



# **SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY**

**CONSOLIDATED FINANCIAL STATEMENTS**

**with**

**SUPPLEMENTARY INFORMATION**

**September 30, 2015 and 2014**

**With Independent Auditor's Report**

# SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY

September 30, 2015 and 2014

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Southern Vermont Health Services Corporation

We have audited the accompanying consolidated financial statements of Southern Vermont Health Services Corporation (a Vermont not-for-profit corporation) and Subsidiary, which comprise the consolidated balance sheets as of September 30, 2015 and 2014, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Southern Vermont Health Services Corporation and Subsidiary as of September 30, 2015 and 2014, and the results of their operations, changes in their net assets and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

***Other Matter***

**Report on Supplementary Information**

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

*Berry Dunn McNeil & Parker, LLC*

Manchester, New Hampshire  
December 4, 2015  
Registration No. 92-0000278

**SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY**

**Consolidated Balance Sheets**

**September 30, 2015 and 2014**

**ASSETS**

	<u>2015</u>	<u>2014</u>
Current assets		
Cash and cash equivalents	\$ 3,598,091	\$ 3,532,652
Patient and other accounts receivable, net	5,656,340	6,333,462
Pledges and bequests receivable, net	1,220,769	5,217,182
Supplies inventory	2,070,515	2,356,444
Other current assets	339,765	315,603
Estimated third-party payor settlements	2,759,880	-
Assets limited as to use for current payment of debt service	<u>470,099</u>	<u>455,076</u>
Total current assets	<u>16,115,459</u>	<u>18,210,419</u>
Assets limited as to use		
Internally designated	46,432,415	41,070,926
Other temporarily restricted investments - BMH	83,540	82,274
Other temporarily restricted investments - SVHSC	692,418	302,066
Other permanently restricted investments - SVHSC	<u>278,171</u>	<u>278,981</u>
Total assets limited as to use	<u>47,486,544</u>	<u>41,734,247</u>
Pledges receivable, less current portion shown above	442,942	743,155
Property and equipment, net	30,273,848	30,724,821
Other non-current assets, net	<u>696,038</u>	<u>639,248</u>
Total assets	<u>\$ 95,014,831</u>	<u>\$ 92,051,890</u>

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

## LIABILITIES AND NET ASSETS

	<u>2015</u>	<u>2014</u>
Current liabilities		
Current portion of long-term debt	\$ 470,000	\$ 458,248
Accounts payable	2,762,908	2,198,831
Salaries, wages and payroll taxes payable	1,318,449	1,190,265
Accrued retirement plan contribution	1,098,090	1,060,915
Accrued compensated absences	2,320,280	2,242,751
Other accrued expenses	2,867,005	2,654,719
Deferred revenue	-	103,080
Estimated third-party payor settlements	<u>3,744,093</u>	<u>4,096,753</u>
Total current liabilities	14,580,825	14,005,562
Long-term debt, less current portion	8,065,000	8,535,000
Other long-term liabilities	147,615	97,222
Interest rate swap	<u>656,762</u>	<u>605,024</u>
Total liabilities	<u>23,450,202</u>	<u>23,242,808</u>
Net assets		
Unrestricted	69,763,954	66,869,734
Temporarily restricted	1,522,504	1,660,367
Permanently restricted	<u>278,171</u>	<u>278,981</u>
Total net assets	<u>71,564,629</u>	<u>68,809,082</u>
Total liabilities and net assets	<u>\$ 95,014,831</u>	<u>\$ 92,051,890</u>

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**SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY**

**Consolidated Statements of Operations**

**Years Ended September 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
Unrestricted revenues, gains and other support		
Patient service revenue (net of contractual allowances and discounts)	\$ <b>80,177,141</b>	\$ 75,844,802
Less provision for bad debts	<u>4,437,076</u>	<u>4,333,162</u>
Net patient service revenue	<b>75,740,065</b>	71,511,640
Meaningful use revenue	<b>954,777</b>	1,825,962
Other revenue	<b>1,898,237</b>	1,854,231
Contributions	<b>99,488</b>	162,288
Fundraising, net of expenses of \$9,262 and \$7,937 in 2015 and 2014, respectively	<b>21,519</b>	33,984
Net assets released from restrictions for operations	<u>4,370</u>	<u>40,740</u>
Total unrestricted revenues, gains, and other support	<u><b>78,718,456</b></u>	<u><b>75,428,845</b></u>
Expenses		
Salaries, wages and benefits	<b>42,732,201</b>	40,528,970
Supplies and other	<b>16,389,681</b>	15,942,476
Contracted services	<b>8,135,035</b>	7,423,619
Depreciation and amortization	<b>4,523,505</b>	4,287,325
Health care improvement tax	<b>4,312,811</b>	4,169,495
Interest expense	<u>232,157</u>	<u>242,250</u>
Total expenses	<u><b>76,325,390</b></u>	<u><b>72,594,135</b></u>
Operating income	<u><b>2,393,066</b></u>	<u><b>2,834,710</b></u>
Nonoperating gains (losses)		
Income from investments	<b>1,124,289</b>	1,369,773
Loss from rental activities, net of depreciation and other expenses of \$447,247 and \$476,754 in 2015 and 2014, respectively	<b>(328,422)</b>	(379,987)
Other nonoperating income	<b>86,196</b>	46,688
Unrealized (loss) gain on interest rate swap	<b>(51,738)</b>	73,699
Change in net unrealized gains on investments	<b>(1,992,849)</b>	1,102,127
Unrestricted gifts and donations	<u>1,041,825</u>	<u>4,718,175</u>
Nonoperating gains (losses), net	<u><b>(120,699)</b></u>	<u><b>6,930,475</b></u>
Excess of revenues, gains, and other support over expenses and nonoperating gains (losses)	<b>2,272,367</b>	9,765,185
Net assets released from restrictions for capital acquisitions	<u><b>621,853</b></u>	<u>963,536</u>
Increase in unrestricted net assets	<u><b>\$ 2,894,220</b></u>	<u><b>\$ 10,728,721</b></u>

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

**SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY**

**Consolidated Statements of Changes in Net Assets**

**Years Ended September 30, 2015 and 2014**

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Balances, October 1, 2013	\$ <u>56,141,013</u>	\$ <u>1,822,337</u>	\$ <u>278,981</u>	\$ <u>58,242,331</u>
Excess of revenues, gains and other support over expenses and nonoperating gains (losses)	9,765,185	-	-	9,765,185
Change in net unrealized gains on investments	-	19,508	-	19,508
Investment income	-	15,841	-	15,841
Contributions	-	807,313	-	807,313
Provision for uncollectible pledges and change in discounted present value	-	(356)	-	(356)
Net assets released from restrictions for operations	-	(40,740)	-	(40,740)
Net assets released from restrictions for capital acquisitions	<u>963,536</u>	<u>(963,536)</u>	-	-
Change in net assets	<u>10,728,721</u>	<u>(161,970)</u>	-	<u>10,566,751</u>
Balances, September 30, 2014	<u>66,869,734</u>	<u>1,660,367</u>	<u>278,981</u>	<u>68,809,082</u>
Excess of revenues, gains and other support over expenses and nonoperating gains (losses)	2,272,367	-	-	2,272,367
Change in net unrealized gains on investments	-	(70,111)	(2,034)	(72,145)
Investment income	-	67,185	1,188	68,373
Contributions	-	514,520	36	514,556
Provision for uncollectible pledges and change in discounted present value	-	(23,234)	-	(23,234)
Net assets released from restrictions for operations	-	(4,370)	-	(4,370)
Net assets released from restrictions for capital acquisitions	<u>621,853</u>	<u>(621,853)</u>	-	-
Change in net assets	<u>2,894,220</u>	<u>(137,863)</u>	<u>(810)</u>	<u>2,755,547</u>
Balances, September 30, 2015	\$ <u>69,763,954</u>	\$ <u>1,522,504</u>	\$ <u>278,171</u>	\$ <u>71,564,629</u>

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

**SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY**

**Consolidated Statements of Cash Flows**

**Years Ended September 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Change in net assets	\$ 2,755,547	\$ 10,566,751
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization, including rental properties	4,757,487	4,551,149
Loss on sale of equipment	285	55,239
Net unrealized losses (gains) on investments	2,064,994	(1,121,635)
Net realized gains on investments	(684,306)	(973,295)
Unrealized loss (gain) on interest rate swap	51,738	(73,699)
Restricted contributions and investment income	(582,929)	(823,154)
Provision for uncollectible pledges and change in discounted present value	23,234	356
Provision for bad debts	4,437,076	4,333,162
Increase in value of life insurance contract	(13,211)	(12,827)
(Increase) decrease in		
Pledges and bequests receivable, net	4,273,392	(4,532,814)
Receivables, net	(3,759,954)	(4,860,707)
Inventories and other current assets	261,767	3,660,113
Increase (decrease) in		
Accounts payable and accrued expenses	769,790	(81,341)
Other current liabilities	249,461	(3,894,684)
Deferred revenues	(103,080)	-
Estimated third-party payor settlements	<u>(3,112,540)</u>	<u>(1,994,257)</u>
Net cash provided by operating activities	<u>11,388,751</u>	<u>4,798,357</u>
Cash flows from investing activities		
Purchase of property and equipment	(4,299,985)	(4,597,254)
Proceeds from sale of equipment	-	580
Proceeds from sale of investments	13,953,930	7,864,120
Purchase of investments	<u>(21,101,938)</u>	<u>(6,963,684)</u>
Net cash used by investing activities	<u>(11,447,993)</u>	<u>(3,696,238)</u>
Cash flows from financing activities		
Proceeds from restricted contributions and investment income	582,929	823,154
Repayments of long-term debt	<u>(458,248)</u>	<u>(440,353)</u>
Net cash provided by financing activities	<u>124,681</u>	<u>382,801</u>
Net increase in cash and cash equivalents	65,439	1,484,920
Cash and cash equivalents, beginning of year	<u>3,532,652</u>	<u>2,047,732</u>
Cash and cash equivalents, end of year	\$ <u>3,598,091</u>	\$ <u>3,532,652</u>
Supplemental disclosures of cash flow information		
Cash payment for interest	\$ <u>233,179</u>	\$ <u>243,060</u>

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

# SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY

## Notes to Consolidated Financial Statements

September 30, 2015 and 2014

### **Nature of Business**

Southern Vermont Health Services Corporation and Subsidiary (SVHSC) is a Vermont not-for-profit organization that provides fundraising and management services for its not-for-profit subsidiary. SVHSC is the sole corporate member of Brattleboro Memorial Hospital, Inc. (Hospital or BMH), a Vermont not-for-profit organization. The Hospital is a provider of health services with facilities in Brattleboro, Vermont.

### **1. Summary of Significant Accounting Policies**

#### **Basis of Presentation**

SVHSC's financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic (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 activities, and a statement of cash flows. The ASC and related guidance for healthcare entities require reporting amounts for SVHSC's total assets, liabilities, and net assets in a balance sheet; reporting the change in an organization's net assets in statements of operations and changes in net assets; and reporting the change in its cash and cash equivalents in a statement of cash flows.

FASB ASC 958 also requires net assets and its 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.

#### **Principles of Consolidation**

The consolidated financial statements of SVHSC represent the activities of the Hospital and SVHSC after eliminating all material intercompany balances and transactions.

#### **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 certain investments in highly liquid debt instruments with original maturities of three months or less.

# SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY

## Notes to Consolidated Financial Statements

September 30, 2015 and 2014

### **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.

In evaluating the collectibility of accounts receivable, SVHSC analyzes past results and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, SVHSC analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary. For receivables associated with self-pay patients (which include both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), SVHSC records a provision for bad debts in the period of service based on past experience, which indicates that many patients are unable or unwilling to pay amounts for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or eligible) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged against the allowance for doubtful accounts.

During 2015, SVHSC increased its estimate from \$4,769,579 to \$5,266,350 in the allowance for doubtful accounts relating to self-pay patients and during 2014 SVHSC increased its estimate from \$4,050,526 to \$4,769,579 in the allowance for doubtful accounts relating to self-pay patients. During 2015, self-pay write-offs increased from \$3,767,572 to \$4,069,764 and during 2014 self-pay write-offs decreased from \$3,889,453 to \$3,767,572. The changes resulted from trends experienced in the collection of amounts from self-pay patients.

### **Supplies Inventory**

Supplies inventory is 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.

# SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY

## Notes to Consolidated Financial Statements

September 30, 2015 and 2014

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 sheet.

SVHSC has elected the fair value option in FASB ASC 825, *Financial Instruments*, relative to its investments which consolidates all investment activity for unrestricted investments within the nonoperating gains (losses) section of the statements 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, over which the Board retains control and which it may at its discretion subsequently use for other purposes.

### **Donor-Restricted Gifts**

Unconditional promises to give cash and other assets to SVHSC are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received and the conditions are met, subject to a present value discount and an allowance for uncollectible amounts. 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. 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 revenues, gains, and other support over expenses and nonoperating gains (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.

# SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY

## Notes to Consolidated Financial Statements

September 30, 2015 and 2014

### **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 \$51,105 and \$44,291 as of September 30, 2015 and 2014, respectively. Related amortization expense for fiscal years 2015 and 2014 amounted to \$6,814.

### **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, *Derivatives and Hedging*, to account for its interest rate swap contract. The interest rate swap 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 SVHSC have been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by SVHSC 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. Changes in these estimates resulted in an increase in net patient service revenue of approximately \$3,434,000 and \$1,069,000 in 2015 and 2014, respectively.

### **Charity Care**

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

### **Employee Fringe Benefits**

SVHSC 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. SVHSC accrues a liability for such paid leave as it is earned. The earned time plan does not cover any contracted employees.

# SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY

## Notes to Consolidated Financial Statements

September 30, 2015 and 2014

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

The consolidated 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 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 and SVHSC are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal income taxes on related income.

### **Functional Expenses**

SVHSC 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>2015</u>	<u>2014</u>
Health care services	\$ 60,662,685	\$ 58,042,177
General and administrative	<u>15,662,705</u>	<u>14,551,958</u>
	<u>\$ 76,325,390</u>	<u>\$ 72,594,135</u>

### **Subsequent Events**

For purposes of the preparation of these consolidated financial statements in conformity with GAAP, management has considered transactions or events occurring through December 4, 2015, the date the consolidated financial statements were issued.

## **2. Community Benefit**

SVHSC'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.

SVHSC'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.

**SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY**

**Notes to Consolidated Financial Statements**

**September 30, 2015 and 2014**

- Patient's family income must be at or below 300% of the current Federal Poverty Income Guidelines for their applicable family size.

SVHSC 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>2015</u>	<u>2014</u>
Charges foregone, based on established rates	\$ <u>3,523,000</u>	\$ <u>2,635,000</u>
Estimated costs and expenses incurred to provide charity care <sup>1</sup>	\$ <u>1,757,000</u>	\$ <u>1,341,000</u>
Equivalent percentage of charity care services to all services	<u>2.30%</u>	<u>1.85%</u>
Number of patients receiving charity care (unaudited)	<u>8,347</u>	<u>5,708</u>

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

In addition, SVHSC incurs a payment shortfall in the treatment of Medicaid patients. This government program reimburses for medical services at less than the costs incurred to provide those services. In 2015 and 2014, respectively, SVHSC incurred a shortfall of approximately \$9,317,000 and \$7,763,000, related to treating Medicaid patients.

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

**3. Patient and Other Accounts Receivable and Net Patient Service Revenue**

**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>2015</u>	<u>2014</u>
Patient accounts receivable	\$ 24,274,044	\$ 20,677,951
Other accounts receivable	393,783	455,943
Contractual allowance	(13,745,137)	(10,030,853)
Allowance for doubtful accounts	<u>(5,266,350)</u>	<u>(4,769,579)</u>
Patient accounts receivable, net	\$ <u>5,656,340</u>	\$ <u>6,333,462</u>

**SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY**

**Notes to Consolidated Financial Statements**

**September 30, 2015 and 2014**

**Net Patient Service Revenue**

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

	<u>2015</u>	<u>2014</u>
Gross patient service revenue	<b><u>\$ 153,068,996</u></b>	<b><u>\$142,612,465</u></b>
Less: Medicare and Medicaid allowances	<b>59,470,109</b>	55,467,986
Other contractual allowances	<b>10,949,624</b>	9,600,306
State disproportionate share	<b>(1,050,746)</b>	(936,015)
Charity care allowances	<b><u>3,522,868</u></b>	<u>2,635,386</u>
	<b><u>72,891,855</u></b>	<u>66,767,663</u>
Patient service revenue (net of contractual allowances and discounts)	<b>80,177,141</b>	75,844,802
Less: Provision for bad debts	<b><u>4,437,076</u></b>	<u>4,333,162</u>
Net patient service revenue	<b><u>\$ 75,740,065</u></b>	<b><u>\$ 71,511,640</u></b>

SVHSC has agreements with third-party payors that provide for payments at amounts different from their established rates. Revenue from the Medicare and Medicaid programs accounted for approximately 43% and 42% of SVHSC's net patient service revenue for the years ended September 30, 2015 and 2014, 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.

The Hospital and SVHSC recognize patient service revenue associated with services rendered to patients who have third-party payor coverage on the basis of contractual rates for such services. For uninsured patients that do not qualify for charity care, the Hospital and SVHSC recognize revenue on the basis of its standard rates (or on the basis of discounted rates, if negotiated or provided by policy). Based on historical trends, a significant portion of the Hospital's and SVHSC's uninsured patients will be unable or unwilling to pay for the services rendered. Thus, the Hospital and SVHSC record a provision for bad debts related to uninsured patients in the period the services are rendered. Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized during the year ended September 30, 2015 totaled \$80,177,141, of which \$74,514,679 was revenue from third-party payors and \$5,662,462 was revenue from self-pay patients, and during the year ended September 30, 2014 totaled \$75,844,802, of which \$68,408,074 was revenue from third-party payors and \$7,436,728 was revenue from self-pay patients.

**SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY**

**Notes to Consolidated Financial Statements**

**September 30, 2015 and 2014**

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, 2012, with the exception of September 30, 2011 which remains open.

In 2012, the Hospital entered into an agreement with OneCare Vermont Accountable Care Organization, LLC (ACO), the Medicare Shared Savings Program formed by Fletcher Allen Healthcare and Dartmouth-Hitchcock Medical Center. The ACO did not have any activity until January 1, 2013.

Savings are eligible for sharing from Medicare once the ACO's performance exceeds the national trend by the minimum savings rate percentage, as defined by Medicare.

**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.

**Other Arrangements**

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

**SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY**

**Notes to Consolidated Financial Statements**

**September 30, 2015 and 2014**

**4. Meaningful Use Revenue**

The Medicare and Medicaid electronic health record (EHR) incentive programs provide a financial incentive for achieving "meaningful use" of certified EHR technology. The Medicare criteria for meaningful use will be staged in three steps with stage three beginning in fiscal year 2018. The meaningful use attestation is subject to audit by the Centers of Medicare and Medicaid Services (CMS) in future years. As part of this process, a final settlement amount for the incentive payments could be established that differs from the initial calculation.

The Medicaid program will provide incentive payments to hospitals and eligible professionals as they adopt, implement, and upgrade or demonstrate meaningful use in the first year of participation and demonstrate meaningful use for up to five remaining participation years. There will be no payment adjustments under the Medicaid EHR incentive program.

During 2015, the Hospital attested to stage 2 meaningful use certification from CMS.

Eligible providers with at least 30% Medicaid patient volumes can receive payments totaling \$67,500 over a six-year period. The incentive payment is \$21,250 per physician in the first year of participation and \$8,500 per year for the following five years, provided they remain meaningful users.

During 2015, the Hospital recorded meaningful use revenues of \$552,751 and \$73,286 from the Medicare EHR and Medicaid EHR programs, respectively. The Hospital also recorded meaningful use revenues of \$328,740 from the Medicaid EHR program for its eligible physicians.

During 2014, the Hospital recorded meaningful use revenues of \$1,150,685 and \$335,367 from the Medicare EHR and Medicaid EHR programs, respectively. The Hospital also recorded meaningful use revenues of \$339,910 from the Medicaid EHR program for its eligible physicians.

**5. Supplies Inventory**

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

	<u>2015</u>	<u>2014</u>
Central storeroom	\$ 133,175	\$ 126,624
Operating room	1,421,909	1,635,695
Pharmacy	322,037	338,711
Other	<u>193,394</u>	<u>255,414</u>
	<u>\$ 2,070,515</u>	<u>\$ 2,356,444</u>

**SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY**

**Notes to Consolidated Financial Statements**

**September 30, 2015 and 2014**

**6. Investments**

Investments consisted of the following as of September 30:

	<u>2015</u>	<u>2014</u>
Pooled investments		
Cash and cash equivalents	\$ 4,405,739	\$ 3,911,243
Marketable equity securities	15,341,477	14,949,631
Mutual funds	8,131,743	7,978,321
Corporate bonds	1,501,798	816,540
U.S. Treasury securities and other government securities	<u>18,022,247</u>	<u>13,996,238</u>
	<u>\$ 47,403,004</u>	<u>\$ 41,651,973</u>
Internally designated	\$ 46,432,415	\$ 41,070,926
Temporarily restricted investments - SVHSC	692,418	302,066
Permanently restricted investments - SVHSC	<u>278,171</u>	<u>278,981</u>
	<u>\$ 47,403,004</u>	<u>\$ 41,651,973</u>
Other temporarily restricted assets - BMH		
Cash and cash equivalents	\$ 46,396	\$ 56,477
U.S. Treasury securities and other government securities	<u>37,144</u>	<u>25,797</u>
	<u>\$ 83,540</u>	<u>\$ 82,274</u>
Assets limited as to use for debt service		
Cash and cash equivalents	\$ <u>470,099</u>	\$ <u>455,076</u>

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

	<u>2015</u>	<u>2014</u>
Income		
Interest and dividend income	\$ 439,983	\$ 396,478
Net realized gains on investments	<u>684,306</u>	<u>973,295</u>
	<u>\$ 1,124,289</u>	<u>\$ 1,369,773</u>
Net unrealized (losses) gains on investments	\$ <u>(1,992,849)</u>	\$ <u>1,102,127</u>

# SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY

## Notes to Consolidated Financial Statements

September 30, 2015 and 2014

### 7. Property and Equipment

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

	<u>2015</u>	<u>2014</u>
Land	\$ 84,099	\$ 84,099
Land improvements	2,039,357	2,020,197
Building and improvements	44,291,931	43,364,685
Major moveable equipment	22,189,769	22,872,337
Construction-in-progress	<u>278,087</u>	<u>74,495</u>
	68,883,243	68,415,813
Less accumulated depreciation	<u>38,609,395</u>	<u>37,690,992</u>
	<u>\$ 30,273,848</u>	<u>\$ 30,724,821</u>

Depreciation expense for the years ended September 30, 2015 and 2014 was \$4,750,673 and \$4,544,335, respectively.

### 8. Borrowings

On February 1, 2008, the Hospital entered into a loan agreement with Vermont Educational and Health Buildings Finance Authority issuing \$11,180,000 in bonds (Brattleboro Memorial Hospital Project Series 2008 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, 2015.

**SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY**

**Notes to Consolidated Financial Statements**

**September 30, 2015 and 2014**

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

	<u>2015</u>	<u>2014</u>
Unsecured note payable, due in monthly installments of \$472 through April 2015, including interest calculated at 5%. Paid in 2015.	\$ -	\$ 3,248
Series 2008 A Revenue Bonds with variable rate interest per daily remarketing (0.01% at September 30, 2015) handled by the remarketing agent, payable in annual installments ranging from \$470,000 in 2016 to \$770,000 in 2029.	<u>8,535,000</u>	<u>8,990,000</u>
	<u>8,535,000</u>	8,993,248
Less current portion	<u>470,000</u>	<u>458,248</u>
Total long-term debt, excluding current portion	<u>\$ 8,065,000</u>	<u>\$ 8,535,000</u>

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

2016 (included in current liabilities)	\$ 470,000
2017	490,000
2018	510,000
2019	530,000
2020	550,000
Thereafter	<u>5,985,000</u>
	<u>\$ 8,535,000</u>

**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 obtained an irrevocable direct pay letter of credit from TD Banknorth, N.A. (Bank) in the amount of \$11,287,206 when the bonds were issued during 2008. 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. The letter of credit is collateralized by the assets of the Hospital.

# SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY

## Notes to Consolidated Financial Statements

September 30, 2015 and 2014

### Interest Rate Swap

In connection with the issuance of the 2008 bonds, the Hospital entered into an interest rate swap agreement for 15 years in the amount of \$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 statement 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 statement of operations), which will generally be indicative that the net fixed rate the Hospital is paying on the swap 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 \$656,762 and \$605,024 at September 30, 2015 and 2014, respectively.

### 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, 2015). There were no outstanding balances on the line as of September 30, 2015 and 2014, respectively.

## 9. Temporarily and Permanently Restricted Net Assets

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

	<u>2015</u>	<u>2014</u>
Auxiliary programs	\$ 44,919	\$ 44,024
Educational, oncology, and other programs	558,283	145,916
Time restriction - Life Income Trust	171,992	183,059
Charity care	44,628	46,567
Capital acquisition	<u>702,682</u>	<u>1,240,801</u>
	<u>\$ 1,522,504</u>	<u>\$ 1,660,367</u>

**SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY**

**Notes to Consolidated Financial Statements**

**September 30, 2015 and 2014**

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

	<u>2015</u>	<u>2014</u>
Income restricted for:		
Medical library	\$ 1,131	\$ 1,139
Capital	19,200	20,002
Income unrestricted	<u>257,840</u>	<u>257,840</u>
	<u>\$ 278,171</u>	<u>\$ 278,981</u>

**10. Concentration of Credit Risk**

SVHSC and the Hospital grant credit without collateral to their 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, 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Medicare	35 %	39 %
Other third-party payors	15	14
Patient	19	21
Blue Cross	10	8
Medicaid	<u>21</u>	<u>18</u>
	<u>100 %</u>	<u>100 %</u>

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

**11. 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 for the years ended September 30:

	<u>2015</u>	<u>2014</u>
Disproportionate share	\$ 1,050,746	\$ 936,015
Medicaid assessment expensed	<u>4,312,811</u>	<u>4,169,495</u>
	<u>\$ (3,262,065)</u>	<u>\$ (3,233,480)</u>

# SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY

## Notes to Consolidated Financial Statements

September 30, 2015 and 2014

### 12. Commitments and Contingencies

Self-Funded Insurance Plans - SVHSC 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. An accrual for management's estimate of health care claims incurred, but not reported, has been recorded as a liability and is included in other accrued expenses in the balance sheets.

SVHSC 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 - SVHSC 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. SVHSC has also created a tail coverage reserve in the event that insurance providers are changed. This reserve was \$1,108,558 and \$1,051,174 as of September 30, 2015 and 2014, respectively. SVHSC is subject to complaints, claims and litigation due to potential claims which arise in the normal course of business. FASB ASC 954-450, *Health Care Entities - Contingencies*, provides clarification to companies in the health care industry on the accounting for professional liability and similar insurance. ASC 954-450 states that insurance liabilities should not be presented net of insurance recoveries and that an insurance receivable should be recognized on the same basis as the liabilities, subject to the need for a valuation allowance for uncollectible accounts. SVHSC has evaluated its exposure to losses arising from potential claims and has determined that no such accrual is necessary for the years ended September 30, 2015 and 2014. SVHSC intends to renew coverage on a claims-made basis and anticipates that such coverage will be available.

Emergency Department Physician Staffing - SVHSC has an agreement with Dartmouth-Hitchcock Clinic to provide twenty-four hour per day physician staffing for its emergency department. Contract rates will be reviewed annually and adjusted, if required, by the mutual consent of both parties. The agreement can be terminated at any time by mutual consent of both parties or by either party with 60-day prior written notification. The agreement renews on an annual basis.

### 13. Interorganizational Transactions

The Hospital contracts with SVHSC for management services. The Hospital recorded \$1,637,000 and \$1,591,000 in management service expenses and SVHSC recognized management service revenue of the same in 2015 and 2014, respectively. These transactions have been eliminated in the consolidation.

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. This interest has been eliminated in the consolidation.

**SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY**

**Notes to Consolidated Financial Statements**

**September 30, 2015 and 2014**

**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, 2015 and 2014 was \$860,308 and \$863,829, respectively. SVHSC also participates in the Plan and recorded expense of \$52,434 and \$49,086 for the years ended September 30, 2015 and 2014, respectively.

SVHSC also has a defined contribution plan for active employees to which SVHSC contributes a matching contribution. In order to receive the match, employees must meet certain eligibility requirements. SVHSC will match 100% of elective deferrals to a limit based on years of service schedule. Participants must be employed on the last day of the calendar year in order to receive the match. SVHSC has recorded a liability for this matching contribution of \$125,462 and \$118,437 as of September 30, 2015 and 2014, respectively.

**15. Pledges and Bequests Receivable**

Pledges and bequests receivable is made up of the following:

	<u>2015</u>	<u>2014</u>
Pledges and bequests receivable	\$ 1,820,749	\$ 8,206,521
Less: Allowance for uncollectible pledges	(102,284)	(1,348,671)
Less: Allowance for present value discount	<u>(54,754)</u>	<u>(897,513)</u>
	1,663,711	5,960,337
Less: Current portion	<u>1,220,769</u>	<u>5,217,182</u>
Long-term pledges receivable	\$ <u>442,942</u>	\$ <u>743,155</u>

The following is the payment schedule at September 30, 2015:

Less than one year	\$ 1,296,858
Two to five years	523,891
Less allowance for uncollectible pledges and discount	<u>(157,038)</u>
	\$ <u>1,663,711</u>

**SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY**

**Notes to Consolidated Financial Statements**

**September 30, 2015 and 2014**

**16. Fair Value Measurements and Disclosures**

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.

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

	<u>Fair Value Measurements at September 30, 2015</u>		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
	<u>Total</u>		
<b>Assets:</b>			
<b>Investments</b>			
Cash and short-term investments	\$ 4,452,135	\$ 4,452,135	\$ -
Corporate bonds	1,501,798	-	1,501,798
U.S. Treasury securities and other government securities	18,059,391	18,059,391	-
Marketable equity securities	15,341,477	15,341,477	-
Mutual funds	8,131,743	8,131,743	-
Investments to fund deferred compensation	147,615	147,615	-
Total assets	<u>\$ 47,634,159</u>	<u>\$ 46,132,361</u>	<u>\$ 1,501,798</u>
<b>Liabilities:</b>			
Interest rate swap	\$ 656,762	\$ -	\$ 656,762
Total liabilities	<u>\$ 656,762</u>	<u>\$ -</u>	<u>\$ 656,762</u>

**SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY**

**Notes to Consolidated Financial Statements**

**September 30, 2015 and 2014**

	<u>Fair Value Measurements at September 30, 2014</u>		
		Quoted Prices	
		In Active	Significant
		Markets for	Other
		Identical	Observable
		Assets	Inputs
	<u>Total</u>	<u>(Level 1)</u>	<u>(Level 2)</u>
<b>Assets:</b>			
<b>Investments</b>			
Cash and short-term investments	\$ 3,967,720	\$ 3,967,720	\$ -
Corporate bonds	816,540	-	816,540
U.S. Treasury securities and other government securities	14,022,035	14,022,035	-
Marketable equity securities	14,949,631	14,949,631	-
Mutual funds	7,978,321	7,978,321	-
Investments to fund deferred compensation	<u>97,222</u>	<u>97,222</u>	<u>-</u>
Total assets	<u>\$ 41,831,469</u>	<u>\$ 41,014,929</u>	<u>\$ 816,540</u>
<b>Liabilities:</b>			
Interest rate swap	<u>\$ 605,024</u>	<u>\$ -</u>	<u>\$ 605,024</u>
Total liabilities	<u>\$ 605,024</u>	<u>\$ -</u>	<u>\$ 605,024</u>

The fair value of Level 2 assets and liabilities is primarily based on quoted 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.

The fair value of SVHSC's cash and cash equivalents, investments, pledges and bequests receivable, interest rate swap, and long-term debt approximate their carrying values at September 30, 2015 and 2014.

The carrying amount of cash and cash equivalents approximates its fair value using Level 1 inputs. The fair value of investments was determined using the methods and inputs described in the first section of this note. The fair value of bonds payable and interest rate swap are primarily based on current market interest rates for securities with comparable terms and credit ratings, which are considered Level 2 inputs.

**SUPPLEMENTARY INFORMATION**

## SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY

## Consolidating Balance Sheet

September 30, 2015  
(With Comparative Totals for 2014)

## ASSETS

	2015				2014
	SVHSC	BMH	Eliminations	Total	Total
Current assets					
Cash and cash equivalents	\$ 950,297	\$ 2,647,794	\$ -	\$ 3,598,091	\$ 3,532,652
Patient and other accounts receivable, net	1,450	5,654,890	-	5,656,340	6,333,462
Pledges and bequests receivable, net	260,769	960,000	-	1,220,769	5,217,182
Supplies inventory	-	2,070,515	-	2,070,515	2,356,444
Other current assets	672	339,093	-	339,765	315,603
Estimated third-party payor settlements	-	2,759,880	-	2,759,880	-
Due from affiliate	-	468,921	(468,921)	-	-
Assets limited as to use for current payment of debt service	-	470,099	-	470,099	455,076
Total current assets	<u>1,213,188</u>	<u>15,371,192</u>	<u>(468,921)</u>	<u>16,115,459</u>	<u>18,210,419</u>
Assets limited as to use					
Internally designated	11,230,662	35,201,753	-	46,432,415	41,070,926
Other temporarily restricted investments - BMH	-	83,540	-	83,540	82,274
Other temporarily restricted investments - SVHSC	692,418	-	-	692,418	302,066
Other permanently restricted investments - SVHSC	278,171	-	-	278,171	278,981
Interest in net assets of SVHSC	-	779,379	(779,379)	-	-
Total assets limited as to use	<u>12,201,251</u>	<u>36,064,672</u>	<u>(779,379)</u>	<u>47,486,544</u>	<u>41,734,247</u>
Pledges and bequests receivable, less current portion shown above	442,942	-	-	442,942	743,155
Property and equipment, net	2,979,391	27,294,457	-	30,273,848	30,724,821
Other non-current assets, net	<u>601,210</u>	<u>94,828</u>	<u>-</u>	<u>696,038</u>	<u>639,248</u>
Total assets	<u>\$ 17,437,982</u>	<u>\$ 78,825,149</u>	<u>\$ (1,248,300)</u>	<u>\$ 95,014,831</u>	<u>\$ 92,051,890</u>

## SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY

## Consolidating Balance Sheet

September 30, 2015  
(With Comparative Totals for 2014)

## LIABILITIES AND NET ASSETS

	2015				2014
	SVHSC	BMH	Eliminations	Total	Total
Current liabilities					
Current portion of long-term debt	\$ -	\$ 470,000	\$ -	\$ 470,000	\$ 458,248
Accounts payable	53,381	2,709,527	-	2,762,908	2,198,831
Salaries, wages and payroll taxes payable	118,061	1,200,388	-	1,318,449	1,190,265
Accrued retirement plan contribution	41,845	1,056,245	-	1,098,090	1,060,915
Accrued compensated absences	87,707	2,232,573	-	2,320,280	2,242,751
Other accrued expenses	27,348	2,839,657	-	2,867,005	2,654,719
Deferred revenue	-	-	-	-	103,080
Estimated third-party payor settlements	-	3,744,093	-	3,744,093	4,096,753
Due to affiliate	468,921	-	(468,921)	-	-
Total current liabilities	797,263	14,252,483	(468,921)	14,580,825	14,005,562
Long-term debt, less current portion	-	8,065,000	-	8,065,000	8,535,000
Other long-term liabilities	147,615	-	-	147,615	97,222
Interest rate swap	-	656,762	-	656,762	605,024
Total liabilities	944,878	22,974,245	(468,921)	23,450,202	23,242,808
Net assets					
Unrestricted	14,775,969	54,987,985	-	69,763,954	66,869,734
Temporarily restricted	1,438,964	584,748	(501,208)	1,522,504	1,660,367
Permanently restricted	278,171	278,171	(278,171)	278,171	278,981
Total net assets	16,493,104	55,850,904	(779,379)	71,564,629	68,809,082
Total liabilities and net assets	\$ 17,437,982	\$ 78,825,149	\$ (1,248,300)	\$ 95,014,831	\$ 92,051,890

## SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY

## Consolidating Statement of Operations

Year Ended September 30, 2015  
(With Comparative Totals for 2014)

	2015				2014
	SVHSC	BMH	Eliminations	Total	Total
Unrestricted revenues, gains and other support					
Patient service revenue (net of contractual allowances and discounts)	\$ -	\$ 80,177,141	\$ -	\$ 80,177,141	\$ 75,844,802
Less provision for bad debts	-	4,437,076	-	4,437,076	4,333,162
Net patient service revenue	-	75,740,065	-	75,740,065	71,511,640
Meaningful use revenue	-	954,777	-	954,777	1,825,962
Other revenue	361,046	1,974,179	(436,988)	1,898,237	1,854,231
Contributions	99,488	-	-	99,488	162,288
Management fee revenue	1,637,000	-	(1,637,000)	-	-
Fundraising, net of expenses	21,519	-	-	21,519	33,984
Net assets released from restrictions for operations	4,370	-	-	4,370	40,740
Total unrestricted revenues, gains, and other support	<u>2,123,423</u>	<u>78,669,021</u>	<u>(2,073,988)</u>	<u>78,718,456</u>	<u>75,428,845</u>
Expenses					
Salaries, wages, and benefits	1,408,760	41,323,441	-	42,732,201	40,528,970
Supplies and other	316,337	16,589,260	(515,916)	16,389,681	15,942,476
Contracted services	22,700	9,749,335	(1,637,000)	8,135,035	7,423,619
Depreciation and amortization	257,367	4,266,138	-	4,523,505	4,287,325
Health care improvement tax	-	4,312,811	-	4,312,811	4,169,495
Interest expense	-	232,157	-	232,157	242,250
Total expenses	<u>2,005,164</u>	<u>76,473,142</u>	<u>(2,152,916)</u>	<u>76,325,390</u>	<u>72,594,135</u>
Operating income	<u>118,259</u>	<u>2,195,879</u>	<u>78,928</u>	<u>2,393,066</u>	<u>2,834,710</u>
Nonoperating gains (losses)					
Income from investments	683,351	440,938	-	1,124,289	1,369,773
Loss from rental activities, net of depreciation and other expenses	-	(207,714)	(120,708)	(328,422)	(379,987)
Other nonoperating income	13,211	72,985	-	86,196	46,688
Unrealized (loss) gain on interest rate swap	-	(51,738)	-	(51,738)	73,699
Change in net unrealized gains on investments	(1,145,529)	(847,320)	-	(1,992,849)	1,102,127
Unrestricted gifts and donations	-	1,041,825	-	1,041,825	4,718,175
Nonoperating gains (losses), net	<u>(448,967)</u>	<u>448,976</u>	<u>(120,708)</u>	<u>(120,699)</u>	<u>6,930,475</u>
Excess (deficiency) of revenues, gains and other support over expenses and nonoperating gains (losses)	(330,708)	2,644,855	(41,780)	2,272,367	9,765,185
Net assets released from restrictions for capital acquisitions	621,853	-	-	621,853	963,536
Net assets transferred for capital acquisitions	(613,258)	571,478	41,780	-	-
Increase (decrease) in unrestricted net assets	<u>\$ (322,113)</u>	<u>\$ 3,216,333</u>	<u>\$ -</u>	<u>\$ 2,894,220</u>	<u>\$ 10,728,721</u>

## SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY

## Consolidating Statement of Changes in Net Assets

Year Ended September 30, 2015  
(With Comparative Totals for 2014)

	2015				2014 Total
	SVHSC	BMH	Eliminations	Total	
Unrestricted net assets					
Excess (deficiency) of revenues, gains and other support over expenses and nonoperating gains (losses)	\$ (330,708)	\$ 2,644,855	\$ (41,780)	\$ 2,272,367	\$ 9,765,185
Net assets released from restrictions for capital acquisitions	621,853	-	-	621,853	963,536
Net assets (transferred) received for capital acquisitions	<u>(613,258)</u>	<u>571,478</u>	<u>41,780</u>	<u>-</u>	<u>-</u>
Change in unrestricted net assets	<u>(322,113)</u>	<u>3,216,333</u>	<u>-</u>	<u>2,894,220</u>	<u>10,728,721</u>
Temporarily restricted net assets					
Change in net unrealized gains on investments	(70,530)	419	-	(70,111)	19,508
Investment income	66,338	847	-	67,185	15,841
Contributions	514,520	-	-	514,520	807,313
Provision for uncollectible pledges and change in discounted present value	(23,234)	-	-	(23,234)	(356)
Net assets released from restrictions for operations	(4,370)	-	-	(4,370)	(40,740)
Change in interest in SVHSC	-	408,493	(408,493)	-	-
Net assets released from restrictions for capital acquisitions	<u>(621,853)</u>	<u>-</u>	<u>-</u>	<u>(621,853)</u>	<u>(963,536)</u>
Change in temporarily restricted net assets	<u>(139,129)</u>	<u>409,759</u>	<u>(408,493)</u>	<u>(137,863)</u>	<u>(161,970)</u>
Permanently restricted net assets					
Change in net unrealized gains on investments	(2,034)	-	-	(2,034)	-
Investment income	1,188	-	-	1,188	-
Contributions	36	-	-	36	-
Change in interest in SVHSC	-	(810)	810	-	-
Change in permanently restricted net assets	<u>(810)</u>	<u>(810)</u>	<u>810</u>	<u>(810)</u>	<u>-</u>
Change in net assets	(462,052)	3,625,282	(407,683)	2,755,547	10,566,751
Net assets, beginning of year	<u>16,955,156</u>	<u>52,225,622</u>	<u>(371,696)</u>	<u>68,809,082</u>	<u>58,242,331</u>
Net assets, end of year	<u>\$ 16,493,104</u>	<u>\$ 55,850,904</u>	<u>\$ (779,379)</u>	<u>\$ 71,564,629</u>	<u>\$ 68,809,082</u>