

BRATTLEBORO MEMORIAL HOSPITAL

FINANCIAL STATEMENTS

September 30, 2010 and 2009

With Independent Auditors' Report

BRATTLEBORO MEMORIAL HOSPITAL

September 30, 2010 and 2009

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Brattleboro Memorial Hospital

We have audited the accompanying balance sheets of Brattleboro Memorial Hospital (the Hospital), a Vermont not-for-profit corporation and wholly-controlled subsidiary of Southern Vermont Health Services Corporation (SVHSC), as of September 30, 2010 and 2009, and the related statements of operations, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of September 30, 2010 and 2009, and the results of its operations, changes in its net assets, and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Berry, Dunn, McNeil & Parker

Manchester, New Hampshire
December 23, 2010
Registration No. 92-000027

BRATTLEBORO MEMORIAL HOSPITAL

Balance Sheets

September 30, 2010 and 2009

ASSETS

	<u>2010</u>	<u>2009</u>
Current assets		
Cash and cash equivalents	\$ 1,467,837	\$ 2,457,159
Patient and other accounts receivable, net	4,570,934	4,837,723
Supplies inventory	1,572,408	1,022,225
Other current assets	377,158	332,127
Assets limited as to use for current payment of debt service	<u>390,000</u>	<u>375,496</u>
Total current assets	<u>8,378,337</u>	<u>9,024,730</u>
Assets limited as to use		
Investments		
Internally designated	24,435,066	22,209,247
Other temporarily restricted investments	93,137	134,634
Interest in net assets of SVHSC	<u>341,660</u>	<u>462,292</u>
Total assets limited as to use	24,869,863	22,806,173
Property and equipment, net	23,401,626	23,681,701
Bond issuance costs, net of accumulated amortization	<u>128,898</u>	<u>135,712</u>
Total assets	<u>\$ 56,778,724</u>	<u>\$ 55,648,316</u>

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

LIABILITIES AND NET ASSETS

	<u>2010</u>	<u>2009</u>
Current liabilities		
Current portion of long-term debt	\$ 390,000	\$ 375,000
Accounts payable	1,634,626	1,382,848
Salaries, wages, and payroll taxes payable	325,239	1,091,410
Accrued retirement plan contribution	758,637	638,842
Accrued compensated absences	1,571,278	1,500,115
Other accrued expenses	2,574,187	2,720,432
Estimated third-party payor settlements	3,822,055	2,895,759
Due to affiliate	<u>116,265</u>	<u>127,416</u>
Total current liabilities	11,192,287	10,731,822
Long-term debt, less current portion	10,250,000	10,640,000
Interest rate swap	<u>879,195</u>	<u>570,761</u>
Total liabilities	<u>22,321,482</u>	<u>21,942,583</u>
Commitments and contingencies (Notes 6, 11 and 14)		
Net assets		
Unrestricted	34,022,445	33,108,808
Temporarily restricted	157,179	320,896
Permanently restricted	<u>277,618</u>	<u>276,029</u>
Total net assets	<u>34,457,242</u>	<u>33,705,733</u>
Total liabilities and net assets	<u>\$ 56,778,724</u>	<u>\$ 55,648,316</u>

BRATTLEBORO MEMORIAL HOSPITAL**Statements of Operations****Years Ended September 30, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
Unrestricted revenues, gains, and other support		
Net patient service revenue	\$ 56,641,854	\$ 53,936,157
Other revenue	<u>813,277</u>	<u>749,348</u>
Total unrestricted revenues, gains, and other support	<u>57,455,131</u>	<u>54,685,505</u>
Expenses		
Salaries, wages, and benefits	28,961,793	27,260,777
Supplies and expenses	13,764,228	13,173,077
Contracted services	5,803,513	6,324,127
Depreciation and amortization	3,432,736	3,088,832
Provision for bad debts	2,445,479	2,587,931
Health care improvement tax	2,488,938	1,701,435
Interest expense, net of bond interest income of \$12,083 and \$38,694 in 2010 and 2009, respectively	<u>294,240</u>	<u>315,371</u>
Total expenses	<u>57,190,927</u>	<u>54,451,550</u>
Operating income	<u>264,204</u>	<u>233,955</u>
Nonoperating gains (losses)		
Income (loss) from investments	290,121	(96,709)
Loss from rental activities, net of expenses and depreciation of \$417,721 and \$408,744 in 2010 and 2009, respectively	(172,598)	(174,858)
Miscellaneous income	83,894	88,932
Unrealized loss on interest rate swap	(308,434)	(401,746)
Change in net unrealized gains on investments	<u>396,881</u>	<u>664,621</u>
Nonoperating gains, net	<u>289,864</u>	<u>80,240</u>
Excess of revenues, gains, and other support over expenses and nonoperating gains (losses)	554,068	314,195
Net assets transferred from SVHSC for capital expenditures	375,919	802,171
Transfer to SVHSC	<u>(16,350)</u>	<u>(11,816)</u>
Increase in unrestricted net assets	<u>\$ 913,637</u>	<u>\$ 1,104,550</u>

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

BRATTLEBORO MEMORIAL HOSPITAL

Statements of Changes in Net Assets

Years Ended September 30, 2010 and 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balances, October 1, 2008	\$ 32,004,258	\$ 510,740	\$ 275,945	\$ 32,790,943
Excess of revenues, gains, and other support over expenses and nonoperating gains (losses)	314,195	-	-	314,195
Change in net unrealized gains on investments	-	1,895	-	1,895
Investment income	-	(10,482)	-	(10,482)
Change in interest in SVHSC	-	(181,257)	84	(181,173)
Transfer to SVHSC	(11,816)	-	-	(11,816)
Net assets transferred from SVHSC for capital acquisitions	<u>802,171</u>	<u>-</u>	<u>-</u>	<u>802,171</u>
Change in net assets	<u>1,104,550</u>	<u>(189,844)</u>	<u>84</u>	<u>914,790</u>
Balances, September 30, 2009	<u>33,108,808</u>	<u>320,896</u>	<u>276,029</u>	<u>33,705,733</u>
Excess of revenues, gains, and other support over expenses and nonoperating gains (losses)	554,068	-	-	554,068
Change in net unrealized losses on investments	-	(699)	-	(699)
Investment loss	-	(40,797)	-	(40,797)
Change in interest in SVHSC	-	(122,221)	1,589	(120,632)
Transfer to SVHSC	(16,350)	-	-	(16,350)
Net assets transferred from SVHSC for capital acquisitions	<u>375,919</u>	<u>-</u>	<u>-</u>	<u>375,919</u>
Change in net assets	<u>913,637</u>	<u>(163,717)</u>	<u>1,589</u>	<u>751,509</u>
Balances, September 30, 2010	<u>\$ 34,022,445</u>	<u>\$ 157,179</u>	<u>\$ 277,618</u>	<u>\$ 34,457,242</u>

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

BRATTLEBORO MEMORIAL HOSPITAL

Statements of Cash Flows

Years Ended September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities		
Change in net assets	\$ 751,509	\$ 914,790
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization including rental property depreciation	3,683,233	3,308,167
Provision for bad debts	2,445,479	2,587,931
Gain on sale of property and equipment	-	(3,411)
Net realized (gains) losses on investments	(98,223)	432,134
Net unrealized gains on investments	(396,182)	(666,516)
Unrealized loss on interest rate swap	308,434	401,746
(Increase) decrease in		
Patient and other accounts receivable, net	(2,178,690)	(2,963,036)
Supplies inventory	(550,183)	(75,121)
Other current assets	(45,031)	(79,195)
Increase (decrease) in		
Accounts payable	251,778	(412,559)
Accrued salaries, wages and benefits	(695,008)	195,561
Due to affiliate	(11,151)	9,981
Other current liabilities	(26,450)	79,392
Estimated third-party payor settlements	<u>926,296</u>	<u>609,200</u>
Net cash provided by operating activities	<u>4,365,811</u>	<u>4,339,064</u>
Cash flows from investing activities		
Purchase of property and equipment	(3,396,344)	(4,356,688)
Proceeds from sale of property and equipment	-	10,475
Change in interest in net assets of SVHSC	120,632	181,173
Proceeds from the sale of investments	5,108,716	11,173,128
Purchase of investments	<u>(6,813,137)</u>	<u>(10,106,568)</u>
Net cash used by investing activities	<u>(4,980,133)</u>	<u>(3,098,480)</u>
Cash flows from financing activities		
Repayments of long-term debt	<u>(375,000)</u>	<u>(165,000)</u>
Net cash used for financing activities	<u>(375,000)</u>	<u>(165,000)</u>
Net increase (decrease) in cash and cash equivalents	(989,322)	1,075,584
Cash and cash equivalents, beginning of year	<u>2,457,159</u>	<u>1,381,575</u>
Cash and cash equivalents, end of year	\$ <u>1,467,837</u>	\$ <u>2,457,159</u>
Supplementary disclosures of cash flow information		
Cash payment for interest	\$ <u>288,332</u>	\$ <u>391,616</u>

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

BRATTLEBORO MEMORIAL HOSPITAL

Notes to Financial Statements

September 30, 2010 and 2009

Nature of Business

Brattleboro Memorial Hospital (the Hospital) is a Vermont not-for-profit hospital. Southern Vermont Health Services Corporation (SVHSC), a not-for-profit organization, is the sole corporate member of the Hospital. The Hospital is a provider of health care services with facilities in the Brattleboro, Vermont area.

1. Summary of Significant Accounting Policies

Basis of Presentation

The Hospital's financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-For-Profit Entities*. Under FASB ASC 958, all not-for-profit organizations are required to provide a balance sheet, a statement of operations, and a statement of cash flows. The ASC requires reporting amounts for the Hospital's total assets, liabilities, and net assets in a balance sheet; reporting the change in an organization's net assets in a statement of operations; and reporting the change in its cash and cash equivalents in a statement of cash flows.

ASC 958 also requires net assets and revenues, expenses, gains, and losses be classified based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of the three classes of net assets - permanently restricted, temporarily restricted, and unrestricted - be displayed in a balance sheet and that the amounts of change in each of those classes of net assets be displayed in a statement of operations.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 certain investments in highly liquid debt instruments with original maturities of three months or less.

BRATTLEBORO MEMORIAL HOSPITAL

Notes to Financial Statements

September 30, 2010 and 2009

Patient Accounts Receivable

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

Supplies Inventory

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

Investments and Investment Income

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheets. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in the excess of revenues, gains, and other support over expenses and nonoperating gains (losses) unless the income or loss is restricted by donor or law.

Investments are exposed to various risks, such as interest rate, credit, and overall market volatility. As such, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the balance sheets and statements of operations and changes in net assets.

The Hospital adopted ASC 825, effective October 1, 2008, and has elected the fair value option relative to its investments which consolidates all investment performance activity from unrestricted investments within the nonoperating gains (losses) section of the statement of operations.

Assets Limited as to Use

Assets limited as to use primarily consist of assets held by trustees under indenture agreements and designated assets set aside by the Board of Directors for future capital improvements, over which the Board retains control and which it may at its discretion subsequently use for other purposes.

BRATTLEBORO MEMORIAL HOSPITAL

Notes to Financial Statements

September 30, 2010 and 2009

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Hospital are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of operations as net assets released from restriction. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

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. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the asset's estimated useful life. Such amortization is included in depreciation and amortization in the financial statements. 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 unrestricted support, and are excluded from the excess of revenue, gains, and other support over expenses and losses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Bond Issuance Costs

Costs incurred in the bond financing are capitalized and amortized over the period during which the debt is outstanding on a straight-line basis. Bond issuance costs are recorded net of accumulated amortization of \$17,035 and \$10,221 as of September 30, 2010 and 2009, respectively. Total related amortization expense for fiscal years 2010 and 2009 amounted to \$6,814.

BRATTLEBORO MEMORIAL HOSPITAL

Notes to Financial Statements

September 30, 2010 and 2009

Interest Rate Swap

The Hospital uses an interest rate swap contract to mitigate the cash flow exposure of interest rate movements on variable-rate debt. The Hospital has adopted FASB ASC 815, *Accounting for Derivative Instruments and Hedging Activities*, to account for its interest rate swap contract. The interest rate swap contract has not been designated as a cash flow hedge and thus is included within nonoperating gains (losses).

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Hospital in perpetuity.

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated 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. These retroactive adjustments resulted in an increase in net patient service revenue of approximately \$1,374,000 and \$1,017,000 in 2010 and 2009, respectively.

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity 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.

Employee Fringe Benefits

The Hospital has an "earned time" plan which provides benefits to employees for paid leave hours. Under this plan, each employee earns paid leave for each period worked. These hours of paid leave may be used for vacations, holidays, or illnesses. Hours earned, but not used, are vested with the employee. The Hospital accrues a liability for such paid leave as it is earned. The earned time plan does not cover any contracted employees.

BRATTLEBORO MEMORIAL HOSPITAL

Notes to Financial Statements

September 30, 2010 and 2009

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

The statements of operations include excess of revenues, gains, and other support over expenses and nonoperating gains (losses). Changes in unrestricted net assets, which are excluded from this measure consistent with industry practice, include permanent transfers of assets 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).

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.

Functional Expenses

The Hospital provides general health care services to residents within its geographic location. Expenses related to providing these services were as follows for the years ended:

	<u>2010</u>	<u>2009</u>
Health care services	\$ 45,346,493	\$ 42,789,022
General and administrative	<u>11,844,434</u>	<u>11,662,528</u>
	<u>\$ 57,190,927</u>	<u>\$ 54,451,550</u>

Reclassifications

Certain amounts in the 2009 financial statements have been reclassified to conform to the current year's presentation.

2. Community Benefit

The Hospital's charity care program is designed to assist those patients who are either uninsured, underinsured or have limited financial resources that impact their ability to fully pay for their hospital care. Before completing an application for charity care, patients are first asked to investigate whether or not they may be eligible for Medicare, Medicaid, Veteran's Benefits or other governmental or public assistance programs.

BRATTLEBORO MEMORIAL HOSPITAL

Notes to Financial Statements

September 30, 2010 and 2009

The Hospital's qualifications for charity care are as follows:

- Charity care is limited to medically necessary services. Patients receiving certain elective services, such as those considered cosmetic, investigational or experimental, are expected to make payment arrangements in advance, as these types of services are not covered by the charity care program.
- Patient's family income must be at or below 300% of the current Federal Poverty Income Guidelines for their applicable family size.

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. The following information measures the level of the charity care provided during the years ended September 30:

	<u>2010</u>	<u>2009</u>
Charges foregone, based on established rates	\$ <u>2,098,000</u>	\$ <u>1,842,000</u>
Estimated costs and expenses incurred to provide charity care ¹	\$ <u>1,260,000</u>	\$ <u>1,140,000</u>
Equivalent percentage of charity care services to all services	<u>2.20</u> %	<u>2.09</u> %
Number of patients receiving charity care	<u>4,657</u>	<u>4,987</u>

¹The cost estimate is based on an overall cost to charge ratio applied to charges written-off as charity care.

In addition, the Hospital incurs a payment shortfall in the treatment of Medicaid patients. This government program reimburses for medical services at less than published charges to provide those services. In 2010, the Hospital incurred a shortfall of approximately \$5,034,000 related to treating Medicaid patients.

The Hospital also provided other community benefits upon which no monetary value can be placed.

BRATTLEBORO MEMORIAL HOSPITAL

Notes to Financial Statements

September 30, 2010 and 2009

3. Net Patient Accounts Receivable and Net Patient Service Revenue

Net Patient and Other Accounts Receivable

Patient and other accounts receivable is stated net of contractual allowances and allowance for doubtful accounts and is comprised of the following as of September 30:

	<u>2010</u>	<u>2009</u>
Patient accounts receivable	\$ 12,016,094	\$11,959,174
Other accounts receivable	621,773	849,307
Contractual allowances	(5,303,907)	(5,077,061)
Allowance for doubtful accounts	<u>(2,763,026)</u>	<u>(2,893,697)</u>
Patient accounts receivable, net	<u>\$ 4,570,934</u>	<u>\$ 4,837,723</u>

Net Patient Service Revenue

Patient service revenue, contractual and other allowances consisted of the following as of September 30:

	<u>2010</u>	<u>2009</u>
Patient services		
Inpatient services	\$ 25,458,286	\$23,045,655
Outpatient services	<u>69,747,031</u>	<u>64,968,769</u>
	<u>95,205,317</u>	<u>88,014,424</u>
Less:		
Medicare and Medicaid allowances	32,655,070	28,940,629
State disproportionate share	(1,387,443)	(1,016,657)
Other contractual allowances	5,197,627	4,312,303
Charity care allowances	<u>2,098,209</u>	<u>1,841,992</u>
	<u>38,563,463</u>	<u>34,078,267</u>
Net patient service revenue	<u>\$ 56,641,854</u>	<u>\$ 53,936,157</u>

BRATTLEBORO MEMORIAL HOSPITAL

Notes to Financial Statements

September 30, 2010 and 2009

The Hospital has agreements with third-party payors that provide for payments at amounts different from its established rates. Revenue from the Medicare and Medicaid programs accounted for approximately 35% and 34% of the Hospital's net patient service revenues for the years ended September 30, 2010 and 2009, respectively. 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. A summary of the payment arrangements with major third-party payors follows:

Medicare

Inpatient acute care services and 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. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2007.

Medicaid

Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors and are not subject to retroactive adjustment. The Hospital's Medicaid cost reports have been audited by the fiscal intermediary through September 30, 2007.

Blue Cross

Inpatient and outpatient services rendered to Blue Cross subscribers are reimbursed at submitted charges less a negotiated discount. The amounts paid to the Hospital are not subject to any retroactive adjustments.

Other Arrangements

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

BRATTLEBORO MEMORIAL HOSPITAL

Notes to Financial Statements

September 30, 2010 and 2009

4. Supplies Inventory

The major classes of supplies inventory consisted of the following as of September 30:

	<u>2010</u>	<u>2009</u>
Central storeroom	\$ 170,428	\$ 173,682
Operating room	856,135	408,653
Pharmacy	307,668	257,056
Other	<u>238,177</u>	<u>182,834</u>
	<u>\$ 1,572,408</u>	<u>\$ 1,022,225</u>

5. Investments

Investments consisted of the following as of September 30:

	<u>2010</u>	<u>2009</u>
Assets limited as to use internally designated		
Cash and cash equivalents	\$ 10,478,836	\$ 10,528,813
Marketable securities	3,272,790	3,794,004
Mutual funds	1,032,032	-
Corporate bonds	683,750	629,990
US Treasury securities and other government securities	<u>8,967,658</u>	<u>7,256,440</u>
	<u>\$ 24,435,066</u>	<u>\$ 22,209,247</u>
Other temporarily restricted investments		
Cash and cash equivalents	\$ 56,654	\$ 57,466
US Treasury securities and other government securities	<u>36,483</u>	<u>77,168</u>
	<u>\$ 93,137</u>	<u>\$ 134,634</u>
Assets limited as to use for debt service		
Cash equivalents	<u>\$ 390,000</u>	<u>\$ 375,496</u>

BRATTLEBORO MEMORIAL HOSPITAL

Notes to Financial Statements

September 30, 2010 and 2009

Unrestricted investment income and gains (losses) on investments are comprised of the following:

	<u>2010</u>	<u>2009</u>
Income		
Interest and dividend income	\$ 191,898	\$ 335,425
Net realized gain (losses) on investments	<u>98,223</u>	<u>(432,134)</u>
	<u>\$ 290,121</u>	<u>\$ (96,709)</u>
Net unrealized gains on investments	<u>\$ 396,881</u>	<u>\$ 664,621</u>

Vermont law was amended effective May 5, 2009, to adopt the provisions of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Hospital has reviewed its policy to ensure compliance with the new law, and there was no financial impact from this new law.

6. Property and Equipment

As of September 30, 2010 and 2009, the cost and accumulated depreciation of depreciable assets by major classes of assets were as follows:

	<u>2010</u>	<u>2009</u>
Land	\$ 45,499	\$ 45,499
Land improvements	1,573,845	1,446,028
Building and improvements	28,433,135	28,014,381
Major moveable equipment	17,959,955	16,638,863
Construction-in-progress	<u>1,758,074</u>	<u>278,663</u>
	49,770,508	46,423,434
Less accumulated depreciation	<u>26,368,882</u>	<u>22,741,733</u>
	<u>\$23,401,626</u>	<u>\$23,681,701</u>

Depreciation expense for the years ended September 30, 2010 and 2009 was \$3,676,419 and \$3,301,353, respectively. At September 30, 2010, a construction related contract of approximately \$3,000,000 existed for the renovation of Hospital facilities. At September 30, 2010, the remaining commitment on this contract approximated \$1,474,000.

BRATTLEBORO MEMORIAL HOSPITAL

Notes to Financial Statements

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7. Borrowings

On February 1, 2008, the Hospital entered into a loan agreement with VEHBFA issuing \$11,180,000 in bonds (Brattleboro Memorial Hospital Project 2008 Series A). The proceeds were used to advance refund previously issued bonds. Interest on the Bonds is based on available daily rates as determined by the remarketing agent based on prevailing market conditions, not to exceed 10% per annum. The Hospital may, at any time, exercise an option to convert to an irrevocably fixed rate. No conversion will be effective unless all Bonds have been remarketed and sold. The Hospital may prepay certain of the bonds according to the terms of the loan and trust agreement. The bonds are collateralized by the assets of the Hospital.

There are various restrictive covenants, which include compliance with certain financial ratios and a detail of events constituting defaults. The Hospital is in compliance with these requirements at September 30, 2010.

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

	<u>2010</u>	<u>2009</u>
Series 2008 A Revenue Bonds with variable rate interest per daily remarketing (0.28% at September 30, 2010) handled by the remarketing agent, payable in annual installments ranging from \$390,000 in 2011 to \$770,000 in 2029.	<u>\$ 10,640,000</u>	<u>\$ 11,015,000</u>
	<u>10,640,000</u>	11,015,000
Less current portion	<u>390,000</u>	<u>375,000</u>
Total long-term debt, excluding current portion	<u>\$ 10,250,000</u>	<u>\$ 10,640,000</u>

Maturities for long-term debt in subsequent fiscal years ending September 30 are as follows:

2011 (included in current liabilities)	\$ 390,000
2012	405,000
2013	420,000
2014	435,000
2015	455,000
Thereafter	<u>8,535,000</u>
	<u>\$10,640,000</u>

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Letter of Credit

While interest on the Bonds accrues on a daily variable rate, the Hospital is required to maintain a credit facility in an amount not less than the principal amount of the outstanding Bonds plus accrued interest for 35 days at the maximum interest rate. To comply with this requirement, the Hospital has obtained an irrevocable direct pay letter of credit from TD Bank (Bank) in the amount of \$11,287,206. The letter of credit expires on March 31, 2018. The Hospital is required to pay the Bank quarterly commitment fees at the rate of 0.45% of the available amount of the outstanding bonds as defined in the agreement. Interest on drawings is paid at 0% to 1% per annum, plus the base rate depending on the number of days the drawing is outstanding. The base rate is the Wall Street Journal's prime rate. Upon issuance of the letter of credit, the Hospital was required to pay an issuance fee in the amount of \$13,057. This fee is included in bond issuance costs in the balance sheet and is being amortized on the straight-line method over the term of the letter of credit agreement through a charge to interest expense.

Interest Rate Swap

In connection with the issuance of the 2008 Hospital Revenue Bonds, the Hospital entered into an interest rate swap agreement for 15 years for \$6,996,000, or 60% of the original bond issue, for the first 15 years of the bond issue to hedge the interest rate risk associated with the 2008 Hospital Revenue Bonds. The interest rate swap agreement requires the Hospital to pay a bank, the swap counterparty, a fixed rate of 3.30% in exchange for the counterparty's payment to the Hospital of a variable rate based on 68% of the LIBOR rate.

The Hospital is required to include the fair value of the swap in the balance sheet, and annual changes, if any, in the fair value of the swap in the statements of operations. For example, during the term of the swap, the annually calculated value of the swap will be reported as an asset if interest rates increase above those in effect on the date the swap was entered into (as an unrealized gain in the statements of operations), which will generally be indicative that the net fixed rate the Hospital is paying is below market expectations of rates during the remaining term of the swap. The swap will be reported as a liability (as an unrealized loss in the statements of operations) if interest rates decrease below those in effect on the date the swap was entered into, which will generally be indicative that the net fixed rate the Hospital is paying on the swap is above market expectations of rates during the remaining term of the swap. These annual accounting adjustments of value changes in the swap transaction are non-cash recognition requirements, the net effect of which will be zero at the end of the swap's term. The Hospital retains the sole right to terminate the swap agreements should the need arise. The Hospital recorded the swap at its liability position of \$879,195 at September 30, 2010.

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Line of Credit

The Hospital has an unsecured line of credit totaling \$1,000,000 with a local bank. Interest on borrowings is charged at the Wall Street Journal prime rate (3.25% at September 30, 2010). There were no outstanding balances on the line as of September 30, 2010 and 2009, respectively.

8. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at September 30:

	<u>2010</u>	<u>2009</u>
Auxiliary programs	\$ 54,224	\$ 56,580
Time restriction - Life Income Trust	38,913	78,054
Charity care	29,858	24,540
Other Programs	32,819	27,100
Capital acquisition	<u>1,365</u>	<u>134,622</u>
	<u>\$ 157,179</u>	<u>\$ 320,896</u>

Permanently restricted net assets are made up of the following at September 30:

	<u>2010</u>	<u>2009</u>
Income restricted for:		
Medical library	\$ 974	\$ 871
Capital	18,804	17,318
Income unrestricted	<u>257,840</u>	<u>257,840</u>
	<u>\$ 277,618</u>	<u>\$ 276,029</u>

9. Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at September 30, 2010 and 2009, was as follows:

	<u>2010</u>	<u>2009</u>
Medicare	34 %	38 %
Other third-party payors	21	19
Patient	21	22
Blue Cross	12	10
Medicaid	<u>12</u>	<u>11</u>
	<u>100 %</u>	<u>100 %</u>

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The Hospital maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes it is not exposed to any significant risk on cash and cash equivalents.

10. Health Care Improvement Tax

Effective July 1, 1991, a health care improvement tax was imposed on hospitals, nursing homes, and home health agencies as part of a program to upgrade services in Vermont. The State of Vermont pays the Hospital with funds received from the health care improvement trust fund and federal matching funds. Hospitals in Vermont are assessed a certain percentage of net patient service revenue which is determined annually by the General Assembly. The following tax was paid and disproportionate share funds received as of September 30:

	<u>2010</u>	<u>2009</u>
Disproportionate share	\$ 1,387,443	\$ 1,016,657
Medicaid assessment expensed	<u>2,488,938</u>	<u>1,701,435</u>
	<u>\$ (1,101,495)</u>	<u>\$ (684,778)</u>

11. Commitments and Contingencies

Self-Funded Insurance Plans - The Hospital is self-insured with respect to health care coverage. This coverage is used to provide medical health benefits to its eligible employees and their eligible dependents. Unpaid claims have been recorded as a liability and are included in other accrued expenses in the balance sheet.

The Hospital is also partially self-funded for its workers' compensation policy. The accompanying financial statements include an accrual for management's estimate for claims incurred, but not reported, in other accrued expenses in the balance sheets.

Professional Liability Insurance - The Hospital is insured against malpractice loss contingencies under a claims-made insurance policy. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrence during its term, but reported subsequently, will be uninsured. The Hospital has established reserves in the amount of \$5,000 for deductibles as of September 30, 2010 and 2009. The Hospital has also created a tail coverage reserve in the event that insurance providers are changed. This reserve was \$763,376 and \$684,006 for the years ended September 30, 2010 and 2009, respectively. The possibility exists, which is a normal risk of doing business, that malpractice claims in excess of insurance coverage may be asserted against the Hospital. As of September 30, 2010 and 2009, no such claims were known to exist.

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Physician Agreements - The Hospital has entered into financing agreements with various recruited physicians, which guarantee a minimum amount of cash flow per contract year for each physician. The Hospital agrees to pay to the physician the amount, if any, by which the physician's personal service income earned in the contract is less than the cash flow defined in the agreement. Certain agreements include forgiveness of debt based upon length of service requirements. The Hospital has outstanding commitments on these guarantees with various physicians of approximately \$500,000 as of September 30, 2010 and 2009. The net amount advanced and receivable on these guarantees as of September 30, 2010 and 2009 is \$274,374 and \$416,265, respectively, and is included in other accounts receivable in the financial statements.

Litigation - In the normal course of business, the Hospital may be involved in litigation and annual third-party audits. Management, as part of its on-going risk management, consults with its legal counsel to assess the impact of these matters on the Hospital. During 2003, the Hospital was named in a lawsuit arising in normal business activities. Management has reviewed the pending litigation with legal counsel and is vigorously defending the action. No likely outcome can be determined as of September 30, 2010.

12. Related Party Transactions

The Hospital contracts with SVHSC for management services. The Hospital recorded \$2,275,200 and \$2,228,000 in management service expenses in 2010 and 2009, respectively. As of September 30, 2010 and 2009, the Hospital owed SVHSC \$116,265 and \$127,416, respectively, for management services and other expenses.

In accordance with FASB ASC 958, the Hospital has recognized an interest in the net assets of SVHSC for assets donated to SVHSC with the Hospital designated as beneficiary.

13. Fair Value Measurements

FASB ASC 820 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.

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

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

Fair Value Measurements at September 30, 2010			
	Total	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Assets:			
Investments			
Cash and short-term investments	\$ 10,535,490	\$ 10,535,490	\$ -
Corporate bonds	683,750	-	683,750
US Treasury obligations and government securities	9,004,141	9,004,141	-
Marketable securities	3,272,790	3,272,790	-
Mutual funds	1,032,032	1,032,032	-
Total assets	\$ 24,528,203	\$ 23,844,453	\$ 683,750
Liabilities:			
Interest rate swap	\$ 879,195	\$ -	\$ 879,195
Total liabilities	\$ 879,195	\$ -	\$ 879,195
Fair Value Measurements at September 30, 2009			
	Total	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Assets:			
Investments			
Cash and short-term investments	\$ 10,587,165	\$ 10,587,165	\$ -
Corporate bonds	629,990	-	629,990
US Treasury obligations and government securities	7,332,722	7,332,722	-
Marketable securities	3,794,004	3,794,004	-
Total assets	\$ 22,343,881	\$ 21,713,891	\$ 629,990
Liabilities:			
Interest rate swap	\$ 570,761	\$ -	\$ 570,761
Total liabilities	\$ 570,761	\$ -	\$ 570,761

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The fair value of Level 2 assets and liabilities is primarily based on quoted market prices of underlying assets, 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.

The Hospital's financial instruments consist of cash and cash equivalents, marketable securities, trade accounts receivable and payable, estimated third-party payor settlements and long-term debt. The fair values of all financial instruments approximate their carrying values at September 30, 2010.

14. Retirement Plans

The Hospital has a defined contribution plan for active employees to which the Hospital contributes 5% of the annual salary of the participating employee. Plan expense for the years ended September 30, 2010 and 2009 was \$861,858 and \$781,526, respectively.

Effective January 1, 2009, the Hospital established a defined contribution plan for active employees to which the Hospital contributes a matching contribution. In order to receive the match, employees must meet certain eligibility requirements. The Hospital will match 100% of elective deferrals to a limit based on years of service. Participants must be employed on the last day of the calendar year in order to receive the match. The Hospital has recorded a liability for this matching contribution of \$84,726 and \$60,112 for the years ended September 30, 2010 and 2009, respectively.

15. Subsequent Events

For purposes of the preparation of these financial statements in conformity with U.S. generally accepted accounting principles, management has considered transactions or events occurring through December 23, 2010, the date the September 30, 2010, financial statements were issued, and no events occurred requiring recognition or disclosure.