certain financial covenants which include maximum annual debt service, debt to capitalization, and days cash on hand ratios.

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

	Long-Term Debt	Capital Lease Obligations
2022	\$ 3,204,404	\$ 20,886
2023	13,168,779	-
2024	1,284,466	-
2025	1,266,207	-
2026	1,283,752	-
Thereafter	29,264,304	-
	<u>\$ 49,471,912</u>	20,886
Less amount representing interest		-
Present value of future minimum lease payments		20,886
Less current maturities		20,886
Noncurrent portion		<u>\$ -</u>

Note 9: Derivative Financial Instruments

RRMC has entered into an interest rate swap agreement with TD Bank, N.A. in conjunction with the Series 2013A Bonds. The swap agreement terminates on September 1, 2023, and provides for monthly settlement with RRMC to pay a fixed rate of 4.068 percent and receive a variable rate equal to the 71 percent of the one-month LIBOR plus a spread of 650 basis points on a notional amount equal to a portion of the outstanding balance of the Series 2013A Bonds, original notional amount of \$11,683,802. RRMC entered into the swap agreement with the objective of reducing its exposure to future variability in interest rates on the Series 2013A Bonds by effectively fixing the interest rate thereon at 4.068 percent. At September 30, 2021 and 2020, the notional amount was \$16,848,574 and \$17,624,346, respectively.

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RRMC had entered into an interest rate swap agreement with TD Bank, N.A. in conjunction with the 2013 note payable. The swap agreement terminated on April 1, 2021 and provided for monthly settlement with RRMC to pay a fixed rate of 4.022 percent and receive a variable rate equal to the 71 percent of the one-month LIBOR plus a spread of 650 basis points on a notional amount equal to a portion of the outstanding balance of the note payable, original notional amount of \$12,712,652. RRMC entered into the swap agreement with the objective of reducing its exposure to future variability in interest rates on the note payable by effectively fixing the interest rate thereon at 4.022 percent. The notional amount was being reduced over the term of the note payable. At September 30, 2021 and 2020, the notional amounts were \$0 and \$1,056,064, respectively.

RRMC had entered into an interest rate swap agreement with Deutsche Bank in conjunction with the Series 2010A Bonds. The swap agreement originally terminated on December 1, 2020 and provided for monthly settlement with RRMC to pay a fixed rate of 4.61 percent and receive a variable rate equal to the 69 percent of the one-month LIBOR plus a spread of 241.50 basis points on a notional amount equal to the then outstanding balance of the Series 2010A Bonds, original notional amount of \$19,100,000. RRMC entered into the swap agreement with the objective of reducing its exposure to future variability in interest rates on the Series 2010A Bonds by effectively fixing the interest rate thereon at 4.61 percent. The terms of this swap agreement were revised on September 17, 2013, with this issuance of the Series 2013A Bonds. The swap agreement was to terminate on September 1, 2023, which provided for monthly settlement with RRMC to pay a fixed rate of 4.828 percent and receive a variable rate equal to the 69 percent of the one-month LIBOR plus a spread of 241.50 basis points on a notional amount in the swap agreement. RRMC terminated this swap agreement and paid a termination fee of \$609,000 during the year ended September 30, 2021.

The table below presents certain information regarding RRMC's interest rate swap agreements designated as a fair value hedge. RRMC did not have any derivative instruments at September 30, 2021 and 2020, that were designated as hedging instruments.

	2021	2020
Other Liabilities		
Fair value of interest rate swap agreements	\$ 831,839	\$ 2,318,882
Interest Expense		
Additional interest expense incurred from interest rate swap agreements	806,863	654,495
Other Income (Expense)		
Swap termination fee	(609,000)	-
Gain (loss) recognized in change in interest rate swap agreements	1,487,043	(278,176)

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Note 10: Net Assets With Donor Restrictions

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

	2021	2020
Subject to expenditure for specified purpose		
Capital	\$ 5,050	\$ 23,996
Special purpose endowments	1,196,923	806,951
Various departments and other	617,022	533,827
	<u>1,818,995</u>	<u>1,364,774</u>
Subject to appropriation and expenditure when a specified event occurs	<u>1,358,194</u>	<u>1,453,615</u>
Not subject to appropriation or expenditure		
Beneficial interests in perpetual trusts	1,356,403	1,326,446
Beneficial interests in assets held by Foundation	389,331	315,500
	<u>1,745,734</u>	<u>1,641,946</u>
	<u><u>\$ 4,922,923</u></u>	<u><u>\$ 4,460,335</u></u>

During the years ended September 30, 2021 and 2020, net assets of \$597,546 and \$466,351, respectively, were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by donors. Net assets of \$0 and \$234,200 were released from donor restriction for the purchase of capital assets during the years ended September 30, 2021 and 2020, respectively.

Note 11: Endowments

RRMC's endowments consist of various individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the governing body to function as endowments (Board-designated endowment funds). As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including Board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

RRMC's governing body has interpreted the State of Vermont Prudent Management of Institutional Funds Act (SPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the Board appropriates such amounts for expenditure. Most of those net assets are also subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. RRMC's governing body has interpreted SPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund,

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unless a donor stipulates to the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, RRMC considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. RRMC has interpreted SPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. In addition, in accordance with SPMIFA, RRMC considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

The composition of net assets by type of endowment fund at September 30, 2021 and 2020, was:

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 1,358,194	\$ 1,358,194
Total endowment funds	<u>\$ -</u>	<u>\$ 1,358,194</u>	<u>\$ 1,358,194</u>
	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 1,453,615	\$ 1,453,615
Total endowment funds	<u>\$ -</u>	<u>\$ 1,453,615</u>	<u>\$ 1,453,615</u>

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Changes in endowment net assets for the years ended September 30, 2021 and 2020, were:

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of the year	\$ -	\$ 1,453,615	\$ 1,453,615
Investment return and net appreciation	-	161,287	161,287
Appropriation of endowment net assets for expenditure	-	(256,708)	(256,708)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 1,358,194</u>	<u>\$ 1,358,194</u>
	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of the year	\$ -	\$ 1,592,292	\$ 1,592,292
Investment return and net appreciation	-	83,281	83,281
Appropriation of endowment net assets for expenditure	-	(221,958)	(221,958)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 1,453,615</u>	<u>\$ 1,453,615</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level RRMC is required to retain as a fund of perpetual duration pursuant to donor stipulation or SPMIFA. In accordance with GAAP, deficiencies of this nature are reported in net assets without restriction and aggregated \$0 at September 30, 2021 and 2020. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after investment of new permanently restricted contributions and continued appropriation for certain purposes that was deemed prudent by the governing body.

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RRMC has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds RRMC must hold in perpetuity or for donor-specified periods, as well as those of Board-designated endowment funds. Under RRMC's policies, the primary investment goal is generation of income. RRMC expects its endowment funds to provide an average rate of return of approximately 5 percent gross of fees annually over time. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, RRMC relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). RRMC targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Note 12: Liquidity and Availability

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

	<u>2021</u>	<u>2020</u>
Financial assets at year-end		
Cash and cash equivalents	\$ 46,507,969	\$ 54,980,026
Patient accounts receivable, net	22,569,942	24,324,318
Other receivables	7,606,762	8,723,360
Assets limited as to use	179,698,323	152,968,920
Pledges receivable	768	31,356
Due from affiliates	3,411,634	3,081,168
Total financial assets	<u>259,795,398</u>	<u>244,109,148</u>
Less amounts not available to be used within one year		
Pledges receivable	-	10,196
Funds held by trustees	2,435,970	1,747,409
Donor restricted with liquidity horizons greater than one year	4,913,338	4,431,806
Financial assets not available to be used within one year	<u>7,349,308</u>	<u>6,189,411</u>
Financial assets available to meet general expenditures within one year	<u>\$ 252,446,090</u>	<u>\$ 237,919,737</u>

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RRMC has certain Board-designated assets limited to use which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the qualitative information above for financial assets to meet general expenditures within one year. RRMC has other assets limited to use for donor-restricted purposes and for workers' compensation. In addition, certain other Board-designated assets are designated for future capital expenditures and an operating reserve. These assets limited to use, which are more fully described in *Notes 1* and *4*, are not available for general expenditure within the next year. However, the Board-designated amounts could be made available, if necessary.

RRMC also has line of credit agreements (*Note 7*) to support liquidity, as needed.

Note 13: Charity Care

The costs of charity care provided under RRMC's charity care policy were approximately \$2,401,000 and \$2,452,000 for 2021 and 2020, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

Note 14: Functional Expenses

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

	2021			
	Health Care Services	General and Administrative	Fundraising Expenses	Total
Salaries and wages	\$ 130,300,070	\$ 14,566,624	\$ 320,644	\$ 145,187,338
Employee benefits	29,272,374	3,272,452	72,034	32,616,860
Total personnel expenses	<u>159,572,444</u>	<u>17,839,076</u>	<u>392,678</u>	<u>177,804,198</u>
Supplies and other	67,009,719	45,678,642	78,329	112,766,690
Depreciation and amortization	10,876,688	1,742,340	14,263	12,633,291
Interest	<u>1,017,414</u>	<u>162,980</u>	<u>1,334</u>	<u>1,181,728</u>
Total expenses	<u>\$ 238,476,265</u>	<u>\$ 65,423,038</u>	<u>\$ 486,604</u>	<u>\$ 304,385,907</u>

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	2020			Total
	Health Care Services	General and Administrative	Fundraising Expenses	
Salaries and wages	\$ 116,097,474	\$ 21,883,239	\$ 272,686	\$ 138,253,399
Employee benefits	24,943,105	7,672,476	58,586	32,674,167
Total personnel expenses	<u>141,040,579</u>	<u>29,555,715</u>	<u>331,272</u>	<u>170,927,566</u>
Supplies and other	59,357,733	37,105,693	63,728	96,527,154
Depreciation and amortization	11,054,890	1,540,706	16,965	12,612,561
Interest	<u>1,123,864</u>	<u>156,631</u>	<u>1,725</u>	<u>1,282,220</u>
Total expenses	<u>\$ 212,577,066</u>	<u>\$ 68,358,745</u>	<u>\$ 413,690</u>	<u>\$ 281,349,501</u>

Note 15: Operating Leases

Rental expense under operating lease agreements totaled \$1,687,428 and \$1,712,479 for the years ended September 30, 2021 and 2020, respectively.

Note 16: Significant Commitments

Service Agreement

RRMC and Cerner Corporation (Cerner) have entered into a strategic information technology service agreement. Cerner has assumed operational and administrative responsibilities for RRMC's information technology environment and services, including remote hosting, monitoring, and system performance capabilities. The agreement is effective through December 31, 2029. At the end of the initial term, the agreement will automatically renew in one-year increments. The payments on these agreements are recognized as expense when incurred.

Future minimum payments required under these agreements at September 30, 2021, are summarized as follows:

2022	\$ 13,260,405
2023	13,279,278
2024	12,757,254
2025	12,743,190
2026	<u>43,068,438</u>
	<u>\$ 95,108,565</u>

Expenses under this agreement totaled \$12,710,181 and \$12,715,263 for the years ended September 30, 2021 and 2020, respectively.

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Note 17: Pension Plans

Defined Benefit Plans

RRMC has a noncontributory defined benefit pension plan and had a defined benefit postretirement health care plan covering all employees who meet the eligibility requirements. RRMC's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as RRMC may determine to be appropriate from time to time. RRMC expects to contribute \$0 to the defined benefit pension plan in 2021. For the year ended September 30, 2020, RRMC completed its obligations related to the defined benefit post retirement plan and will no longer be required to fund future obligations of the plan.

Effective January 1, 2006, RRMC's defined benefit pension plan was frozen and stopped accruing benefits. All employees in the defined benefit plan were enrolled into RRMC's newly established tiered contribution plan.

RRMC uses a September 30 measurement date for the plans. Information about the plan's funded status follows:

	Pension Benefits	
	2021	2020
Benefit obligation	\$ 127,493,404	\$ 139,037,150
Fair value of plan assets	135,088,197	141,818,596
Funded status	\$ 7,594,793	\$ 2,781,446

Assets and liabilities recognized in the balance sheets:

	Pension Benefits	
	2021	2020
Noncurrent asset	\$ 7,594,793	\$ 2,781,446

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Amounts recognized in net assets without restriction not yet recognized as components of net periodic benefit cost consist of:

	Pension Benefits	
	2021	2020
Net loss	\$ 24,545,588	\$ 28,739,697

The accumulated benefit obligation for the defined benefit pension plan was \$139,037,150 and \$130,156,649 at September 30, 2021 and 2020, respectively.

Other significant balances and costs are:

	Pension Benefits	
	2021	2020
Benefit credit	\$ (619,238)	\$ (1,666,875)
Employer contributions	-	500,000
Benefits paid	8,915,942	6,237,286

The following amounts have been recognized in the statements of operations and changes in net assets for the years ended September 30, 2021 and 2020:

	Pension Benefits	
	2021	2020
Amounts arising during the period		
Net loss (gain)	\$ (2,666,529)	\$ 3,292,083
Amortization of net loss	1,527,580	1,384,056

The estimated net loss for the defined benefit pension plan that will be amortized from net assets without restriction into net periodic benefit cost over the next fiscal year is \$1,372,732.

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Significant assumptions include:

	Pension Benefits	
	2021	2020
Weighted average assumptions used to determine benefit obligations		
Discount rate	2.75%	2.50%
Rate of compensation increase	N/A	N/A
Weighted average assumptions used to determine benefit costs		
Discount rate	2.50%	3.25%
Expected return on plan assets	4.00%	5.50%

RRMC has estimated the long-term rate of return on plan assets based primarily on historical returns on plan assets, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publicly available information.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of September 30, 2021:

	Pension Benefits
2022	\$ 7,123,983
2023	7,315,108
2024	7,455,107
2025	7,550,727
2026	7,645,451
2027 – 2031	37,813,735

Pension Plan Assets

Following is a description of the valuation methodologies used for pension plan assets measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of pension plan assets pursuant to the valuation hierarchy.

Where quoted market prices are available in an active market, plan assets are classified within Level 1 of the valuation hierarchy. Level 1 plan assets include common trust funds invested in equity securities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of plan assets with similar characteristics, or discounted cash flows. Level 2 plan assets include common trust funds invested in fixed income securities. In certain cases where Level 1 or Level 2 inputs are not available, plan assets are classified within Level 3 of the hierarchy.

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The fair values of RRMC's pension plan assets at September 30, 2021 and 2020, by asset class are as follows:

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	2021			
Investments				
Money market funds	\$ 1,912,117	\$ 1,912,117	\$ -	\$ -
Mutual funds – equity	13,135,120	13,135,120	-	-
Mutual funds – fixed	106,513,889	106,513,889	-	-
Mutual funds – balanced	13,527,071	13,527,071		
Total	\$ 135,088,197	\$ 135,088,197	\$ -	\$ -
	2020			
Investments				
Money market funds	\$ 1,439,717	\$ 1,439,717	\$ -	\$ -
Mutual funds – equity	14,143,856	14,143,856	-	-
Mutual funds – fixed	126,235,023	126,235,023		
Total	\$ 141,818,596	\$ 141,818,596	\$ -	\$ -

Plan assets are held by a bank-administered trust fund, which invests the plan assets in accordance with the provisions of the plan agreement. The plan agreements permit investment in common stocks, corporate bonds and debentures, U.S. government securities, certain insurance contracts, real estate, and other specified investments, based on certain target allocation percentages.

Plan assets are rebalanced quarterly. The postretirement health care plan is conducted on a pay-as-you-go basis, thus there are no assets available for investment. At September 30, 2021 and 2020, plan assets by category are as follows:

	Pension Benefits	
	2021	2020
Equity securities	10%	10%
Debt securities	79%	89%
Balanced securities	10%	0%
Cash and cash equivalents	1%	1%
	100%	100%

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Defined Contribution Plan

RRMC has a defined contribution plan which they contribute to the plan on behalf of each eligible employee a percentage of employee's eligible compensation based on age and years of service to the plan, as follows:

<u>Combined Age and Years of Service</u>	<u>Percentage of Compensation</u>
Less than 40 years	4%
40 – 59 years	6%
60 – 79 years	8%
80 + years	10%

For employees hired on or after April 4, 2004, RRMC contributes to the plan on behalf of each eligible employee an amount equal to 4 percent of the eligible employee's compensation.

403(b) Plan – Employer Matching Contributions

Employees may elect to contribute from 1 percent to 100 percent of their compensation to the tax sheltered 403(b) plan. Employer matching contributions are made equal to 25 percent of a participant's contribution to the plan, up to a maximum of 1 percent compensation for all employees.

Pension plan expense for these two plans for the years ended September 30, 2021 and 2020, was \$5,780,789 and \$5,628,189, respectively.

Note 18: Executive Option Plan

Prior to 2002, RRMC offered an Executive Option Plan for certain senior management and employed physicians. Through the plan, administered under Section 83 of the Internal Revenue Code, a designated group of employees is granted options to purchase shares, through salary reduction, of one or more mutual funds at a price that is equal to a specified percentage of the fair value of the shares on the date of the exercise. During 2002, contributions to the plan were frozen and no future options are expected to be granted. At September 30, 2021 and 2020, plan assets amounted to \$2,570,174 and \$2,069,303, respectively.

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Note 19: Related Party Transactions

A receivable from RRHS, RRMC's parent organization, of \$3,391,055 and \$3,081,168 is recorded at September 30, 2021 and 2020, respectively. RRMC has advanced RRHS funds to cover operating expenses.

Note 20: Community Health Centers of the Rutland Region, Inc.

Effective December 1, 2013, RRHS entered into an agreement to provide Community Health Centers of the Rutland Region, Inc. a community benefit grant over a period of fifty-eight months from December 1, 2013, to September 30, 2018. The agreement was renewed during the year ended September 30, 2019, for a period of thirty-six months from October 1, 2018, to September 20, 2021, and then was extended through December 31, 2021. These payments are being made monthly and range from \$20,123 to \$21,348 for a total grant of \$746,364.

For the years ended September 30, 2021 and 2020, \$256,176 and \$248,712, respectively, was expended for the grant award from RRMC and is included in RRMC's general operating expenses.

Note 21: Disclosures About Fair Value of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

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

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Recurring Measurements

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

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2021				
Investments				
Money market funds	\$ 3,254,317	\$ 3,254,317	\$ -	\$ -
Mutual funds – equity	107,340,620	107,340,620	-	-
Mutual funds – fixed	68,687,416	68,687,416	-	-
Interest in assets of Vermont				
Community Foundation	389,331	-	-	389,331
Interest rate swap agreements	(831,839)	-	(831,839)	-
September 30, 2020				
Investments				
Money market funds	\$ 2,193,031	\$ 2,193,031	\$ -	\$ -
Mutual funds – equity	91,523,495	91,523,495	-	-
Mutual funds – fixed	58,908,281	58,908,281	-	-
Interest in assets of Vermont				
Community Foundation	315,499	-	-	315,499
Interest rate swap agreements	(2,318,882)	-	(2,318,882)	-

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

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Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections, and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

The value of certain investments, classified as alternative investments, is determined using net asset value (or its equivalent) as a practical expedient. Investments for which RRMC expects to have the ability to redeem its investments with the investee within 12 months after the reporting date are categorized as Level 2. Investments for which RRMC does not expect to be able to redeem its investments with the investee within 12 months after the reporting date are categorized as Level 3.

Fair value determinations for Level 3 measurements of securities are the responsibility of management. Management contracts with a pricing specialist to generate fair value estimates on a monthly or quarterly basis. Management challenges the reasonableness of the assumptions used and reviews the methodology to ensure the estimated fair value complies with accounting standards generally accepted in the United States.

Interest in Assets of Vermont Community Foundation

Fair value is estimated at the present value of the future distributions expected to be received over the term of the agreement. Due to the nature of valuation inputs, the interest is classified within Level 3 of the hierarchy.

Interest Rate Swap Agreements

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

Realized and unrealized gains and losses are included in excess of revenues over expenses.

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Note 22: Contract Pharmacy Program

RRMC participates in the 340B outpatient drug discount program administered by the Office of Pharmacy Affairs of the Health Resources and Services Administration (HRSA). In 2011, RRMC began operating a 340B retail drug program by contracting with local pharmacies. The net revenue from this program for the years ended September 30, 2021 and 2020, respectively, was approximately \$6,328,000 and \$7,716,000 greater than the cost of operating the program. RRMC continues to experience adverse impacts to this program due to a limited group of manufacturers no longer recognizing 340B drug pricing on contract pharmacy agreement pharmaceuticals. Laws and regulations surrounding the 340B drug program are complex and are subject to interpretation and change.

Note 23: Significant Estimates and Concentrations

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

Variable Consideration

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

Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in *Notes 1* and *5*.

Investments

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

Collective Bargaining Agreement

Approximately 22 percent of RRMC's employees are covered by a collective bargaining agreement. The collective bargaining agreement covering these employees expires September 30, 2024.

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Asset Retirement Obligation

RRMC has recorded a liability for its conditional asset retirement obligations related to both its administrative and patient care buildings. Additionally, there remains a liability that has not been recognized in the accompanying financial statements because the range of time over which RRMC may settle is unknown and cannot be reasonably estimated. RRMC will recognize a liability when sufficient information is available to reasonably estimate fair value.

Derivative Financial Instruments

As discussed in *Note 9*, RRMC has entered into interest rate swap agreements and has estimated the fair value of the swaps at September 30, 2021 and 2020. Due to the level of risk associated with the swaps it is reasonably possible that changes in the fair value will occur in the near term and that such change could materially affect the amounts reported in the accompanying balance sheets.

Pension Benefit Obligations

RRMC has a noncontributory defined benefit pension plan whereby it agrees to provide certain postretirement benefits to eligible employees. The plan is frozen and is no longer actively accruing additional benefits for participants. The benefit obligation is the actuarial present value of all benefits attributed to service rendered prior to the valuation date based on the linear method. It is reasonably possible that events could occur that would change the estimated amount of this liability materially in the near term.

Note 24: Construction in Progress

The construction in progress at September 30, 2021, primarily relates to numerous smaller projects. To date, RRMC has spent approximately \$928,000 on these projects, and anticipates spending an additional \$6,000,000 to complete these projects. The current construction in progress projects are anticipated to be funded with current operating and investing cash flows.

Project Description	Estimated Total Cost	Estimated Remaining to be Spent	Estimated Completion Date
Window Replacement	\$ 364,277	\$ 116,399	July 2022
Psych Renovations	\$ 2,867,086	\$ 2,817,590	March 2022
Albert Cree Parking Lot	\$ 403,593	\$ 138,714	May 2022
MRI Replacement	\$ 3,116,567	\$ 3,107,437	CoN Pending
Xeleris Server Upgrade	\$ 10,000	\$ 2,000	February 2022
HVAC S3 and S6 Controls Upgrade	\$ 41,800	\$ 21,540	November 2021
Video Equipment For Marketing & Communications	\$ 5,243	\$ 3,469	November 2021
ACU Door Replacement	\$ 19,366	\$ 14,996	February 2022
Registration at 215 Stratton RD	\$ 19,156	\$ 13,784	December 2021
SPD Floor Replacement	\$ 21,411	\$ 2,751	November 2021

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Note 25: Contingent Liabilities

Litigation

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

Note 26: Other Liabilities

Other liabilities consisted of the following at September 30, 2021 and 2020:

	2021	2020
Employee option payable	\$ 2,570,174	\$ 2,069,303
Accrued claims liabilities	3,672,772	2,922,777
Asset retirement obligations	610,514	611,678
Interest rate swap agreements	831,839	2,318,882
Other	115,450	102,820
	<u>\$ 7,800,749</u>	<u>\$ 8,025,460</u>

Note 27: Future Changes in Accounting Principles

Accounting for Leases

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

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Accounting for Financial Instruments – Credit Losses

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

Note 28: COVID-19

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

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

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

In addition, RRMC received approximately \$20,420,000 in general and targeted Provider Relief Fund distributions, both as provided for under the CARES Act, \$25,000,000 of accelerated Medicare payments and other COVID-19 funding of approximately \$973,000.

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

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

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Provider Relief Funds

During the years ended September 30, 2021 and 2020, RRMC received \$0 and \$19,660,000, respectively, of distributions from the CARES Act Provider Relief Fund (collectively the “Provider Relief Fund”). These distributions from the Provider Relief Fund are not subject to repayment, provided RRMC is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses or lost revenue attributable to COVID-19, as defined by the Department of Health and Human Services.

RRMC has elected to account for such payments as conditional contributions in accordance with ASC Topic 958-605 – *Revenue Recognition*. Payments are recognized as contribution revenue once the applicable terms and conditions required to retain the funds have been substantially met. Based on an analysis of the compliance and reporting requirements of the Provider Relief Fund and the effect of the pandemic on RRMC’s revenues and expenses through year-end, RRMC recognized approximately \$14,300,000 and \$6,115,000, respectively, during the years ended September 30, 2021 and 2020, related to the distributions from the Provider Relief Fund, and these payments are recorded as other revenue in the accompanying statements of operations. The unrecognized amount of distributions from the Provider Relief Fund are recorded as deferred grant revenue in the accompanying balance sheets. Guidance for reporting use of Provider Relief Fund payments received has changed significantly since distributions were authorized through the CARES Act in March 2020.

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

Vermont Grants

RRMC received a grant through the state of Vermont for \$0 and \$13,912,676 during the year ended September 30, 2021 and 2020, respectively, from the Health Care Provider Stabilization Grant program and the Hazard Pay program. This grant is included in other operating revenues in the accompanying financial statements.

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Federal Emergency Management Agency (FEMA) Assistance

On March 13, 2020, a nationwide emergency declaration was declared for COVID-19. Under this emergency declaration, and subsequent major disaster declarations, certain organizations are eligible to apply for funding through FEMA's public assistance program. Funds are to be utilized to combat certain expenses to navigate the impact of the COVID-19 outbreak.

During the year ended September 30, 2021, RRMC received and recognized approximately \$747,846 of funds. These funds are included in other operating revenues in the accompanying financial statements. No such contribution took place for the year ended September 30, 2020.

Medicare Accelerated and Advanced Payment Program

During the year ended September 30, 2020, RRMC requested accelerated Medicare payments as provided for in the CARES Act, which allows for eligible health care facilities to request up to six months of advance Medicare payments for acute care health systems or up to three months of advance Medicare payments for other health care providers. These amounts are expected to be recaptured by CMS according to the payback provisions.

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

During the year ended September 30, 2020, RRMC received approximately \$25,000,000 from these accelerated Medicare payment requests. During the years ended September 30, 2021 and 2020, Medicare has applied approximately \$4,700,000 and \$0, respectively, from these accelerated Medicare payment requests against filed claims. The unapplied amount of accelerated Medicare payment requests are recorded under contract liabilities in the accompanying balance sheets.

Note 29: Subsequent Events

Subsequent to September 30, 2021, RRMC received a distribution from the *American Rescue Plan* of \$5,931,361 and an additional distribution of \$715,227 from the Provider Relief Funds. Additionally, the System received a distribution from the Federal Emergency Management Agency, through the Vermont State Department of Public Safety of \$727,276. These funds were received to support ongoing COVID-19 response efforts. The amounts have not been included within the financial statements as of September 30, 2021.

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