




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

**Independent Auditor's Report and
Financial Statements**

September 30, 2023 and 2022



The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
September 30, 2023 and 2022

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Independent Auditor's Report

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

Opinion

We have audited the 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, 2023, and 2022, and the related statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements 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, 2023, and 2022, and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Emphasis of Matter

As discussed in *Note 10* to the financial statements, in 2023, RRMC adopted ASU 2016-02, *Leases* (Topic 842). Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The Rutland Hospital, Inc. d/b/a Rutland Regional Medical Center's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Rutland Hospital, Inc. d/b/a Rutland Regional Medical Center's ability to continue as a going concern for a reasonable period of time.

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

FORVIS,LLP

Springfield, Missouri
January 26.2024

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Balance Sheets
September 30, 2023 and 2022

Assets

	2023	2022
Current Assets		
Cash and cash equivalents	\$ 9,949,317	\$ 22,964,286
Patient accounts receivable	32,989,525	23,867,766
Other receivables	7,566,938	7,672,056
Due from affiliates	2,243,456	4,446,390
Supplies	2,946,225	2,919,757
Prepaid expenses and other	4,334,226	4,108,463
Prepaid pension asset	5,147,465	-
Total current assets	<u>65,177,152</u>	<u>65,978,718</u>
Assets Limited As To Use	<u>175,503,744</u>	<u>157,421,978</u>
Property and Equipment, At Cost		
Land and land improvements	5,463,426	5,389,975
Buildings and leasehold improvements	139,243,899	135,597,372
Equipment	162,557,105	156,404,879
Construction in progress	2,044,734	1,576,558
	<u>309,309,164</u>	<u>298,968,784</u>
Less accumulated depreciation	213,914,696	203,928,014
	<u>95,394,468</u>	<u>95,040,770</u>
Other Assets		
Prepaid pension asset	-	6,176,654
Right-of-use assets - operating leases	6,374,745	-
Other	7,563,140	4,269,970
	<u>13,937,885</u>	<u>10,446,624</u>
Total assets	<u>\$ 350,013,249</u>	<u>\$ 328,888,090</u>

Liabilities and Net Assets

	2023	2022
Current Liabilities		
Current maturities of long-term debt	\$ 3,711,016	\$ 3,372,765
Current portion of operating lease liabilities	886,963	-
Accounts payable and accrued expenses	12,111,526	12,173,827
Accrued compensation and related taxes	12,115,039	14,160,374
Current portion – contract liabilities	-	8,225,632
Estimated amounts due to and advances from third-party payors	<u>10,172,879</u>	<u>12,186,968</u>
Total current liabilities	38,997,423	50,119,566
Other Liabilities	19,613,700	15,129,577
Operating Lease Liabilities	5,487,782	-
Long-Term Debt	<u>38,676,058</u>	<u>42,201,717</u>
Total liabilities	<u>102,774,963</u>	<u>107,450,860</u>
Net Assets		
Without donor restrictions	243,086,896	217,775,675
With donor restriction	<u>4,151,390</u>	<u>3,661,555</u>
Total net assets	<u>247,238,286</u>	<u>221,437,230</u>
Total liabilities and net assets	<u>\$ 350,013,249</u>	<u>\$ 328,888,090</u>

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Statements of Operations
Years Ended September 30, 2023 and 2022

	2023	2022
Revenues, Gains, and Other Support Without Donor Restrictions		
Patient service and fixed payment revenue	\$ 325,028,245	\$ 305,367,564
Provider relief funds	-	6,646,588
Other revenue	21,044,327	19,437,866
Net assets released from restrictions used for operations	500,285	639,800
Total revenues, gains, and other support without donor restrictions	346,572,857	332,091,818
Expenses and Losses		
Salaries and benefits	195,247,727	207,694,667
Supplies and other	129,613,560	122,688,660
Depreciation and amortization	12,845,571	12,578,273
Interest	1,443,378	1,413,988
Total expenses and losses	339,150,236	344,375,588
Operating Income (Loss)	7,422,621	(12,283,770)
Other Income (Expense)		
Investment return, net	4,951,834	4,059,869
Contributions received and other	156,293	111,352
Loss on pension settlement	(24,262,664)	-
Other components of net periodic pension costs	(3,363,071)	280,435
Change in unrealized gains and losses on securities	13,584,337	(35,227,244)
Gain on interest rate swap agreements	11,234	820,605
Total other income (expense)	(8,922,037)	(29,954,983)
Excess (Deficiency) of Revenues Over Expenses	(1,499,416)	(42,238,753)
Net assets released from restriction for purchase of property and equipment	-	1,032,000
Contributions for purchase of property and equipment	366,708	-
Change in defined benefit pension plan gains and losses	26,443,929	(1,898,341)
Increase (Decrease) in Net Assets Without Donor Restrictions	\$ 25,311,221	\$ (43,105,094)

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Statements of Changes in Net Assets
Years Ended September 30, 2023 and 2022

	2023	2022
Net Assets Without Donor Restrictions		
Excess (deficiency) of revenues over expenses	\$ (1,499,416)	\$ (42,238,753)
Net assets released from restriction used for purchase of property and equipment	-	1,032,000
Contributions for purchase of property and equipment	366,708	-
Change in defined benefit pension plan	26,443,929	(1,898,341)
Increase (decrease) in net assets without donor restrictions	25,311,221	(43,105,094)
Net Assets With Donor Restrictions		
Contributions received	772,020	854,144
Investment return, net	218,100	(443,712)
Net assets released from restrictions	(500,285)	(1,671,800)
Increase (decrease) in net assets with donor restrictions	489,835	(1,261,368)
Change in Net Assets	25,801,056	(44,366,462)
Net Assets, Beginning of Year	221,437,230	265,803,692
Net Assets, End of Year	\$ 247,238,286	\$ 221,437,230

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Statements of Cash Flows
Years Ended September 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Operating Activities		
Change in net assets	\$ 25,801,056	\$ (44,366,462)
Items not requiring (providing) operating cash flow		
Depreciation and amortization	12,845,571	12,578,273
Gain on disposal of property and equipment	(140,000)	(8,675)
Net loss (gain) on investments	(14,611,060)	35,642,539
Restricted contributions received	(772,020)	(854,144)
Change in defined benefit pension and postretirement benefit plans	(26,443,929)	1,898,341
Loss on pension settlement	24,262,664	-
Change in fair value of interest rate swap agreements and loss on swap termination	(11,234)	(820,605)
Changes in		
Patient accounts receivable	(9,121,759)	(1,297,824)
Other receivables	103,274	(64,855)
Contract liabilities	(8,225,632)	(12,084,906)
Estimated third-party settlements and advances	(2,014,089)	(391,029)
Other current assets and liabilities	2,080,967	1,754,074
	<u>3,753,809</u>	<u>(8,015,273)</u>
Net cash provided by (used in) operating activities		
Investing Activities		
Proceeds from disposition of securities	1,822,723	220,813
Purchases of securities	(4,605,747)	(4,135,014)
Net advances from (to) related parties	2,202,934	(1,034,756)
Proceeds from sale of property and equipment	140,000	24,999
Purchase of property and equipment	(13,225,138)	(7,538,363)
	<u>(13,665,228)</u>	<u>(12,462,321)</u>
Net cash used in investing activities		
Financing Activities		
Principal payments on long-term debt	(3,189,732)	(3,204,545)
Proceeds from restricted contributions	773,864	853,705
	<u>(2,415,868)</u>	<u>(2,350,840)</u>
Net cash used in financing activities		
Decrease in Cash, Cash Equivalents, Restricted Cash, and Restricted Cash Equivalents	(12,327,287)	(22,828,434)
Cash, Cash Equivalents, Restricted Cash, and Restricted Cash Equivalents, Beginning of Year	<u>26,933,852</u>	<u>49,762,286</u>
Cash, Cash Equivalents, Restricted Cash, and Restricted Cash Equivalents, End of Year	<u>\$ 14,606,565</u>	<u>\$ 26,933,852</u>

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Statements of Cash Flows
Years Ended September 30, 2023 and 2022

	2023	2022
Reconciliation of Cash, Cash Equivalents, Restricted Cash, and Restricted Cash Equivalents to the Balance Sheets		
Cash and cash equivalents	\$ 9,949,317	\$ 22,964,286
Workers' compensation trust fund	2,420,987	2,592,766
Internally designated	2,236,261	1,376,800
	\$ 14,606,565	\$ 26,933,852
Supplemental Cash Flows Information		
Interest paid	\$ 1,383,300	\$ 1,455,733
Property and equipment purchases in accounts payable	\$ 1,727,269	\$ 1,693,163

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2023 and 2022

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. Uninvested cash and cash equivalents included in investments accounts, including endowment accounts and assets limited as to use, are not considered to be cash and cash equivalents. At September 30, 2023 and 2022, 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, 2023, 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

The Rutland Hospital, Inc.
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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.

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) of 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, (3) deferred compensation plan assets, and (4) 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.

Patient Accounts Receivable

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

The Rutland Hospital, Inc.
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Notes to Financial Statements
September 30, 2023 and 2022

responsibility for copays, 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.

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, 2023 and 2022.

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.

The Rutland Hospital, Inc.
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September 30, 2023 and 2022

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, 2023 and 2022.

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

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.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
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Fixed Prospective Revenue

Beginning January 1, 2019, RRMC began participating in the Vermont Medicaid Next Generation Model Accountable Care Organization (ACO) Pilot Program, and to receive monthly fixed prospective payments for services provided by the Hospital and Hospital-owned physician practices. 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. 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.

Beginning January 1, 2021, RRMC began participating in the Vermont Medicare Accountable Care Organization Initiative and other commercial payor risk programs. RRMC receives a monthly Medicare fixed prospective payment for services provided by the Hospital and Hospital-owned physician practices. The Medicare program monthly fixed prospective payment is settled annually at fee for service rates. The commercial payor programs continue fee for service payments and settlements vary.

The revenues for the ACO are recorded on the patient service fixed payment revenue line on the statements of operations.

The ACO programs place RRMC 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, however, due to the COVID-19 pandemic and the public health emergency, the downside risk corridor was waived for calendar years 2021 and 2022. The maximum potential gain or loss for calendar 2023 is \$3,702,743. As of September 30, 2023 and 2022, RRMC has recorded a receivable related to prior year settlements of \$1,094,919 and \$0, respectively, which is recorded within estimated amounts due to and advances from third-party payors.

Fee-for-service (FFS) payments continue for all providers and payers who are not a part of the ACO, and for all services that are not included in the fixed prospective payment (FPP).

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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September 30, 2023 and 2022

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, 2023, did not include Provider Relief Funds. Conditional contributions at September 30, 2023 and 2022, include Provider Relief Fund amounts of approximately \$0 and \$6,646,588, respectively, (see *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 \$220,000 and \$200,000 at September 30, 2023 and 2022, respectively.

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 (Deficiency) of Revenues Over Expenses

The statements of operations include excess (deficiency) of revenues over expenses. Changes in net assets without donor restrictions which are excluded from excess (deficiency) 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.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
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Revisions

Certain immaterial revisions have been made to the 2022 financial statements disclosure of the in house accounts receivable amount (*Note 2*) and the disclosure of general and administrative salaries and wages included in the functional expenses disclosure (*Note 15*). These revisions did not have an impact on the financial statements.

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.

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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.

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 (OCV) 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 OneCare 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.

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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.

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, 2023 and 2022, RRMC has a liability for refunds to third-party payors and patients recorded of approximately \$403,010 and \$788,290, respectively, 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, 2023 and 2022, 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.

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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.)
- Method of reimbursement

The composition of patient care service revenue and fixed payment revenue by primary payor for the years ended September 30, 2023 and 2022, is as follows:

	2023	2022
Medicare	\$ 122,240,653	\$ 112,264,107
Medicaid	38,089,986	41,491,187
Other third-party payors	164,282,957	141,961,980
Patients	414,649	9,650,290
	\$ 325,028,245	\$ 305,367,564

The composition of patient care service revenue and fixed payment revenue based on lines of business for the years ended September 30, 2023 and 2022, is as follows:

	2023	2022
Hospital inpatient	\$ 83,251,135	\$ 93,794,081
Hospital outpatient	212,449,738	185,473,163
Physician services	29,327,372	26,100,320
	\$ 325,028,245	\$ 305,367,564

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The composition of patient care service revenue and fixed payment revenue based on method of reimbursement for the years ended September 30, 2023 and 2022, is as follows:

	2023	2022
Method of reimbursement		
Fee for service	\$254,851,175	\$225,556,730
Fixed payment revenue and risk sharing through OneCare Vermont	70,177,070	79,810,834
	\$325,028,245	\$305,367,564

All revenue is related to health care services which are transferred and rendered over time, except for retail and 340B pharmacy contract revenue of approximately \$16,346,000 and \$14,135,000 for the years ended September 30, 2023 and 2022, respectively, which is point in time.

Contract Balances

The following tables provide information about RRMC's receivables and liabilities from contracts with customers:

	Contract Assets	
	2023	2022
Accounts receivable, beginning of year	\$ 23,867,766	\$ 22,569,942
Accounts receivable, end of year	32,989,525	23,867,766
In house accounts receivable, end of year	9,059,353	5,074,182

	Contract Liabilities	
	2023	2022
Contract liabilities, beginning of year	\$ 8,225,632	\$ 20,310,538
Contract liabilities, end of year	-	8,225,632

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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, 2023 and 2022, was:

	<u>2023</u>	<u>2022</u>
Medicare	38%	32%
Medicaid	3%	4%
Other third-party payors and patients	<u>59%</u>	<u>64%</u>
	<u>100%</u>	<u>100%</u>

Note 4: Investments and Investment Return

Assets Limited As To Use

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

	<u>2023</u>	<u>2022</u>
Cash	\$ 4,657,248	\$ 3,969,566
Mutual funds – equity	99,865,368	85,076,229
Mutual funds – fixed	60,429,148	59,315,747
Deferred compensation agreement plan assets – mutual funds	10,205,964	8,736,744
Interest in assets of Vermont Community Foundation	319,511	293,339
Interest receivable	<u>26,505</u>	<u>30,353</u>
	175,503,744	157,421,978
Less worker’s compensation trust fund	2,820,987	2,992,766
Less deferred compensation agreement plan assets	10,205,964	8,736,744
Less restricted by donor	<u>4,135,767</u>	<u>3,635,957</u>
	158,341,026	142,056,511
Internally designated	<u>\$ 158,341,026</u>	<u>\$ 142,056,511</u>

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Total investment return is comprised of the following:

	2023	2022
Interest and dividend income, net of investment expenses	\$ 4,143,211	\$ 4,031,452
Realized gains (losses) on trading securities	928,696	(7,573)
Unrealized gains (losses) on trading securities	13,682,364	(35,634,966)
	\$ 18,754,271	\$ (31,611,087)

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

	2023	2022
Net assets without donor restrictions		
Investment return, net	\$ 4,951,834	\$ 4,059,869
Change in unrealized gains and losses on trading securities	13,584,337	(35,227,244)
Net assets with donor restrictions	218,100	(443,712)
	\$ 18,754,271	\$ (31,611,087)

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.

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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 \$5,573,000 and \$2,310,000, respectively, of estimated insurance coverage receivables and recorded \$6,850,000 and \$3,790,000, respectively, of estimated insurance liabilities as of September 30, 2023 and 2022. 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 ended September 30, 2023 and 2022. Actual results could differ from these estimates.

Estimated employee health insurance and dental claim liabilities recorded by RRMC totaled \$881,657 and \$823,129 as of September 30, 2023 and 2022, 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 \$2,478,000 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, 2023 and 2022, 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 \$319,511 and \$293,339 at September 30, 2023 and 2022, respectively (see *Note 4*).

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Note 7: Lines of Credit

RRMC had a \$5,000,000 revolving bank line of credit that expired July 31, 2022. RRMC also had a \$20,000,000 revolving bank line of credit which expired June 17, 2022. At September 30, 2022 there was \$0 borrowed against these lines. The lines are collateralized by substantially all of RRMC's revenues without donor restrictions. Interest varied 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, 2022.

During 2023, these two lines of credit were consolidated into one line of credit for \$25,000,000, expiring January 20, 2024. The line bears interest based on the SOFR Reference Rate plus 1.8645 percent with interest due monthly. At September 30, 2023 there was \$0 borrowed against this line of credit. At September 30, 2023, the interest rate was 4% percent. The line of credit is collateralized by substantially all of RRMC's revenues without donor restrictions. Subsequent to year-end, this line of credit was renewed through January 20, 2025.

Note 8: Long-Term Debt

	2023	2022
Vermont Educational and Health Buildings Financing Agency (VEHBFA) Hospital Revenue Bonds, Rutland Regional Medical Center Project Series 2013A (A)	\$ 9,979,048	\$ 11,914,133
Note payable, bank (B)	81,026	142,389
USDA loans (C)	27,184,072	27,733,853
Note payable, bank (D)	3,060,016	3,397,490
Note payable, bank (E)	2,773,798	3,079,675
	43,077,960	46,267,540
Less unamortized costs of issuance	690,886	693,058
Less current maturities	3,711,016	3,372,765
	\$ 38,676,058	\$ 42,201,717

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- (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 in 2026 in the amount of approximately \$4,500,000, if not called then scheduled payments through 2033. Effective February 1, 2023, the interest rate is based on 70 percent of the sum of the term SOFR, plus 0.1148 percent of the term SOFR plus 118 basis points. The bonds are secured by gross receipts of RRMC. The effective interest rate was 4.64 percent and 2.62 percent at September 30, 2023 and 2022, respectively.

RRMC had entered into an interest rate swap agreement to help mitigate exposure to future changes in interest rates on the Series 2013A Bonds, which expired on September 1, 2023, and was not renewed. See *Note 9* for additional discussion on the interest rate swap agreement.

- (B) 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.
- (C) 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.
- (D) Loan payable in the amount of \$3,698,164, secured by real property and guaranteed by the USDA, bearing a variable interest rate based on a formula using SOFR of 2.25 and 1.1 percent, respectively, with varying principal and interest payments due monthly beginning November 1, 2021, and continuing until the maturity date of October 1, 2031.
- (E) Loan payable in the amount of \$3,352,197, secured by real property and guaranteed by the USDA, bearing a variable interest rate based on a formula using SOFR of 2.25 and 1.1 percent, respectively, with varying principal and interest payments due monthly beginning November 1, 2021, and continuing until the maturity date of October 1, 2031.

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.

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Aggregate annual maturities of long-term debt at September 30, 2023, are:

2024	\$ 3,711,016
2025	3,601,061
2026	6,501,720
2027	1,312,299
2028	1,342,648
Thereafter	<u>26,609,216</u>
	<u>\$ 43,077,960</u>

Note 9: Derivative Financial Instruments

RRMC had entered into an interest rate swap agreement with TD Bank, N.A. in conjunction with the Series 2013A Bonds. The swap agreement expired on September 1, 2023 and was not renewed. The swap agreement provided 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 SOFR 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, 2023 and 2022, the notional amount was \$0 and \$14,814,133, respectively.

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, 2023 and 2022, that were designated as hedging instruments.

	<u>2023</u>	<u>2022</u>
Other Liabilities		
Fair value of interest rate swap agreements	\$ -	\$ 11,234
Interest Expense		
Additional interest expense incurred (received) from interest rate swap agreement	(28,409)	385,884
Other Expense		
Gain recognized in change in interest rate swap agreement	11,234	820,605

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Note 10: Leases

Change in Accounting Principle

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). This ASU requires lessees to recognize a lease liability and a right-of-use (ROU) asset on a discounted basis, for substantially all leases, as well as additional disclosures regarding leasing arrangements. Disclosures are required to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. In July 2018, the FASB issued ASU 2018-11, *Leases* (Topic 842): *Targeted Improvements*, which provides an optional transition method of applying the new lease standard. Topic 842 can be applied using either a modified retrospective approach at the beginning of the earliest period presented or, as permitted by ASU 2018-11, at the beginning of the period in which it is adopted, *i.e.*, the comparatives under ASC 840 option.

RRMC adopted Topic 842 on October 1, 2022 (the effective date), using the comparatives under ASC 840 transition method, which applies Topic 842 at the beginning of the period in which it is adopted. Prior period amounts have not been adjusted in connection with the adoption of this standard. RRMC elected the package of practical expedients under the new standard, which permits entities to not reassess lease classification, lease identification or initial direct costs for existing or expired leases prior to the effective date. RRMC has lease agreements with nonlease components that relate to the lease components. RRMC elected the practical expedient to account for nonlease components and the lease components to which they relate as a single lease component for all. Also, RRMC elected to keep short-term leases with an initial term of 12 months or less off the balance sheet. RRMC did not elect the hindsight practical expedient in determining the lease term for existing leases as of October 1, 2022. RRMC elected the land easement practical expedient. RRMC will not evaluate under Topic 842 land easements that existed or expired before the adoption of Topic 842 that were not previously accounted for as leases under Topic 840.

The most significant impact of adoption was the recognition of operating lease ROU assets and operating lease liabilities of \$7,229,956. The standard did not significantly affect our statements of operations and change in net assets or cash flows.

Accounting Policies

RRMC determines if an arrangement is a lease or contains a lease at inception. Leases result in the recognition of ROU assets and lease liabilities on the balance sheets. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. RRMC determines lease classification as operating or finance at the lease commencement date.

RRMC combines lease and nonlease components, such as common area and other maintenance costs, and in calculating the ROU assets and lease liabilities for its real estate leases. The lease components consist of real estate property. The nonlease components consist of maintenance service for common maintenance areas that RRMC has the ability to use.

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At lease inception, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives. RRMC has made a policy election to use a risk-free rate (the rate of a zero-coupon U.S. Treasury instrument) for the initial and subsequent measurement of all lease liabilities. The risk-free rate is determined using a period comparable with the lease term.

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

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

Nature of Leases

RRMC has entered into the following lease arrangements:

Operating Leases

RRMC leases various buildings for the operation use of the medical center. The building space leased by RRMC expire in various years through 2061. These leases generally contain renewal options for periods ranging from 2 to 57 years and require RRMC to pay all executory cost (property taxes, maintenance, and insurance). Termination of the leases are generally prohibited unless there is a violation under the lease agreement.

All Leases

RRMC has no material related-party leases.

RRMC's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

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Quantitative Disclosures

The lease cost and other required information for the year ended September 30, 2023, are:

Lease cost		
Operating lease cost	\$	<u>855,211</u>
Other information		
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases		855,211
Weighted-average remaining lease term		
Operating leases		10.11 years
Weighted-average discount rate		
Operating leases		4.42%

Future minimum lease payments and reconciliation to the balance sheet at September 30, 2023, are as follows:

	Operating Leases
	<hr/>
2024	\$ 1,150,299
2025	1,081,867
2026	973,067
2027	740,035
2028	753,453
Thereafter	3,330,304
Total future undiscounted lease payments	<hr/> 8,029,025
Less imputed interest	1,654,280
Lease liabilities	<hr/> <u>\$ 6,374,745</u> <hr/>

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As previously disclosed in the 2021 financial statements, which followed lease accounting prior to adoption of ASC 842, RRMC had rental expense under operating lease agreements totaling \$1,274,019 for the year ended September 30, 2022.

Note 11: Net Assets With Donor Restrictions

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

	2023	2022
Subject to expenditure for specified purpose		
Indigent care or operating room equipment	\$ 119,625	\$ 87,333
Capital	9,974	14,312
Special purpose endowments	1,723,579	1,258,781
Various departments and other	401,534	486,202
	2,254,712	1,846,628
Subject to appropriation and expenditure when a specified event occurs	881,803	826,224
Not subject to appropriation or expenditure		
Beneficial interests in perpetual trusts	695,364	695,364
Beneficial interests in assets held by Foundation	319,511	293,339
	1,014,875	988,703
	\$ 4,151,390	\$ 3,661,555

During the years ended September 30, 2023 and 2022, net assets of \$500,285 and \$639,800, 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 \$1,032,000 were released from donor restriction for the purchase of capital assets during the years ended September 30, 2023 and 2022, respectively.

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Note 12: 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, 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

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The composition of net assets by type of endowment fund at September 30, 2023 and 2022, was:

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 881,803	\$ 881,803
Total endowment funds	\$ -	\$ 881,803	\$ 881,803
	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 826,224	\$ 826,224
Total endowment funds	\$ -	\$ 826,224	\$ 826,224

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Changes in endowment net assets for the years ended September 30, 2023 and 2022, were:

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of the year	\$ -	\$ 826,224	\$ 826,224
Investment return and net appreciation	-	152,612	152,612
Appropriation of endowment net assets for expenditure	-	(97,033)	(97,033)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 881,803</u>	<u>\$ 881,803</u>
	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of the year	\$ -	\$ 1,358,194	\$ 1,358,194
Investment return and net appreciation	-	(496,432)	(496,432)
Appropriation of endowment net assets for expenditure	-	(35,538)	(35,538)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 826,224</u>	<u>\$ 826,224</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, 2023 and 2022. 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 13: Liquidity and Availability

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

	2023	2022
Financial assets at year-end		
Cash and cash equivalents	\$ 9,949,317	\$ 22,964,286
Patient accounts receivable	32,989,525	23,867,766
Other receivables	7,566,938	7,672,056
Assets limited as to use	175,503,744	157,421,978
Pledges receivable	6,263	8,107
Due from affiliates	2,243,456	4,446,390
Total financial assets	<u>228,259,243</u>	<u>216,380,583</u>
Less amounts not available to be used within one year		
Funds held by trustees and deferred compensation plan assets	13,026,951	11,729,510
Donor restricted with liquidity horizons greater than one year	<u>4,135,767</u>	<u>3,635,957</u>
Financial assets not available to be used within one year	<u>17,162,718</u>	<u>15,365,467</u>
Financial assets available to meet general expenditures within one year	<u>\$211,096,525</u>	<u>\$201,015,116</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.

Note 14: Charity Care

The costs of charity care provided under RRMC's charity care policy were approximately \$1,705,000 and \$1,823,000 for 2023 and 2022, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

Note 15: 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 schedules present the natural classification of expenses by function as follows:

	2023			Total
	Health Care Services	General and Administrative	Fundraising Expenses	
Salaries and wages	\$ 145,077,427	\$ 14,652,609	\$ 333,414	\$ 160,063,450
Employee benefits	31,890,103	3,220,884	73,290	35,184,277
Total personnel expenses	<u>176,967,530</u>	<u>17,873,493</u>	<u>406,704</u>	<u>195,247,727</u>
Supplies and other	81,116,257	48,354,518	142,785	129,613,560
Depreciation and amortization	11,103,092	1,736,268	6,211	12,845,571
Interest	<u>1,247,586</u>	<u>195,094</u>	<u>698</u>	<u>1,443,378</u>
Total expenses	<u><u>\$ 270,434,465</u></u>	<u><u>\$ 68,159,373</u></u>	<u><u>\$ 556,398</u></u>	<u><u>\$ 339,150,236</u></u>

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	2022			Total
	Health Care Services	General and Administrative	Fundraising Expenses	
Salaries and wages	\$ 153,826,948	\$ 16,181,933	\$ 349,258	\$ 170,358,139
Employee benefits	33,762,316	3,497,553	76,659	37,336,528
Total personnel expenses	<u>187,589,264</u>	<u>19,679,486</u>	<u>425,917</u>	<u>207,694,667</u>
Supplies and other	72,791,689	49,792,609	104,362	122,688,660
Depreciation and amortization	10,917,451	1,654,715	6,107	12,578,273
Interest	<u>1,227,286</u>	<u>186,015</u>	<u>687</u>	<u>1,413,988</u>
Total expenses	<u>\$ 272,525,690</u>	<u>\$ 71,312,825</u>	<u>\$ 537,073</u>	<u>\$ 344,375,588</u>

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, 2023, are summarized as follows:

2024	\$ 12,434,385
2025	12,412,311
2026	12,553,758
2027	12,680,463
2028	12,834,720
Thereafter	<u>16,359,558</u>
	<u>\$ 79,275,195</u>

Expenses under this agreement totaled \$12,409,615 and \$13,260,405 for the years ended September 30, 2023 and 2022, respectively.

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Note 17: Pension Plans

Defined Benefit Plans

RRMC had a noncontributory defined benefit pension 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.

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.

In June 2022, RRMC approved the termination of the defined benefit pension plan. On September 18, 2023, RRMC transferred substantially all the plan assets to an insurance company for annuitization. The remaining assets will be held in a trust account until March 2024, at which time they will be transferred to operations and available for use. As a result, RRMC recognized a loss of \$24,262,664 in other income (loss) in the accompanying statement of operations.

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

	2023	2022
Benefit obligation	\$ 582,456	\$ 92,937,395
Fair value of plan assets	5,729,921	99,114,049
Funded status	\$ 5,147,465	\$ 6,176,654

Assets and liabilities recognized in the balance sheets:

	2023	2022
Current asset	\$ 5,147,465	\$ -
Noncurrent asset	-	6,176,654

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

	Pension Benefits	
	2023	2022
Net loss	\$ -	\$ 26,443,929

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The accumulated benefit obligation for the defined benefit pension plan was \$582,456 and \$92,937,395 at September 30, 2023 and 2022, respectively.

Other significant balances and costs are:

	Pension Benefits	
	2023	2022
Benefit cost (credit)	\$ 27,473,118	\$ (480,202)
Benefits paid	11,456,670	6,804,405

The following amounts have been recognized in the statements of operations and changes in net assets for the years ended September 30, 2023 and 2022:

	Pension Benefits	
	2023	2022
Amounts arising during the period		
Net loss (gain)	\$ (48,036)	\$ 3,271,073
Amortization of net loss	2,133,229	1,372,732

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 \$0.

Significant assumptions include:

	Pension Benefits	
	2023	2022
Weighted average assumptions used to determine benefit obligations		
Discount rate	N/A	5.75%
Rate of compensation increase	N/A	N/A
Weighted average assumptions used to determine benefit costs		
Discount rate	5.75%	2.75%
Expected return on plan assets	4.25%	4.00%

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.

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The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of September 30, 2023:

2024	\$ 582,456
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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 RPMC's pension plan assets at September 30, 2023 and 2022, 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)
	2023			
Investments				
Money market funds	\$ 5,729,921	\$ 5,729,921	\$ -	\$ -
Total	\$ 5,729,921	\$ 5,729,921	\$ -	\$ -
	2022			
Investments				
Money market funds	\$ 1,712,277	\$ 1,712,277	\$ -	\$ -
Mutual funds – equity	9,530,349	9,530,349	-	-
Mutual funds – fixed	77,562,697	77,562,697	-	-
Common trust funds	10,308,726	10,308,726	-	-
Total	\$ 99,114,049	\$ 99,114,049	\$ -	\$ -

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, 2023 and 2022, plan assets by category are as follows:

	2023	2022
Equity securities	0%	10%
Debt securities	0%	78%
Balanced securities	0%	10%
Cash and cash equivalents	100%	2%
	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, 2023 and 2022, was \$5,743,919 and \$6,156,767, respectively.

Note 18: Executive Option Plan and Deferred Compensation Plans

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, 2023 and 2022, plan assets amounted to \$1,989,965 and \$1,962,473, respectively.

RRMC funds a deferred compensation plan for the benefit of certain highly compensated employees. The trust account assets are classified as investments and a corresponding other long-term liability is recorded in the amount of \$246,985 at September 30, 2022. No amounts were recorded at September 30, 2023.

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RRMC maintains an IRS Code Section 457 plan for the benefit of certain highly compensated employees. The plan allows for employee contributions only. The funded portion of the plan assets was \$10,205,964 and \$8,489,759 at September 30, 2023 and 2022, respectively. The plans assets reported as investments and the associated liability as other long-term liabilities in the accompanying balance sheets.

Note 19: Related Party Transactions

A receivable from RRHS, RRMC's parent organization, of \$2,208,578 and \$4,418,115 is recorded at September 30, 2023 and 2022, 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. The agreement was extended during the year ended September 30, 2022, for a period of thirty-three months from January 1, 2022, to September 30, 2024. These payments are being made monthly and range from \$10,944 to \$19,769 for a total grant of \$441,594.

For the years ended September 30, 2023 and 2022, \$146,605 and \$235,114, 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, 2023 and 2022:

	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)
September 30, 2023				
Assets				
Investments				
Money market funds	\$ 4,657,248	\$ 4,657,248	\$ -	\$ -
Mutual funds – equity	99,865,368	99,865,368	-	-
Mutual funds – fixed	60,429,148	60,429,148	-	-
Total Investments	<u>164,951,764</u>	<u>164,951,764</u>	-	-
Interest in assets of Vermont				
Community Foundation	319,511	-	-	319,511
Deferred compensation assets – mutual funds	10,205,964	10,205,964	-	-
Total assets	<u>\$ 175,477,239</u>	<u>\$ 175,157,728</u>	\$ -	<u>\$ 319,511</u>

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	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)
September 30, 2022				
Assets				
Investments				
Money market funds	\$ 3,969,566	\$ 3,969,566	\$ -	\$ -
Mutual funds – equity	85,076,229	85,076,229	-	-
Mutual funds – fixed	59,315,747	59,315,747	-	-
Total Investments	<u>148,361,542</u>	<u>148,361,542</u>	-	-
Interest in assets of Vermont Community Foundation	293,339	-	-	293,339
Deferred compensation assets – mutual funds	8,736,744	8,736,744	-	-
Total assets	<u>\$ 157,391,625</u>	<u>\$ 157,098,286</u>	\$ -	<u>\$ 293,339</u>
Interest rate swap agreement	(11,234)	-	(11,234)	-

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, 2023.

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.

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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.

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, 2023 and 2022, respectively, was approximately \$5,161,000 and \$4,820,000 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.

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

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 had entered into interest rate swap agreements and has estimated the fair value of the swaps at September 30, 2022. 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. The swap agreement expired on September 1, 2023, and was not renewed.

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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, 2023, primarily relates to numerous smaller projects. RRMC anticipates spending an additional \$5,237,000 to complete these projects. The current construction in progress projects are anticipated to be funded with current operating and investing cash flows over the next fiscal year.

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.

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Note 26: Other Liabilities

Other liabilities consisted of the following at September 30, 2023 and 2022:

	2023	2022
Employee option payable	\$ 1,989,965	\$ 1,962,473
Accrued claims liabilities	6,848,230	3,785,779
Asset retirement obligations	490,931	535,506
Interest rate swap agreement	-	11,234
Deferred compensation plan liability	10,205,964	8,736,744
Other	78,610	97,841
	<u>\$ 19,613,700</u>	<u>\$ 15,129,577</u>

Note 27: Future Changes in Accounting Principles

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, 2024. 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.

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.

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In addition, RPMC received approximately \$27,000,000 in general and targeted Provider Relief Fund distributions, both as provided for under the CARES Act, and \$25,000,000 of accelerated Medicare payments.

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

Provider Relief Funds

During the years ended September 30, 2023 and 2022, RPMC received \$0 and \$6,646,588, 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 RPMC 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.

RPMC 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 RPMC's revenues and expenses through year-end, RPMC recognized approximately \$0 and \$6,650,000, respectively, during the years ended September 30, 2023 and 2022, 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.

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RRMC has recognized revenue from the Provider Relief Fund based on guidance issued by HHS as of September 30, 2023, 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 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 RRMC's Provider Relief Fund reporting could differ. Provider Relief Fund payments are subject to government oversight, including potential audits.

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 years ended September 30, 2023 and 2022, RRMC received and recognized approximately \$830,431 and \$727,276 of funds, respectively. These funds are included in other operating revenues in the accompanying financial statements.

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 expected 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, 2023 and 2022, Medicare has applied approximately \$25,000,000 and \$12,100,000, respectively, from these accelerated Medicare payment requests against filed claims. At September 30, 2023 and 2022 there were unapplied amounts of accelerated Medicare payment requests of \$0 and \$8,225,632, respectively, and are recorded under contract liabilities in the accompanying balance sheets.

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2023 and 2022

Note 29: Subsequent Events

Subsequent events have been evaluated through January 26, 2024, which is the date the financial statements were available to be issued.

In January 2024, RRMC renewed a line of credit. See more fully described in *Note 7*.