

## **APPENDIX F-1**



## FINANCIAL STATEMENTS

September 30, 2020 and 2019

With Independent Auditor's Report



**UPPER CONNECTICUT VALLEY HOSPITAL ASSOCIATION, INC.**

**September 30, 2020 and 2019**

**Table of Contents**

	<b><u>Page(s)</u></b>
Independent Auditor's Report	1 - 2
Balance Sheets	3
Statements of Operations	4
Statements of Changes in Net Assets	5
Statements of Cash Flows	6
Notes to Financial Statements	7 - 23



## INDEPENDENT AUDITOR'S REPORT

The Board of Trustees  
Upper Connecticut Valley Hospital Association, Inc.

We have audited the accompanying financial statements of Upper Connecticut Valley Hospital Association, Inc., which comprise the balance sheets as of September 30, 2020 and 2019, and the related statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Upper Connecticut Valley Hospital Association, Inc. as of September 30, 2020 and 2019, and the results of its operations, changes in its net assets and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

The Board of Trustees  
Upper Connecticut Valley Hospital Association, Inc.

***Other Matter***

*Effect of Adopting New Accounting Standards*

As discussed in Note 2 in the financial statements, in 2020 the Organization adopted new accounting guidance, Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2018-08, *Clarifying the Scope of the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to this matter.

*Berry Dunn McNeil & Parker, LLC*

Manchester, New Hampshire  
January 29, 2021

UPPER CONNECTICUT VALLEY HOSPITAL ASSOCIATION, INC.

Balance Sheets

September 30, 2020 and 2019

ASSETS

	<u>2020</u>	<u>2019</u>
Current assets		
Cash and cash equivalents	\$ 12,438,892	\$ 5,413,058
Patient accounts receivable, net	2,252,652	2,436,094
Other accounts receivable	354,834	283,009
Prepaid expenses, supplies, and other current assets	<u>404,730</u>	<u>465,459</u>
Total current assets	15,451,108	8,597,620
Assets limited as to use	17,499,877	15,867,825
Property and equipment, net	12,267,709	7,619,876
Other assets	<u>146,904</u>	<u>136,137</u>
 Total assets	 \$ <u>45,365,598</u>	 \$ <u>32,221,458</u>

---

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

## LIABILITIES AND NET ASSETS

	<u>2020</u>	<u>2019</u>
Current liabilities		
Accounts payable and accrued expenses	\$ 726,553	\$ 781,108
Accrued salaries and related amounts	459,294	715,148
Other current liabilities	549,975	460,611
Medicare accelerated payments	3,665,483	-
Deferred U.S. Department of Health and Human Services (HHS) stimulus revenue	3,300,464	-
Paycheck Protection Program (PPP) refundable advance	1,452,300	-
State of New Hampshire - refundable advance	486,763	-
Current portion of estimated third-party payor settlements	<u>193,874</u>	<u>3,052,274</u>
Total current liabilities, excluding current portion	10,834,706	5,009,141
Estimated third-party payor settlements	<u>11,767,827</u>	<u>7,537,424</u>
Total liabilities	<u>22,602,533</u>	<u>12,546,565</u>
Net assets		
Without donor restrictions	22,469,639	19,431,172
With donor restrictions	<u>293,426</u>	<u>243,721</u>
Total net assets	<u>22,763,065</u>	<u>19,674,893</u>
Total liabilities and net assets	<u>\$ 45,365,598</u>	<u>\$ 32,221,458</u>

**UPPER CONNECTICUT VALLEY HOSPITAL ASSOCIATION, INC.**

**Statements of Operations**

**Years Ended September 30, 2020 and 2019**

	<u><b>2020</b></u>	<u><b>2019</b></u>
Revenues, gains, and other support without donor restrictions		
Patient service revenue (net of contractual allowances and discounts)	<b>\$ 20,432,708</b>	\$ 18,485,638
Provision for bad debts	<u><b>948,559</b></u>	<u>829,564</u>
Net patient service revenue	<b>19,484,149</b>	17,656,074
Other revenues	<b>316,642</b>	386,718
U.S. Department of Health and Human Services (HHS) stimulus revenue	<b>556,185</b>	-
Other grants	<b>368,567</b>	-
Net assets released from restrictions used for operations	<u><b>1,746</b></u>	<u>5,563</u>
Total revenues, gains, and other support without donor restrictions	<u><b>20,727,289</b></u>	<u>18,048,355</u>
Expenses		
Salaries, wages, and fringe benefits	<b>10,851,683</b>	9,959,813
Contract labor	<b>2,274,536</b>	2,415,163
Supplies and other	<b>3,920,433</b>	3,847,867
Medicaid enhancement tax	<b>872,393</b>	905,512
Depreciation	<u><b>1,170,553</b></u>	<u>1,056,539</u>
Total expenses	<u><b>19,089,598</b></u>	<u>18,184,894</u>
Operating income (loss)	<u><b>1,637,691</b></u>	<u>(136,539)</u>
Nonoperating gains (losses)		
Income from investments, net	<b>1,635,110</b>	878,219
Gifts without donor restrictions, net of expenses	<b>4,870</b>	29,906
Community benefit and contribution expense	<b>(67,510)</b>	(448,089)
(Write-off) recovery of written-off related party receivables	<u><b>(171,694)</b></u>	<u>7,528</u>
Net nonoperating gains, net	<u><b>1,400,776</b></u>	<u>467,564</u>
Excess of revenues, gains, other support, and nonoperating gains over expenses and losses	<b>3,038,467</b>	331,025
Net assets released from restrictions for capital acquisitions	<u><b>-</b></u>	<u>293,895</u>
Increase in net assets without donor restrictions	<u><b>\$ 3,038,467</b></u>	<u>\$ 624,920</u>

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



**UPPER CONNECTICUT VALLEY HOSPITAL ASSOCIATION, INC.**

**Statements of Changes in Net Assets**

**Years Ended September 30, 2020 and 2019**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balances, October 1, 2018	\$ <u>18,806,252</u>	\$ <u>526,023</u>	\$ <u>19,332,275</u>
Excess of revenues, gains, other support, and nonoperating gains over expenses and losses	331,025	-	331,025
Contributions	-	3,320	3,320
Investment income, net	-	13,836	13,836
Net assets released from restrictions used for operations	-	(5,563)	(5,563)
Net assets released from restrictions for capital acquisitions	<u>293,895</u>	<u>(293,895)</u>	<u>-</u>
Increase (decrease) in net assets	<u>624,920</u>	<u>(282,302)</u>	<u>342,618</u>
Balances, September 30, 2019	<u>19,431,172</u>	<u>243,721</u>	<u>19,674,893</u>
Excess of revenues, gains, other support, and nonoperating gains over expenses and losses	3,038,467	-	3,038,467
Contributions	-	27,384	27,384
Investment income, net	-	24,067	24,067
Net assets released from restrictions used for operations	<u>-</u>	<u>(1,746)</u>	<u>(1,746)</u>
Increase in net assets	<u>3,038,467</u>	<u>49,705</u>	<u>3,088,172</u>
Balances, September 30, 2020	\$ <u>22,469,639</u>	\$ <u>293,426</u>	\$ <u>22,763,065</u>

---

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

# UPPER CONNECTICUT VALLEY HOSPITAL ASSOCIATION, INC.

## Statements of Cash Flows

Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Change in net assets	\$ 3,088,172	\$ 342,618
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	1,170,553	1,056,539
Loss (gain) on disposal of property and equipment	71,668	(50,279)
Provision for bad debts	948,559	829,564
Realized and unrealized gains on investments	(1,415,564)	(766,284)
(Increase) decrease in		
Patient accounts receivable	(765,117)	(1,347,786)
Other accounts receivable	(71,825)	43,633
Prepaid expenses, supplies, and other current assets	60,729	412,547
Other assets	(10,767)	(96,137)
Increase (decrease) in		
Accounts payable and accrued expenses	(54,555)	81,342
Accrued salaries, wages and related accounts	(255,854)	134,446
Other accrued expenses	89,364	(35,056)
Deferred revenue	-	(136,200)
Medicare accelerated payments	3,665,483	-
Deferred HHS stimulus revenue	3,300,464	-
PPP refundable advance	1,452,300	-
State of New Hampshire - refundable advance	486,763	-
Estimated third-party payor settlements	<u>1,372,003</u>	<u>2,038,949</u>
Net cash provided by operating activities	<u>13,132,376</u>	<u>2,507,896</u>
Cash flows from investing activities		
Proceeds from sale of property	-	51,550
Purchases of property and equipment	(5,890,054)	(1,189,477)
Proceeds from sales of investments	3,426,213	5,905,335
Purchase of investments	<u>(3,642,701)</u>	<u>(6,278,545)</u>
Net cash used by investing activities	<u>(6,106,542)</u>	<u>(1,511,137)</u>
Net increase in cash and cash equivalents	7,025,834	996,759
Cash and cash equivalents, beginning of year	<u>5,413,058</u>	<u>4,416,299</u>
Cash and cash equivalents, end of year	<u>\$ 12,438,892</u>	<u>\$ 5,413,058</u>

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

# UPPER CONNECTICUT VALLEY HOSPITAL ASSOCIATION, INC.

## Notes to Financial Statements

September 30, 2020 and 2019

### 1. Organization

Upper Connecticut Valley Hospital Association, Inc. (Hospital), a New Hampshire not-for-profit corporation, provides medical services on an inpatient and outpatient basis in Northern New Hampshire.

On June 30, 2015, the Hospital, along with three other hospitals in the North Country, Littleton Regional Hospital (LRH), Androscoggin Valley Hospital (AVH), and Weeks Medical Center (WMC), signed an Affiliation Agreement. The Boards of Trustees of each of the hospitals approved the affiliation documents which consist of an Affiliation Agreement, Management Services Agreement, and proposed Bylaw changes. The application to the New Hampshire Attorney General's office and Charitable Trust Unit was approved in December 2015. Effective September 30, 2019, LRH withdrew from the affiliation.

Effective April 1, 2016, North Country Healthcare, Inc. (NCHI) became the sole corporate member of the Hospital. NCHI is also the parent company of AVH, WMC, LRH (through September 30, 2019) and North Country Home Health & Hospice Agency, Inc. Any and all activity with these entities is disclosed as related party transactions.

### 2. Summary of Significant Accounting Policies

#### Basis of Financial Statement Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic (ASC) 958, *Not-for-Profit Entities*. The Hospital reports information regarding its financial position and activities according the following net asset classification:

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

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

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

# UPPER CONNECTICUT VALLEY HOSPITAL ASSOCIATION, INC.

## Notes to Financial Statements

September 30, 2020 and 2019

### Use of Estimates

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

### Cash and Cash Equivalents

Cash and cash equivalents include all cash in banks and certificates of deposit with an original maturity of three months or less, excluding amounts whose use is limited by Board designation or amounts included in net assets with donor restrictions.

### Patient Accounts Receivable

Patient accounts receivable are carried at the amount management expects to collect from outstanding balances.

Patient receivables are periodically evaluated for collectibility based on credit history and current financial condition. Provisions for losses on receivables are determined on the basis of loss experience, known and inherent risks, estimated value of collateral and current economic conditions. The Hospital uses the allowance method to account for uncollectible accounts receivable.

In evaluating the collectibility of accounts receivable, the Hospital analyzes past results and identifies trends for each major payor source of revenue for the purpose of estimating the appropriate amounts of the allowance for doubtful accounts and the provision for bad debts. Data in each major payor source are regularly reviewed to evaluate the adequacy of the allowance for doubtful accounts. Specifically, for receivables relating to services provided to patients having third-party coverage, an allowance for doubtful accounts and a corresponding provision for bad debts are established at varying levels based on the age of the receivables and the payor source. For receivables relating to self-pay patients, a provision for bad debts is made in the period services are rendered based on experience indicating the inability or unwillingness of patients to pay amounts for which they are financially responsible. Actual write-offs after management has used reasonable collection efforts are charged against the allowance for doubtful accounts.

### Supplies

Supplies are carried at the lower of cost (determined by the first-in, first-out method) or market.

### Assets Limited as to Use

Assets set aside by the Board of Trustees for identified purposes, over which the Board retains control and which may, at its discretion, be subsequently used for other purposes, are classified as noncurrent assets.

# UPPER CONNECTICUT VALLEY HOSPITAL ASSOCIATION, INC.

## Notes to Financial Statements

September 30, 2020 and 2019

### **Investments and Investment Income**

Investments in equity securities with readily determinable fair values in the balance sheets. Management has adopted FASB ASC 825-10-35-4, *Financial Instruments-General-Subsequent Measurement*, and has elected the fair value option relative to its investments to simplify the presentation of investment return in the statements of operations, and consolidates all investment performance activity within the nonoperating gains section of the statements of operations.

Donor-restricted investment income and gains on investments on donor-restricted investments are recorded within net assets with donor restrictions until expended in accordance with the donor's restrictions.

### **Risks and Uncertainties**

Investment securities, including assets limited as to use, are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is at least reasonably possible that changes in risk in the near term could materially affect the net assets of the Hospital.

### **Property and Equipment**

Property and equipment acquisitions are recorded at cost, or, if contributed, at fair market value determined at the date of donation. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

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

### **Net Patient Service Revenue**

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined. Management believes that adequate provision has been made for adjustments that may result from final determination of amounts earned under these programs.

# UPPER CONNECTICUT VALLEY HOSPITAL ASSOCIATION, INC.

## Notes to Financial Statements

September 30, 2020 and 2019

### Medicaid Enhancement Tax

In New Hampshire, hospitals are subject to a 5.4% tax, the Medicaid Enhancement Tax, on net taxable revenues.

### Charity Care

The Hospital provides care to patients who meet certain criteria under its community care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

### Excess of Revenues, Gains, Other Support and Nonoperating Gains Over Expenses and Losses

The statements of operations include excess of revenues, gains, other support and nonoperating gains over expenses and losses. Changes in net assets without donor restrictions which are excluded from this measure, consistent with industry practice, are net assets released from restrictions for capital acquisitions.

### Contributions

The Organization reports gifts of cash and other assets as support with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. As donor-stipulated time restrictions end or purpose restrictions are 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.

Contributions, including unconditional promises to give, are recognized as support in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated value at the date received.

Contributions to be received after one year are discounted using a rate of interest commensurate with the risk involved for instruments of similar duration. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as prior collection history, type of contribution, and nature of fundraising activity.

Contributions received with donor-imposed restrictions that are met in the same year as received are reported as support without donor restrictions.

### Income Taxes

The Hospital is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code, and is exempt from federal income taxes on related income.

# UPPER CONNECTICUT VALLEY HOSPITAL ASSOCIATION, INC.

## Notes to Financial Statements

September 30, 2020 and 2019

### Nonoperating Gains (Losses)

Activities, other than in connection with providing healthcare services, are considered nonoperating. Nonoperating gains and losses consist primarily of income on invested funds, gifts without donor restrictions, town appropriations, community benefit and contribution expense, and adjustments to notes receivable from a related party.

### Newly Adopted Accounting Pronouncement

During 2020, the Hospital also adopted FASB ASU No. 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic 958), which provides guidance for determining when transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions, and whether a contribution is conditional. The adoption of ASU No. 2018-08 did not impact the Hospital's financial position or changes in net assets.

### COVID-19 Considerations

In March 2020 the World Health Organization declared coronavirus disease (COVID-19) a global pandemic and the United States federal government declared COVID-19 a national emergency. The Organization implemented an emergency response to ensure the safety of its patients, staff and the community. In an effort to reduce the spread of COVID-19 and in response to the urging of the Centers for Disease Control and the U.S. Surgeon General, elective and non-urgent care was postponed beginning in mid-March. Additional factors in this decision were the effort to reduce personal protective equipment (PPE) which was in critically short supply worldwide.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act established the Provider Relief Fund (PRF) to support healthcare providers in the battle against the COVID-19 outbreak. The PRF is being administered by the U.S. Department of Health and Human Services (HHS). The Hospital received PRF in the amount of \$3,856,649 during the year ended September 30, 2020. These funds are to be used for qualifying expenses and to cover lost revenue due to COVID-19. The PRF are considered contributions and are recognized as income when qualifying expenditures have been incurred. Management believes the Hospital met the conditions necessary to recognize these contributions in the amount of \$556,185 included in other revenue as of September 30, 2020. Management believes the position taken is a reasonable interpretation of the rules currently available. Due to the complexity of the reporting requirements and the continued issuance of clarifying guidance, there is at least a reasonable possibility the amount of income recognized related to the lost revenues may change by a material amount. Any difference between amounts previously estimated and amounts subsequently determined to be recoverable or payable will be included in income in the year that such amounts become known.

In response to the COVID-19 pandemic, the Center for Medicare & Medicaid Services (CMS) made available an accelerated and advance payment program to Medicare providers. The Hospital received \$3,665,483 of accelerated advanced payments during 2020. CMS will begin recouping payment from claims payments one year from the date the respective advances were made to the Hospital.

# UPPER CONNECTICUT VALLEY HOSPITAL ASSOCIATION, INC.

## Notes to Financial Statements

September 30, 2020 and 2019

During 2020, the Hospital qualified for and received a loan pursuant to the Paycheck Protection Program (PPP), a program implemented by the U.S. Small Business Administration (SBA) under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), in the amount of \$1,452,300. The PPP provides funds to pay up to 24 weeks of payroll and other specified costs, and forgiveness of the loan is dependent upon compliance with this and other terms and conditions of the CARES Act. It is the Hospital's intent to apply for forgiveness under the provisions of the CARES Act. Forgiveness is subject to the approval of the lending institution and the SBA. The Hospital has chosen to follow the conditional contribution model for the loan, and has opted to not record any income until forgiveness is received. The full amount received is reported as a current refundable advance in the current liability section of the balance sheet at September 30, 2020.

### Subsequent Events

Management has considered transactions or events through January 29, 2021, which was the date the financial statements were available to be issued. Management has not considered transactions or events subsequent to this date for inclusion in the financial statements.

### 3. Liquidity and Availability of Financial Assets

The Hospital had working capital of \$4,616,402 and \$3,588,479 at September 30, 2020 and 2019, respectively. The Hospital had average days (based on normal expenditures) cash and cash equivalents on hand of 253 and 115 at September 30, 2020 and 2019, respectively.

The Hospital seeks to operate with a balanced budget with the goal of generating sufficient net patient service revenue and cash flows, in addition to financial assets available to meet general expenditures over the next 12 months, to allow the Hospital to be sustainable to support its mission and vision.

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

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 12,438,892	\$ 5,413,058
Patient accounts receivable, net	2,252,652	2,436,094
Other receivables	<u>354,834</u>	<u>283,009</u>
Financial assets available to meet general expenditures within one year	\$ <u>15,046,378</u>	\$ <u>8,132,161</u>

The Hospital has other assets limited as to use of \$17,499,877 and \$15,867,825 at September 30, 2020 and 2019, respectively, that are assets restricted by donors or set aside by the Board of Trustees for future capital improvements and other purposes. These assets limited as to use are not available for general expenditure within the next year; however, the internally designated amounts could be made available, if necessary.



UPPER CONNECTICUT VALLEY HOSPITAL ASSOCIATION, INC.

Notes to Financial Statements

September 30, 2020 and 2019

4. Net Patient Service Revenue and Patient Accounts Receivable

Net Patient Service Revenue

Patient service revenue is reported net of contractual allowances and other discounts as follows for the years ended September 30:

	<u>2020</u>	<u>2019</u>
Gross patient service revenue	\$ 30,758,025	\$ 31,682,779
Less contractual allowances	(9,684,116)	(12,808,647)
Less charity care	<u>(641,201)</u>	<u>(388,494)</u>
Patient service revenue (net of contractual allowances and discounts)	20,432,708	18,485,638
Less provision for bad debts	<u>948,559</u>	<u>829,564</u>
Net patient service revenue	<u>\$ 19,484,149</u>	<u>\$ 17,656,074</u>

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

Medicare

The Hospital is a Critical Access Hospital (CAH). Under the CAH program, the Hospital is reimbursed at 101% of allowable costs for its inpatients and most outpatient services provided to Medicare patients. The Hospital is reimbursed at tentative rates with final determination after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been audited by the fiscal intermediary through September 30, 2017.

Medicaid

Inpatient services rendered to Medicaid program beneficiaries are reimbursed under prospectively determined per-diem rates. The prospectively determined per-diem rates are not subject to retroactive adjustment. Outpatient services rendered to Medicaid beneficiaries are reimbursed on a cost reimbursement methodology and a national fee schedule for certain services. The Hospital is reimbursed for outpatient services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediary. The Hospital's Medicaid cost reports have been audited by the fiscal intermediary through September 30, 2016.

Anthem

Inpatient and outpatient services rendered to Anthem subscribers are reimbursed based on standard charges less a negotiated discount, except for lab and physician services which are reimbursed on fee schedules.

## UPPER CONNECTICUT VALLEY HOSPITAL ASSOCIATION, INC.

### Notes to Financial Statements

September 30, 2020 and 2019

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

Revenue from the Medicare and Medicaid programs accounted for approximately 52% and 12%, respectively, of the Hospital's net patient service revenue for the years ended 2020 and 2019. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue decreased approximately \$2,050,000 and increased approximately \$332,000 in 2020 and 2019, respectively, due to differences in settlements from amounts previously estimated.

The Hospital recognizes patient service revenue relating to services rendered to patients having third-party payor coverage on the basis of contractual rates for such services. For services rendered to self-pay or uninsured patients, revenue is recognized on the basis of standard or negotiated discounted rates. At the time services are rendered to self-pay patients, a provision for bad debts is recorded based on experience and the effects of newly-identified circumstances and trends in pay rates. Patient service revenue, net of contractual allowances and discounts, but before the provision for bad debts, recognized during 2020 totaled \$20,432,708, of which \$19,665,976 was revenue from third-party payors and \$766,732 was revenue from self-pay patients. Patient service revenue, net of contractual allowances and discounts, but before the provision for bad debts, recognized during 2019 totaled \$18,485,638, of which \$17,543,493 was revenue from third-party payors and \$942,145 was revenue from self-pay patients.

Under the State of New Hampshire's Medicaid program, the Hospital recognizes disproportionate share payment revenue which amounted to \$3,172,548 and \$4,014,097 for 2020 and 2019, respectively, and is recorded in net patient service revenue. Because the methodologies used to determine disproportionate share payments remain unsettled, the Hospital has reserved a portion of the amounts received.

Long-term estimated third-party payor settlements consist of estimates related to Medicare's potential disallowance of Medicaid enhancement tax as an allowable cost and state disproportionate share pending settlements. Due to unresolved issues at the federal level for both matters, the Hospital has classified the balances as long-term.

#### Charity Care

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies and equivalent service statistics. As defined by percentage of gross revenue, 2.08% and 1.23% of all services was provided on a charity care basis for the years ended September 30, 2020 and 2019, respectively.

# UPPER CONNECTICUT VALLEY HOSPITAL ASSOCIATION, INC.

## Notes to Financial Statements

September 30, 2020 and 2019

The estimated expense incurred to provide charity care for the years ended September 30, 2020 and 2019 was approximately \$398,000 and \$223,000, respectively. The Hospital estimates its cost of charity care by applying an overall cost to charge ratio to the gross charges foregone.

The Hospital provided charity care for the following number of patient admissions/visits for the years ended September 30:

	<u>2020</u>		<u>2019</u>	
	<u>Charity</u>	<u>% of Total</u>	<u>Charity</u>	<u>% of Total</u>
Inpatient admissions	18	7%	25	12%
Outpatient visits	912	6%	601	4%

### Patient Accounts Receivable

Patient accounts receivable is stated net of estimated contractual allowances and allowances for doubtful accounts as follows as of September 30:

	<u>2020</u>	<u>2019</u>
Gross patient accounts receivable	\$ 4,914,270	\$ 5,095,789
Less: Estimated contractual allowances	(1,691,125)	(1,872,899)
Estimated allowance for doubtful accounts	<u>(970,493)</u>	<u>(786,796)</u>
Net patient accounts receivable	<u>\$ 2,252,652</u>	<u>\$ 2,436,094</u>

The composition of the estimated allowance for doubtful accounts at September 30 is as follows:

	<u>2020</u>	<u>2019</u>
Self-pay patients	\$ 632,763	\$ 550,874
All other payors	<u>337,730</u>	<u>235,922</u>
	<u>\$ 970,493</u>	<u>\$ 786,796</u>

Self-pay write-offs decreased from \$898,312 to \$816,396 during 2020 and increased from \$840,027 to \$898,312 during 2019. The change resulted from these trends experienced in the collection of amounts from self-pay patients and third-party payors and from fluctuations in accounts receivable.

# UPPER CONNECTICUT VALLEY HOSPITAL ASSOCIATION, INC.

## Notes to Financial Statements

September 30, 2020 and 2019

### 5. Property and Equipment

The major categories of property and equipment are as follows:

	<u>2020</u>	<u>2019</u>
Land and improvements	\$ 203,594	\$ 200,769
Buildings	9,807,320	6,778,077
Fixed equipment	3,004,090	2,984,339
Major movable equipment	8,039,991	7,325,282
Construction in progress	<u>1,616,751</u>	<u>179,131</u>
	22,671,746	17,467,598
Less: accumulated depreciation	<u>10,404,037</u>	<u>9,847,722</u>
	<u>\$ 12,267,709</u>	<u>\$ 7,619,876</u>

Construction in progress as of September 30, 2020 consisted of costs related to the new electronic medical record (EMR) system. The EMR system is cost approximately \$1,760,000 in total and was placed in service December 2020.

### 6. Assets Limited as to Use

The Hospital pools its investments with one investment company and allocates the investment income to each fund based upon each fund's percentage of total assets.

The pooled investments were allocated to the following funds as of September 30:

	<u>2020</u>	<u>2019</u>
Board designated	\$ 17,236,641	\$ 15,626,910
Net assets with donor restrictions	<u>263,236</u>	<u>240,915</u>
	<u>\$ 17,499,877</u>	<u>\$ 15,867,825</u>

The composition of assets limited as to use consisted of the following as of September 30:

	<u>2020</u>	<u>2019</u>
Mutual funds	\$ 1,469,057	\$ 1,499,019
Marketable equity securities	7,528,379	6,401,808
Fixed income securities	<u>8,064,365</u>	<u>7,705,443</u>
	17,061,801	15,606,270
Cash and cash equivalents	<u>438,076</u>	<u>261,555</u>
	<u>\$ 17,499,877</u>	<u>\$ 15,867,825</u>

# UPPER CONNECTICUT VALLEY HOSPITAL ASSOCIATION, INC.

## Notes to Financial Statements

September 30, 2020 and 2019

### Endowment

#### Return Objectives and Risk Parameters

The Hospital has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Hospital must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The Hospital expects its endowment funds, over time, to provide an average rate of return of approximately the Consumer Price Index plus 2% annually. Actual returns in any given year may vary from this amount.

#### Strategies Employed for Achieving Objectives

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

Common stock	30% - 70%
Fixed income	30% - 70%
Cash	0% - 20%

Appropriations are determined by the Board of Trustees from time to time.

#### Uniform Prudent Management of Institutional Funds Act

Effective July 1, 2008, the State of New Hampshire adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) enacted as Revised Statutes Annotated (RSA) Chapter 292-B. This RSA Chapter provides guidance and special rules for the management of endowment funds. Pursuant to the Board of Trustees' interpretation of UPMIFA, unexpended investment income on net assets with donor restrictions of perpetual duration is required to be reported as net assets with donor restrictions temporary in nature until appropriated.

# UPPER CONNECTICUT VALLEY HOSPITAL ASSOCIATION, INC.

## Notes to Financial Statements

September 30, 2020 and 2019

Endowment (donor-restricted) net asset composition by type of fund and activity therein are as follows as of and for the years ended September 30:

	<u>Net Assets with Donor Restrictions</u>		
	<u>Accumulated Appreciation of Funds of Perpetual Duration</u>	<u>Funds of Perpetual Duration</u>	<u>Total</u>
Balances, October 1, 2018	\$ 59,196	\$ 173,070	\$ 232,266
Net investment return	13,836	-	13,836
Appropriation of endowment assets for expenditure	<u>(5,187)</u>	<u>-</u>	<u>(5,187)</u>
Balances, September 30, 2019	67,845	173,070	240,915
Net investment return	24,066	-	24,066
Appropriation of endowment assets for expenditure	<u>(1,745)</u>	<u>-</u>	<u>(1,745)</u>
Balances, September 30, 2020	<u>\$ 90,166</u>	<u>\$ 173,070</u>	<u>\$ 263,236</u>

## 7. Fair Value Measurements

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

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

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

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

# UPPER CONNECTICUT VALLEY HOSPITAL ASSOCIATION, INC.

## Notes to Financial Statements

September 30, 2020 and 2019

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

<u>Fair Value Measurements at September 30, 2020</u>				
	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Cash and cash equivalents	\$ 438,076	\$ 438,076	\$ -	\$ -
Marketable equity securities	7,528,379	7,528,379	-	-
Mutual funds	1,469,057	1,469,057	-	-
Corporate bonds	2,709,362	-	2,709,362	-
U.S. Treasury obligations and government securities	<u>5,355,003</u>	<u>5,355,003</u>	<u>-</u>	<u>-</u>
Total assets at fair value	<u>\$ 17,499,877</u>	<u>\$ 14,790,515</u>	<u>\$ 2,709,362</u>	<u>\$ -</u>

<u>Fair Value Measurements at September 30, 2019</u>				
	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Cash and cash equivalents	\$ 261,555	\$ 261,555	\$ -	\$ -
Marketable equity securities	6,401,808	6,401,808	-	-
Mutual funds	1,499,019	1,499,019	-	-
Corporate bonds	2,514,600	-	2,514,600	-
U.S. Treasury obligations and government securities	<u>5,190,843</u>	<u>5,190,843</u>	<u>-</u>	<u>-</u>
Total assets at fair value	<u>\$ 15,867,825</u>	<u>\$ 13,353,225</u>	<u>\$ 2,514,600</u>	<u>\$ -</u>

The fair value for Level 2 assets is primarily based on market prices of comparable securities, interest rates, and credit risk. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

### 8. Retirement Plan

The Hospital sponsors a defined contribution plan that is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). Effective November 1, 2017, employees of the Hospital became eligible to participate in the North Country Healthcare Retirement Plan. No additional contributions will be made to the defined contribution plan.

# UPPER CONNECTICUT VALLEY HOSPITAL ASSOCIATION, INC.

## Notes to Financial Statements

September 30, 2020 and 2019

The Hospital is part of the North Country Healthcare Retirement Plan that covers substantially all full-time employees and part-time employees who work over 1,000 hours. Contributions are computed as a percentage of earnings and are funded as accrued. The pension plan expense for the years ended September 30, 2020 and 2019 was \$156,463 and \$167,647, respectively.

### 9. Commitments and Contingencies

Effective October 1, 2008, the Hospital insures its comprehensive general liability and professional liability exposure on a claims made basis, including prior acts coverage, with a commercial carrier. The coverage is provided by primary and excess insurance policies subject to shared policy limits with other NCHI members. The policies are renewable on an annual basis and have been renewed through September 30, 2020. All known significant asserted and unasserted claims alleging malpractice have been communicated to the insurer who is responsible for resolving the claim and the related costs of litigation. An event is insured at the time it is reported to the insurer even if a claim is not yet asserted. GAAP requires the Hospital to accrue the ultimate cost of malpractice claims when the incident that gives rise to the claim occurs, without consideration of insurance recoveries. Expected recoveries are presented as a separate asset. All outstanding malpractice claims against the Hospital were settled during the year. The Hospital has evaluated its exposure to losses arising from potential claims and determined no such accrual is necessary for the year ended September 30, 2020.

### Community Benefit Agreement

The Hospital and Indian Stream Health Center (ISHC) have entered into an agreement, effective March 1, 2019, whereby the Hospital provided funding in the form of a one-time community benefit grant of \$300,000 to ISHC for the purpose of assisting with recent financial challenges caused by loss of providers, uncompensated and undercompensated care and one-time, legal expenses incurred by ISHC related to its FQHC operations. On August 1, 2019, the Hospital and ISHC entered into a separate agreement whereby the Hospital assisted ISHC in the funding of an updated Electronic Health Record (EHR). The assistance consisted of a one-time community benefit grant of up to \$50,000 and a 0% interest loan up to \$100,000. The agreement was amended on February 27, 2020 increasing the maximum loan value to \$175,000. At September 30, 2020 the total assistance awarded was \$221,694 which consisted of \$50,000 grant funding and \$171,694 of a loan. The terms of the loan include a deferred payment period of twenty-four months with repayment over twenty-four months. At September 30, 2020, the Hospital has fully allowed for the loan balance.

### Operating Leases

The Hospital leases various equipment and facilities under operating leases expiring at various dates between 2020 and 2023. Total rental expense was \$71,246 and \$51,014 for the years ended September 30, 2020 and 2019, respectively.



# UPPER CONNECTICUT VALLEY HOSPITAL ASSOCIATION, INC.

## Notes to Financial Statements

September 30, 2020 and 2019

The following is a schedule by year of future minimum lease payments under operating leases as of September 30, 2020, that have initial or remaining lease terms in excess of one year:

2021	\$ 9,975
2022	7,002
2023	<u>3,501</u>
	<u>\$ 20,478</u>

### 10. Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes at September 30:

	<u>2020</u>	<u>2019</u>
Funds with donor restrictions temporary in nature		
Endowment accumulated earnings	\$ 90,166	\$ 67,845
Other	<u>30,190</u>	<u>2,806</u>
	120,356	70,651
Funds maintained in perpetuity, the income from which is expendable to support healthcare services	<u>173,070</u>	<u>173,070</u>
Total net assets with donor restrictions	<u>\$ 293,426</u>	<u>\$ 243,721</u>

### 11. Concentration of Credit Risk

The Hospital maintains cash balances at several financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At times during the year, the Hospital's cash in bank exceeded insured limits. The Hospital has not incurred any losses from uninsured cash in bank as of September 30, 2020.

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

	<u>2020</u>	<u>2019</u>
Medicare	27 %	30 %
Medicaid	12	10
Blue Cross	10	12
Other third-party payors	29	32
Patients	<u>22</u>	<u>16</u>
	<u>100 %</u>	<u>100 %</u>

# UPPER CONNECTICUT VALLEY HOSPITAL ASSOCIATION, INC.

## Notes to Financial Statements

September 30, 2020 and 2019

### 12. Functional Expenses

The financial statements report certain categories of expenses that are attributable to more than one program or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Employee benefits are allocated based on salaries and occupancy costs are allocated by square footage. Expenses related to these functions were as follows for the years ended September 30:

<u>2020</u>	<u>Healthcare Services</u>	<u>Support Services</u>	<u>Total</u>
Salaries, wages and benefits	\$ 9,234,488	\$ 1,617,195	\$ 10,851,683
Contract labor	1,600,707	673,829	2,274,536
Supplies and other	2,673,439	1,246,994	3,920,433
Medicaid enhancement tax	872,393	-	872,393
Depreciation	<u>1,158,712</u>	<u>11,841</u>	<u>1,170,553</u>
	<u>\$ 15,539,739</u>	<u>\$ 3,549,859</u>	<u>\$ 19,089,598</u>
<u>2019</u>	<u>Healthcare Services</u>	<u>Support Services</u>	<u>Total</u>
Salaries, wages and benefits	\$ 8,538,574	\$ 1,421,239	\$ 9,959,813
Contract labor	1,773,197	641,966	2,415,163
Supplies and other	2,689,508	1,158,359	3,847,867
Medicaid enhancement tax	905,512	-	905,512
Depreciation	<u>1,043,173</u>	<u>13,366</u>	<u>1,056,539</u>
	<u>\$ 14,949,964</u>	<u>\$ 3,234,930</u>	<u>\$ 18,184,894</u>

### 13. Related Party Transactions

As a member of NCHI, the Hospital shares in various services, such as shared staffing, centralized accounting and other administrative costs, with the other member hospitals and the parent. For the year ended September 30, 2020, the Hospital billed other member hospitals \$197,630 and was billed \$1,806,803 for shared services. For the year ended September 30, 2019, the Hospital billed other member hospitals \$227,675 and was billed \$1,470,904 for shared services. Additionally, AVH paid and was reimbursed by the Hospital \$1,461,375 to upgrade the Hospital's EMR.

UPPER CONNECTICUT VALLEY HOSPITAL ASSOCIATION, INC.

Notes to Financial Statements

September 30, 2020 and 2019

Total expenses incurred for services provided by other members are as follows:

	<u>2020</u>	<u>2019</u>
WMC	\$ 681,304	\$ 411,304
AVH	717,667	721,743
LRH	-	86,995
NCH	<u>407,832</u>	<u>250,862</u>
	<u>\$ 1,806,803</u>	<u>\$ 1,470,904</u>

Following is a summary of net amounts outstanding as payables to related parties which are included in accounts payable and accrued expenses on the balance sheets at September 30:

	<u>2020</u>	<u>2019</u>
WMC	\$ 41,603	\$ 36,430
AVH	<u>84,169</u>	<u>110,713</u>
	<u>\$ 125,772</u>	<u>\$ 147,143</u>