




Southern Vermont Health Services Corporation and Subsidiary

CONSOLIDATED FINANCIAL STATEMENTS
with
SUPPLEMENTARY INFORMATION

September 30, 2021 and 2020
With Independent Auditor's Report



SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY

September 30, 2021 and 2020

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Southern Vermont Health Services Corporation

Report on the Financial Statements

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, 2021 and 2020, 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. We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2021 and 2020, 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 Matters

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 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 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.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, in 2021, Southern Vermont Health Services Corporation and Subsidiary adopted Financial Accounting Standards Board Accounting Standards Update No. 2014-09, *Revenues from Contracts with Customers (Topic 606)*, and related guidance. Our opinion is not modified with respect to this matter.

Berry Dunn McNeil & Parker, LLC

Manchester, New Hampshire
January 26, 2022
Registration No. 92-0000278

SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY

Consolidated Balance Sheets

September 30, 2021 and 2020

ASSETS

	<u>2021</u>	<u>2020</u>
Current assets		
Cash and cash equivalents	\$ 6,818,909	\$ 22,047,164
Patient and other accounts receivable, net	16,003,724	9,267,613
Pledges and requests receivable, net	-	4,787
Supplies inventory	2,323,849	2,601,993
Other current assets	<u>525,585</u>	<u>225,590</u>
Total current assets	<u>25,672,067</u>	<u>34,147,147</u>
Assets limited as to use		
Internally designated	52,519,064	43,724,693
Under bond agreement for capital acquisition	10,326,766	10,311,792
Other investments with donor restrictions – BMH	54,632	52,154
Other investments with donor restrictions – SVHSC	<u>1,627,952</u>	<u>1,432,875</u>
Total assets limited as to use	<u>64,528,414</u>	<u>55,521,514</u>
Deferred system development costs, net	725,841	1,238,100
Property and equipment, net	32,786,223	26,160,159
Other noncurrent assets, net	<u>1,111,209</u>	<u>960,244</u>
Total assets	<u>\$124,823,754</u>	<u>\$118,027,164</u>

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

LIABILITIES AND NET ASSETS

	<u>2021</u>	<u>2020</u>
Current liabilities		
Current portion of long-term debt	\$ 997,328	\$ 975,403
Accounts payable	6,311,993	9,010,902
Salaries, wages, and payroll taxes payable	695,893	575,914
Accrued retirement plan contribution	1,472,062	1,322,781
Accrued compensated absences	3,136,751	2,869,672
Other accrued expenses	3,555,194	1,467,272
Estimated third-party payor settlements	1,031,743	872,148
Medicare accelerated payments	<u>5,073,884</u>	<u>6,230,193</u>
Total current liabilities	22,274,848	23,324,285
Long-term debt, less current portion	7,307,728	7,133,497
Other long-term liabilities	569,592	434,403
Interest rate swap	<u>90,024</u>	<u>191,397</u>
Total liabilities	<u>30,242,192</u>	<u>31,083,582</u>
Net assets		
Without donor restrictions	92,898,978	85,458,553
With donor restrictions	<u>1,682,584</u>	<u>1,485,029</u>
Total net assets	<u>94,581,562</u>	<u>86,943,582</u>
Total liabilities and net assets	<u>\$124,823,754</u>	<u>\$118,027,164</u>

SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY

Consolidated Statements of Operations

Years Ended September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Revenues, gains, and other support without donor restrictions:		
Patient service revenue (net of contractual allowances and discounts)	\$ 74,444,121	\$ 63,339,864
Less provision for bad debts	<u>-</u>	<u>2,185,137</u>
Net patient service revenue	74,444,121	61,154,727
U.S. Department of Health and Human Services (HHS) stimulus revenue	-	11,407,618
Fixed prospective revenue	14,053,786	15,160,030
Other revenue	5,170,390	5,229,391
Contributions	106,045	100,426
Fundraising, net of direct expenses of \$131 and \$2,413 in 2021 and 2020, respectively	(91)	18,337
Net assets released from restrictions for operations	<u>93,013</u>	<u>49,530</u>
Total revenues, gains, and other support without donor restrictions	<u>93,867,264</u>	<u>93,120,059</u>
Expenses		
Salaries, wages, and benefits	55,402,169	53,363,641
Supplies and other	16,833,543	15,203,283
Contracted services	14,381,031	14,529,829
Depreciation and amortization	4,254,444	4,556,755
Health care improvement tax	4,680,807	5,006,382
Interest expense	<u>146,042</u>	<u>140,293</u>
Total expenses	<u>95,698,036</u>	<u>92,800,183</u>
Operating (loss) income	<u>(1,830,772)</u>	<u>319,876</u>
Nonoperating gains (losses)		
Income from investments	2,061,142	2,016,911
Other nonoperating income	251,590	111,684
Unrealized gain (loss) on interest rate swap	101,373	(171,807)
Change in net unrealized gains on investments	<u>6,683,204</u>	<u>1,680,982</u>
Nonoperating gains, net	<u>9,097,309</u>	<u>3,637,770</u>
Excess of revenues, gains, other support, and nonoperating gains (losses) over expenses	7,266,537	3,957,646
Net assets released from restrictions for capital acquisitions	<u>173,888</u>	<u>7,919</u>
Change in net assets without donor restrictions	<u>\$ 7,440,425</u>	<u>\$ 3,965,565</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, 2021 and 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Balances, October 1, 2019	\$ <u>81,492,988</u>	\$ <u>1,343,761</u>	\$ <u>82,836,749</u>
Excess of revenues, gains, other support, and nonoperating gains (losses) over expenses	3,957,646	-	3,957,646
Change in net unrealized losses on investments	-	(529)	(529)
Investment income	-	84,479	84,479
Contributions	-	115,767	115,767
Provision for uncollectible pledges and change in discounted present value	-	(1,000)	(1,000)
Net assets released from restrictions for operations	-	(49,530)	(49,530)
Net assets released from restrictions for capital acquisitions	<u>7,919</u>	<u>(7,919)</u>	<u>-</u>
Change in net assets	<u>3,965,565</u>	<u>141,268</u>	<u>4,106,833</u>
Balances, September 30, 2020	<u>85,458,553</u>	<u>1,485,029</u>	<u>86,943,582</u>
Excess of revenues, gains, other support, and nonoperating gains (losses) over expenses	7,266,537	-	7,266,537
Change in net unrealized gains on investments	-	198,001	198,001
Investment income	-	57,251	57,251
Contributions	-	206,669	206,669
Provision for uncollectible pledges and change in discounted present value	-	2,535	2,535
Net assets released from restrictions for operations	-	(93,013)	(93,013)
Net assets released from restrictions for capital acquisitions	<u>173,888</u>	<u>(173,888)</u>	<u>-</u>
Change in net assets	<u>7,440,425</u>	<u>197,555</u>	<u>7,637,980</u>
Balances, September 30, 2021	\$ <u>92,898,978</u>	\$ <u>1,682,584</u>	\$ <u>94,581,562</u>

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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Change in net assets	\$ 7,637,980	\$ 4,106,833
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities		
Depreciation and amortization	4,254,444	4,556,755
Amortization of debt issuance costs, included in interest expense	22,518	21,408
Loss on sale of equipment	911	-
Net unrealized gains on investments	(6,881,205)	(1,680,453)
Net realized gains on investments	(1,620,598)	(1,449,373)
Unrealized (gain) loss on interest rate swap	(101,373)	171,807
Contributions and investment income restricted for long-term purposes	-	(67,874)
Provision for uncollectible pledges and change in discounted present value	(2,535)	1,000
Provision for bad debts	-	2,185,137
Increase in value of life insurance contract	(15,776)	(15,315)
Decrease (increase) in		
Pledges and bequests receivable, net	7,322	14,760
Receivables, net	(6,736,111)	829,154
Supplies and other current assets	(21,851)	1,327,939
(Decrease) increase in		
Accounts payable and accrued expenses	(3,318,626)	5,076,456
Other current liabilities	2,237,203	(1,488,466)
Deferred revenues	-	(1,313)
Estimated third-party payor settlements	159,595	(277,852)
Medicare accelerated payments	(1,156,309)	6,230,193
Net cash (used) provided by operating activities	<u>(5,534,411)</u>	<u>19,540,796</u>
Cash flows from investing activities		
Purchase of property and equipment	(9,363,285)	(2,665,115)
Proceeds from sale of equipment	900	-
Proceeds from sale of investments	8,239,354	19,030,844
Purchase of investments	<u>(8,726,999)</u>	<u>(8,964,310)</u>
Net cash (used) provided by investing activities	<u>(9,850,030)</u>	<u>7,401,419</u>
Cash flows from financing activities		
Additions to deferred financing costs, net	-	(200,000)
Proceeds from contributions and investment income restricted for long-term purposes	-	67,874
Proceeds from issuance of long-term debt	1,153,724	1,869,713
Repayments of long-term debt	<u>(980,086)</u>	<u>(1,290,012)</u>
Net cash provided by financing activities	<u>173,638</u>	<u>447,575</u>
Net (decrease) increase in cash and cash equivalents and restricted cash	<u>(15,210,803)</u>	<u>27,389,790</u>
Cash and cash equivalents and restricted cash, beginning of year	<u>32,411,110</u>	<u>5,021,320</u>
Cash and cash equivalents and restricted cash, end of year	\$ <u>17,200,307</u>	\$ <u>32,411,110</u>
Breakdown of cash and cash equivalents and restricted cash, end of year:		
Cash and cash equivalents	\$ 6,818,909	\$ 22,047,164
Restricted cash included in assets limited as to use	<u>10,381,398</u>	<u>10,363,946</u>
	\$ <u>17,200,307</u>	\$ <u>32,411,110</u>
Supplemental disclosures of cash flow information		
Cash payment for interest	\$ <u>136,856</u>	\$ <u>191,092</u>

Non-cash transactions:

At September 30, 2021 and 2020, there were \$1,609,379 and \$602,604 of construction-in-progress additions included in accounts payable, respectively.

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, 2021 and 2020

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 the Hospital'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 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, 2021 and 2020

Newly Adopted Accounting Pronouncement

In 2021, SVHSC adopted FASB Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and related guidance, which supersedes accounting standards that previously existed under U.S. generally accepted accounting principles and provides a single revenue model to address revenue recognition to be applied by all companies. Under the new standard, companies recognize revenue when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods and services. ASU No. 2014-09 also requires companies to disclose additional information, including the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. SVHSC adopted this ASU for the year ended September 30, 2021 and elected the modified retrospective method; therefore, the consolidated financial statements and related notes have been presented accordingly.

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

SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

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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.

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.

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. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2018.

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.

SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

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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, 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. Adjustments arising from changes in transaction price in 2021 and 2020 decreased and increased net patient service revenue by approximately \$956,000 and \$1,059,000, respectively.

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.

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.

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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>2021</u>	<u>2020</u>
Charges foregone, based on established rates	\$ <u>778,000</u>	\$ <u>2,546,000</u>
Estimated costs and expenses incurred to provide charity care ¹	\$ <u>382,000</u>	\$ <u>1,370,000</u>
Equivalent percentage of charity care services to all services	<u>0.40</u> %	<u>1.48</u> %

¹ 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.

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

SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

September 30, 2021 and 2020

For the years ended September 30, 2021 and 2020, 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 or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in the excess 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 sheet.

SVHSC has elected the fair value option in FASB ASC 825, *Financial Instruments*, relative to its investments to simplify the presentation of all investment activity for investments without donor restrictions 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 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 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 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.

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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 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.

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

The CARES Act provided funds to eligible healthcare providers to prevent, prepare for and respond to the Coronavirus Disease (COVID-19). The funds were appropriated to reimburse healthcare providers for healthcare related expenses or lost revenues that are attributable to COVID-19. The CARES Act provides the U.S. Department of Health and Human Services (HHS) with discretion to operate the program and determine the reporting requirements. During 2020, the Hospital received \$11,407,618 of HHS Provider Relief Stimulus Funds (Funds) and attested to the receipt of the Funds and agreement with the associated terms and conditions. The Hospital has chosen to follow the conditional contribution model for the Funds. At September 30, 2020, the Hospital recognized \$11,407,618 of the Funds in HHS stimulus revenue in the consolidated statements of operations. Management believes the conditions on which the Funds depend were substantially met. Management believes the position taken is a reasonable interpretation of the rules currently available. Due to the complexity of the reporting requirements and the continued issuance of clarifying guidance, there is at least a reasonable possibility the amount of income recognized related to the lost revenues and qualifying expenses may change by a material amount. Any difference between amounts previously estimated and amounts subsequently determined to be recoverable or payable will be included in income in the year that such amounts become known.

In response to the COVID-19 pandemic, the Centers 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 will begin recouping payment from claims payments one year from the date the respective advances were made to the Hospital.

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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 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). Beginning January 1, 2018, the Hospital entered into a risk bearing arrangement by participating in the Medicare Next Generation Model. Under both the Medicare Next Generation Model program and the Vermont Medicaid program, 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 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 of Revenues, Gains, Other Support, and Nonoperating Gains (Losses) over Expenses

The consolidated statements of operations include excess 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).

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.

Subsequent Events

For purposes of the preparation of these consolidated financial statements in conformity with GAAP, management has considered transactions or events occurring through January 26, 2022, the date the consolidated financial statements were available to be issued.

SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY

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In November and December 2021, the Hospital received approximately \$2.2 million and \$1.7 million from the American Rescue Plan Rural Payment distribution and the Provider Relief Fund Phase 4 General distribution, respectively, administered by the Health Resources and Services Administration.

2. Net Patient Service Revenue

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

	<u>2021</u>	<u>2020</u>
Gross patient service revenue	195,054,997	172,517,298
Less contractual allowances	119,833,061	106,631,715
Less charity care	<u>777,815</u>	<u>2,545,719</u>
	<u>120,610,876</u>	<u>109,177,434</u>
Patient service revenue (net of contractual allowances and discounts)	74,444,121	63,339,864
Less provision for bad debts	<u>-</u>	<u>2,185,137</u>
Net patient service revenue	<u>\$ 74,444,121</u>	<u>\$ 61,154,727</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 48% and 50% of the Hospital's net patient service revenue for the years ended September 30, 2021 and 2020, 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.

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

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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.

As disclosed in Note 1 to these consolidated financial statements, the Hospital adopted ASU No. 2014-09 and related guidance for the year ended September 30, 2021, electing to use the modified retrospective method. Accordingly, amounts in the comparative period have not been restated and continue to be reported under the accounting standards in effect for that year. The impact of adoption on the consolidated statement of operations for the year ended September 30, 2021 follows:

	<u>As Reported</u>	<u>Balance Without ASC 606 Adoption</u>	<u>Effect of Change</u>
Net patient service revenue before provision for doubtful accounts		\$ 77,273,520	
Less: Provision for doubtful accounts		<u>2,829,399</u>	
Net patient service revenue	\$ <u>74,444,121</u>	\$ <u>74,444,121</u>	\$ <u>-</u>

Net patient service revenue recognized for the years ended September 30, 2021 and 2020 from these major payors is as follows:

	<u>2021</u>	<u>2020</u>
Medicare and Medicaid	\$ 35,952,058	\$ 30,393,461
Commercial and other	<u>35,945,826</u>	28,859,132
Self-pay	<u>2,546,237</u>	<u>1,902,134</u>
Total	\$ <u>74,444,121</u>	\$ <u>61,154,727</u>

3. Availability and Liquidity of Financial Assets

SVHSC has working capital of \$3,397,219 and \$10,822,862 at September 30, 2021 and 2020, respectively and average days (based on normal expenditures) cash and cash equivalents on hand of 27 and 91 at September 30, 2021 and 2020, respectively.

SVHSC's goal is to maintain financial assets to meet 30 days of operating expenses (\$7,515,912 and \$7,252,884 at September 30, 2021 and 2020, respectively) and to provide for a reasonable amount of liquidity to meet 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.

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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>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 6,818,909	\$ 22,047,164
Patient and other accounts receivable, net	<u>13,772,724</u>	<u>9,267,613</u>
Financial assets available to meet cash needs for general expenditures within one year	\$ <u>20,591,633</u>	\$ <u>31,314,777</u>

At September 30, 2021 and 2020, cash and cash equivalents included \$5,073,884 and \$6,230,193, respectively, specifically related to receipt of Medicare Accelerated Payments. This represented 20 and 26 days of cash and cash equivalents on hand, respectively..

SVHSC has assets limited as to use of \$52,519,064 and \$43,724,693 at September 30, 2021 and 2020, 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>2021</u>	<u>2020</u>
Central storeroom	\$ 372,979	\$ 254,414
Operating room	1,248,589	1,533,585
Pharmacy	396,710	482,491
340B program retail pharmacy	94,523	110,521
Other	<u>211,048</u>	<u>220,982</u>
	\$ <u>2,323,849</u>	\$ <u>2,601,993</u>

5. Investments

Investments consisted of the following as of September 30:

	<u>2021</u>	<u>2020</u>
Pooled investments		
Cash and cash equivalents	\$ 10,127,882	\$ 12,729,951
Marketable equity securities	26,452,868	21,317,336
Mutual funds	17,566,266	10,608,744
U.S. Treasury securities	<u>-</u>	<u>501,537</u>
	\$ <u>54,147,016</u>	\$ <u>45,157,568</u>

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	<u>2021</u>	<u>2020</u>
Internally designated	\$ 52,519,064	\$ 43,993,273
Investments with donor restrictions – SVHSC	<u>1,627,952</u>	<u>1,164,295</u>
	\$ 54,147,016	\$ 45,157,568
Assets limited as to use under bond agreement for capital acquisition		
Cash and cash equivalents	<u>\$ 10,326,766</u>	<u>\$ 10,311,792</u>
Investments with donor restrictions – BMH		
Cash and cash equivalents	<u>\$ 54,632</u>	<u>\$ 52,154</u>

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

	<u>2021</u>	<u>2020</u>
Income		
Interest and dividend income		
Assets limited as to use internally designated	\$ 440,544	\$ 567,538
Investments with donor restrictions	<u>57,251</u>	<u>84,479</u>
Total	497,795	652,017
Net realized gains on investments		
Assets limited as to use internally designated	<u>1,620,598</u>	<u>1,449,373</u>
Total investment income	<u>\$ 2,118,393</u>	<u>\$ 2,101,390</u>
Change in net unrealized gains (losses) on investments		
Assets limited as to use internally designated	\$ 6,683,204	\$ 1,680,982
Investments with donor restrictions	<u>198,001</u>	<u>(529)</u>
Total	<u>\$ 6,881,205</u>	<u>\$ 1,680,453</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, 2021 and 2020.

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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>2021</u>	<u>2020</u>
Land	\$ 84,099	\$ 84,099
Land improvements	2,431,448	2,353,172
Building and improvements	49,192,215	49,581,850
Major moveable equipment	29,767,203	27,737,532
Construction-in-progress	<u>11,840,112</u>	<u>3,258,825</u>
	93,315,077	83,015,478
Less accumulated depreciation	<u>60,528,854</u>	<u>56,855,319</u>
	<u>\$ 32,786,223</u>	<u>\$ 26,160,159</u>

Depreciation expense for the years ended September 30, 2021 and 2020 was \$3,742,185 and \$4,044,438, respectively.

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 People's United Muni Finance Corporation. The proceeds are being used to finance the Hospital's 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 commence 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 People's United Bank for the payment of the Hospital's share of the capital improvement project costs in an amount not less than \$10,000,000. Any balance remaining in the equity account at the completion of the capital improvement project will be returned to the Hospital.

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 Peoples United 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.

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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, 2021.

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

	<u>2021</u>	<u>2020</u>
Series 2019 A bond with variable rate interest (1.26794% at September 30, 2021), payable in monthly installments of interest only through December 1, 2022.	\$ 2,989,378	\$ 1,869,551
Series 2016 A bonds with variable rate interest (0.70448% at September 30, 2021), payable in monthly installments, including interest, of approximately \$92,205 through February 2027.	5,558,962	6,534,187
Equipment note payable in 72 monthly installments of \$507 including interest (fixed rate of 2.49%), through November 2026. Collateralized by the equipment.	<u>29,036</u>	<u>-</u>
Total long-term debt before unamortized bond issuance costs	8,577,376	8,403,738
Less: unamortized bond issuance costs	<u>272,320</u>	<u>294,838</u>
Total long-term debt	8,305,056	8,108,900
Less current portion	<u>997,328</u>	<u>975,403</u>
Total long-term debt, excluding current portion	<u>\$ 7,307,728</u>	<u>\$ 7,133,497</u>

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

2022 (included in current liabilities)	\$ 997,328
2023	1,114,429
2024	1,131,484
2025	1,149,119
2026	1,166,401
Thereafter	<u>3,018,615</u>
	<u>\$ 8,577,376</u>

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Interest Rate Swap

In connection with the issuance of the Series 2016 A Bonds, the Hospital entered into an interest rate swap agreement for 10 years for \$10,500,000, or 100% of the original bond issue, to hedge the interest rate risk associated with the Series 2016 A Bonds. The notional amount of the swap will amortize such that it is equal to 100% of the outstanding bond balance. The interest rate swap agreement requires the Hospital to pay a bank, the swap counterparty, a fixed rate of 1.0375% in exchange for the counterparty's payment to the Hospital of a variable rate based on 68% of the one-month USD-LIBOR-BBA rate.

The Hospital is required to include the fair value of swap in the balance sheet, and annual changes, if any, in the fair value of the swap in the statements of operations. For example, during the term of the swap, the annually calculated value of the swap will be reported as an asset if interest rates increase above those expected on the date the swap was entered into (as an unrealized gain in the statements of operations), which will generally be indicative that the net fixed rate the Hospital is paying is below market expectations of rates during the remaining term of the swap. The swap will be reported as a liability (as an unrealized loss in the statements of operations) if interest rates decrease below those expected 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 right to terminate the swap agreement should the need arise. The Hospital recorded the swap at its liability position of \$90,024 and \$191,397 at September 30, 2021 and 2020, respectively.

8. Net Assets With Donor Restrictions

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

	<u>2021</u>	<u>2020</u>
Funds with donor restrictions temporary in nature:		
Auxiliary programs	\$ 54,632	\$ 52,154
Time restriction – Life Income Trust	215,797	173,570
Charity care	112,211	82,381
Other programs	828,446	708,407
Capital acquisition	<u>192,456</u>	<u>189,475</u>
Total funds maintained with donor restrictions temporary in nature	<u>1,403,542</u>	<u>1,205,987</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>\$ 1,682,584</u>	<u>\$ 1,485,029</u>

SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY

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9. 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:

2021	<u>Healthcare Services</u>	<u>Administrative Support</u>	<u>Fundraising</u>	<u>Total</u>
Salaries, wages, and benefits	\$ 47,518,047	\$ 7,800,101	\$ 84,021	\$ 55,402,169
Supplies and other	14,697,711	2,115,059	20,773	16,833,543
Contract services	10,282,907	4,097,875	249	14,381,031
Depreciation and amortization	1,564,270	2,690,174	-	4,254,444
Health care improvement tax	4,680,807	-	-	4,680,807
Interest expense	<u>83,413</u>	<u>62,629</u>	<u>-</u>	<u>146,042</u>
	<u>\$ 78,827,155</u>	<u>\$ 16,765,838</u>	<u>\$ 105,043</u>	<u>\$ 95,698,036</u>
2020	<u>Healthcare Services</u>	<u>Administrative Support</u>	<u>Fundraising</u>	<u>Total</u>
Salaries, wages, and benefits	\$ 45,740,194	\$ 7,477,158	\$ 146,289	\$ 53,363,641
Supplies and other	13,288,771	1,892,940	21,572	15,203,283
Contract services	10,319,513	4,204,727	5,589	14,529,829
Depreciation and amortization	2,748,617	1,808,138	-	4,556,755
Health care improvement tax	5,006,382	-	-	5,006,382
Interest expense	<u>80,130</u>	<u>60,163</u>	<u>-</u>	<u>140,293</u>
	<u>\$ 77,183,607</u>	<u>\$ 15,443,126</u>	<u>\$ 173,450</u>	<u>\$ 92,800,183</u>

10. 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, 2021 and 2020 was as follows:

	<u>2021</u>	<u>2020</u>
Medicare	33 %	30 %
Other third-party payors	22	21
Patient	27	29
Blue Cross	8	9
Medicaid	<u>10</u>	<u>11</u>
	<u>100 %</u>	<u>100 %</u>

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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 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>2021</u>	<u>2020</u>
Disproportionate share received	\$ 631,732	\$ 532,030
Medicaid assessment expensed	<u>(4,680,807)</u>	<u>(5,006,382)</u>
	<u>\$ (4,049,075)</u>	<u>\$ (4,474,352)</u>

12. 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 has also created a tail coverage reserve in the event that insurance providers are changed. This reserve was \$338,659 and \$677,618 as of September 30, 2021 and 2020. 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, 2021 and 2020. 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.

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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.

Construction and Renovation Project – In December 2016, the Hospital filed a Certificate of Need (CON) application with the State of Vermont to build a new four story medical office building to be known as the Ron Reed building, renovate the existing operating room suite and perioperative area, and replace the Hospital's three boilers. In October 2017, the State of Vermont approved the CON application and in October 2021, an amended CON was approved to increase the total anticipated cost of the project from approximately \$23 million to approximately \$27 million. The Hospital is funding the project using internally designated investments and new tax-exempt borrowings. The Hospital has a construction contract commitment of approximately \$17 million related to the project. The project is expected to be completed in October 2023.

The Hospital has paid or accrued costs of approximately \$10.6 million for the CON project as of September 30, 2021

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, 2021 and 2020 were \$725,841 and \$1,238,100, respectively. Associated amortization expense was \$512,259 in 2021 and 2020. The following is a schedule of future amortization of deferred system development costs as of September 30, 2021:

2022	\$ 512,317
2023	<u>213,524</u>
	<u>\$ 725,841</u>

The following schedule reflects SVHSC's minimum payments to Cerner under the agreement for future subscription, transaction, and maintenance services as of September 30, 2021:

2022	\$ 756,096
2023	<u>121,331</u>
	<u>\$ 877,427</u>

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13. Related Party Transactions

The Hospital contracts with SVHSC for management services. The Hospital recorded \$1,320,000 and \$1,319,999 in management service expenses and SVHSC recognized management service revenue of the same in 2021 and 2020, 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.

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, 2021 and 2020 was \$1,482,632 and \$1,398,419, respectively. SVHSC also participates in the Plan and recorded expense of \$40,345 and \$31,739 for the years ended September 30, 2021 and 2020, 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 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, 2021 and 2020 was \$208,601 and \$185,287, respectively.

15. 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.

SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

September 30, 2021 and 2020

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

<u>Fair Value Measurements at September 30, 2021</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	\$ 20,509,280	\$ 20,509,280	\$ -
Marketable equity securities	26,452,868	26,452,868	-
Mutual funds	17,566,266	17,566,266	-
Investments to fund deferred compensation (reported in other non-current assets)	<u>569,592</u>	<u>569,592</u>	-
Total assets	<u>\$ 65,098,006</u>	<u>\$ 65,098,006</u>	<u>\$ -</u>
Liabilities:			
Interest rate swap	<u>\$ 90,024</u>	<u>\$ -</u>	<u>\$ 90,024</u>
 <u>Fair Value Measurements at September 30, 2020</u>			
	<u>Total</u>	Quoted Prices in Active Markets of Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Assets:			
Investments			
Cash and short-term investments	\$ 23,093,897	\$ 23,093,897	\$ -
U.S. Treasury securities	501,537	501,537	-
Marketable equity securities	21,317,336	21,317,336	-
Mutual funds	10,608,744	10,608,744	-
Investments to fund deferred compensation (reported in other non-current assets)	<u>434,403</u>	<u>434,403</u>	-
Total assets	<u>\$ 55,955,917</u>	<u>\$ 55,955,917</u>	<u>\$ -</u>
Liabilities:			
Interest rate swap	<u>\$ 191,397</u>	<u>\$ -</u>	<u>\$ 191,397</u>

The fair value of Level 2 assets is 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, 2021

(With Comparative Totals for September 30, 2020)

ASSETS

	2021				2020
	SVHSC	BMH	Eliminations	Total	Total
Current assets					
Cash and cash equivalents	\$ 1,313,711	\$ 5,505,198	\$ -	\$ 6,818,909	\$ 22,047,164
Patient and other accounts receivable, net	10,215	15,993,509	-	16,003,724	9,267,613
Pledges and bequests receivable, net	-	-	-	-	4,787
Supplies inventory	-	2,323,849	-	2,323,849	2,601,993
Other current assets	757	524,828	-	525,585	225,590
Due from affiliate	-	95,173	(95,173)	-	-
Total current assets	<u>1,324,683</u>	<u>24,442,557</u>	<u>(95,173)</u>	<u>25,672,067</u>	<u>34,147,147</u>
Assets limited as to use					
Internally designated	16,025,844	36,493,220	-	52,519,064	43,724,693
Under bond agreement for capital acquisition	-	10,326,766	-	10,326,766	10,311,792
Other investments with donor restrictions – BMH	-	54,632	-	54,632	52,154
Other investments with donor restrictions – SVHSC	<u>1,627,952</u>	-	-	<u>1,627,952</u>	<u>1,432,875</u>
Total assets limited as to use	<u>17,653,796</u>	<u>46,874,618</u>	<u>-</u>	<u>64,528,414</u>	<u>55,521,514</u>
Interest in net assets of SVHSC	-	1,009,420	(1,009,420)	-	-
Property and equipment, net	1,727,738	31,058,485	-	32,786,223	26,160,159
Deferred system development costs, net	-	725,841	-	725,841	1,238,100
Interest rate swap	-	-	-	-	-
Other noncurrent assets, net	<u>1,111,209</u>	-	-	<u>1,111,209</u>	<u>960,244</u>
Total assets	<u>\$ 21,817,426</u>	<u>\$ 104,110,921</u>	<u>\$ (1,104,593)</u>	<u>\$ 124,823,754</u>	<u>\$ 118,027,164</u>

SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY

Consolidating Balance Sheet

September 30, 2021
(With Comparative Totals for September 30, 2020)

LIABILITIES AND NET ASSETS

	2021				2020
	SVHSC	BMH	Eliminations	Total	Total
Current liabilities					
Current portion of long-term debt	\$ -	\$ 997,328	\$ -	\$ 997,328	\$ 975,403
Accounts payable	43,169	6,268,824	-	6,311,993	9,010,902
Salaries, wages and payroll taxes payable	14,594	681,299	-	695,893	575,914
Accrued retirement plan contribution	41,516	1,430,546	-	1,472,062	1,322,781
Accrued compensated absences	105,967	3,030,784	-	3,136,751	2,869,672
Other accrued expenses	25,898	3,529,296	-	3,555,194	1,467,272
Estimated third-party payor settlements	-	1,031,743	-	1,031,743	872,148
Medicare accelerated payments	-	5,073,884	-	5,073,884	6,230,193
Due to affiliate	95,173	-	(95,173)	-	-
Total current liabilities	326,317	22,043,704	(95,173)	22,274,848	23,324,285
Long-term debt, less current portion	-	7,307,728	-	7,307,728	7,133,497
Other long-term liabilities	569,592	-	-	569,592	434,403
Interest rate swap	-	90,024	-	90,024	191,397
Total liabilities	895,909	29,441,456	(95,173)	30,242,192	31,083,582
Net assets					
Without donor restrictions	19,293,566	73,605,412	-	92,898,978	85,458,553
With donor restrictions	1,627,951	1,064,053	(1,009,420)	1,682,584	1,485,029
Total net assets	20,921,517	74,669,465	(1,009,420)	94,581,562	86,943,582
Total liabilities and net assets	\$ 21,817,426	\$ 104,110,921	\$ (1,104,593)	\$ 124,823,754	\$ 118,027,164

SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY

Consolidating Statement of Operations

Year Ended September 30, 2021
(With Comparative Totals for Year Ended September 30, 2020)

	2021				2020
	SVHSC	BMH	Eliminations	Total	Total
Revenues, gains, and other support without donor restrictions					
Patient service revenue (net of contractual allowances and discounts)	\$ -	\$ 74,444,121	\$ -	\$ 74,444,121	\$ 63,339,864
Less provision for bad debts	-	-	-	-	2,185,137
Net patient service revenue	-	74,444,121	-	74,444,121	61,154,727
HHS stimulus revenue	-	-	-	-	11,407,618
Fixed prospective revenue	-	14,053,786	-	14,053,786	15,160,030
Other revenue	336,141	5,057,497	(223,248)	5,170,390	5,229,391
Contributions	106,045	-	-	106,045	100,426
Management fee revenue	1,320,000	-	(1,320,000)	-	-
Fundraising, net of expenses	(91)	-	-	(91)	18,337
Net assets released from restrictions for operations	93,013	-	-	93,013	49,530
Total revenues, gains, and other support without donor restrictions	1,855,108	93,555,404	(1,543,248)	93,867,264	93,120,059
Expenses					
Salaries, wages, and benefits	1,322,004	54,080,165	-	55,402,169	53,363,641
Supplies and other	369,076	16,665,717	(201,250)	16,833,543	15,203,283
Contracted services	24,035	15,676,996	(1,320,000)	14,381,031	14,529,829
Depreciation and amortization	350,282	3,904,162	-	4,254,444	4,556,755
Health care improvement tax	-	4,680,807	-	4,680,807	5,006,382
Interest expense	-	146,042	-	146,042	140,293
Total expenses	2,065,397	95,153,889	(1,521,250)	95,698,036	92,800,183
Operating (loss) income	(210,289)	(1,598,485)	(21,998)	(1,830,772)	319,876
Nonoperating gains (losses)					
Income from investments	804,304	1,256,838	-	2,061,142	2,016,911
Other nonoperating income	15,776	235,814	-	251,590	111,684
Unrealized gain (loss) on interest rate swap	-	101,373	-	101,373	(171,807)
Change in net unrealized gains on investments	2,880,016	3,803,188	-	6,683,204	1,680,982
Nonoperating gains, net	3,700,096	5,397,213	-	9,097,309	3,637,770
Excess of revenues, gains, other support, and nonoperating gains (losses) over expenses	3,489,807	3,798,728	(21,998)	7,266,537	3,957,646
Net assets released from restrictions for capital acquisitions	173,888	-	-	173,888	7,919
Net assets transferred for capital acquisitions	(224,429)	202,431	21,998	-	-
Change in net assets without donor restrictions	\$ 3,439,266	\$ 4,001,159	\$ -	\$ 7,440,425	\$ 3,965,565

SOUTHERN VERMONT HEALTH SERVICES CORPORATION AND SUBSIDIARY

Consolidating Statement of Changes in Net Assets

Year Ended September 30, 2021
(With Comparative Totals for Year Ended September 30, 2020)

	2021				2020
	SVHSC	BMH	Eliminations	Total	Total
Net assets without donor restrictions					
Excess of revenues, gains, other support, and nonoperating gains (losses) over expenses	\$ 3,489,807	\$ 3,798,728	\$ (21,998)	\$ 7,266,537	\$ 3,957,646
Net assets released from restrictions for capital acquisitions	173,888	-	-	173,888	7,919
Net assets transferred for capital acquisitions	(224,429)	202,431	21,998	-	-
Change in net assets without donor restrictions	<u>3,439,266</u>	<u>4,001,159</u>	<u>-</u>	<u>7,440,425</u>	<u>3,965,565</u>
Net assets with donor restrictions					
Change in net unrealized gains (losses) on investments	198,001	-	-	198,001	(529)
Investment income	54,773	2,478	-	57,251	84,479
Contributions	206,669	-	-	206,669	115,767
Provision for uncollectible pledges and change in discounted present value	2,535	-	-	2,535	(1,000)
Net assets released from restrictions for operations	(93,013)	-	-	(93,013)	(49,530)
Change in interest in SVHSC	-	110,227	(110,227)	-	-
Net assets released from restrictions for capital acquisitions	(173,888)	-	-	(173,888)	(7,919)
Change in net assets with donor restrictions	<u>195,077</u>	<u>112,705</u>	<u>(110,227)</u>	<u>197,555</u>	<u>141,268</u>
Change in net assets	3,634,343	4,113,864	(110,227)	7,637,980	4,106,833
Net assets, beginning of year	<u>17,287,174</u>	<u>70,555,601</u>	<u>(899,193)</u>	<u>86,943,582</u>	<u>82,836,749</u>
Net assets, end of year	<u>\$ 20,921,517</u>	<u>\$ 74,669,465</u>	<u>\$ (1,009,420)</u>	<u>\$ 94,581,562</u>	<u>\$ 86,943,582</u>