

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center

Independent Auditor's Report and Financial Statements

September 30, 2019 and 2018

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
September 30, 2019 and 2018

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Independent Auditor's Report

Board of Directors
The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Rutland, Vermont

We have audited the accompanying financial statements of The Rutland Hospital, Inc., d/b/a Rutland Regional Medical Center (RRMC), a subsidiary of Rutland Regional Health Services, Inc., which comprise the balance sheets as of September 30, 2019 and 2018, and the related statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Board of Directors
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d/b/a Rutland Regional Medical Center
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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Rutland Hospital, Inc., d/b/a Rutland Regional Medical Center, as of September 30, 2019 and 2018, and the results of its operations, changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in *Note 1* to the financial statements, in 2019, RRMC adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audit was performed for the purpose of forming an opinion on the basic financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Springfield, Missouri
January 30, 2020

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Balance Sheets
September 30, 2019 and 2018

Assets

	<u>2019</u>	<u>2018</u>
Current Assets		
Cash and cash equivalents	\$ 9,934,148	\$ 7,330,571
Patient accounts receivable, net of allowance; 2019 – \$7,125,000 and 2018 – \$8,510,000	29,745,296	26,832,549
Other receivables	4,943,153	5,198,945
Due from affiliates	5,999,302	5,589,575
Supplies	2,508,886	1,766,816
Prepaid expenses and other	3,716,310	3,759,940
	<u>56,847,095</u>	<u>50,478,396</u>
Assets Limited As To Use		
Workers' compensation trust fund	1,543,729	828,917
Restricted by donors	4,885,362	4,957,850
Internally designated	134,434,610	139,394,745
	<u>140,863,701</u>	<u>145,181,512</u>
Property and Equipment, At Cost		
Land and land improvements	4,354,593	3,721,172
Buildings and leasehold improvements	109,331,979	104,229,690
Equipment	136,568,180	130,990,748
Construction in progress	7,466,736	3,660,435
	<u>257,721,488</u>	<u>242,602,045</u>
Less accumulated depreciation	169,519,745	161,155,950
	<u>88,201,743</u>	<u>81,446,095</u>
Other Assets		
Pledges receivable	9,800	15,386
Prepaid pension asset	2,522,598	-
Other	3,786,417	3,379,858
	<u>6,318,815</u>	<u>3,395,244</u>
Total assets	<u>\$ 292,231,354</u>	<u>\$ 280,501,247</u>

Liabilities and Net Assets

	2019	2018
Current Liabilities		
Current maturities of long-term debt	\$ 1,972,137	\$ 1,885,160
Accounts payable and accrued expenses	11,365,579	10,620,687
Accrued compensation and related taxes	13,887,746	13,124,089
Estimated amounts due to and advances from third-party payers	<u>9,241,942</u>	<u>7,963,185</u>
Total current liabilities	36,467,404	33,593,121
Other Liabilities	6,567,859	5,788,853
Accrued Pension Obligation	-	595,421
Long-Term Debt	<u>36,003,788</u>	<u>34,468,653</u>
Total liabilities	<u>79,039,051</u>	<u>74,446,048</u>
Net Assets		
Without donor restrictions	208,273,500	201,028,235
With donor restriction	<u>4,918,803</u>	<u>5,026,964</u>
Total net assets	<u>213,192,303</u>	<u>206,055,199</u>
Total liabilities and net assets	<u><u>\$ 292,231,354</u></u>	<u><u>\$ 280,501,247</u></u>

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Statements of Operations
Years Ended September 30, 2019 and 2018

	2019	2018
Revenues, Gains and Other Support Without Donor Restrictions		
Patient service revenue (net of contractual discounts and allowances)	\$ 256,379,824	\$ 262,832,235
Provision for uncollectible accounts	7,489,965	8,597,207
Net patient service revenue less provision for uncollectible accounts	248,889,859	254,235,028
Fixed payment revenue	7,513,045	-
Other revenue	18,232,598	14,613,015
Net assets released from restrictions used for operations	553,191	567,551
	275,188,693	269,415,594
 Expenses and Losses		
Salaries and benefits	163,196,380	161,654,118
Supplies and other	97,285,807	93,254,759
Depreciation and amortization	12,219,451	11,919,033
Interest	1,314,932	1,290,424
	274,016,570	268,118,334
 Operating Income	1,172,123	1,297,260
 Other Income (Expense)		
Investment return, net	5,421,197	3,334,734
Contributions received and other	109,666	(77,920)
Change in unrealized gains and losses on trading securities	(22,989)	5,409,401
Gain (loss) on interest rate swap agreements	(1,045,599)	1,486,656
	4,462,275	10,152,871
 Excess of Revenues Over Expenses	5,634,398	11,450,131
Net assets released from restriction for purchase of property and equipment	319,985	439,511
Defined benefit pension and postretirement benefit costs		
Net gain (loss) arising during the year	(212,501)	1,973,648
Amortization of net loss and prior service credit	1,645,679	1,740,875
Recognition of net gain	(142,296)	(250,061)
	\$ 7,245,265	\$ 15,354,104

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Statements of Changes in Net Assets
Years Ended September 30, 2019 and 2018

	2019	2018
Net Assets Without Donor Restrictions		
Excess of revenues over expenses	\$ 5,634,398	\$ 11,450,131
Net assets released from restriction used for purchase of property and equipment	319,985	439,511
Defined benefit pension costs		
Net gain (loss) arising during the year	(212,501)	1,973,648
Amortization of net loss and prior service credit	1,645,679	1,740,875
Recognition of net gain	(142,296)	(250,061)
Increase in net assets without donor restrictions	7,245,265	15,354,104
Net Assets With Donor Restrictions		
Contributions received	716,863	938,682
Investment return, net	48,152	117,801
Net assets released from restrictions	(873,176)	(1,007,062)
Increase (decrease) in net assets with donor restrictions	(108,161)	49,421
Change in Net Assets	7,137,104	15,403,525
Net Assets, Beginning of Year	206,055,199	190,651,674
Net Assets, End of Year	\$ 213,192,303	\$ 206,055,199

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Statements of Cash Flows
Years Ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating Activities		
Change in net assets	\$ 7,137,104	\$ 15,403,525
Items not requiring (providing) cash		
Depreciation and amortization	12,219,451	11,919,033
(Gain) loss on disposal of property and equipment	(107,455)	77,090
Net gain on investments	(1,877,359)	(5,497,394)
Restricted contributions received	(716,863)	(938,682)
Change in defined benefit pension and postretirement benefit plans	(1,290,882)	(3,464,462)
Change in fair value of interest rate swap agreements	1,045,599	(1,486,656)
Changes in		
Patient accounts receivable, net	(2,912,747)	442,217
Other receivables	213,550	(819,299)
Estimated third-party settlements and advances	1,278,757	76,247
Other current assets and liabilities	(4,253,389)	(1,805,382)
	<u>10,735,766</u>	<u>13,906,237</u>
Net cash provided by operating activities		
Investing Activities		
Proceeds from disposition of trading securities	10,324,356	522,543
Purchases of trading securities	(4,129,186)	(4,357,046)
Net advances to related parties	(409,727)	(148,228)
Proceeds from sale of property and equipment	118,140	-
Purchase of property and equipment	(16,408,623)	(11,486,282)
	<u>(10,505,040)</u>	<u>(15,469,013)</u>
Net cash used in investing activities		
Financing Activities		
Principal payments on long-term debt	(1,865,421)	(1,794,978)
Proceeds from issuance of long-term debt	3,906,305	-
Proceeds from restricted contributions	764,691	962,545
Payment of deferred financing costs	(432,724)	-
	<u>2,372,851</u>	<u>(832,433)</u>
Net cash provided by (used in) financing activities		
Increase (Decrease) in Cash and Cash Equivalents	2,603,577	(2,395,209)
Cash and Cash Equivalents, Beginning of Year	7,330,571	9,725,780
Cash and Cash Equivalents, End of Year	<u>\$ 9,934,148</u>	<u>\$ 7,330,571</u>
Supplemental Cash Flows Information		
Interest paid	\$ 1,517,662	\$ 1,494,457
Property and equipment purchases in accounts payable	\$ 3,453,198	\$ 894,620

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2019 and 2018

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The Rutland Hospital, Inc., d/b/a Rutland Regional Medical Center (RRMC), is a not-for-profit acute care hospital which provides inpatient, outpatient, emergency care and physician services to residents in the Rutland, Vermont, area. RRMC is a controlled subsidiary of Rutland Regional Health Services, Inc. (RRHS). RRHS is a tax-exempt holding company, pursuant to Section 501(c)(3) of the Internal Revenue Code, organized to carry on planning, fundraising activities and manage related investments.

Use of Estimates

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

Cash and Cash Equivalents

RRMC considers all liquid investments, other than those limited as to use, with original maturities of three months or less to be cash equivalents. At September 30, 2019 and 2018, cash equivalents consisted primarily of money market accounts and short-term government obligations.

The FDIC's insurance limits have been permanently increased to \$250,000. RRMC has entered into an agreement with a local financial institution to purchase fully collateralized U.S. government securities with RRMC's funds that exceed FDIC insurance limits. At September 30, 2019, cash accounts did not exceed federally insured limits and collateral arrangement coverage.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments; less external and direct internal investment expense.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restrictions. Other investment return is reflected in the statements of operations and changes in net assets as net assets without donor restrictions or net assets with donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2019 and 2018

Assets Limited As To Use

Assets limited as to use include (1) assets held by trustees, (2) assets restricted by donors and (3) assets set aside by the Board of Directors for future capital improvements over which the Board retains control and may at its discretion subsequently use for other purposes. Amounts required to meet current liabilities of RRMC are included in current assets.

Patient Accounts Receivable

Accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectability of accounts receivable, RRMC analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for uncollectible accounts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts.

For receivables associated with services provided to patients who have third-party coverage, RRMC analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for uncollectible accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), RRMC records a significant provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. For those who do not qualify for charity care the difference between the standard rates (or the discounted rates if negotiated or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

RRMC's allowance for uncollectible accounts for self-pay patients was reduced from 95 percent of self-pay accounts receivable at September 30, 2018, to 75 percent at September 30, 2019. In addition, RRMC's write-offs decreased approximately \$738,000 from approximately \$11,739,000 for the year ended September 30, 2018, to approximately \$11,001,000 for the year ended September 30, 2019.

Supplies

Supply inventories are stated at the lower of cost, determined using the average cost method, or net realizable value.

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2019 and 2018

Property and Equipment

Property and equipment acquisitions are recorded at cost and are depreciated on a straight-line basis over the estimated useful life of each asset. Leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Land improvements	5 – 25 years
Buildings and leasehold improvements	4 – 40 years
Equipment	3 – 25 years

Donations of property and equipment are reported at fair value as an increase in net assets without donor restrictions unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in net assets without donor restrictions when the donated asset is placed in service.

Long-Lived Asset Impairment

RRMC evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended September 30, 2019 and 2018.

Debt Issuance Costs

Debt issuance costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the effective interest method.

Net Assets With Donor Restrictions

Net assets with donor restrictions are those whose use by RRMC has been limited by donors to a specific time period or purpose or have been restricted by donors to be maintained by RRMC in perpetuity.

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2019 and 2018

Net Patient Service Revenue

RRMC has agreements with third-party payers that provide for payments to RRMC at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimates are revised in future periods as adjustments become known.

Fixed Prospective Revenue

Beginning January 1, 2019, RRMC began to receive monthly fixed prospective payments for services provided by hospitals and hospital-owned physician practices participating in the Vermont Medicaid Next Generation Accountable Care Organization (ACO) Program. This is a monthly, per member payment received in advance of the services being performed and is recognized as revenue in the month to which it relates.

Medicaid fee-for-service payments continue for all other nonhospital providers in the ACO, for all patients who are not part of the ACO, and for all services that are not in the fixed prospective payment. The ACO is responsible for both the cost and the quality of care for each attributed member, regardless of individual member's utilization. RRMC is subject to an annual contracted maximum risk corridor, of which for calendar 2019 is a maximum potential gain or loss of \$978,193. As of September 30, 2019, RRMC has recorded a liability related to this risk corridor of \$927,000, which is recorded within estimated amounts due to third-party payers on the balance sheets.

Charity Care

RRMC provides charity care to patients who are unable to pay for services. The amount of charity care is included in net patient service revenue and is not separately classified from the provision for uncollectible accounts.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as revenue and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. When a donor-stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as revenue and net assets without donor restrictions.

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2019 and 2018

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Gifts of land, buildings, equipment and other long-lived assets are reported as revenue and net assets without donor restrictions unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as revenue and net assets with donor restrictions. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of net assets with donor restrictions as net assets without donor restrictions are reported when the long-lived assets are placed in service.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional. Donor-restricted conditional gifts in which the condition and restriction is met in the period the gift is received are reported as revenue and net assets without donor restrictions.

Professional Liability and Workers' Compensation Claims

RRMC recognizes an accrual for claim liabilities based on estimated ultimate losses and costs associated with settling claims and a receivable to reflect the estimated insurance recoveries, if any. Professional liability claims and workers' compensation claims are described more fully in *Note 5*.

Self-Insurance

RRMC accrues estimated liabilities for self-insurance losses associated with employee health insurance claims and includes an estimate of the ultimate costs for both reported claims and claims incurred but not reported. Costs resulting from self-insured claims are charged to expense when incurred. RRMC has purchased stop-loss coverage for any individual claim in excess of \$200,000.

Government Grants

Support funded by grants is recognized as RRMC performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2019 and 2018

Income Taxes

RRMC has been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, RRMC is subject to federal income tax on any unrelated business taxable income. RRMC files tax returns in the U.S. federal jurisdiction.

Excess of Revenues Over Expenses

The statements of operations include excess of revenues over expenses. Changes in net assets without donor restrictions which are excluded from excess of revenues over expenses, consistent with industry practice, include permanent transfers 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) and defined benefit and other post-employment benefit plan changes.

Transfers Between Fair Value Hierarchy Levels

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the period ending date. There were no transfers between fair value hierarchy levels during the years ended September 30, 2019 and 2018.

Change in Accounting Principle

Presentation of Financial Statements of Not-for-Profit Entities

During the year ended September 30, 2019, RRMC adopted Financial Accounting Standards Board Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958: Presentation of Financial Statements of Not-for-Profit Entities)*. A summary of the changes is as follows:

Balance Sheets

- The balance sheets distinguish between two new classes of net assets—those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets—unrestricted, temporarily restricted and permanently restricted.

Statements of Operations

- Investment income is shown net of external and direct internal investment expenses. Disclosure of the expenses netted against investment income is no longer required.

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2019 and 2018

Notes to the Consolidated Financial Statements

- Expenses are reported by both nature and function in one location.
- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one year from the date of the balance sheet.

This change had no impact on previously reported total change in net assets. Revisions were made to *Notes 10, 11 and 14* as a result of adoption of this standard.

Revisions

Revisions have been made to the 2018 financial statements. Revisions were made to *Note 3* to reclassify Medicare net receivables disclosed as other receivables in 2018 to Medicare receivables. Additionally, within *Note 11*, the donor restricted endowments were revised to include additional endowment amounts of \$1,177,168 to \$1,796,836, previously disclosed in the 2018 financial statements as \$619,668.

Note 2: Net Patient Service Revenue

RRMC recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, RRMC recognizes revenue on the basis of its standard rates for services provided (or the discounted rates if negotiated or provided by policy). On the basis of historical experience, a significant portion of RRMC's uninsured patients will be unable or unwilling to pay for the services provided. Thus, RRMC records a significant provision for uncollectible accounts related to uninsured patients in the period the services are provided. This provision for uncollectible accounts is presented on the statement of operations as a component of net patient service revenue.

RRMC has agreements with third-party payers that provide for payments to RRMC at amounts different from its established rates. These payment arrangements include:

Medicare. Inpatient acute care and substantially all 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. RRMC is reimbursed for certain services at tentative rates with final settlements determined after submission of annual cost reports by RRMC and audits thereof by the Medicare administrative contractor.

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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. RRMC has entered into a contractual agreement with the state to care for patients with intensive inpatient psychiatric needs. RRMC is reimbursed for these services using a cost reimbursed methodology.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

RRMC has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to RRMC under these agreements includes discounts from established charges.

Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the years ended September 30, 2019 and 2018, was approximately:

	2019	2018
Medicare	\$ 99,695,899	\$ 99,684,559
Medicaid	19,379,517	29,954,833
Other third-party payers	124,684,106	123,182,928
Patients	<u>12,620,302</u>	<u>10,009,915</u>
	<u>\$ 256,379,824</u>	<u>\$ 262,832,235</u>

The reduction in Medicaid revenue for 2019 is primarily related to RRMC's participation in the Vermont Medicaid Next Generation ACO program.

Note 3: Concentration of Credit Risk

RRMC grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers at September 30, 2019 and 2018, was:

	2019	2018
Medicare	38%	37%
Medicaid	10%	15%
Other third-party payers and patients	<u>52%</u>	<u>48%</u>
	<u>100%</u>	<u>100%</u>

The reduction in Medicaid percentage for 2019 is primarily related to RRMC's participation in the Vermont Medicaid Next Generation ACO program.

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2019 and 2018

Note 4: Investments and Investment Return

Assets Limited As To Use

Assets limited as to use, at September 30, include:

	2019	2018
Cash	\$ 2,162,827	\$ 1,261,098
Mutual funds – equity	55,575,528	92,228,614
Mutual funds – fixed	82,772,319	51,333,597
Interest in assets of Vermont Community Foundation	325,102	339,333
Interest receivable	27,925	18,870
	<u>140,863,701</u>	<u>145,181,512</u>
Less worker's compensation trust fund	1,543,729	828,917
Less restricted by donor	<u>4,885,362</u>	<u>4,957,850</u>
Internally designated	<u>\$ 134,434,610</u>	<u>\$ 139,394,745</u>

Total investment return is comprised of the following:

	2019	2018
Interest and dividend income, net of investment expenses	\$ 3,569,001	\$ 3,364,542
Realized gains on trading securities	1,926,702	30,028
Unrealized gains (losses) on trading securities	<u>(49,343)</u>	<u>5,467,366</u>
	<u>\$ 5,446,360</u>	<u>\$ 8,861,936</u>

Total investment return is reflected in the statements of operations and changes in net assets as follows:

	2019	2018
Net assets without donor restrictions		
Investment return, net	\$ 5,421,197	\$ 3,334,734
Change in unrealized gains and losses on trading securities	(22,989)	5,409,401
Net assets with donor restrictions	<u>48,152</u>	<u>117,801</u>
	<u>\$ 5,446,360</u>	<u>\$ 8,861,936</u>

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Note 5: Professional Liability and Self-Insurance Claims

Professional Liability Claims

RRMC purchases medical malpractice insurance under a claims-made policy. Under such a policy, only claims made and reported to the insurer during the policy term, regardless of when the incidents giving rise to the claims occurred, are covered. RRMC also purchases excess umbrella liability coverage, which provides additional coverage above the basic policy limits up to the amount specified in the umbrella policy.

Based upon RRMC's claims experience, an accrual had been made for RRMC's estimated medical malpractice costs, including costs associated with litigating or settling claims, under its malpractice insurance policy. Claim liabilities are to be determined without regard for recoveries. Expected recoveries are presented separately. RRMC recorded \$810,000 and \$730,000, respectively, of estimated insurance coverage receivables and recorded \$1,860,000 and \$2,340,000, respectively, of estimated insurance liabilities as of September 30, 2019 and 2018. It is reasonably possible that this estimate could change materially in the near term.

Self-Insurance

RRMC is self-insured for employee health insurance and has accrued an estimate of the ultimate costs for both reported claims and claims incurred for the years ending September 30, 2019 and 2018. Actual results could differ from these estimates.

Estimated employee health insurance and dental claim liabilities recorded by RRMC totaled \$1,545,147 and \$1,235,756 as of September 30, 2019 and 2018, respectively.

Workers' Compensation

RRMC has purchased insurance that limits its exposure for individual workers' compensation claims with claim coverage of \$350,000 for individuals and \$1,600,000 in the aggregate with this coverage. RRMC has obtained an outstanding letter of credit to be used for outstanding workers' compensation claims as of September 30, 2019 and 2018, the balance of the letter of credit was \$1,095,845 and \$0, respectively.

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Note 6: Interest in Assets at the Vermont Community Foundation

RRMC has transferred assets to the Vermont Community Foundation and retained a beneficial interest in those assets. RRMC is to receive the interest annually, but none of the principal. RRMC has granted variance power to the Vermont Community Foundation to modify any restriction or condition on the distribution of funds for any specified charitable purposes or to a specified organization if, in the sole judgment of the Board of Trustees of the Vermont Community Foundation, such restriction or condition becomes, in effect, unnecessary, incapable of fulfillment or inconsistent with the charitable needs of the community served. The cumulative amount of the retained beneficial interest included in the balance sheets was \$325,102 and \$339,333 at September 30, 2019 and 2018, respectively (*Note 4*).

Note 7: Line of Credit

RRMC has a \$5,000,000 revolving bank line of credit expiring May 31, 2020. At September 30, 2019 and 2018, there was \$0 borrowed against this line. The line is collateralized by substantially all of RRMC's revenues without donor restrictions. Interest varies with the bank's prime rate, which was 5.25 percent on September 30, 2019 and 2018, and is payable monthly.

Note 8: Long-Term Debt

	<u>2019</u>	<u>2018</u>
Vermont Educational and Health Buildings Financing Agency (VEHBFA) Hospital Revenue Bonds, Rutland Regional Medical Center Project Series 2013A (A)	\$ 31,350,000	\$ 31,350,000
Note payable, bank (B)	2,939,514	4,751,723
Capital lease (C)	54,992	68,783
Note payable, bank (D)	314,275	367,487
Construction loan, bank (E)	3,906,305	-
	<u>38,565,086</u>	<u>36,537,993</u>
Less unamortized costs of issuance	589,161	184,180
Less current maturities	1,972,137	1,885,160
	<u>\$ 36,003,788</u>	<u>\$ 34,468,653</u>

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- (A) VEHBFA Series 2013A Bonds (tax exempt), issued during the year ended September 30, 2013, bearing a variable interest rate of the one-month LIBOR plus 1.5 percent times 71 percent. Effective February 1, 2016, the variable interest rate was reduced to 70 percent of the one-month LIBOR rate plus 0.826 percent per annum with principal payments due in monthly installments beginning in April 2021, ranging from approximately \$77,000 to \$179,000 with final payments of \$26,500,000 in September 2033. The bonds are secured by gross receipts of RRMC. The effective interest rate was 2.30 percent and 2.29 percent at September 30, 2019 and 2018, respectively. Unamortized costs of issuance were \$134,269 and \$143,917 at September 30, 2019 and 2018, respectively.

RRMC has entered into an interest rate swap agreement to help mitigate exposure to future changes in interest rates on the Series 2013A Bonds. See *Note 9* for additional discussion on the interest rate swap agreement.

- (B) Note payable (taxable) with a local financial institution, with a variable rate of LIBOR plus 1.5 percent, per annum based on a 360-day year, due in monthly installments, including principal and interest, maturing April 1, 2021, and is secured by certain property. Effective February 1, 2016, the variable interest rate was reduced to the one-month LIBOR rate plus 1.02 percent. The effective interest rate was 3.12 percent at September 30, 2019 and 2018. Unamortized debt issuance costs were \$28,991 and \$40,263 at September 30, 2019 and 2018, respectively.

RRMC has entered into an interest rate swap agreement to help mitigate exposure to future changes in interest rates on the note payable. See *Note 9* for additional discussion on the interest rate swap agreement.

- (C) Capital lease obligation due in monthly installments of \$2,437 through June 2021; collateralized by certain equipment of RRMC.
- (D) Note payable in the original amount of \$550,000 secured by real property that was purchased during the year ended September 30, 2015, bearing a fixed interest rate of 3.59 percent, with principal and interest payments of \$5,475 due monthly beginning on January 1, 2015, and continuing until the maturity date of December 1, 2024.
- (E) During the year ended September 30, 2019, RRMC obtained a \$17,400,000 construction loan to partially finance the construction of a new facility. This loan represents a bridge loan with a local financial institution which will partially convert to a USDA loan in 2021. At September 30, 2019, there was \$3,906,305 borrowed against this loan. The balance at September 30, 2019, is considered due in 2021 when the loan will be converted to a mortgage loan with a local financial institution and a USDA loan for a period of 35 years. The loan is collateralized by substantially all of RRMC's assets. Interest accrues at a rate of 3.10 percent and is added to the loan balance each month.

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The bonds and notes contain certain restrictive covenants, which among other provisions, require that RRMC maintain certain financial covenants which include maximum annual debt service, debt to capitalization and days cash on hand ratios.

Aggregate annual maturities of long-term debt and payments on capital lease obligations at September 30, 2019, are:

	<u>Long-Term Debt</u>	<u>Capital Lease Obligations</u>
2020	\$ 1,938,661	\$ 35,157
2021	5,921,214	21,930
2022	2,093,956	-
2023	28,475,820	-
2024	63,933	-
Thereafter	<u>16,510</u>	<u>-</u>
	<u>\$ 38,510,094</u>	57,087
Less amount representing interest		<u>2,095</u>
Present value of future minimum lease payments		54,992
Less current maturities		<u>33,476</u>
Noncurrent portion		<u>\$ 21,516</u>

Note 9: Derivative Financial Instruments

RRMC has entered into an interest rate swap agreement with TD Bank, N.A. in conjunction with the Series 2013A Bonds. The swap agreement terminates on September 1, 2023, and provides for monthly settlement with RRMC to pay a fixed rate of 4.068 percent and receive a variable rate equal to the 71 percent of the one-month LIBOR plus a spread of 650 basis points on a notional amount equal to a portion of the outstanding balance of the Series 2013A Bonds, original notional amount of \$11,683,802. RRMC entered into the swap agreement with the objective of reducing its exposure to future variability in interest rates on the Series 2013A Bonds by effectively fixing the interest rate thereon at 4.068 percent. At September 30, 2019 and 2018, the notional amount was \$16,940,322 and \$16,286,244, respectively.

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RRMC has entered into an interest rate swap agreement with TD Bank, N.A. in conjunction with the 2013 note payable. The swap agreement terminates on April 1, 2021, and provides for monthly settlement with RRMC to pay a fixed rate of 4.022 percent and receive a variable rate equal to the 71 percent of the one-month LIBOR plus a spread of 650 basis points on a notional amount equal to a portion of the outstanding balance of the note payable, original notional amount of \$12,712,652. RRMC entered into the swap agreement with the objective of reducing its exposure to future variability in interest rates on the note payable by effectively fixing the interest rate thereon at 4.022 percent. The notional amount is being reduced over the term of the note payable. At September 30, 2019 and 2018, the notional amounts were \$2,939,514 and \$4,751,723, respectively.

RRMC had entered into an interest rate swap agreement with Deutsche Bank in conjunction with the Series 2010A Bonds. The swap agreement originally terminated on December 1, 2020, and provided for monthly settlement with RRMC to pay a fixed rate of 4.61 percent and receive a variable rate equal to the 69 percent of the one-month LIBOR plus a spread of 241.50 basis points on a notional amount equal to the then outstanding balance of the Series 2010A Bonds, original notional amount of \$19,100,000. RRMC entered into the swap agreement with the objective of reducing its exposure to future variability in interest rates on the Series 2010A Bonds by effectively fixing the interest rate thereon at 4.61 percent. The terms of this swap agreement were revised on September 17, 2013, with this issuance of the Series 2013A Bonds. The swap agreement was extended and now terminates on September 1, 2023, and provides for monthly settlement with RRMC to pay a fixed rate of 4.828 percent and receive a variable rate equal to the 69 percent of the one-month LIBOR plus a spread of 241.50 basis points on a notional amount in the swap agreement. The notional amount is being reduced over the term of the agreement. At September 30, 2019 and 2018, the notional amounts were \$14,409,678 and \$15,063,756, respectively.

The table below presents certain information regarding RRMC's interest rate swap agreements designated as a fair value hedge. RRMC did not have any derivative instruments at September 30, 2019 and 2018, that were designated as hedging instruments.

	2019	2018
Other Liabilities		
Fair value of interest rate swap agreements	\$ 2,040,706	\$ 995,108
Interest Expense		
Additional interest expense incurred from interest rate swap agreements	336,753	517,963
Other Income (Expense)		
Gain (loss) recognized in change in interest rate swap agreements	(1,045,599)	1,486,656

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Note 10: Net Assets With Donor Restrictions

Net assets with donor restrictions are available for the following purposes or periods:

	2019	2018
Subject to expenditure for specified purpose		
Capital	\$ 25,884	\$ 61,571
Special purpose endowments	1,004,424	834,710
Various departments and other	316,605	370,797
	<u>1,346,913</u>	<u>1,267,078</u>
Subject to appropriation and expenditure when a specified event occurs	<u>1,592,292</u>	<u>1,796,836</u>
Not subject to appropriation or expenditure		
Beneficial interests in perpetual trusts	1,654,496	1,623,717
Beneficial interests in assets held by Foundation	325,102	339,333
	<u>1,979,598</u>	<u>1,963,050</u>
	<u>\$ 4,918,803</u>	<u>\$ 5,026,964</u>

During the years ended September 30, 2019 and 2018, net assets of \$553,191 and \$567,551, respectively, were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by donors. Net assets of \$319,985 and \$439,511 were released from donor restriction for the purchase of capital assets during the years ended September 30, 2019 and 2018, respectively.

Note 11: Endowments

RRMC's endowments consist of various individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the governing body to function as endowments (board-designated endowment funds). As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including Board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

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RRMC's governing body has interpreted the State of Vermont Prudent Management of Institutional Funds Act (SPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the Board appropriates such amounts for expenditure. Most of those net assets are also subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. RRMC's governing body has interpreted SPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates to the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, RRMC considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. RRMC has interpreted SPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. In addition, in accordance with SPMIFA, RRMC consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of RRMC and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of RRMC

The composition of net assets by type of endowment fund at September 30, 2019 and 2018, was:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 1,592,292	\$ 1,592,292
Board-designated endowment funds	-	-	-
Total endowment funds	\$ -	\$ 1,592,292	\$ 1,592,292

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	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 1,796,836	\$ 1,796,836
Board-designated endowment funds	-	-	-
Total endowment funds	\$ -	\$ 1,796,836	\$ 1,796,836

Changes in endowment net assets for the years ended September 30, 2019 and 2018, were:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of the year	\$ -	\$ 1,796,836	\$ 1,796,836
Investment return and net appreciation	-	44,971	44,971
Appropriation of endowment net assets for expenditure	-	(249,515)	(249,515)
Endowment net assets, end of year	\$ -	\$ 1,592,292	\$ 1,592,292

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of the year	\$ -	\$ 1,955,247	\$ 1,955,247
Investment return and net appreciation	-	93,849	93,849
Appropriation of endowment net assets for expenditure	-	(252,260)	(252,260)
Endowment net assets, end of year	\$ -	\$ 1,796,836	\$ 1,796,836

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From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level RRMC is required to retain as a fund of perpetual duration pursuant to donor stipulation or SPMIFA. In accordance with GAAP, deficiencies of this nature are reported in net assets without restriction and aggregated \$0 at September 30, 2019 and 2018. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after investment of new permanently restricted contributions and continued appropriation for certain purposes that was deemed prudent by the governing body.

RRMC has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds RRMC must hold in perpetuity or for donor-specified periods, as well as those of Board-designated endowment funds. Under RRMC's policies, the primary investment goal is generation of income. RRMC expects its endowment funds to provide an average rate of return of approximately 5 percent gross of fees annually over time. Actual returns in any given year may vary from this amount.

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

Note 12: Liquidity and Availability

RRMC's financial assets available within one year of the balance sheet date for general expenditures are:

	2019	2018
Financial assets at year end		
Cash and cash equivalents	\$ 9,934,148	\$ 7,330,571
Patient accounts receivable, net	29,745,296	26,832,549
Other receivables	4,943,153	5,198,945
Assets limited as to use	140,863,701	145,181,512
Pledges receivable	33,604	81,432
Due from affiliates	5,999,302	5,589,575
Total financial assets	<u>191,519,204</u>	<u>190,214,584</u>
Less amounts not available to be used within one year		
Pledges receivable	9,800	15,386
Funds held by trustees	1,543,729	828,917
Donor restricted with liquidity horizons greater than one year	4,885,362	4,957,850
Financial assets not available to be used within one year	<u>6,438,891</u>	<u>5,802,153</u>
Financial assets available to meet general expenditures within one year	<u>\$ 185,080,313</u>	<u>\$ 184,412,431</u>

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RRMC has certain Board-designated assets limited to use which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the qualitative information above for financial assets to meet general expenditures within one year. RRMC has other assets limited to use for donor-restricted purposes and for workers' compensation. In addition, certain other Board-designated assets are designated for future capital expenditures and an operating reserve. These assets limited to use, which are more fully described in *Notes 1 and 4*, are not available for general expenditure within the next year. However, the Board-designated amounts could be made available, if necessary.

Note 13: Charity Care

The costs of charity care provided under RRMC's charity care policy were approximately \$3,241,000 and \$2,322,000 for 2019 and 2018, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

Note 14: Functional Expenses

RRMC provides general health care services to residents within its geographic area. Certain costs attributable to more than one function have been allocated among the health care services, general and administrative and fundraising functional expense classifications based on the direct assignment, expenses and other methods. The following schedule presents the natural classification of expenses by function as follows:

	2019			Total
	Health Care Services	General and Administrative	Fundraising Expenses	
Salaries and wages	\$ 116,285,459	\$ 18,364,846	\$ 255,108	\$ 134,905,413
Employee benefits	24,386,183	3,851,285	53,499	28,290,967
Total personnel expenses	<u>140,671,642</u>	<u>22,216,131</u>	<u>308,607</u>	<u>163,196,380</u>
Supplies and other	60,447,503	36,686,761	151,543	97,285,807
Depreciation and amortization	8,651,546	3,553,560	14,345	12,219,451
Interest	<u>930,990</u>	<u>382,398</u>	<u>1,544</u>	<u>1,314,932</u>
Total expenses	<u><u>\$ 210,701,681</u></u>	<u><u>\$ 62,838,850</u></u>	<u><u>\$ 476,039</u></u>	<u><u>\$ 274,016,570</u></u>

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	2018			Total
	Health Care Services	General and Administrative	Fundraising Expenses	
Salaries and wages	\$ 115,233,948	\$ 18,415,715	\$ 202,437	\$ 133,852,100
Employee benefits	23,934,897	3,825,073	42,048	27,802,018
Total personnel expenses	<u>139,168,845</u>	<u>22,240,788</u>	<u>244,485</u>	<u>161,654,118</u>
Supplies and other	57,089,544	36,063,259	101,956	93,254,759
Depreciation and amortization	8,438,845	3,466,195	13,993	11,919,033
Interest	<u>913,639</u>	<u>375,270</u>	<u>1,515</u>	<u>1,290,424</u>
Total expenses	<u>\$ 205,610,873</u>	<u>\$ 62,145,512</u>	<u>\$ 361,949</u>	<u>\$ 268,118,334</u>

Note 15: Operating Leases

Rental expense under operating lease agreements totaled \$1,568,758 and \$1,640,350 for the years ended September 30, 2019 and 2018, respectively.

Note 16: Significant Commitments

Service Agreement

RRMC and Cerner Corporation (Cerner) have entered into a strategic information technology service agreement. Cerner has assumed operational and administrative responsibilities for RRMC's information technology environment and services, including remote hosting, monitoring and system performance capabilities. The agreement is effective through September 30, 2023. At the end of the initial term, the agreement will automatically renew in one-year increments. The payments on these agreements are recognized as expense when incurred.

Future minimum payments required under these agreements at September 30, 2019, are summarized as follows:

2020	\$ 12,847,887
2021	13,225,524
2022	13,350,870
2023	10,232,649
2024	-
	<u>\$ 49,656,930</u>

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Expenses under this agreement totaled \$12,540,473 and \$10,097,212 for the years ended September 30, 2019 and 2018, respectively.

Note 17: Pension Plans

Defined Benefits Plans

RRMC has a noncontributory defined benefit pension plan and a defined benefit postretirement health care plan covering all employees who meet the eligibility requirements. RRMC's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as RRMC may determine to be appropriate from time to time. RRMC expects to contribute \$2,000,000 to the defined benefit pension plan and expects to contribute \$131,469 to the postretirement health care plan in 2019.

Effective January 1, 2006, RRMC's defined benefit pension plan was frozen and stopped accruing benefits. All employees in the defined benefit plan were enrolled into RRMC's newly established tiered contribution plan.

RRMC uses a September 30 measurement date for the plans. Information about the plan's funded status follows:

	Pension Benefits		Other Benefits	
	2019	2018	2019	2018
Benefit obligation	\$ 130,156,649	\$ 117,650,858	\$ 131,469	\$ 337,808
Fair value of plan assets	<u>132,679,247</u>	<u>117,055,437</u>	<u>-</u>	<u>-</u>
Funded status	<u>\$ 2,522,598</u>	<u>\$ (595,421)</u>	<u>\$ (131,469)</u>	<u>\$ (337,808)</u>

Assets and liabilities recognized in the balance sheets:

	Pension Benefits		Other Benefits	
	2019	2018	2019	2018
Noncurrent asset	<u>\$ 2,522,598</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Current liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 131,469</u>	<u>\$ 210,306</u>
Noncurrent liabilities	<u>\$ -</u>	<u>\$ 595,421</u>	<u>\$ -</u>	<u>\$ 127,502</u>

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Amounts recognized in net assets without restriction not yet recognized as components of net periodic benefit cost consist of:

	Pension Benefits		Other Benefits	
	2019	2018	2019	2018
Prior service credit	\$ -	\$ -	\$ -	\$ -
Net loss (gain)	\$ 26,831,670	\$ 28,139,592	\$ (177,535)	\$ (194,575)

The accumulated benefit obligation for the defined benefit pension plan was \$130,156,649 and \$117,650,858 at September 30, 2019 and 2018, respectively.

Other significant balances and costs are:

	Pension Benefits		Other Benefits	
	2019	2018	2019	2018
Benefit costs (credit)	\$ 189,903	\$ (898,516)	\$ (135,938)	\$ (242,094)
Employer contributions	2,000,000	2,000,000	87,441	434,786
Benefits paid	5,961,393	5,756,793	87,441	434,786

The following amounts have been recognized in the statements of operations and changes in net assets for the years ended September 30, 2019 and 2018:

	Pension Benefits		Other Benefits	
	2019	2018	2019	2018
Amounts arising during the period				
Net loss (gain)	\$ 337,757	\$ (2,009,490)	\$ (125,256)	\$ 35,842
Amortization of net loss	1,645,679	1,740,875	-	-
Recognition of net loss (gain)	-	-	(142,296)	(250,061)

The estimated net loss for the defined benefit pension plan that will be amortized from net assets without restriction into net periodic benefit cost over the next fiscal year is \$1,384,056.

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Significant assumptions include:

	Pension Benefits		Other Benefits	
	2019	2018	2019	2018
Weighted average assumptions used to determine benefit obligations				
Discount rate	3.25%	4.25%	2.00%	2.75%
Rate of compensation increase	N/A	N/A	N/A	N/A
Weighted average assumptions used to determine benefit costs				
Discount rate	4.25%	3.75%	2.75%	1.50%
Expected return on plan assets	5.50%	6.20%	N/A	N/A

RRMC has estimated the long-term rate of return on plan assets based primarily on historical returns on plan assets, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publicly available information.

For measurement purposes, a 6.00 percent and 6.50 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 2019 and 2018, respectively. The rate was assumed to decrease gradually to 6 percent by the year 2020 and remain at that level thereafter.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of September 30, 2019:

	Pension Benefits	Other Benefits
2020	\$ 6,340,993	\$ 132,777
2021	6,624,984	-
2022	6,859,189	-
2023	7,072,628	-
2024	7,265,916	-
2025 – 2029	37,936,637	-

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Pension Plan Assets

Following is a description of the valuation methodologies used for pension plan assets measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of pension plan assets pursuant to the valuation hierarchy.

Where quoted market prices are available in an active market, plan assets are classified within Level 1 of the valuation hierarchy. Level 1 plan assets include common trust funds invested in equity securities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of plan assets with similar characteristics or discounted cash flows. Level 2 plan assets include common trust funds invested in fixed income securities. In certain cases where Level 1 or Level 2 inputs are not available, plan assets are classified within Level 3 of the hierarchy.

The fair values of RRMC's pension plan assets at September 30, 2019 and 2018, by asset class are as follows:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2019				
Investments				
Money market funds	\$ 1,548,120	\$ 1,548,120	\$ -	\$ -
Mutual funds – equity	12,925,545	12,925,545	-	-
Mutual funds – fixed	<u>118,205,582</u>	<u>118,205,582</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 132,679,247</u>	<u>\$ 132,679,247</u>	<u>\$ -</u>	<u>\$ -</u>
2018				
Investments				
Money market funds	\$ 632,351	\$ 632,351	\$ -	\$ -
Mutual funds – equity	23,155,570	23,155,570	-	-
Mutual funds – fixed	<u>93,267,516</u>	<u>93,267,516</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 117,055,437</u>	<u>\$ 117,055,437</u>	<u>\$ -</u>	<u>\$ -</u>

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Plan assets are held by a bank-administered trust fund, which invests the plan assets in accordance with the provisions of the plan agreement. The plan agreements permit investment in common stocks, corporate bonds and debentures, U.S. government securities, certain insurance contracts, real estate and other specified investments, based on certain target allocation percentages.

Plan assets are rebalanced quarterly. The postretirement health care plan is conducted on a pay-as-you-go basis, thus there are no assets available for investment. At September 30, 2019 and 2018, plan assets by category are as follows:

	Pension Benefits	
	2019	2018
Equity securities	10%	19%
Debt securities	89%	80%
Cash and cash equivalents	1%	1%
	100%	100%

Defined Contribution Plan

RRMC has a defined contribution plan which they contribute to the plan on behalf of each eligible employee a percentage of employee’s eligible compensation based on age and years of service to the plan, as follows:

Combined Age and Years of Service	Percentage of Compensation
Less than 40 years	4%
40 – 59 years	6%
60 – 79 years	8%
80 + years	10%

For employees hired on or after April 4, 2004, RRMC contributes to the plan on behalf of each eligible employee an amount equal to 4 percent of the eligible employee’s compensation.

403(b) Plan – Employer Matching Contributions

Employees may elect to contribute from 1 percent to 100 percent of their compensation to the tax sheltered 403(b) plan. Employer matching contributions are made equal to 25 percent of a participant’s contribution to the plan, up to a maximum of 1 percent compensation for all employees.

Pension plan expense for these two plans for the years ended September 30, 2019 and 2018, was \$5,380,859 and \$5,369,751, respectively.

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Note 18: Executive Option Plan

Prior to 2002, RRMC offered an Executive Option Plan for certain senior management and employed physicians. Through the plan, administered under Section 83 of the Internal Revenue Code, a designated group of employees is granted options to purchase shares, through salary reduction, of one or more mutual funds at a price that is equal to a specified percentage of the fair value of the shares on the date of the exercise. During 2002, contributions to the plan were frozen and no future options are expected to be granted. At September 30, 2019 and 2018, plan assets amounted to \$2,014,987 and \$1,688,514, respectively.

Note 19: Related Party Transactions

A receivable from RRHS, RRMC's parent organization, of \$5,999,290 and \$5,589,575 is recorded at September 30, 2019 and 2018, respectively. RRMC has advanced RRHS funds to cover operating expenses.

A receivable from The Meadows Associates, an investment of RRHS of \$12 and \$0 is recorded at September 30, 2019 and 2018, respectively. RRMC advanced The Meadows Associates funds to cover operating expenses.

Note 20: Community Health Centers of the Rutland Region, Inc.

Effective December 1, 2013, RRHS entered into an agreement to provide Community Health Centers of the Rutland Region, Inc. a community benefit grant over a period of fifty-eight months from December 1, 2013, to September 30, 2018. The agreement was renewed during the year ended September 30, 2019, for a period of thirty-six months from October 1, 2018, to September 20, 2021. These payments are being made monthly and range from \$20,123 to \$21,348, for a total grant of \$746,364.

For the years ended September 30, 2019 and 2018, \$318,905 and \$288,026, respectively, was expended for the grant award from RRMC and is included in RRMC's general operating expenses.

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Note 21: Disclosures About Fair Value of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities.
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities.

Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2019 and 2018:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2019				
Investments				
Money market funds	\$ 1,143,720	\$ 1,143,720	\$ -	\$ -
Mutual funds – equity	82,586,499	82,586,499	-	-
Mutual funds – fixed	55,575,528	55,575,528	-	-
Interest in assets of Vermont				
Community Foundation	325,102	-	-	325,102
Interest rate swap agreements	(2,040,706)	-	(2,040,706)	-
September 30, 2018				
Investments				
Money market funds	\$ 834,710	\$ 834,710	\$ -	\$ -
Mutual funds – equity	92,228,614	92,228,614	-	-
Mutual funds – fixed	51,333,597	51,333,597	-	-
Interest in assets of Vermont				
Community Foundation	339,333	-	-	339,333
Interest rate swap agreements	(995,108)	-	(995,108)	-

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Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended September 30, 2019.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

The value of certain investments, classified as alternative investments, is determined using net asset value (or its equivalent) as a practical expedient. Investments for which RRMC expects to have the ability to redeem its investments with the investee within 12 months after the reporting date are categorized as Level 2. Investments for which RRMC does not expect to be able to redeem its investments with the investee within 12 months after the reporting date are categorized as Level 3.

Fair value determinations for Level 3 measurements of securities are the responsibility of management. Management contracts with a pricing specialist to generate fair value estimates on a monthly or quarterly basis. Management challenges the reasonableness of the assumptions used and reviews the methodology to ensure the estimated fair value complies with accounting standards generally accepted in the United States.

Interest in Assets of Vermont Community Foundation

Fair value is estimated at the present value of the future distributions expected to be received over the term of the agreement. Due to the nature of valuation inputs, the interest is classified within Level 3 of the hierarchy.

Interest Rate Swap Agreements

The fair value is estimated using forward-looking interest rate curves and discounted cash flows that are observable or can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

Realized and unrealized gains and losses are included in excess of revenues over expenses.

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Level 3 Reconciliation

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying balance sheets using significant unobservable (Level 3) inputs:

	Interest in Assets of Vermont Community Foundation
Balance, October 1, 2017	\$ 335,877
Total realized and unrealized gains and losses included in other income (expense)	3,456
Balance, September 30, 2018	339,333
Total realized and unrealized gains and losses included in other income (expense)	(14,231)
Balance, September 30, 2019	\$ 325,102

Realized and unrealized gains and losses are included in excess of revenues over expenses for the period from October 1, 2018, through September 30, 2019.

Note 22: Contract Pharmacy Program

RRMC participates in the 340B outpatient drug discount program administered by the Office of Pharmacy Affairs of the Health Resources and Services Administration (HRSA). In 2011, RRMC began operating a 340B retail drug program by contracting with local pharmacies. The net revenue from this program for the years ended September 30, 2019 and 2018, respectively, was approximately \$6,782,190 and \$5,189,000 greater than the cost of operating the program. Laws and regulations surrounding the 340B drug program are complex and are subject to interpretation and change.

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Note 23: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in *Notes 1* and *2*.

Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in *Notes 1* and *5*.

Investments

RRMC invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying balance sheets.

Collective Bargaining Agreement

Approximately 24 percent of RRMC's employees are covered by a collective bargaining agreement. The collective bargaining agreement covering these employees expires September 30, 2021.

Asset Retirement Obligation

As discussed in *Note 27*, RRMC has recorded a liability for its conditional asset retirement obligations related to both its administrative and patient care buildings.

Derivative Financial Instruments

As discussed in *Note 9*, RRMC has entered into interest rate swap agreements and has estimated the fair value of the swaps at September 30, 2019 and 2018. Due to the level of risk associated with the swaps it is reasonably possible that changes in the fair value will occur in the near term and that such change could materially affect the amounts reported in the accompanying balance sheets.

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Pension and Other Postretirement Benefit Obligations

RRMC has a noncontributory defined benefit pension and postretirement health care plan whereby it agrees to provide certain postretirement benefits to eligible employees. Both of the plans are frozen and are no longer actively accruing additional benefits for participants. The benefit obligation is the actuarial present value of all benefits attributed to service rendered prior to the valuation date based on the linear method. It is reasonably possible that events could occur that would change the estimated amount of this liability materially in the near term.

Note 24: Construction in Progress

The construction in progress at September 30, 2019, primarily relates to numerous smaller projects and the Medical Office Building. Some larger projects are included in construction in progress, but most of the expenditures have not occurred as of September 30, 2019. These projects include upgrades to nuclear medicine, replacement windows and cancer center renovations. Below is a table listing anticipated cost and completion date.

Project Description	Estimated Total Cost	Estimated Remaining to be Spent	Estimated Completion Date
Cancer Center Renovations	\$ 2,600,000	\$ 2,393,686	January 2020
433 West Street E-Power	679,957	646,279	September 2020
Medical Office Building	16,075,836	10,968,841	June 2020
Loading Dock – MOB	3,220,666	2,299,531	March 2020
Window Replacement	1,280,742	794,800	September 2020
Psych Renovations	3,870,824	3,674,295	December 2020
AHU-3	2,729,175	2,651,974	September 2020
Old Boiler Room Condensate Return Unit	82,500	33,849	September 2020
WACU / Birthing Center Renovations	455,000	382,438	September 2020
Chiller #4	2,589,678	2,579,686	December 2020
VOC Renovations	1,745,567	1,740,563	January 2021
IV Pump Replacement	746,518	593,901	October 2020
CT Scanner Renovations	2,024,027	7,400	October 2019
HVAC System Optimization	100,315	82,615	September 2020

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Note 25: Contingent Liabilities

Litigation

In the normal course of business, RRMC is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by commercial insurance; for example, allegations regarding employment practices or performance of contracts. RRMC evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Note 26: Other Liabilities

Other liabilities consisted of the following at September 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Accrued postretirement health care benefit	\$ -	\$ 127,502
Employee option payable	2,014,987	1,688,514
Accrued claims liabilities	1,855,890	2,337,845
Asset retirement obligations	596,479	584,912
Interest rate swap agreements	2,040,706	995,108
Other	<u>59,797</u>	<u>54,972</u>
	<u>\$ 6,567,859</u>	<u>\$ 5,788,853</u>

Note 27: Asset Retirement Obligations

Accounting principles generally accepted in the United States of America, requires that an asset retirement obligation (ARO) associated with the retirement of a tangible long-lived asset be recognized as a liability in the period in which it is incurred or becomes determinable (as defined by the standard) even when the timing and/or method of settlement may be conditional on a future event. RRMC's conditional asset retirement obligations primarily relate to asbestos contained in buildings that RRMC owns. Environmental regulations exist in Vermont that require RRMC to handle and dispose of asbestos in a special manner if a building undergoes major renovations or is demolished. A liability of \$596,479 and \$584,912 has been recognized in the accompanying 2019 and 2018 financial statements, respectively, for the portion of the liability that can be reasonably estimated.

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Additionally, there remains a liability that has not been recognized in the accompanying financial statements because the range of time over which RRMC may settle is unknown and cannot be reasonably estimated. RRMC will recognize a liability when sufficient information is available to reasonably estimate fair value.

Note 28: Future Changes in Accounting Principles

Revenue Recognition (ASU 2014-09)

The Financial Accounting Standards Board amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for annual periods beginning after December 15, 2018, for nonpublic entities (December 15, 2017, for not for profits that are conduit debt obligors), and any interim periods within annual reporting periods that begin after December 15, 2019, for nonpublic entities (December 15, 2018, for not for profits that are conduit debt obligors). RRMC is in the process of evaluating the impact the amendment will have on the financial statements and will adopt the new accounting standard during fiscal year 2020.

Accounting for Leases (ASU 2016-02)

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2019 (2018 for not for profits that are conduit debt obligors), and any interim periods within annual reporting periods that begin after December 15, 2020 (2018 for not for profits that are conduit debt obligors). RRMC is evaluating the impact the standard will have on the financial statements; however, the standard is expected to have a material impact on

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the financial statements due to the recognition of additional assets and liabilities for operating leases. RRMC will adopt the new accounting standard during fiscal year 2021.

Restricted Cash

The Financial Accounting Standards Board clarified its standard related to the presentation of restricted cash on the consolidated statements of cash flows to remove diversity in practice. RRMC, which presents cash and cash equivalents with restrictions in multiple line items on the consolidated balance sheets, will now report these items as cash and cash equivalents for the consolidated statements of cash flows, and will disclose the location of its cash and cash equivalents to reconcile the two statements for each period presented. This standard will be effective for RRMC as of October 1, 2019.

Accounting for Financial Instruments – Credit Losses

The Financial Accounting Standards Board amended its standards related to the accounting for credit losses on financial instruments. This amendment introduces new guidance for accounting for credit losses on instruments including trade receivables and finance receivables. The new standard is effective for any interim periods within annual reporting periods that begin after December 15, 2022. RRMC is in the process of evaluating the impact the amendment will have on the financial statements and will adopt the new accounting standard October 1, 2023.

Note 29: Subsequent Events

Subsequent to year end, RRMC received cash from Rutland Regional Health Systems, Inc. in the amount of \$2.0 million.

Subsequent events have been evaluated through January 30, 2020, which is the date the financial statements were available to be issued.

Supplementary Information

The Rutland Hospital, Inc.
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Net Patient Service Revenue
Years Ended September 30, 2019 and 2018

	Inpatient		Outpatient		Total	
	2019	2018	2019	2018	2019	2018
Routine Services						
Medical and surgical	\$ 46,953,045	\$ 45,266,615	\$ -	\$ -	\$ 46,953,045	\$ 45,266,615
Psychiatric	16,526,622	16,362,124	-	-	16,526,622	16,362,124
Obstetrics and gynecology	2,852,509	2,963,039	-	-	2,852,509	2,963,039
Intensive care	11,057,550	9,499,411	-	-	11,057,550	9,499,411
Nursery	1,107,413	1,071,336	-	-	1,107,413	1,071,336
	<u>78,497,139</u>	<u>75,162,525</u>	<u>-</u>	<u>-</u>	<u>78,497,139</u>	<u>75,162,525</u>
Special Services						
Operating room	36,137,069	39,796,278	38,906,754	32,340,425	75,043,823	72,136,703
Recovery room	2,467,454	2,597,727	3,025,209	2,625,043	5,492,663	5,222,770
Emergency room	11,690,446	11,687,783	33,966,677	33,244,051	45,657,123	44,931,834
Endoscopy	1,434,568	1,389,183	12,578,339	11,875,710	14,012,907	13,264,893
Ambulatory care	3,980	3,654	155,473	248,004	159,453	251,658
Delivery room	1,396,937	1,244,109	741,915	586,532	2,138,852	1,830,641
Medical and surgical supplies	505,310	323,952	1,187,646	680,513	1,692,956	1,004,465
Oncology	209,537	176,747	5,704,837	5,484,670	5,914,374	5,661,417
Laboratory	13,773,028	13,117,401	32,087,670	29,548,621	45,860,698	42,666,022
Cardiology	7,121,621	7,365,777	20,829,608	21,933,224	27,951,229	29,299,001
Pulmonary	353,171	227,147	989,791	812,079	1,342,962	1,039,226
Electroencephalography	58,580	93,908	654,507	636,013	713,087	729,921
Radiology – diagnostic	7,502,112	8,208,144	38,286,655	37,329,720	45,788,767	45,537,864
Radiology – isotopes	711,800	661,146	1,599,711	1,536,611	2,311,511	2,197,757
Chemotherapy	659,982	761,786	2,607,734	3,507,333	3,267,716	4,269,119
CT scanning	8,384,109	7,865,948	22,369,077	19,175,265	30,753,186	27,041,213
Radiation therapy	463,480	471,775	9,107,067	10,402,167	9,570,547	10,873,942
Pharmacy	18,245,114	16,856,647	61,200,303	54,876,914	79,445,417	71,733,561
Respiratory care	8,648,291	8,991,869	1,564,153	1,562,710	10,212,444	10,554,579
Psychiatric counseling	1,709,107	1,757,154	2,771,311	2,912,320	4,480,418	4,669,474
Physical therapy	1,358,587	1,425,273	1,817,979	2,312,921	3,176,566	3,738,194
Physiatry	30,592	46,035	2,884,943	2,837,814	2,915,535	2,883,849
Occupational therapy	1,759,710	1,833,404	525,318	582,272	2,285,028	2,415,676
Speech therapy	827,860	748,613	293,660	287,476	1,121,520	1,036,089
Hospitalist	6,373,373	6,669,289	553,336	682,857	6,926,709	7,352,146
OB/GYN oncology	1,672,710	1,731,652	3,475,388	3,470,051	5,148,098	5,201,703
Digestive services	276,970	209,753	3,524,918	3,402,182	3,801,888	3,611,935
Sleep services	5,199	10,560	4,630,382	5,122,776	4,635,581	5,133,336
Endocrinology	184,545	221,918	1,771,403	1,798,551	1,955,948	2,020,469
Gastroenterology	122,804	133,132	1,007,750	946,680	1,130,554	1,079,812
Infectious diseases	186,064	234,331	214,593	230,731	400,657	465,062
Miscellaneous clinical services	6,258,333	7,393,407	24,898,194	24,086,708	31,156,527	31,480,115
Opiate addiction center	-	-	3,485,387	3,487,842	3,485,387	3,487,842
Urology clinic	540,737	422,158	3,370,232	3,204,327	3,910,969	3,626,485
Eye clinic	7,742	4,187	3,621,997	3,571,594	3,629,739	3,575,781
Neurology	50,384	187,301	986,245	1,141,185	1,036,629	1,328,486
	<u>141,131,306</u>	<u>144,869,148</u>	<u>347,396,162</u>	<u>328,483,892</u>	<u>488,527,468</u>	<u>473,353,040</u>
Gross Patient Service Revenue	<u>\$ 219,628,445</u>	<u>\$ 220,031,673</u>	<u>\$ 347,396,162</u>	<u>\$ 328,483,892</u>	<u>567,024,607</u>	<u>548,515,565</u>
Less Contractual Allowances						
Medicare					191,393,273	178,357,552
Medicaid					74,024,952	65,733,956
Blue Cross					22,279,875	22,653,357
Charity care					6,929,977	4,702,339
Other					16,016,706	14,236,126
					<u>310,644,783</u>	<u>285,683,330</u>
Patient Service Revenue (Net of Contractual Discounts and Allowances)					<u>256,379,824</u>	<u>262,832,235</u>
Provision for uncollectible accounts					<u>7,489,965</u>	<u>8,597,207</u>
Net Patient Service Revenue Less Provision for Uncollectible Accounts					<u>\$ 248,889,859</u>	<u>\$ 254,235,028</u>

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Expenses
Years Ended September 30, 2019 and 2018

	Salaries and Wages		Supplies and Other		Total	
	2019	2018	2019	2018	2019	2018
Nursing Services						
Nursing administration	\$ 741,622	\$ 756,181	\$ 142,226	\$ 55,358	\$ 883,848	\$ 811,539
Nursing education	1,047,117	1,067,448	244,393	202,055	1,291,510	1,269,503
Medical and surgical	11,811,648	11,617,864	851,049	782,088	12,662,697	12,399,952
Psychiatric	5,208,405	4,977,074	165,952	185,040	5,374,357	5,162,114
Obstetrics and gynecology	1,527,600	1,270,738	140,058	123,359	1,667,658	1,394,097
Intensive care	4,773,175	4,740,812	338,461	328,245	5,111,636	5,069,057
Nursery	311,296	320,170	38,801	45,677	350,097	365,847
	<u>25,420,863</u>	<u>24,750,287</u>	<u>1,920,940</u>	<u>1,721,822</u>	<u>27,341,803</u>	<u>26,472,109</u>
Other Professional Services						
Operating room	5,631,834	5,492,132	9,718,422	9,984,652	15,350,256	15,476,784
Recovery room	629,224	661,865	69,290	62,783	698,514	724,648
Emergency room	11,270,210	11,049,225	982,034	999,238	12,252,244	12,048,463
Endoscopy	806,744	819,712	518,151	459,885	1,324,895	1,279,597
Ambulatory care	1,183,081	1,149,671	224,601	224,124	1,407,682	1,373,795
Physical rehabilitation services	1,556,399	1,747,308	55,793	75,844	1,612,192	1,823,152
Delivery room	1,298,866	1,164,553	77,858	65,406	1,376,724	1,229,959
HIV clinic	386,829	404,760	10,582	11,935	397,411	416,695
Central supply	757,014	754,091	1,333,922	911,011	2,090,936	1,665,102
Anesthesiology	2,286,575	2,457,797	52,702	53,372	2,339,277	2,511,169
Oncology	2,222,884	2,173,505	336,302	300,328	2,559,186	2,473,833
Laboratory	4,877,380	4,951,752	4,777,468	4,733,918	9,654,848	9,685,670
Cardiology	3,948,677	3,951,137	804,204	825,833	4,752,881	4,776,970
Pulmonary	717,281	734,389	8,658	21,773	725,939	756,162
Cardiac cath	100,395	181,613	46,932	733,513	147,327	915,126
Electroencephalography	503,713	418,067	26,964	16,890	530,677	434,957
Radiology – diagnostic	4,190,278	4,221,303	2,097,406	2,200,171	6,287,684	6,421,474
Radiology – isotopes	217,062	206,999	441,245	413,554	658,307	620,553
CT scanning	647,358	477,229	646,068	566,971	1,293,426	1,044,200
Radiation therapy	488,194	467,684	515,616	501,658	1,003,810	969,342
Pharmacy	2,349,874	2,397,532	20,223,030	16,782,662	22,572,904	19,180,194
Respiratory care	1,774,970	1,730,581	358,445	314,716	2,133,415	2,045,297
Psychiatric counseling	2,581,265	2,971,229	159,511	144,576	2,740,776	3,115,805
Physical therapy	981,459	1,091,212	35,125	38,754	1,016,584	1,129,966
Occupational therapy	475,605	493,386	25,816	27,707	501,421	521,093
Hospitalists	4,919,876	4,372,442	75,643	64,721	4,995,519	4,437,163
Speech therapy	210,273	207,547	7,456	6,558	217,729	214,105
OB/GYN oncology	11,581	13,674	410	723	11,991	14,397
OB/GYN clinic	2,858,392	2,858,846	291,915	317,949	3,150,307	3,176,795
Gastroenterology	2,006,156	2,141,399	86,284	101,769	2,092,440	2,243,168
Sleep services	854,043	943,519	84,939	78,266	938,982	1,021,785
Endocrinology	1,344,304	1,307,383	174,579	171,711	1,518,883	1,479,094
Miscellaneous clinical services	9,515,787	9,595,695	1,784,797	1,884,058	11,300,584	11,479,753
Opiate addiction center	1,494,899	1,363,213	800,258	827,941	2,295,157	2,191,154
Urology clinic	1,292,977	1,077,233	330,460	347,819	1,623,437	1,425,052
Eye clinic	1,138,188	1,154,338	136,466	162,088	1,274,654	1,316,426
Neurology	770,069	829,919	83,129	71,571	853,198	901,490
Retail pharmacy	313,108	219,034	1,982,282	1,520,701	2,295,390	1,739,735
	<u>78,612,824</u>	<u>78,252,974</u>	<u>49,384,763</u>	<u>46,027,149</u>	<u>127,997,587</u>	<u>124,280,123</u>

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Expenses
Years Ended September 30, 2019 and 2018

	Salaries and Wages		Supplies and Other		Total	
	2019	2018	2019	2018	2019	2018
General and Support Services						
Dietary	\$ 1,617,202	\$ 1,562,669	\$ 1,228,594	\$ 1,139,333	\$ 2,845,796	\$ 2,702,002
Plant operations	216,259	196,935	2,593,508	2,596,257	2,809,767	2,793,192
Maintenance	1,383,746	1,413,116	1,023,034	983,494	2,406,780	2,396,610
Housekeeping	1,556,134	1,465,265	412,608	410,362	1,968,742	1,875,627
Laundry and linen	108,055	100,043	686,668	674,112	794,723	774,155
Purchasing	392,753	379,822	47,940	110,679	440,693	490,501
Security	516,096	580,097	46,060	50,925	562,156	631,022
FQHC	-	-	318,905	288,026	318,905	288,026
Medicaid tax assessment	-	-	15,286,305	14,701,522	15,286,305	14,701,522
Administration/development/planning	7,125,849	6,969,998	8,212,537	8,280,292	15,338,386	15,250,290
Financial services	2,037,161	2,382,741	305,917	382,513	2,343,078	2,765,254
Patient access	2,458,955	2,321,210	1,471,764	1,418,517	3,930,719	3,739,727
Outpatient and oncology services management	85,344	98,450	591	200	85,935	98,650
Mail services	121,213	118,272	247,759	231,734	368,972	350,006
Telecommunications	346,418	343,683	80,120	63,899	426,538	407,582
Personnel	1,716,256	1,882,665	899,143	1,178,817	2,615,399	3,061,482
Medical records and library	3,383,139	3,386,128	631,908	728,498	4,015,047	4,114,626
Social services	547,712	501,873	126,515	140,789	674,227	642,662
Employee health	257,731	227,331	87,523	75,091	345,254	302,422
Volunteer services	151,479	132,341	75,869	68,103	227,348	200,444
Community health improvement	1,491,048	1,449,054	70,012	109,376	1,561,060	1,558,430
Information technology services	5,968,794	5,337,896	11,120,553	11,022,152	17,089,347	16,360,048
Employee benefits	26,966,950	28,133,287	-	-	26,966,950	28,133,287
Pension expense (credit)	400,549	(623,478)	-	-	400,549	(623,478)
James T. Bowse Community Trust	11,808	35,059	308,698	370,833	320,506	405,892
Rutland Health Foundation	240,075	189,824	131,359	87,362	371,434	277,186
Gift shoppe	61,967	66,576	105,923	100,039	167,890	166,615
Community investment	-	-	460,291	292,863	460,291	292,863
	<u>59,162,693</u>	<u>58,650,857</u>	<u>45,980,104</u>	<u>45,505,788</u>	<u>105,142,797</u>	<u>104,156,645</u>
Depreciation and Amortization	-	-	12,219,451	11,919,033	12,219,451	11,919,033
Interest	-	-	1,314,932	1,290,424	1,314,932	1,290,424
	<u>\$ 163,196,380</u>	<u>\$ 161,654,118</u>	<u>\$ 110,820,190</u>	<u>\$ 106,464,216</u>	<u>\$ 274,016,570</u>	<u>\$ 268,118,334</u>

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Other Revenue
Years Ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cafeteria	\$ 1,066,551	\$ 1,051,257
Miscellaneous	4,023,073	3,951,952
Contract pharmacy revenue	10,836,451	7,892,681
Retail pharmacy revenue	1,925,565	1,345,908
Rental income	215,106	220,524
Gift shoppe	165,852	150,693
	<u>\$ 18,232,598</u>	<u>\$ 14,613,015</u>

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Property and Equipment
Year Ended September 30, 2019

	Balance October 1, 2018	Additions	Reclassification	Disposals	Balance September 30, 2019
Assets					
Land	\$ 645,676	\$ -	\$ -	\$ -	\$ 645,676
Land improvements	3,075,496	465,021	168,400	-	3,708,917
Buildings	42,271,274	-	-	-	42,271,274
Building improvements	61,958,416	3,705,062	1,397,227	-	67,060,705
Fixed equipment	29,871,122	570,344	2,148	(27,551)	30,416,063
Major movable equipment	101,119,626	8,199,187	653,509	(3,820,205)	106,152,117
Construction in progress	3,660,435	6,027,585	(2,221,284)	-	7,466,736
	<u>\$ 242,602,045</u>	<u>\$ 18,967,199</u>	<u>\$ -</u>	<u>\$ (3,847,756)</u>	<u>257,721,488</u>
Accumulated Depreciation					
Land improvements	\$ 1,993,313	\$ 165,077	\$ -	\$ -	2,158,390
Buildings	26,935,109	1,036,895	-	-	27,972,004
Building improvements	32,290,236	3,565,404	-	-	35,855,640
Fixed equipment	16,357,516	1,300,322	-	(27,550)	17,630,288
Major movable equipment	83,579,776	6,133,168	-	(3,809,521)	85,903,423
	<u>\$ 161,155,950</u>	<u>\$ 12,200,866</u>	<u>\$ -</u>	<u>\$ (3,837,071)</u>	<u>169,519,745</u>
					<u>\$ 88,201,743</u>

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Property and Equipment
Year Ended September 30, 2018

	Balance October 1, 2017	Additions	Reclassification	Disposals	Balance September 30, 2018
Assets					
Land	\$ 645,676	\$ -	\$ -	\$ -	\$ 645,676
Land improvements	3,162,404	186,856	-	(273,764)	3,075,496
Buildings	42,271,274	-	-	-	42,271,274
Building improvements	61,706,962	1,254,313	69,778	(1,072,637)	61,958,416
Fixed equipment	34,550,227	2,937,083	2,992,268	(10,608,456)	29,871,122
Major movable equipment	104,891,711	4,860,576	167,095	(8,799,756)	101,119,626
Construction in progress	3,841,932	3,047,644	(3,229,141)	-	3,660,435
	<u>\$ 251,070,186</u>	<u>\$ 12,286,472</u>	<u>\$ -</u>	<u>\$(20,754,613)</u>	<u>242,602,045</u>
Accumulated Depreciation					
Land improvements	\$ 2,111,147	\$ 155,930	\$ -	\$ (273,764)	1,993,313
Buildings	25,875,001	1,060,108	-	-	26,935,109
Building improvements	29,815,415	3,547,458	-	(1,072,637)	32,290,236
Fixed equipment	25,778,441	1,187,531	-	(10,608,456)	16,357,516
Major movable equipment	86,352,956	5,949,486	-	(8,722,666)	83,579,776
	<u>\$ 169,932,960</u>	<u>\$ 11,900,513</u>	<u>\$ -</u>	<u>\$(20,677,523)</u>	<u>161,155,950</u>
					<u>\$ 81,446,095</u>