




# Southern Vermont Health Services Corporation and Subsidiary

CONSOLIDATED FINANCIAL STATEMENTS  
with  
SUPPLEMENTARY INFORMATION

September 30, 2023 and 2022  
With Independent Auditor's Report



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

**September 30, 2023 and 2022**

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Southern Vermont Health Services Corporation

### ***Opinion***

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, 2023 and 2022, 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.

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, 2023 and 2022, and the results of their operations, changes in their net assets, and their cash flows for the years ended, in accordance with U.S. generally accepted accounting principles (U.S. GAAP).

### ***Basis for Opinion***

We conducted our audits in accordance with U.S. generally accepted auditing standards (U.S. GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Southern Vermont Health Services Corporation and Subsidiary and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Change in Accounting Principle***

As discussed in Note 1 to the consolidated financial statements, during the year ended September 30, 2023, Southern Vermont Health Services Corporation and Subsidiary adopted new accounting guidance, Financial Accounting Standards Board Accounting Standards Codification Topic 842, *Leases*. Our opinion is not modified with respect to this matter.

### ***Responsibilities of Management for the Financial Statements***

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Southern Vermont Health Services Corporation and Subsidiary's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

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

In performing an audit in accordance with U.S. GAAS, we:

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

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

### ***Other Matter***

#### ***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 in Schedules 1-3 is presented for purposes of additional analysis rather than to present the financial position, results of operations and changes in net assets of the individual entities, 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 financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to

Board of Directors  
Southern Vermont Health Services Corporation

the financial statements themselves, and other additional procedures in accordance with U.S. GAAS. 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*

Portland, Maine  
January 26, 2024  
Registration No. 92-0000278

**SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY**

**Consolidated Balance Sheets**

**September 30, 2023 and 2022**

**ASSETS**

	<u><b>2023</b></u>	<u><b>2022</b></u>
Current assets		
Cash and cash equivalents	\$ 2,116,638	\$ 3,305,720
Patient and other accounts receivable, net	<b>22,319,002</b>	16,474,251
Supplies inventory	<b>2,740,721</b>	2,525,087
Other current assets	<u><b>637,345</b></u>	<u>570,291</u>
Total current assets	<u><b>27,813,706</b></u>	<u>22,875,349</u>
Assets limited as to use		
Internally designated	<b>42,000,690</b>	39,571,419
Under bond agreement for capital acquisition	<b>3,471,686</b>	6,745,017
Other investments with donor restrictions – BMH	<b>54,154</b>	49,813
Other investments with donor restrictions – SVHSC	<u><b>1,172,797</b></u>	<u>1,068,215</u>
Total assets limited as to use	<u><b>46,699,327</b></u>	<u>47,434,464</u>
Deferred system development costs, net	-	213,581
Property and equipment, net	<b>45,499,263</b>	44,487,256
Right-of-use assets - operating leases, net	<b>687,307</b>	-
Interest rate swaps	<b>978,264</b>	738,064
Other noncurrent assets, net	<u><b>1,219,984</b></u>	<u>1,073,779</u>
Total assets	<u><b>\$122,897,851</b></u>	<u><b>\$116,822,493</b></u>

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

## LIABILITIES AND NET ASSETS

	<u>2023</u>	<u>2022</u>
Current liabilities		
Current portion of long-term debt	\$ 1,192,624	\$ 1,177,124
Current portion of lease liabilities - operating	167,770	-
Accounts payable	8,181,359	7,743,258
Salaries, wages, and payroll taxes payable	1,128,949	968,883
Accrued retirement plan contribution	1,579,790	1,388,956
Accrued compensated absences	3,302,554	3,201,058
Other accrued expenses	1,595,903	1,527,418
Deferred revenue	101,192	15,340
Estimated third-party payor settlements	2,561,677	2,882,810
Medicare accelerated payments	<u>-</u>	<u>862,950</u>
Total current liabilities	19,811,818	19,767,797
Long-term debt, less current portion	14,845,302	13,742,304
Lease liabilities - operating, less current portion	527,339	-
Other long-term liabilities	<u>645,383</u>	<u>515,914</u>
Total liabilities	<u>35,829,842</u>	<u>34,026,015</u>
Net assets		
Without donor restrictions	85,596,357	81,434,440
With donor restrictions	<u>1,471,652</u>	<u>1,362,038</u>
Total net assets	<u>87,068,009</u>	<u>82,796,478</u>
Total liabilities and net assets	<u>\$122,897,851</u>	<u>\$116,822,493</u>

**SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY**

**Consolidated Statements of Operations**

**Years Ended September 30, 2023 and 2022**

	<u><b>2023</b></u>	<u><b>2022</b></u>
Revenues, gains, and other support without donor restrictions:		
Net patient service revenue	\$ <b>92,113,201</b>	\$ 78,942,232
Provider relief fund revenue	-	3,929,773
Fixed prospective revenue	<b>14,103,473</b>	13,787,328
Other revenue	<b>5,410,267</b>	4,782,508
Contributions	<b>85,076</b>	152,140
Net assets released from restrictions for operations	<u><b>32,212</b></u>	<u>140,418</u>
Total revenues, gains, and other support without donor restrictions	<u><b>111,744,229</b></u>	<u>101,734,399</u>
Expenses		
Salaries, wages, and benefits	<b>61,874,936</b>	57,615,033
Supplies and other	<b>21,244,121</b>	18,718,635
Contracted services	<b>20,192,680</b>	19,878,553
Depreciation and amortization	<b>4,680,724</b>	4,288,505
Health care improvement tax	<b>5,758,093</b>	5,396,961
Interest expense	<u><b>165,295</b></u>	<u>110,385</u>
Total expenses	<u><b>113,915,849</b></u>	<u>106,008,072</u>
Operating loss	<u><b>(2,171,620)</b></u>	<u>(4,273,673)</u>
Nonoperating gains (losses)		
Income from investments	<b>56,078</b>	1,172,248
Other nonoperating income	<b>121,036</b>	128,412
Unrealized gains on interest rate swaps	<b>240,200</b>	828,088
Net unrealized gains (losses) on investments	<u><b>5,739,432</b></u>	<u>(9,500,613)</u>
Nonoperating gains (losses), net	<u><b>6,156,746</b></u>	<u>(7,371,865)</u>
Excess (deficiency) of revenues, gains, other support, and nonoperating gains (losses) over expenses	<b>3,985,126</b>	(11,645,538)
Net assets released from restrictions for capital acquisitions	<u><b>176,791</b></u>	<u>181,000</u>
Change in net assets without donor restrictions	<u><b>\$ 4,161,917</b></u>	<u>\$ (11,464,538)</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 Changes in Net Assets

**Years Ended September 30, 2023 and 2022**

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Balances, October 1, 2021	\$ <u>92,898,978</u>	\$ <u>1,682,584</u>	\$ <u>94,581,562</u>
Deficiency of revenues, gains, other support, and nonoperating gains (losses) over expenses	(11,645,538)	-	(11,645,538)
Net unrealized losses on investments	-	(224,191)	(224,191)
Investment income	-	30,389	30,389
Contributions	-	194,674	194,674
Net assets released from restrictions for operations	-	(140,418)	(140,418)
Net assets released from restrictions for capital acquisitions	<u>181,000</u>	<u>(181,000)</u>	<u>-</u>
Change in net assets	<u>(11,464,538)</u>	<u>(320,546)</u>	<u>(11,785,084)</u>
Balances, September 30, 2022	<u>81,434,440</u>	<u>1,362,038</u>	<u>82,796,478</u>
Excess of revenues, gains, other support, and nonoperating gains (losses) over expenses	3,985,126	-	3,985,126
Net unrealized gains on investments	-	128,640	128,640
Investment income	-	13,311	13,311
Contributions	-	176,666	176,666
Net assets released from restrictions for operations	-	(32,212)	(32,212)
Net assets released from restrictions for capital acquisitions	<u>176,791</u>	<u>(176,791)</u>	<u>-</u>
Change in net assets	<u>4,161,917</u>	<u>109,614</u>	<u>4,271,531</u>
Balances, September 30, 2023	<u>\$ 85,596,357</u>	<u>\$ 1,471,652</u>	<u>\$ 87,068,009</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, 2023 and 2022**

	<u><b>2023</b></u>	<u><b>2022</b></u>
Cash flows from operating activities		
Change in net assets	\$ <b>4,271,531</b>	\$ (11,785,084)
Adjustments to reconcile change in net assets to net cash used by operating activities		
Depreciation and amortization	<b>4,680,724</b>	4,288,505
Amortization of debt issuance costs, included in interest expense	<b>22,518</b>	22,518
Gain on sale of equipment	<b>-</b>	(16,200)
Net unrealized (gains) losses on investments	<b>(5,739,432)</b>	9,500,613
Net realized losses (gains) on investments	<b>623,800</b>	(626,477)
Unrealized gains on interest rate swaps	<b>(240,200)</b>	(828,088)
Increase in value of life insurance contract	<b>(16,736)</b>	(16,248)
Decrease (increase) in		
Receivables, net	<b>(5,844,751)</b>	(470,527)
Supplies and other current assets	<b>(282,688)</b>	(245,944)
(Decrease) increase in		
Accounts payable and accrued expenses	<b>1,652,831</b>	1,968,028
Other current liabilities	<b>267,121</b>	(2,110,882)
Deferred revenues	<b>85,852</b>	15,340
Estimated third-party payor settlements	<b>(321,133)</b>	1,851,067
Medicare accelerated payments	<b>(862,950)</b>	(4,210,934)
Net cash used by operating activities	<u><b>(1,703,513)</b></u>	<u><b>(2,664,313)</b></u>
Cash flows from investing activities		
Purchase of property and equipment	<b>(6,788,542)</b>	(15,320,520)
Proceeds from sale of equipment	<b>-</b>	16,200
Proceeds from sale of investments	<b>7,114,021</b>	9,197,243
Purchase of investments	<b>(4,532,242)</b>	(4,563,997)
Net cash used by investing activities	<u><b>(4,206,763)</b></u>	<u><b>(10,671,074)</b></u>
Cash flows from financing activities		
Proceeds from issuance of long-term debt	<b>2,177,954</b>	7,232,947
Repayments of long-term debt	<b>(725,750)</b>	(997,317)
Net cash provided by financing activities	<u><b>1,452,204</b></u>	<u><b>6,235,630</b></u>
Net decrease in cash and cash equivalents and restricted cash	<b>(4,458,072)</b>	(7,099,757)
Cash and cash equivalents and restricted cash, beginning of year	<u><b>10,100,550</b></u>	<u><b>17,200,307</b></u>
Cash and cash equivalents and restricted cash, end of year	<u><b>\$ 5,642,478</b></u>	<u><b>\$ 10,100,550</b></u>
Breakdown of cash and cash equivalents and restricted cash, end of year:		
Cash and cash equivalents	<b>\$ 2,116,638</b>	\$ 3,305,720
Restricted cash for capital acquisition under bond agreement	<u><b>3,525,840</b></u>	<u>6,794,830</u>
	<u><b>\$ 5,642,478</b></u>	<u><b>\$ 10,100,550</b></u>
Supplemental disclosures of cash flow information		
Cash payment for interest	<u><b>\$ 118,095</b></u>	<u><b>\$ 182,966</b></u>

Non-cash transactions:

At September 30, 2023 and 2022, there were \$456,745 and \$1,409,913 of construction-in-progress additions included in accounts payable, respectively.

During 2022, equipment in the amount of \$356,224 was acquired through a capital lease.

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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, 2023 and 2022

### **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**

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities*. Under FASB ASC 958 and FASB ASC 954, *Health Care Entities*, all not-for-profit healthcare organizations are required to provide a balance sheet, a statement of operations, a statement of changes in net assets, and a statement of cash flows. FASB ASC 954 requires reporting amounts for an organization'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, according to the following net asset classifications:

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

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

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

#### **Principles of Consolidation**

The consolidated financial statements 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 (U.S. 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.

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

## **Notes to Consolidated Financial Statements**

**September 30, 2023 and 2022**

### **Cash and Cash Equivalents**

Cash and cash equivalents are held in either demand deposit or highly liquid savings deposit accounts.

### **Revenue Recognition and Accounts Receivable**

Patient service revenue is reported at the amount that reflects the consideration to which the Hospital expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Hospital bills the patients and third-party payors several days after the services are performed or the patient is discharged from the hospital. Revenue is recognized as performance obligations are satisfied.

The Hospital has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the Hospital's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, the Hospital does in certain instances enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

Performance obligations are determined based on the nature of the services provided by the Hospital. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Hospital believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in hospitals receiving inpatient acute care services or patients receiving services in outpatient centers. The Hospital measures the performance obligation from admission into the hospital or the commencement of an outpatient service to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services. Revenue from performance obligations satisfied at a point in time is generally recognized when the goods are provided to patients and customers in a retail setting (for example, cafeteria) and the Hospital does not believe it is required to provide additional goods or services related to that sale.

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

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

## **Notes to Consolidated Financial Statements**

**September 30, 2023 and 2022**

The Hospital determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Hospital's policy, and implicit price concessions provided to uninsured patients. The Hospital determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The Hospital determines its estimate of implicit price concessions based on its historical collection experience with this class of patients and records these as a direct reduction to net patient service revenue. Management continually reviews the contractual estimation process to consider and incorporate updates to laws and regulations and changes in commercial contractual terms resulting from contract negotiations and renewals.

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. Patient accounts receivable at October 1, 2021 was \$15,993,509.

The Hospital has agreements with third-party reimbursing agencies that provide for payments at amounts different from its established rates. A summary of the payment arrangements with major third-party reimbursing entities 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.

### 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 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.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result of investigations by governmental agencies, various healthcare organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action,

# SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY

## Notes to Consolidated Financial Statements

**September 30, 2023 and 2022**

including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Hospital's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Hospital. In addition, the contracts the Hospital has with commercial and other payors also provide for retroactive audit and review of claims.

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

The following table summarizes the Hospital's settlements and settlement activity with its significant third-party payors:

As of September 30, 2023:

	Beginning of Year Settlement Balance	Fiscal Year Estimate	Prior Year Settlements and Adjustments	Current Year Receipts, Net	End of Year Settlement Balance	Open Settlement Years
Medicare	\$ (2,356,864)	\$ (983,852)	\$ 927,828	\$ 307,290	\$ (2,105,598)	2020-2023 NA
Medicaid	<u>(525,946)</u>	<u>(278,173)</u>	<u>348,040</u>	<u>-</u>	<u>(456,079)</u>	
Total	<u>\$ (2,882,810)</u>	<u>\$ (1,262,025)</u>	<u>\$ 1,275,868</u>	<u>\$ 307,290</u>	<u>\$ (2,561,677)</u>	

As of September 30, 2022:

	Beginning of Year Settlement Balance	Fiscal Year Estimate	Prior Year Settlements and Adjustments	Current Year Payments	End of Year Settlement Balance	Open Settlement Years
Medicare	\$ (1,174,348)	\$ (940,903)	\$ (241,613)	\$ -	\$ (2,356,864)	2018-2022 NA
Medicaid	<u>142,605</u>	<u>(255,946)</u>	<u>112,500</u>	<u>(525,105)</u>	<u>(525,946)</u>	
Total	<u>\$ (1,031,743)</u>	<u>\$ (1,196,849)</u>	<u>\$ (129,113)</u>	<u>\$ (525,105)</u>	<u>\$ (2,882,810)</u>	

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

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

## **Notes to Consolidated Financial Statements**

**September 30, 2023 and 2022**

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

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.
- The 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><b>2023</b></u>	<u><b>2022</b></u>
Charges foregone, based on established rates	<u><b>\$ 834,000</b></u>	<u><b>\$ 943,000</b></u>
Estimated costs and expenses incurred to provide charity care <sup>1</sup>	<u><b>\$ 355,000</b></u>	<u><b>\$ 475,000</b></u>
Equivalent percentage of charity care services to all services	<u><b>0.31 %</b></u>	<u><b>0.45 %</b></u>

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

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Hospital also provides services to uninsured patients and offers those uninsured patients a discount, either by policy or law, from standard charges. The Hospital estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions based on historical collection experience. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

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

## **Notes to Consolidated Financial Statements**

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The Hospital has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors:

- Payors (for example, Medicare, Medicaid, managed care or other insurance, patient) have different reimbursement and payment methodologies
- Length of the patient's service or episode of care
- Method of reimbursement (fee for service or fixed prospective payment)
- Hospital's program that provided the service.

For the years ended September 30, 2023 and 2022, the Hospital determined revenue recognized from goods and services that transfer to the customer at a point in time is not material to the consolidated financial statements.

### **Supplies Inventory**

Supplies inventory is carried at the lower of cost (determined by the first-in, first-out method) or net realizable value.

### **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 (including realized and unrealized gains and losses on investments, interest, and dividends) is included in the excess (deficiency) of revenues, gains, other support, and nonoperating gains (losses) over expenses, 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.

SVHSC has elected the fair value option in FASB ASC 825, *Financial Instruments*, relative to its investments to simplify the presentation of all investment performance activity from investments without donor restrictions within the nonoperating gains (losses) section of the consolidated 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 SVHSC's 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 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. The gifts are reported as



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

## **Notes to Consolidated Financial Statements**

**September 30, 2023 and 2022**

support with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, the net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restrictions in the accompanying consolidated 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 support without donor restrictions, and are excluded from the excess (deficiency) of revenues, gains, other support, and nonoperating gains (losses) over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as support with donor restrictions. Absent explicit donor stipulations about how long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

### **Right-of-Use Assets and Lease Liabilities**

Effective October 1, 2022, SVHSC adopted FASB ASC Topic 842, *Leases* (Topic 842). In evaluating its contracts, SVHSC separately identifies lease and non-lease components, such as maintenance costs, in calculating the right-of-use (ROU) assets and lease liabilities for its facility and equipment leases. SVHSC has elected the practical expedient to not separate lease and non-lease components and classifies the contract as a lease if consideration in the contract allocated to the lease component is greater than the consideration allocated to the non-lease agreement.

Leases result in the recognition of ROU assets and lease liabilities on the consolidated balance sheet. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. SVHSC determines lease classification as operating or finance at the lease commencement date. Finance leases are reported with borrowings in Note 7.

At lease inception, the lease liability is measured at the present value of the lease payments over the lease term. The lease term may include options to extend or terminate the lease that SVHSC is reasonably certain to exercise. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives. Topic 842 requires the use of the implicit rate in the lease when readily determinable. As most of the leases do not provide an implicit rate, SVHSC has elected to use its incremental borrowing rate for a term comparable to the life of the lease based on the information available at the commencement date to determine the present value of the lease payments.

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

## **Notes to Consolidated Financial Statements**

**September 30, 2023 and 2022**

Lease expense for operating leases is recognized on a straight-line basis over the lease term. Fixed, or in-substance fixed, payments on finance leases are recognized using the effective interest method. Variable lease expenses that are not considered fixed, or in-substance fixed, are recognized as incurred. Leases with an initial term of 12 months or less are not recorded on the consolidated balance sheet and are expensed on a straight-line basis over the lease term. Finance lease right-of-use asset amortization and interest costs are recorded within depreciation and amortization, and interest in the consolidated statements of operations.

The adoption of Topic 842 resulted in the recognition of the following assets and liabilities on October 1, 2022:

Right-of-use assets - operating lease	\$ <u>804,782</u>
Lease liabilities - operating, net of current portion	\$ 695,109
Current portion of lease liabilities - operating	<u>109,673</u>
Lease liabilities	\$ <u>804,782</u>

Results for the period prior to October 1, 2022 continue to be reported in accordance with SVHSC's historical accounting treatment for leases.

### **Coronavirus Aid, Relief, and Economic Security Act (CARES Act) Provider Relief Funds**

In response to the COVID-19 pandemic, the U.S. government responded with relief legislation called the Coronavirus Aid, Relief, and Economic Security (CARES) Act, among other subsequent legislation, to address the economic impact of the COVID-19 outbreak.

Revenue for COVID-19 relief funding is recognized when management believes the Hospital met the conditions necessary to recognize the revenue. COVID-19 relief funding received, but not yet earned, is recorded as deferred revenue. Due to the complexity of the reporting requirements for COVID-19 relief funding and the continued issuance of clarifying guidance, there is at least a reasonable possibility the amount of income recognized from the COVID-19 relief funding may change by a material amount. Any difference between amounts previously estimated and amounts subsequently determined to be recoverable or payable will be included in income in the year that such amounts become known.

### **Provider Relief Fund**

The CARES Act's Provider Relief Fund (PRF) and the American Rescue Plan (ARP) provide reimbursements to healthcare providers for COVID-19-related expenses or lost revenues. In 2020, the Hospital received \$11,407,618 from PRF. Additionally, in 2022, it obtained \$3,929,773 of PRF and ARP. The Hospital recognized the PRF and APR funds as revenue in the years received.

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

## **Notes to Consolidated Financial Statements**

**September 30, 2023 and 2022**

### **Medicare Accelerated Payments**

In response to the COVID-19 pandemic, the Center for Medicare and Medicaid Services (CMS) made available an accelerated and advance payment program to Medicare providers. The Hospital received \$6,230,193 of accelerated advanced payments during 2020. Under the program, CMS began recouping payment from claims payments one year from the date the respective advances were made for a period of seventeen months, and the Hospital also made direct payments to CMS. The outstanding balance has been repaid.

### **Interest Rate Swaps**

The Hospital uses interest rate swap contracts 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 contracts. The interest rate swap contracts have not been designated as a cash flow hedge and thus changes in fair value are included within nonoperating gains (losses).

### **Fixed Prospective Revenue**

The Hospital is a participant in OneCare Vermont, LLC, a statewide Accountable Care Organization (ACO) and has entered into a risk bearing arrangement by participating in the Medicare Next Generation Model and Vermont Medicaid programs. Under both programs, the Hospital receives monthly fixed prospective payments for services provided to attributed members. The ACO is responsible for both the cost and quality of care for each attributed member. This is true whether that person uses little or no care or whether they require services consistently throughout the year. The maximum financial exposure to the Hospital for all ACO payor programs for 2023 and 2022 is approximately \$1,449,000 and \$1,343,000, respectively. The Hospital recognizes its share of annual contract settlements as an increase or decrease in fixed prospective 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.

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

The consolidated statements of operations include excess (deficiency) of revenues, gains, other support, and nonoperating gains (losses) over expenses. Changes in net assets without donor restrictions 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).

# SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY

## Notes to Consolidated Financial Statements

September 30, 2023 and 2022

### Income Taxes

SVHSC and the Hospital 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.

### Subsequent Events

For purposes of the preparation of these consolidated financial statements in conformity with U.S. GAAP, management has considered transactions or events occurring through January 26, 2024, the date the consolidated financial statements were available to be issued.

## 2. Net Patient Service Revenue

Net patient service revenue consisted of the following for the years ended September 30:

	<u>2023</u>	<u>2022</u>
Gross patient service revenue	\$ 267,478,872	\$ 210,390,452
Less contractual allowances	174,531,282	130,504,880
Less charity care	<u>834,389</u>	<u>943,340</u>
	<u>175,365,671</u>	<u>131,448,220</u>
Net patient service revenue	\$ <u>92,113,201</u>	\$ <u>78,942,232</u>

The Hospital has agreements with CMS (Medicare) and the State of Vermont Department of Health and Human Services (Medicaid) that provide for payments at amounts different from their established rates. Revenue from the Medicare and Medicaid programs accounted for approximately 32% and 33% of the Hospital's net patient service revenue for the years ended September 30, 2023 and 2022, respectively.

Each performance obligation is separately identifiable from other promises in the customer contract. As the performance obligations are met (i.e., room, board, ancillary services, level of care), revenue is recognized based upon the allocated transaction price. The transaction price is allocated to separate performance obligations based upon the relative standalone selling price. In instances where management determines there are multiple performance obligations across multiple months, the transaction price is allocated by applying an estimated implicit and explicit rate to gross charges based on the separate performance obligations.

# SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY

## Notes to Consolidated Financial Statements

September 30, 2023 and 2022

In assessing collectibility, the Hospital has elected the portfolio approach. This portfolio approach is being used as the Hospital has a large volume of similar contracts with similar classes of customers. The Hospital reasonably expects that the effect of applying a portfolio approach to a group of contracts would not differ materially from considering each contract separately. Management's judgment to group the contracts by portfolio is based on the payment behavior expected in each portfolio category. As a result, aggregating all of the contracts (which are at the patient level) by the particular payor or group of payors, will result in the recognition of the same amount of revenue as applying the analysis at the individual patient level.

Net patient service revenue recognized for the years ended September 30, 2023 and 2022, from these major payors is as follows:

	<u>2023</u>	<u>2022</u>
Medicare and Medicaid	\$ 29,676,260	\$ 26,013,239
Commercial and other	58,842,595	50,086,968
Self-pay	<u>3,594,346</u>	<u>2,842,025</u>
Total	<u>\$ 92,113,201</u>	<u>\$ 78,942,232</u>

### 3. Availability and Liquidity of Financial Assets

SVHSC has working capital of \$8,001,888 and \$3,107,552 at September 30, 2023 and 2022, respectively and average days (based on normal expenditures) cash and cash equivalents on hand of 7 and 12 at September 30, 2023 and 2022, respectively.

SVHSC's goal is to provide for a reasonable amount of liquidity to meet the unexpected needs of SVHSC. The annual operating budget is determined with the goal of generating sufficient net patient service revenue and cash flows to allow SVHSC to be sustainable to support its mission and vision while also adhering to the annual budget parameters mandated by State of Vermont's Green Mountain Care Board.

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

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 2,116,638	\$ 3,305,720
Patient and other accounts receivable, net	<u>21,969,002</u>	<u>15,974,251</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 24,085,640</u>	<u>\$ 19,279,971</u>

# SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY

## Notes to Consolidated Financial Statements

September 30, 2023 and 2022

SVHSC has assets limited as to use of \$42,000,690 and \$39,571,419 at September 30, 2023 and 2022, respectively, that are designated assets set aside by the Board primarily for future capital improvements. These assets limited as to use are not available for general expenditure within the next year; however, the internally designated amounts could be made available, if necessary.

### 4. Supplies Inventory

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

	<u>2023</u>	<u>2022</u>
Central storeroom	\$ 414,831	\$ 374,489
Operating room	1,322,109	1,218,287
Pharmacy	582,234	524,489
340B program retail pharmacy	164,022	105,842
Other	<u>257,525</u>	<u>301,980</u>
	<u>\$ 2,740,721</u>	<u>\$ 2,525,087</u>

### 5. Investments

Investments consisted of the following as of September 30:

	<u>2023</u>	<u>2022</u>
Pooled investments		
Cash and cash equivalents	\$ 2,236,489	\$ 1,259,834
Marketable equity securities	29,775,535	25,469,675
Mutual funds	<u>11,161,463</u>	<u>13,910,125</u>
	<u>\$ 43,173,487</u>	<u>\$ 40,639,634</u>
Internally designated	\$ 42,000,690	\$ 39,571,419
Investments with donor restrictions – SVHSC	<u>1,172,797</u>	<u>1,068,215</u>
	<u>\$ 43,173,487</u>	<u>\$ 40,639,634</u>
Assets limited as to use under bond agreement for capital acquisition		
Cash and cash equivalents	<u>\$ 3,471,686</u>	<u>\$ 6,745,017</u>
Investments with donor restrictions – BMH		
Cash and cash equivalents	<u>\$ 54,154</u>	<u>\$ 49,813</u>

# SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY

## Notes to Consolidated Financial Statements

**September 30, 2023 and 2022**

Investment income and gains (losses) on assets limited as to use are comprised of the following:

	<u>2023</u>	<u>2022</u>
Income		
Interest and dividend income		
Assets limited as to use internally designated	\$ 679,878	\$ 545,771
Investments with donor restrictions	<u>13,311</u>	<u>30,389</u>
	693,189	576,160
Net realized (losses) gains on investments		
Assets limited as to use internally designated	<u>(623,800)</u>	<u>626,477</u>
Total investment income	\$ <u>69,389</u>	\$ <u>1,202,637</u>
Net unrealized gains (losses) on investments		
Assets limited as to use internally designated	\$ 5,739,432	\$ (9,500,613)
Investments with donor restrictions	<u>128,640</u>	<u>(224,191)</u>
	\$ <u>5,868,072</u>	\$ <u>(9,724,804)</u>

### Funds with Deficiencies

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level of the donors' original gift(s) or what the Uniform Prudent Management of Institutional Funds Act may require SVHSC to retain as a fund of perpetual duration (underwater). SVHSC's policy prohibits appropriating amounts from underwater endowment funds. There were no deficiencies of this nature that are reported in net assets with donor restrictions as of September 30, 2023 and 2022.

## **6. Property and Equipment**

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

	<u>2023</u>	<u>2022</u>
Land	\$ 84,099	\$ 84,099
Land improvements	2,458,308	2,431,448
Building and improvements	77,192,543	52,379,269
Major moveable equipment	34,100,295	31,871,588
Construction-in-progress	<u>118,151</u>	<u>21,707,842</u>
	113,953,396	108,474,246
Less accumulated depreciation	<u>68,454,133</u>	<u>63,986,990</u>
	\$ <u>45,499,263</u>	\$ <u>44,487,256</u>

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

## **Notes to Consolidated Financial Statements**

**September 30, 2023 and 2022**

Depreciation expense for the years ended September 30, 2023 and 2022 was \$4,467,143 and \$3,776,246, respectively. At September 30, 2022, capitalized interest of \$123,114 was included in construction-in-progress.

### **7. Borrowings**

On December 1, 2019, the Hospital entered into a loan agreement with Vermont Educational and Health Buildings Finance Agency issuing a draw down bond not to exceed \$12,500,000 (Brattleboro Memorial Hospital Project 2019 Series A). The draw down bond is held by M&T Bank. The proceeds were used to finance a capital improvement project. Interest on the bond is based on monthly rates as determined by the loan and trust agreement. Monthly interest payments began February 1, 2020 on the outstanding principal drawn. Semi-annual principal payments due June and December 1st commenced on December 1, 2022 and end on December 1, 2049. The draw down bond is collateralized by the assets of the Hospital.

As part of the loan agreement, the Hospital was required to deposit funds into an equity account held by M&T Bank for the payment of the Hospital's share of the capital improvement project costs in an amount not less than \$10,000,000 until completion of the capital improvement project.

On June 1, 2016, the Hospital entered into a loan agreement with Vermont Educational and Health Buildings Finance Agency issuing \$10,500,000 in direct placement bonds (Brattleboro Memorial Hospital Project 2016 Series A). The bonds are held by M&T Bank. The proceeds were used to advance refund the previously issued Series 2008 A bonds, terminate the associated swap agreement, and finance the Hospital's capital expenditures. Interest on the bonds is based on monthly rates as determined by the loan and trust agreement. 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, 2023.



# SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY

## Notes to Consolidated Financial Statements

**September 30, 2023 and 2022**

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

	<u><b>2023</b></u>	<u><b>2022</b></u>
Series 2019 A bond with variable rate interest (5.5008% at September 30, 2023), payable in semi-annual payments, excluding interest, ranging from \$100,200 in 2024 to \$758,696 in 2049.	<b>\$ 12,399,800</b>	\$ 10,227,115
Series 2016 A bonds with variable rate interest (4.3480% at September 30, 2023), payable in monthly installments, including interest, of approximately \$89,800 through February 2027.	<b>3,558,045</b>	4,567,322
Equipment note payable in 72 monthly installments of \$507 including interest (fixed rate of 2.49%), through November 2026. Collateralized by the equipment.	<b>18,066</b>	24,070
Finance lease, payable in 48 monthly installments of \$6,967 including interest (fixed rate of 3.26%), through October 2027. Collateralized by the associated asset.	<u><b>289,298</b></u>	<u><b>350,722</b></u>
Total long-term debt before unamortized bond issuance costs	<b>16,265,209</b>	15,169,229
Less: unamortized bond issuance costs	<u><b>227,283</b></u>	<u>249,801</u>
Total long-term debt	<b>16,037,926</b>	14,919,428
Less current portion	<u><b>1,192,624</b></u>	<u>1,177,124</u>
Total long-term debt, excluding current portion	<u><b>\$ 14,845,302</b></u>	<u>\$ 13,742,304</u>

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

2024 (included in current liabilities)	\$ 1,192,624
2025	1,220,068
2026	1,242,594
2027	610,922
2028	355,095
Thereafter	<u>11,643,906</u>
	<u><b>\$ 16,265,209</b></u>

# SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY

## Notes to Consolidated Financial Statements

September 30, 2023 and 2022

### Interest Rate Swaps

In connection with the issuance of the Series 2019 A and 2016 A Bonds, the Hospital entered into interest rate swap agreements for ten years from the respective issue dates for \$12,500,000 and \$10,500,000, or 100% of the original bond issues, to hedge the interest rate risk associated with the Series 2019 A and 2016 A Bonds. The notional amount of the swaps will amortize such that they are equal to 100% of the outstanding bond balances. The interest rate swap agreements require the Hospital to pay a bank, the swap counterparty, fixed rates of 2.234% and 1.0375%, respectively, in exchange for the counterparty's payment to the Hospital of variable rates based on 79% and 68% of the one-month USD-LIBOR-BBA rate, respectively.

The Hospital is required to include the fair value of swaps in the consolidated balance sheet, and annual changes, if any, in the fair value of the swaps in the consolidated statements of operations. For example, during the term of the swaps, the annually calculated values of the swaps will be reported as an asset if interest rates increase above those expected on the date the swaps were entered into (as an unrealized gain in the consolidated statements of operations), which will generally be indicative that the net fixed rates the Hospital is paying are below market expectations of rates during the remaining terms of the swaps. The swaps will be reported as a liability (as an unrealized loss in the consolidated statements of operations) if interest rates decrease below those expected on the date the swaps were entered into, which will generally be indicative that the net fixed rates the Hospital is paying on the swaps are above market expectations of rates during the remaining terms of the swaps. These annual accounting adjustments of value changes in the swaps transactions are non-cash recognition requirements, the net effect of which will be zero at the end of each swap's terms. The Hospital retains the right to terminate the swap agreements should the need arise. The Hospital recorded the swaps at their asset position of \$978,264 and \$738,064 at September 30, 2023 and 2022, respectively. At September 30, 2023, there is approximately \$257,000 of interest income associated with the swap agreements included in other operating revenue.

### 8. Lease Obligations

The Hospital has entered into operating lease arrangements for an equipment lease expiring in 2029 and a building lease expiring in 2026. Approximate future minimum payments under operating leases as of September 30, 2023 are as follows:

2024	\$ 194,045
2025	194,045
2026	126,230
2027	103,625
2028	103,625
Thereafter	<u>43,177</u>
Total minimum lease payments	764,747
Amounts representing interest	<u>69,638</u>
Present value of future minimum lease payments	695,109
Less: current portion	<u>(167,770)</u>
Lease liability, net of current portion	<u>\$ 527,339</u>

# SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY

## Notes to Consolidated Financial Statements

**September 30, 2023 and 2022**

Additional required quantitative disclosures for the year ended September 30, 2023, are as follows:

### Lease costs:

Finance (capital) lease cost:	
Amortization of right-of-use assets	\$ 71,208
Interest on lease liabilities	<u>21,254</u>
Total finance lease costs	<u>92,462</u>
Operating lease cost	114,519
Short-term lease cost	<u>91,418</u>
Total operating and short-term lease costs	<u>205,937</u>
Total lease costs	<u>\$ 298,399</u>
Operating Leases:	
Weighted average remaining term	4.53 years
Weighted average discount rate	4.36%

### **9. Net Assets With Donor Restrictions**

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

	<u>2023</u>	<u>2022</u>
Funds with donor restrictions temporary in nature:		
Auxiliary programs	\$ 54,154	\$ 49,813
Time restriction – Life Income Trust	197,716	192,456
Charity care	100,363	86,246
Other programs	652,937	587,106
Capital acquisition	<u>187,440</u>	<u>167,375</u>
Total funds maintained with donor restrictions temporary in nature	<u>1,192,610</u>	<u>1,082,996</u>
Funds maintained in perpetuity, the income from which is expendable for:		
Medical library	1,202	1,202
Capital	20,000	20,000
Unrestricted purposes	<u>257,840</u>	<u>257,840</u>
Total funds maintained with donor restrictions held in perpetuity	<u>279,042</u>	<u>279,042</u>
Total net assets with donor restrictions	<u>\$ 1,471,652</u>	<u>\$ 1,362,038</u>

# SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY

## Notes to Consolidated Financial Statements

September 30, 2023 and 2022

### 10. Functional Expenses

The statements of operations report certain expense categories that are attributable to healthcare services, administrative support and fundraising. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Fringe benefits are allocated based on wages, postage and freight are allocated on the basis of supply costs, and depreciation, interest, utilities and general repairs are allocated based on square footage. Expenses related to healthcare services, administrative support and fundraising were as follows for the years ended September 30:

<u>2023</u>	<u>Healthcare Services</u>	<u>Administrative Support</u>	<u>Fundraising</u>	<u>Total</u>
Salaries, wages, and benefits	\$ 53,404,798	\$ 8,418,771	\$ 51,367	\$ 61,874,936
Supplies and other	18,587,621	2,627,114	29,386	21,244,121
Contract services	14,655,427	5,537,253	-	20,192,680
Depreciation and amortization	3,308,999	1,371,725	-	4,680,724
Health care improvement tax	5,758,093	-	-	5,758,093
Interest expense	94,410	70,885	-	165,295
	<u>\$ 95,809,348</u>	<u>\$ 18,025,748</u>	<u>\$ 80,753</u>	<u>\$ 113,915,849</u>
<u>2022</u>	<u>Healthcare Services</u>	<u>Administrative Support</u>	<u>Fundraising</u>	<u>Total</u>
Salaries, wages, and benefits	\$ 49,624,107	\$ 7,904,262	\$ 86,664	\$ 57,615,033
Supplies and other	16,139,788	2,543,609	35,238	18,718,635
Contract services	14,417,627	5,460,926	-	19,878,553
Depreciation and amortization	3,054,005	1,234,500	-	4,288,505
Health care improvement tax	5,396,961	-	-	5,396,961
Interest expense	63,047	47,338	-	110,385
	<u>\$ 88,695,535</u>	<u>\$ 17,190,635</u>	<u>\$ 121,902</u>	<u>\$ 106,008,072</u>

### 11. Concentration of Credit Risk

SVHSC 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, 2023 and 2022 was as follows:

	<u>2023</u>	<u>2022</u>
Medicare	37 %	35 %
Other third-party payors	21	22
Patient	23	24
Blue Cross	7	8
Medicaid	<u>12</u>	<u>11</u>
	<u>100 %</u>	<u>100 %</u>

# SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY

## Notes to Consolidated Financial Statements

September 30, 2023 and 2022

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.

### 12. Health Care Improvement Tax

Effective July 1, 1991, a healthcare 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 healthcare 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>2023</u>	<u>2022</u>
Disproportionate share received	\$ 583,188	\$ 1,008,435
Medicaid assessment expensed	<u>(5,758,093)</u>	<u>(5,396,961)</u>
	<u>\$ (5,174,905)</u>	<u>\$ (4,388,526)</u>

### 13. Commitments and Contingencies

Self-Funded Insurance Plans – SVHSC is self-insured with respect to healthcare 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 healthcare claims incurred, but not reported, has been recorded as a liability and is included 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 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 healthcare 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 properly accounted for them in the consolidated balance sheets for the years ended September 30, 2023 and 2022. SVHSC intends to renew coverage on a claims-made basis and anticipates that such coverage will be available.

Litigation – In the normal course of business, SVHSC may be involved in litigation and annual third-party audits. Management, as part of its ongoing risk management, consults with its legal counsel to assess the impact of these matters on SVHSC.

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

## **Notes to Consolidated Financial Statements**

**September 30, 2023 and 2022**

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 are 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.

Deferred System Development Costs – During 2016, the Hospital entered into an agreement with Cerner Corporation (Cerner) to implement a hospital-wide electronic health record (EHR) system. The Cerner agreement has an initial term of seven years with successive 12-month terms. The costs incurred by the Hospital related to the implementation of the EHR system through June 1, 2017, the date the EHR system was placed in service, have been deferred and are being amortized over the remaining term of the Cerner agreement. Net deferred system development costs as of September 30, 2022 were \$213,581. All deferred system development costs are fully amortized as of September 30, 2023. Associated amortization expense was \$213,581 and \$512,260 in 2023 and 2022, respectively.

### **14. Related Party Transactions**

The Hospital contracts with SVHSC for management services. The Hospital recorded \$1,050,739 and \$1,050,741 in management service expenses and SVHSC recognized management service revenue of the same in 2023 and 2022, 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.

### **15. 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, 2023 and 2022 was \$1,751,993 and \$1,413,579, respectively. SVHSC also participates in the Plan and recorded expense of \$16,682 and \$30,054 for the years ended September 30, 2023 and 2022, respectively.

# SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY

## Notes to Consolidated Financial Statements

**September 30, 2023 and 2022**

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 matches 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. Plan expense for the years ended September 30, 2023 and 2022 was \$231,057 and \$190,979, respectively.

### **16. Fair Value Measurement**

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, 2023</u>			
	<u>Total</u>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Assets:			
Investments			
Cash and short-term investments	\$ 5,762,329	\$ 5,762,329	\$ -
Marketable equity securities	29,775,535	29,775,535	-
Mutual funds	11,161,463	11,161,463	-
Investments to fund deferred compensation (reporting in other non-current assets)	645,383	645,383	-
Interest rate swaps	<u>978,264</u>	<u>-</u>	<u>978,264</u>
Total assets	<u>\$ 48,322,974</u>	<u>\$ 47,344,710</u>	<u>\$ 978,264</u>

# SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY

## Notes to Consolidated Financial Statements

September 30, 2023 and 2022

<u>Fair Value Measurements at September 30, 2022</u>			
		Quoted Prices in Active Markets of Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
	<u>Total</u>		
Assets:			
Investments			
Cash and short-term investments	\$ 8,054,664	\$ 8,054,664	\$ -
Marketable equity securities	25,469,675	25,469,675	-
Mutual funds	13,910,125	13,910,125	-
Investments to fund deferred compensation (reporting in other non-current assets)	515,914	515,914	-
Interest rate swaps	<u>738,064</u>	<u>-</u>	<u>738,064</u>
Total assets	<u>\$ 48,688,442</u>	<u>\$ 47,950,378</u>	<u>\$ 738,064</u>

The fair value of Level 2 assets and liabilities are primarily based on quoted market prices of comparable instruments, 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.



## **SUPPLEMENTARY INFORMATION**

## SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY

## Consolidating Balance Sheet

September 30, 2023  
(With Comparative Totals for September 30, 2022)

## ASSETS

	2023				2022
	SVHSC	BMH	Eliminations	Total	Total
Current assets					
Cash and cash equivalents	\$ 938,809	\$ 1,177,829	\$ -	\$ 2,116,638	\$ 3,305,720
Patient and other accounts receivable, net	-	22,319,002	-	22,319,002	16,474,251
Supplies inventory	-	2,740,721	-	2,740,721	2,525,087
Other current assets	814	636,531	-	637,345	570,291
Due from affiliate	-	84,271	(84,271)	-	-
Total current assets	939,623	26,958,354	(84,271)	27,813,706	22,875,349
Assets limited as to use					
Internally designated	15,417,531	26,583,159	-	42,000,690	39,571,419
Under bond agreement for capital acquisition	-	3,471,686	-	3,471,686	6,745,017
Other investments with donor restrictions – BMH	-	54,154	-	54,154	49,813
Other investments with donor restrictions – SVHSC	1,172,797	-	-	1,172,797	1,068,215
Total assets limited as to use	16,590,328	30,108,999	-	46,699,327	47,434,464
Interest in net assets of SVHSC	-	872,901	(872,901)	-	-
Deferred system development costs, net	-	-	-	-	213,581
Property and equipment, net	1,219,063	44,280,200	-	45,499,263	44,487,256
Right-of-use assets - operating leases, net	-	687,307	-	687,307	-
Interest rate swaps	-	978,264	-	978,264	738,064
Other noncurrent assets, net	1,219,984	-	-	1,219,984	1,073,779
Total assets	\$ 19,968,998	\$ 103,886,025	\$ (957,172)	\$ 122,897,851	\$ 116,822,493

## SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY

## Consolidating Balance Sheet

September 30, 2023  
(With Comparative Totals for September 30, 2022)

## LIABILITIES AND NET ASSETS

	2023				2022
	SVHSC	BMH	Eliminations	Total	Total
Current liabilities					
Current portion of long-term debt	\$ -	\$ 1,192,624	\$ -	\$ 1,192,624	\$ 1,177,124
Current portion of lease liabilities - operating	-	167,770	-	167,770	-
Accounts payable	59,655	8,121,704	-	8,181,359	7,743,258
Salaries, wages and payroll taxes payable	14,053	1,114,896	-	1,128,949	968,883
Accrued retirement plan contribution	31,836	1,547,954	-	1,579,790	1,388,956
Accrued compensated absences	93,861	3,208,693	-	3,302,554	3,201,058
Other accrued expenses	26,098	1,569,805	-	1,595,903	1,527,418
Deferred revenue	-	101,192	-	101,192	15,340
Estimated third-party payor settlements	-	2,561,677	-	2,561,677	2,882,810
Medicare accelerated payments	-	-	-	-	862,950
Due to affiliate	84,271	-	(84,271)	-	-
Total current liabilities	309,774	19,586,315	(84,271)	19,811,818	19,767,797
Long-term debt, less current portion	-	14,845,302	-	14,845,302	13,742,304
Lease liabilities - operating, less current portion	-	527,339	-	527,339	-
Other long-term liabilities	645,383	-	-	645,383	515,914
Total liabilities	955,157	34,958,956	(84,271)	35,829,842	34,026,015
Net assets					
Without donor restrictions	17,596,342	68,000,015	-	85,596,357	81,434,440
With donor restrictions	1,417,499	927,054	(872,901)	1,471,652	1,362,038
Total net assets	19,013,841	68,927,069	(872,901)	87,068,009	82,796,478
Total liabilities and net assets	\$ 19,968,998	\$ 103,886,025	\$ (957,172)	\$ 122,897,851	\$ 116,822,493

## SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY

## Consolidating Statement of Operations

Year Ended September 30, 2023  
(With Comparative Totals for Year Ended September 30, 2022)

	2023				2022
	SVHSC	BMH	Eliminations	Total	Total
Revenues, gains, and other support without donor restrictions					
Net patient service revenue	\$ -	\$ 92,113,201	\$ -	\$ 92,113,201	\$ 78,942,232
Provider relief fund revenue	-	-	-	-	3,929,773
Fixed prospective revenue	-	14,103,473	-	14,103,473	13,787,328
Other revenue	250,059	5,350,672	(190,464)	5,410,267	4,782,508
Contributions	85,076	-	-	85,076	152,140
Management fee revenue	1,050,739	-	(1,050,739)	-	-
Net assets released from restrictions for operations	32,212	-	-	32,212	140,418
Total revenues, gains, and other support without donor restrictions	<u>1,418,086</u>	<u>111,567,346</u>	<u>(1,241,203)</u>	<u>111,744,229</u>	<u>101,734,399</u>
Expenses					
Salaries, wages, and benefits	982,511	60,892,425	-	61,874,936	57,615,033
Supplies and other	391,283	21,024,119	(171,281)	21,244,121	18,718,635
Contracted services	32,171	21,211,248	(1,050,739)	20,192,680	19,878,553
Depreciation and amortization	269,322	4,411,402	-	4,680,724	4,288,505
Health care improvement tax	-	5,758,093	-	5,758,093	5,396,961
Interest expense	-	165,295	-	165,295	110,385
Total expenses	<u>1,675,287</u>	<u>113,462,582</u>	<u>(1,222,020)</u>	<u>113,915,849</u>	<u>106,008,072</u>
Operating loss	<u>(257,201)</u>	<u>(1,895,236)</u>	<u>(19,183)</u>	<u>(2,171,620)</u>	<u>(4,273,673)</u>
Nonoperating gains (losses)					
Income from investments	46,903	9,175	-	56,078	1,172,248
Other nonoperating income	16,736	104,300	-	121,036	128,412
Unrealized gain on interest rate swap	-	240,200	-	240,200	828,088
Net unrealized gains (losses) on investments	2,242,464	3,496,968	-	5,739,432	(9,500,613)
Nonoperating gains (losses), net	<u>2,306,103</u>	<u>3,850,643</u>	<u>-</u>	<u>6,156,746</u>	<u>(7,371,865)</u>
Excess (deficiency) of revenues, gains, other support, and nonoperating gains (losses) over expenses	2,048,902	1,955,407	(19,183)	3,985,126	(11,645,538)
Net assets released from restrictions for capital acquisitions	176,791	-	-	176,791	181,000
Net assets transferred for capital acquisitions	<u>(219,470)</u>	<u>200,287</u>	<u>19,183</u>	<u>-</u>	<u>-</u>
Change in net assets without donor restrictions	<u>\$ 2,006,223</u>	<u>\$ 2,155,694</u>	<u>\$ -</u>	<u>\$ 4,161,917</u>	<u>\$ (11,464,538)</u>

## SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY

## Consolidating Statement of Changes in Net Assets

Year Ended September 30, 2023  
(With Comparative Totals for Year Ended September 30, 2022)

	<b>2023</b>				<b>2022</b>
	<u>SVHSC</u>	<u>BMH</u>	<u>Eliminations</u>	<u>Total</u>	<u>Total</u>
Net assets without donor restrictions					
Excess (deficiency) of revenues, gains, other support, and nonoperating gains (losses) over expenses	\$ 2,048,902	\$ 1,955,407	\$ (19,183)	\$ <b>3,985,126</b>	\$ (11,645,538)
Net assets released from restrictions for capital acquisitions	176,791	-	-	<b>176,791</b>	181,000
Net assets transferred for capital acquisitions	<u>(219,470)</u>	<u>200,287</u>	<u>19,183</u>	<u>-</u>	<u>-</u>
Change in net assets without donor restrictions	<u>2,006,223</u>	<u>2,155,694</u>	<u>-</u>	<u><b>4,161,917</b></u>	<u>(11,464,538)</u>
Net assets with donor restrictions					
Net unrealized gains (losses) on investments	128,640	-	-	<b>128,640</b>	(224,191)
Investment income	8,972	4,339	-	<b>13,311</b>	30,389
Contributions	176,666	-	-	<b>176,666</b>	194,674
Net assets released from restrictions for operations	(32,212)	-	-	<b>(32,212)</b>	(140,418)
Change in interest in SVHSC	-	64,905	(64,905)	-	-
Net assets released from restrictions for capital acquisitions	<u>(176,791)</u>	<u>-</u>	<u>-</u>	<u><b>(176,791)</b></u>	<u>(181,000)</u>
Change in net assets with donor restrictions	<u>105,275</u>	<u>69,244</u>	<u>(64,905)</u>	<u><b>109,614</b></u>	<u>(320,546)</u>
Change in net assets	2,111,498	2,224,938	(64,905)	<b>4,271,531</b>	(11,785,084)
Net assets, beginning of year	<u>16,902,343</u>	<u>66,702,131</u>	<u>(807,996)</u>	<u><b>82,796,478</b></u>	<u>94,581,562</u>
Net assets, end of year	<u>\$ 19,013,841</u>	<u>\$ 68,927,069</u>	<u>\$ (872,901)</u>	<u>\$ <b>87,068,009</b></u>	<u>\$ 82,796,478</u>