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April 11, 2017

Donna Jerry
Green Mountain Care Board
89 Main Street
Montpelier, VT 05620

Re: Docket No. GMCB-008-17con
Proposed Merger of Manchester Health Services with the VNA & Hospice of the Southwest Region, Inc.

Dear Donna:

In response to your letter dated March 31, 2016 I have included in this mailing the following items:

- Verification Under Oath Form
- Certificate of Need Application including the Project Description, Responses to the Health Resource Allocation Plan Standards (2) through (8) and CON Standards 5.5, 5.6, 5.7, and 5.9.
 - Attachment A - Memorandum of Understanding
 - Attachment B - Detailed Spreadsheet of Project Costs
 - Attachment C - Organizational Chart
 - Attachment D - DAIL Letter of Support
- Required Financial Tables
 - Table 1 - Project Costs
 - Table 2 - Debt Financing Arrangement, Sources and Uses of Funds
 - Table 3 - Income Statement
 - Table 4 - Balance Sheet
 - Table 5 - Statement of Cash Flows
 - Table 6 - Revenue Source Projections
 - Table 7 - Utilization Projections
- Most Recent Audited Financial Statements for VNA & Hospice of the Southwest Region, Inc.

Please let me know if you need any additional information.

Thank you so much for assistance during this process.

Sincerely,

A handwritten signature in blue ink, appearing to read "Sara", is written over the typed name.

Sara C. King
Chief Operating Officer/Chief Financial Officer

Verification Under Oath

**STATE OF VERMONT
GREEN MOUNTAIN CARE BOARD**

In re: Proposed Merger of Manchester)
Health Services with the VNA &) Docket No. GMCB-008-17con
Hospice of the Southwest Region,)
Inc.)

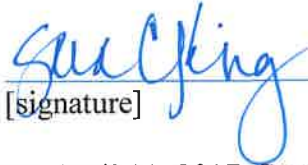
Verification Under Oath to file with Certificate of Need Application, correspondence and additional information subsequent to filing an Application.

[Officer or other deponent], being duly sworn, states on oath as follows:

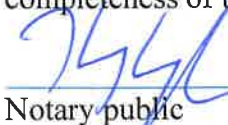
1. My name is Sara C. King. I am the Chief Operating Officer/Chief Financial Officer of VNA & Hospice of the Southwest Region, Inc. I have reviewed the VNA & Hospice of the Southwest Region, Inc. Certificate of Need Application for the proposed merger with Manchester Health Services.
2. Based on my personal knowledge and after diligent inquiry, I attest that the information contained in the VNA & Hospice of the Southwest Region, Inc. Certificate of Need Application for the proposed merger with Manchester Health Services is true, accurate and complete, does not contain any untrue statement of a material fact, and does not omit to state a material fact.
3. My personal knowledge of the truth, accuracy and completeness of the information contained in the VNA & Hospice of the Southwest Region, Inc. Certificate of Need Application for the proposed merger with Manchester Health Services is based upon either my actual knowledge of the subject information or upon information reasonably believed by me to be true and reliable and provided to me by the individuals identified below in paragraph 4. Each of these individuals has also certified that the information they have provided is true, accurate and complete, does not contain any untrue statement of a material fact and does not omit to state a material fact.
4. The following individuals have provided information or documents to me in connection with the VNA & Hospice of the Southwest Region, Inc. Certificate of Need Application for the proposed merger with Manchester Health Services and each individual has certified, based either upon his or her actual knowledge of the subject information or, where specifically identified in such certification, based on information reasonably believed by the individual to be reliable, that the information or documents provided are true, accurate and complete, do not contain any untrue statement of a material fact, and do not omit to state a material fact:

Ronald J. Cioffi

5. In the event that the information contained in the VNA & Hospice of the Southwest Region, Inc. Certificate of Need Application for the proposed merger with Manchester Health Services becomes untrue, inaccurate or incomplete in any material respect, I acknowledge my obligation to notify the Green Mountain Care Board and to supplement the VNA & Hospice of the Southwest Region, Inc. Certificate of Need Application for the proposed merger with Manchester Health Services as soon as I know, or reasonably should know, that the information or document has become untrue, inaccurate or incomplete in any material respect.


[signature]

On April 11, 2017, Sara C. King appeared before me and swore to the truth, accuracy and completeness of the foregoing.


Notary public
My commission expires 2/10/2019
[seal]

**CERTIFICATE OF NEED APPLICATION
PROPOSED MERGER OF MANCHESTER HEALTH SERVICES WITH
VNA & HOSPICE OF THE SOUTHWEST REGION, INC
Docket No. GMCB-008-17con**

A. PROJECT DESCRIPTION

Project and details of the merger including medical and non-medical services that are available.

The VNA & Hospice of the Southwest Region, Inc. (VNAHSR), a Medicare certified designated home health service provider is submitting this Certificate of Need (“CON”) application to merge with Manchester Health Services (MHS), a Medicare certified designated home health service provider.

VNAHSR is a not for profit tax exempt organization under Internal Revenue Code Section 501(c)(3) that provides essential home care and hospice services including Hi-Tech nursing services and Choices for Care long term care services. VNAHSR is the designated agency for Rutland County and Bennington, Dorset, North Bennington, Pownal, Rupert, Shaftsbury, Woodford and Glastenbury in Bennington County. It has a demonstrated track record of providing medically necessary home health and hospice services to all regardless of an individual’s ability to pay and to subsidize a wide variety of state sponsored and community supported programs that serve the public good. It has the commitment and the financial capacity to assure the continuation of MHS’s Mission in the geographical area currently covered by MHS.

MHS is a not for profit tax exempt organization under Internal Revenue Code Section 501(c)(3) that has been providing essential home care and hospice services to the residents of Manchester, Sunderland, Arlington and Sandgate since 1942. Services include Choices for Care long term care services, Hi-Tech nursing services, maternal and child health services and hospice.

In March 2017, VNAHSR and MHS, by action of both of their governing Boards, signed a Memorandum of Understanding (Attachment A) in which both agencies desire to gain approval from the Green Mountain Care Board to merge their organizations in order to preserve and promote their common Mission, accomplish economies of scale and assure a full range of home care, hospice and other community services for the residents of the region. The plan is for MHS to transfer its Medicare License, and use of tradename “Manchester Health Services” to VNAHSR, the surviving corporation. The CON requested would authorize this merger and allow VNAHSR to provide a comprehensive array of home health services to residents in the MHS four towns, (Manchester, Arlington, Sandgate and Sunderland) including but not limited to Nursing, Licensed Nursing Aides, Physical Therapy, Speech Language Pathology, Occupational Therapy, Medical Social Work and certified Hospice services.

Other key conditions of the Memorandum of Understanding include:

- Obtain CON from the Green Mountain Care Board
- Maintain current services

- MHS will have 2 voting members on VNAHSR Board of Directors
- VNAHSR will lease MHS's present office building for a 2 years
- VNAHSR will implement the McKesson Homecare system to address the administrative, clinical and financial information system needs. McKesson is a leader in the Home Care industry and their system integrates intakes, clinical, patient and personnel scheduling, point of care, payroll and billing. There are currently 5 home health agencies on McKesson in the state of Vermont.

On April 7, 2017 VNAHSR filed a Letter of Intent with the Green Mountain Care Board requesting an Emergency Certificate of Need (CON) due to the recent financial position of MHS. In fiscal years 2015 and 2016 MHS incurred total losses of (\$432,645) and (\$246,499), respectively. In January 2017, MHS financial statements report a total loss of (\$32,095) which indicates a loss of over \$1,000 per day. In addition they are in a negative cash position without any reserves to draw upon. With this financial position, MHS is unable to secure a line of credit.

MHS financial losses are the result of the ongoing regulatory and reimbursement changes that have impacted Home Health Agencies since 2006. During the past 10 years Medicare has cut Home Health Agencies reimbursement on average 2.3% every year while increasing administrative burden to agencies with additional documentation requirements. In addition, Vermont Home Health Agencies continue to lose money on Medicaid programs. Unfortunately Home Health Agencies do not have the ability to cost shift as do Hospitals which makes it impossible to offset these reimbursement decreases.

VNAHSR and MHS have been negotiating a Memorandum of Understanding since November 2015. There have been multiple meetings to discuss the options that would benefit both agencies and the communities we serve. It is with this recent event of financial losses that the need for this merger is urgent and necessary in order for MHS to continue its operations.

There are no capital costs associated with construction or renovations included in this proposal. The other project costs to transfer MHS to VNAHSR's electronic medical records system, including hardware, software and licensing will not exceed \$175,000. Legal and consulting fees related to the CON application are not expected to exceed \$25,000.

MHS and VNAHSR have worked very successfully together in the past. For over 20 years VNAHSR, a certified Hospice provider, is the lead agency in the Southwestern Vermont Hospice Network that provides certified Hospice services for residents of the towns in MHS's designated territory.

B. DETAILED BUDGET SPREADSHEET

See Attachment B

C. ENTITY WIDE ORGANIZATIONAL CHART

See Attachment C

D. REQUIRED 18 VSA 9437 criteria (1) through (8) compliance

(1) Health Resource Allocation Plan (HRAP) Standards for proposed project

CON STANDARD 5.5: Home health agencies shall provide services to all Vermont residents requiring medically necessary care.

Both VNAHSR and MHS must comply with the “Regulation for the Designation and Operation of Home Health Agencies” dated July 1, 2007.

These designation rules require Home Health Agencies to provide or arrange for all medically necessary home health and hospice services, High Tech and Choices for Care 1115 Medicaid Waiver program services in our service area. The Department of Disabilities, Aging and Independent Living (DAAIL) monitors compliance with these standards through surveys and then issue a report that says we are in compliance.

- VNAHSR was surveyed on April 9, 2015 and was found to be in full compliance.
- MHS was surveyed on April 30, 2013 and were found to be in full compliance.

After the merger, VNAHSR will continue its compliance with the aforementioned requirements in MHS’s former service area.

CON STANDARD 5.6: Home health agencies shall have the financial depth and technical skills to serve all patients in their designated area requiring medically necessary services regardless of payment source or ability to pay.

VNAHSR has a strong balance sheet and overall margins have averaged 3.71% over the past 9 years. Our 192 days of cash and investments on hand allow for the flexibility necessary to remain current with the technical systems and ability to hire experienced, well trained staff. Our days outstanding in accounts receivable are one of the lowest compared to our peers at 43 which demonstrates our administrative efficiencies. Since 2003 we have had significant growth in our net assets from \$3.7 million to over \$14 million.

VNAHSR staff do have the technical skills to serve all patients: VNAHSR carefully screens all new employees and their clinical backgrounds by completing the Vermont Adult Abuse Registry and the Child Protection Registry, Office of Inspector General and Vermont criminal background checks both at point of hire and then again every two years thereafter. Furthermore, the agency verifies the validity of the State licensure (as applicable) including a review of any existing marks against the license.

VNAHSR tracks and recruits for specific nursing and therapist disciplines and/or certifications (e.g. WOCN, behavioral health nursing, etc.) in order to meet the needs of the residents of the counties it

serves. As the needs of our community change, VNAHSR trains and/or hires staff to meet those needs. Certifications are confirmed upon hire and periodically reviewed to ensure they are kept up to date.

VNAHSR tracks re-licensure dates for all licensed clinicians, notifies staff and managers of pending renewals and does not allow staff to practice until there is confirmation from the State of Vermont that the license has been successfully renewed without restrictions.

CON STANDARD 5.7: Applicants shall provide a written recommendation from the Department of Disabilities, Aging and Independent Living regarding proposed plans to develop, expand or reduce home health agency services. Recommendations from DAIL will be presumed to be the best available evidence.

See attached letter (Attachment D) from Department of Disabilities, Aging and Independent Living Commissioner Monica Caserta Hutt dated April 7, 2017 which states:

“DAIL is supportive of the proposed merger of the two organizations to ensure that home health services continue to be available to residents of the greater Manchester, Vermont area. With that, DAIL is conditionally supportive of the VNAHSR proposal, dependent on the full application and information obtained by the Green Mountain Care Board during the CON process.”

CON STANDARD 5.9: Applicants seeking to develop or provide home health care services shall demonstrate the financial impact of the proposed project on the home health care system are reasonable and consistent with the State’s goal of providing universal access to home health care services.

The financial impact of the proposed project would be a “win-win” for both organizations. The economies of scale to be gained combined with a favorable Medicare funding source mix will help to achieve an increased combined total operating margin immediately.

Operating Margin	VNAHSR	Manchester Health Services	Consolidated
2015	\$166,888	(\$432,644)	\$265,756
2016	\$442,327	(\$246,500)	\$195,827
2017	NA	NA	\$321,300
2018	NA	NA	\$304,200
2019	NA	NA	\$297,700

The total operating margins stated above will allow both VNAHSR and MHS to comply with the regulation for the Operation of Home Health Agencies. As “designated” agencies, under part 1 of General Provisions 1.1 says:

“It is the purpose of these rules to implement State law governing the designation, re-designation, and designation revocation of, and the establishment of minimum program standards for home health agencies. It is the Policy of the State of Vermont to ensure that all residents in every town within the state have access to comprehensive, medically necessary home health services without regard to the patient’s ability to pay, including hospice and palliative care services, and to ensure that such services shall be under a regulatory framework designed to control costs and ensure access to high quality home health serves.”

(2) The cost of the project is reasonable, because:

(A) The applicant’s financial condition will sustain any financial burden likely to result from completion of the project;

VNAHSR’s financial condition will sustain any financial burden likely to result from completion of the project. VNAHSR currently has 192 days of cash and investments on hand which allows for any expenditures related to this merger to occur without having to seek additional financing through an outside lender.

(B) The project will not result in an undue increase in the costs of medical care. In making a finding under this subdivision, the board shall consider and weigh relevant factors, including:

The project will not result in an undue increase in the cost of care. In fact costs will decrease initially because:

- Economies of scale
- Reduction in administrative staff as a result of attrition and/or retirement
- Increased staff productivity by expanding their coverage area into VNAHSR’s existing geographic area

(i) The financial implications of the project on hospitals and other clinical settings, including the impact on their services, expenditures, and charges;

There will not be any financial implications on hospitals and other clinical settings, including the impact on their services, expenditures and charges.

(ii) Whether the impact on services, expenditures, and charges is outweighed by the benefit of the project to the public; and

The impact on services, expenditures and charges is outweighed by the benefit of the project to the public good is evidenced by the response above in (B) and (B) (i).

(C) Less expensive alternatives do not exist, would be unsatisfactory, or are not feasible or appropriate;

Less expensive alternatives do not exist. This project over time will decrease the consolidated costs for the merged agencies as evidenced on page 4 CON Standard 5.9.

(3) There is an identifiable, existing, or reasonably anticipated need for the proposed project which is appropriate for the applicant to provide;

There is a need for the merger based on the declining financial position of MHS. In order to reduce the costs of operation, to preserve and promote the mission of MHS and to continue to assure a full range of home care and hospice services to the region, it is necessary that a merger with VNAHSR occurs.

(4) The project will improve the quality of health care in the state or provide greater access to health care for Vermont's residents, or both;

This project will provide greater access to health care for the MHS service area because VNAHSR has the financial capacity to continue existing services provided in the region.

(5) The project will not have an undue adverse impact on any other existing services by the applicant;

This project will not have an undue adverse impact on any other existing services provided by VNAHSR. In fact this project will improve VNAHSR's financial strength (see page 4).

(6) The project will serve the public good;

This project will serve the public good as VNAHSR is a not for profit tax exempt organization under the Internal Revenue Code Section 501(c)(3) that provides essential home care and hospice services including Hi-Tech nursing services and Choices for Care long term care services. VNAHSR is the designated agency for Rutland County and Bennington, Dorset, North Bennington, Pownal, Rupert, Shaftsbury, Woodford and Glastenbury in Bennington County. It has a demonstrated track record of providing medically necessary home health and hospice services to all regardless of an individual's ability to pay and to subsidize a wide variety of state sponsored and community supported programs that serve the public good. It has the

commitment and the financial capacity to assure the continuation of MHS's Mission in the geographical area covered by MHS.

- (7) The applicant had adequately considered the availability of affordable, accessible patient transportation services to the facility.**

VNAHSR is a home health agency that provides service in patient's place of residence.

- (8) If the application is for the purchase or lease of new health care information technology, it conforms to the technology plan established under section 9351 of this title.**

Not Applicable



MEMORANDUM OF UNDERSTANDING

Between

Manchester Health Services, Inc. and VNA & Hospice of the Southwest Region, Inc.

February 28, 2017

Purpose: The Board of Manchester Health Services would like to explore a possible merger with VNA & Hospice of the Southwest Region, Inc. The purpose of this MOU is to outline the provisions for discussion that would be important to both parties in considering a merger.

WHEREAS, Manchester Health Services, Inc. ("MHS") and VNA & Hospice of the Southwest Region, Inc. ("VNA") have a common mission to provide home healthcare, hospice and community health services in our region; and

WHEREAS, both organizations have a commitment to quality services as well as a commitment to assure access to medically needed care even for persons without insurance or the ability to pay for care; and

WHEREAS, both organizations are committed to improve efficiencies in administration and also recognize the opportunities to improve economies of scale in the use of technology, marketing and clinical resources; and

WHEREAS, both organizations recognize the opportunities for mutual program development and both have expertise in fund raising.

BE IT THEREFORE resolved, that the Board of Directors of MHS and VNA begin the process to merge their organizations based on the following principles:

1. MHS will merge with and into VNA by statutory merger procedure. Prior to the effective date of the merger ("Merger Date"), MHS shall incorporate a new nonprofit corporation with a new name ("NEW MHS") with its own Board of Directors and transfer to it the following assets currently held by MHS:

- (a) The land and buildings located at 5468 Main Street upon which are located the office building and barn currently used by MHS;
- (b) The business currently operated as the Thrift Shop;
- (c) Cash on hand, prepaid expenses applicable to (a) and (b) above and its investments/endowment funds.
- (d) Accounts receivable as of the date of VNA and MHS entering into an Interim Service Agreement pursuant to Paragraph 14 below. NEW

MHS shall be responsible for keeping its management information, billing and accounts receivable system as of that date operating and VNA shall use it to collect the accounts receivable with reasonable effort and the assistance of MHS and NEW MHS. VNA shall remit 70% of any accounts collected to NEW MHS and 30% to VNA on a monthly basis.

Prior to the Merger Date, MHS will pay the following debts of MHS as of the Merger Date:

- (a) Accounts payable, accrued pay time off (vacation, sick and other, etc.) and Medicaid tax accrued;
- (b) Its then existing line of credit and any other debts.

After the Merger Date, VNA will own MHS's remaining assets and its business and operations including but not limited to:

- (a) Medicare License;
- (b) The use of the Tradename "Manchester Health Services, Inc.";

2. NEW MHS will lease the present premises used by MHS at 5468 Main Street, Manchester, Vermont to VNA for a rent of \$1 per year for a two (2) year period with VNA having the option to renew the lease for a two (2) year period at a rent to be agreed upon. NEW MHS shall be responsible for all normal maintenance, upkeep, repairs, plowing, mowing, real estate taxes, improvements, insurance and utilities associated with the land, building and leased premises. Cost sharing can be discussed for large capital improvements and repairs.

3. NEW MHS will agree that if excess funds remain from its operation of the Thrift Shop after payment of its expenses in connection with its operation of the Thrift Shop and expenses associated with the land and building, that it will consider making annual donations of part or all of such excess funds to VNA.

4. NEW MHS will also agree to consider donating the land and building at 5468 Main Street, Manchester, Vermont to VNA.

5. VNA will amend its By-Laws to provide that MHS will have two (2) Board seats on the VNA Board for standard Board terms as stated in VNA By-Laws.

6. MHS Board members will be invited and encouraged to serve on other VNA Board committees. They will also be asked and encouraged to assist VNA with local volunteer activities and fund raising.

7. The MHS Board/Management will file for discontinuation of MHS's Medicare/Medicaid provider certification status effective as of the Merger Date.

8. Current MHS contracts/grants will be reviewed and retained by NEW MHS unless otherwise determined by mutual agreement of MHS and VNA.

9. MHS towns' funds will be mutually designated by NEW MHS and VNA for use in the individual towns served with details to be worked out during the negotiation process.

10. Fund drives in current MHS towns will be coordinated between NEW MHS Board members and the VNA Director of Philanthropy. MHS and NEW MHS will assist VNA in conducting the annual fund drive in the Manchester region and encourage the MHS family of contributors to continue support of the merged organization. NEW MHS will not do fund raising, except for the maintenance of its building and for the benefit of VNA.

11. MHS staff, other than Thrift Shop personnel, will become VNA employees with current wages and seniority retained subject to VNA's policies, Employee Guidebook, benefit plans and By-Laws. No MHS staff wages or seniority will be reduced for the period of one (1) year after the Merger Date. Thereafter, the wages of all MHS personnel will be reviewed and appropriate adjustments may be made which reflect the education, experience and certifications of such personnel based on VNA policies, Employee Handbook, and By-Laws. Benefits will be provided in accordance with VNA's benefit plans in effect at the Merger Date as amended or revised thereafter. MHS will terminate their present pension plan as of the Merger Date with notice and distribution to MHS's participants in accordance with MHS's plan and in accordance with ERISA Guidelines.

12. The MHS Executive Director will have the option to assume a new leadership position within VNA.

13. MHS clinical staff will continue to work out of the MHS office and may be asked to care for patients in the Dorset, Bennington or Rutland County towns as well as current MHS towns depending on referrals and workload.

14. Within six (6) months after the execution of this Agreement, MHS and VNA will enter into an Interim Service Agreement whereby MHS billing and collection of new accounts receivable and payroll will be handled by VNA on its computer systems. Other management and administrative functions will be reviewed by both parties for possible efficiencies.

15. Administrative efficiencies are expected, some of which will be accomplished immediately (reduction of administrative functions of MHS clinical staff-meetings, intake, etc. thereby improving productivity) while others will be accomplished later through merger of specific functions.

16. VNA will provide MHS with current VNA financials, By-Laws, Employee Handbook and VNA policies for review prior to the Effective Date.

17. Since NEW MHS is receiving from MHS the land and building, cash and investment/endowment funds as set forth in Paragraph 1. (a), (b) and (c) above, then NEW MHS shall agree to indemnify and hold harmless VNA for any and all claims and liabilities arising or claimed to arise prior to the Merger Date due to the operation of MHS, including but not limited to (a) any and all Medicare and Medicaid audits, reviews, adjustments, penalties and repayments; (b) any errors, corrections or payments due for any federal and state filings. VNA agrees that it will work with NEW MHS and MHS with respect to any claims brought against MHS and NEW MHS for actions prior to the Merger Date and provide MHS and NEW MHS with access to all relevant files and information.

18. The parties agree that after the completion of their due diligence that they will enter into a Plan of Merger containing substantially the terms set forth herein. Such Plan of Merger shall be submitted to the Board of Directors of MHS and VNA for their approval and then to the Green Mountain Care Board.

Agree, signed and dated:

Manchester Health Services, Inc.

VNA & Hospice of the Southwest Region, Inc.

By: James M Comar
Signature

By: [Signature]
Signature

Board President
Title

Board President
Title

James M Comar
Printed Name

Carrie Allen
Printed Name

March 3, 2017
Date

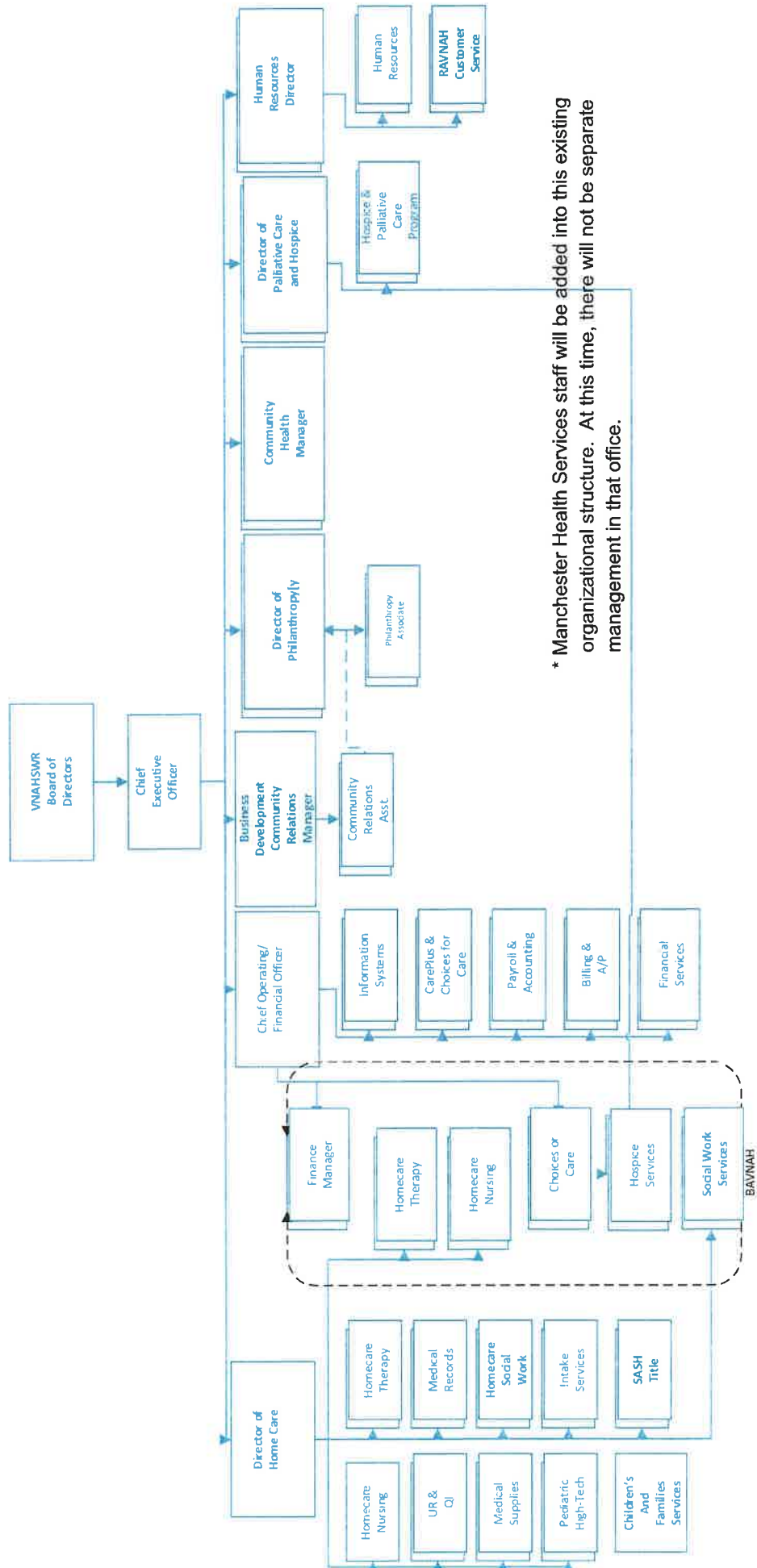
March 15th, 2017
Date

**VNA & Hospice of the Southwest Region, Inc.
VNAHSR and Manchester Health Services Merger
Detailed Spreadsheet of Project Costs**

Attachment B

Description of Items	Quantity	Cost
Laptops for Point of Care	20	\$ 40,000.00
Desktop for Office Staff	5	\$ 5,000.00
McKesson software licenses	25	\$ 92,500.00
Other software licenses	25	\$ 25,000.00
Network Equipment		\$ 2,500.00
Installation of internet - Fair Point		\$ 3,000.00
Legal/Consulting		<u>\$ 32,000.00</u>
Total Project Costs		<u><u>\$ 200,000.00</u></u>

VISITING NURSE ASSOCIATION & HOSPICE OF THE SOUTHWEST REGION



* Manchester Health Services staff will be added into this existing organizational structure. At this time, there will not be separate management in that office.



**AGENCY OF HUMAN SERVICES
DEPARTMENT OF DISABILITIES, AGING AND INDEPENDENT LIVING**

**Commissioner's Office
HC 2 South
280 State Drive
Waterbury, VT 05671-2020
(802) 241-2401- phone**

April 7, 2017

Ron Cioffi, Executive Director
VNA & Hospice of the Southwest Region
P.O. Box 787
Rutland, VT 05701

Dear Ron,

I am in receipt of your request for approval of the Interim Service Agreement between the VNA & Hospice of the Southwest Region (VNAHSR) and Manchester Health Services, Inc (MHS). As you indicated, an Interim Service Agreement requires permission from the Commissioner of DAIL prior to being enacted.

Additionally, your Certificate of Need request to the Green Mountain Care Board, as per CON Standard 5.7 requires a written recommendation from DAIL for any proposed plan to "develop, expand or reduce home health agency services".

Interim Service Agreement

As indicated in your request, VNAHSR and MHS are planning a merger to ensure continued home health services to the Manchester area. The merger appears to be a long-standing, planned acquisition but current financial instability for MHS is driving the need for your organization to assume management of MHS prior to the conclusion of the Certificate of Need process.

In your request, you detail the financial losses for MHS in both 2015 and 2016 of cumulatively \$679,144. Additionally, there is a loss anticipated for 2017. You identify that MHS is currently in a negative cash position without any reserves or the ability to seek and secure a line of credit. The risk inherent in this financial instability is that MHS would not be able to continue operating and that residents of Manchester, Sunderland, Arlington and Sandgate would lose vital and necessary home health services, putting them at risk for medical complications and the need for higher levels of care.

In reviewing this request with both the DAIL Survey and Certification Unit and with our Adult Services Division, we are supportive of the request for an Interim Service Agreement and grant approval for VNAHSR and MHS to enter into an Interim Service Agreement to ensure continued service delivery of home health services for the residents in the greater Manchester area.

CON Standard 5.7

CON Standard 5.7 states that: "Applicants shall provide a written recommendation from the Department of Disabilities, Aging and Independent Living regarding proposed plans to develop, expand or reduce home health agency services. Recommendations from DAIL will be presumed to be the best available evidence."

VNA & Hospice of the Southwest Region, Inc. (VNAHSR) is seeking to acquire Manchester Health Services, Inc. (MHS). MHS already operates and provides home health services in the greater Manchester, VT area to include the residents of Manchester, Sunderland, Arlington and Sandgate. MHS is seeking to be acquired, struggling to operate a fiscally sound and lucrative organization and to continue to deliver home health services to area residents. This merger does not represent an increase in the availability of home health services; rather it seeks to retain existing services with the potential for increased access as needed.

DAIL's experience with VNAHSR to-date has been positive; they are a well-run organization which consistently meets the needs of its clients and serves the home health needs of their geographic catchment area. DAIL is supportive of the proposed merger of the two organizations to ensure that home health services continue to be available to residents of the greater Manchester, Vermont area.

With that, DAIL is conditionally supportive of the VNAHSR proposal, dependent on the full application and information obtained by the Green Mountain Care Board during the CON process.

Sincerely,



Monica Caserta Hutt
Commissioner

Cc: Donna Jerry, Green Mountain Care Board
Camille George, DAIL
Megan Tierney-Ward, DAIL
Suzanne Leavitt, DAIL

**VNA & Hospice of the Southwest Region, Inc
VNAHSR and Manchester Health Services Merger**

TABLE 1
PROJECT COSTS

Construction Costs		
1. New Construction	\$	-
2. Renovation		-
3. Site Work		-
4. Fixed Equipment		-
5. Design/Bidding Contingency		-
6. Construction Contingency		-
7. Construction Manager Fee		-
8. Other (please specify)		-
Subtotal	\$	-
Related Project Costs		
1. Major Moveable Equipment	\$	175,000.00
2. Furnishings, Fixtures, & Other Equip		-
3. Architectural/Engineering Fees		-
4. Land Acquisition		-
5. Lease of Buildings		2.00
6. Administrative Expenses & Permits		25,000.00
7. Debt Financing Expenses (see below)		-
8. Debt Service Reserve Fund		-
9. Working Capital		-
10. Other - Purchase price (Goodwill & Intangible Assets)		-
Subtotal	\$	200,002.00
Total Project Costs	\$	200,002.00

Debt Financing Expenses		
1. Capital Interest	\$	-
2. Bond Discount or Placement Fee		-
3. Misc Financing Fees & Exp (issuance costs)		-
4. Other		-
Subtotal	\$	-
Less Interest Earnings on Funds		
1. Debt Service Reserve Funds	\$	-
2. Capitalized Interest Account		-
3. Construction Fund		-
4. Other		-
Subtotal	\$	-
Total Debt Financing Expenses	\$	-
feeds to line 7 above		

RAVNAH intends to utilize available cash to finance this project therefore there will be no additional debt financing expenses.

**VNA & Hospice of the Southwest Region, Inc.
VNAHSR and Manchester Health Services Merger**

TABLE 2
DEBT FINANCING ARRANGEMENT, SOURCES & USES OF FUNDS

Sources of Funds			
1. Financing Instrument	Bond	\$	-
a. Interest Rate	0%		0.00
b. Loan Period	to		0.00
c. Amount Financed			0.00
2. Equity Contribution			0.00
3. Other Sources			0.00
a. Working Capital		200,000.00	
b. Fundraising			
c. Grants			
d. Other			0.00
Total Required funds		\$ 200,000.00	
Uses of Funds			
<u>Project Costs (feeds from Table 1)</u>			
1. New Construction		\$	-
2. Renovation			0.00
3. Site Work			0.00
4. Fixed Equipment			0.00
5. Design/Bidding Contingency			0.00
6. Construction Contingency			0.00
7. Construction Manager Fee			0.00
8. Major Moveable Equipment		175,000.00	
9. Furnishings, Fixtures, & Other Equip			0.00
10. Architectural/Engineering Fees			0.00
11. Land Acquisition			0.00
12. Purchase of Buildings			2.00
13. Administrative Expenses & Permits		25,000.00	
14. Debt Financing Expenses (see below)			0.00
15. Debt Service Reserve Fund			0.00
16. Working Capital			0.00
17. Other - Goodwill and Intangible Assets			0.00
Total Uses of Funds		\$ 200,000.00	

Total sources should equal total uses of funds

**VNA & Hospice of the Southwest Region, Inc.
VNAHSR and Manchester Health Services Merger**

TABLE 3

INCOME STATEMENT

VNAHSR with MHS included in Proposed Statements

	VNAHSR Latest Actual 12/31/2016	Proposed 12/31/2017*	Proposed 12/31/2018	Proposed 12/31/2019
Revenues				
Direct Patient Care Revenue	18,788,585	19,491,600	20,866,900	21,269,700
Deductions from Revenue	1,397,262	1,403,500	1,504,500	1,532,100
Bad Debt	158,000	165,000	242,700	244,600
Net Patient Care Revenue	17,233,323	17,923,100	19,119,700	19,493,000
Other Operating Revenue	1,554,670	1,564,400	1,560,000	1,500,000
Total Operating Revenue	18,787,993	19,487,500	20,679,700	20,993,000
Operating Expense				
Salaries	10,601,154	11,431,800	12,219,800	12,586,400
Fringe Benefits	3,198,962	3,280,500	3,513,700	3,683,000
Health Care Provider Tax	627,744	697,100	755,000	765,000
Depreciation	181,401	135,700	150,000	165,000
Interest	26,433	-	-	-
Other Operating Expense	4,647,195	4,467,900	4,608,800	4,370,900
Total Operating Expense	19,282,889	20,013,000	21,247,300	21,570,300
OPERATING (LOSS)	(494,896)	(525,500)	(567,600)	(577,300)
Contributions	429,347	350,000	375,000	400,000
Municipal Appropriations & United Way	246,822	246,800	246,800	225,000
Investment Activity	261,056	250,000	250,000	250,000
Total Other Revenue and Gains	937,225	846,800	871,800	875,000
(DEFICIT) OF REVENUE OVER EXPENSES	442,329	321,300	304,200	297,700

* Assumes the Manchester Health Services will be under VNAHSR control effective 7/1/17

**VNA & Hospice of the Southwest Region, Inc
VNAHSR and Manchester Health Services Merger**

TABLE 4

**BALANCE SHEET - UNRESTRICTED FUNDS
VNAHSR with MHS included in Projections**

	VNAHSR Latest Actual 12/31/2016	Proposed 12/31/2017	Proposed 12/31/2018	Proposed 12/31/2019
ASSETS				
Current Assets				
Cash & cash equivalents	4,545,145	4,792,334	5,153,260	5,276,880
Investments	4,650,852	4,940,908	5,210,908	5,480,908
Patients Accounts Recievable, net	2,710,083	2,676,220	2,714,155	2,766,547
Current portion, mortgage receivable				
Other Current Assets	<u>777,594</u>	<u>674,544</u>	<u>636,095</u>	<u>625,827</u>
Total Current Assets	<u>12,683,674</u>	<u>13,084,006</u>	<u>13,714,418</u>	<u>14,150,162</u>
Assets Limited As to Use	927,885	927,885	927,885	927,885
Beneficial interest in perpetual trust	478,691	478,691	478,691	478,691
Goodwill	850,000	850,000	850,000	850,000
Property and Equipment, net	<u>858,885</u>	<u>898,185</u>	<u>848,185</u>	<u>883,185</u>
TOTAL ASSETS	<u>15,799,135</u>	<u>16,238,767</u>	<u>16,819,179</u>	<u>17,289,923</u>
LIABILITIES & NET ASSETS				
Current Liabilities				
Accounts Payable and accrued expenses	351,707	340,686	360,956	364,828
Accrued Payroll and related expenses	748,498	808,416	922,779	944,762
Deferred Revenue	<u>645,508</u>	<u>645,816</u>	<u>651,095</u>	<u>661,984</u>
Total Current Liabilities	<u>1,745,713</u>	<u>1,794,918</u>	<u>1,934,830</u>	<u>1,971,574</u>
Net Assets				
Unrestricted	12,738,186	13,128,613	13,569,113	14,003,113
Temporarily restricted	318,314	318,314	318,314	318,314
Permanently restricted	<u>996,922</u>	<u>996,922</u>	<u>996,922</u>	<u>996,922</u>
Total Net Assets	<u>14,053,422</u>	<u>14,443,849</u>	<u>14,884,349</u>	<u>15,318,349</u>
TOTAL LIABILITIES AND NET ASSETS	<u>15,799,135</u>	<u>16,238,767</u>	<u>16,819,179</u>	<u>17,289,923</u>

**VNA & Hospice of the Southwest Region, Inc
VNAHSR and Manchester Health Services Merger**

TABLE 5
STATEMENT OF CASH FLOWS
VNAHSR with MHS included in Projections

	<u>VNAHSR Latest Actual 12/31/2016</u>	<u>Proposed 12/31/2017</u>	<u>Proposed 12/31/2018</u>	<u>Proposed 12/31/2019</u>
Cash Flows from Operating Activity				
Change in net assets	\$ 500,803	\$ 390,427 x	\$ 440,500	\$ 434,000
Adjustments to reconcile change in net assets to net cash provided by operating activities				
Depreciation	171,373	135,700 x	150,000	165,000
Bad Debt Expense	158,000	165,000 x	242,700	244,600
Change in fair value of investments	(217,729)	(290,056) x	(270,000)	(270,000)
Change in fair value of beneficial trust	(1,986)	-	-	-
Loss on disposal of assets	(10,028)	-	-	-
(Increase) decrease in the following assets:				
Patient accounts receivable	(292,646)	(131,137) x	(280,635)	(296,992)
Other current assets	(71,540)	103,050 x	38,449	10,268
Increase (decrease) in the following liabilities:				
Accounts Payable	(73,284)	(11,021) x	20,270	3,872
Accrued payroll and related expenses	106,657	59,918 x	114,363	21,983
Deferred revenue	(8,355)	308 x	5,279	10,889
Net Cash Provided by Operating Activities	<u>261,265</u>	<u>422,189</u>	<u>460,926</u>	<u>323,620</u>
Cash Flows from Investing Activities				
Purchases from investments	(1,724,058)			
Proceeds from sale of investments	1,450,057			
Capital Expenditures	<u>(163,845)</u>	(175,000) x	(100,000)	(200,000)
Net Cash Used by Investing Activities	<u>(437,846)</u>	<u>(175,000)</u>	<u>(100,000)</u>	<u>(200,000)</u>
Net Cash Provided by Investing Activities	(176,581)	247,189	360,926	123,620
Cash and cash equivalents, beginning of year	<u>4,721,726</u>	<u>4,545,145</u>	<u>4,792,334</u>	<u>5,153,260</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 4,545,145</u>	<u>\$ 4,792,334</u>	<u>\$ 5,153,260</u>	<u>\$ 5,276,880</u>
		\$ 4,792,334	\$ 5,153,260	\$ 5,276,880

**VNA & Hospice of the Southwest Region, Inc.
VNAHSR and Manchester Health Services Merger**

**TABLE 6
REVENUE SOURCE PROJECTIONS
VNAHSR with MHS included in Projections**

	VNAHSR Latest Actual 12/31/2016	Proposed 12/31/2017	Proposed 12/31/2018	Proposed 12/31/2019
Gross Patient Revenue				
Medicare	10,850,725	11,234,285	12,006,120	12,238,270
Medicaid	5,436,060	5,623,715	6,005,880	6,122,050
Commercial Insurance	1,849,250	1,895,280	2,007,470	2,046,600
Other	<u>652,550</u>	<u>738,320</u>	<u>847,430</u>	<u>862,780</u>
TOTAL GROSS PATIENT REVENUE	18,788,585	19,491,600	20,866,900	21,269,700
Deductions from Revenue				
Medicare	(342,210)	(343,730)	(368,460)	(375,220)
Medicaid	(754,470)	(757,830)	(812,370)	(827,270)
Commercial Insurance	(264,912)	(266,110)	(285,260)	(290,480)
Other	<u>(35,670)</u>	<u>(35,830)</u>	<u>(38,410)</u>	<u>(39,130)</u>
TOTAL DEDUCTIONS FROM REVENUE	(1,397,262)	(1,403,500)	(1,504,500)	(1,532,100)
Net Patient Service Revenue				
Medicare	10,508,515	10,890,555	11,637,660	11,863,050
Medicaid	4,681,590	4,865,885	5,193,510	5,294,780
Commercial Insurance	1,584,338	1,629,170	1,722,210	1,756,120
Other	616,880	702,490	809,020	823,650
Bad Debt	<u>(158,000)</u>	<u>(165,000)</u>	<u>(242,700)</u>	<u>(244,600)</u>
TOTAL NET PATIENT SERVICE REVENUE	<u>17,233,323</u>	<u>17,923,100</u>	<u>19,119,700</u>	<u>19,493,000</u>

**VNA & Hospice of the Southwest Region, Inc.
VNAHSR and Manchester Health Services Merger**

TABLE 7
UTILIZATION PROJECTIONS
VNAHSR and MHS included in Projections

	VNAHSR Latest Actual 12/31/2016	Proposed 12/31/2017	Proposed 12/31/2018	Proposed 12/31/2016
PATIENT VISITS				
VNAHSR Only	134,612	137,304	140,050	142,851
MHS Only	<u>11,000</u>	<u>11,220</u>	<u>11,444</u>	<u>11,673</u>
Combined	<u><u>145,612</u></u>	<u><u>148,524</u></u>	<u><u>151,494</u></u>	<u><u>154,524</u></u>

VNAHSR includes a assumption for an 2% increase per year in Hospice over the next 3 years due to increased marketing efforts

MHS includes an overall 2% increase per year for the next 3 years due to expansion of programs and focused marketing efforts on the Home Health and Hospice programs.



FINANCIAL STATEMENTS

December 31, 2016 and 2015

With Independent Auditor's Report





INDEPENDENT AUDITOR'S REPORT

Board of Directors
VNA & Hospice of the Southwest Region, Inc.

We have audited the accompanying financial statements of VNA & Hospice of the Southwest Region, Inc., which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of operations, changes in net assets, and cash flow 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 U.S. generally accepted accounting principles; 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 U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of VNA & Hospice of the Southwest Region, Inc. as of December 31, 2016 and 2015, and the results of its operations, changes in its net assets and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Berry Dunn McNeil & Parker, LLC

Manchester, New Hampshire
March 29, 2017
VT Registration No. 92-0000278

VNA & HOSPICE OF THE SOUTHWEST REGION, INC.

Balance Sheets

December 31, 2016 and 2015

ASSETS

	<u>2016</u>	<u>2015</u>
Current assets		
Cash and cash equivalents	\$ 4,545,145	\$ 4,721,726
Investments	4,650,852	4,235,732
Patient accounts receivable, less allowance for uncollectible accounts of \$236,488 in 2016 and \$156,673 in 2015	2,710,083	2,575,437
Other current assets	<u>777,594</u>	<u>706,054</u>
Total current assets	12,683,674	12,238,949
Assets limited as to use	927,885	851,275
Beneficial interest in perpetual trust	478,691	476,705
Goodwill	850,000	850,000
Property and equipment, net	<u>858,885</u>	<u>856,385</u>
Total assets	\$ <u>15,799,135</u>	\$ <u>15,273,314</u>

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable and accrued expenses	\$ 351,707	\$ 424,991
Accrued payroll and related expenses	748,498	641,841
Deferred revenue	<u>645,508</u>	<u>653,863</u>
Total current liabilities and total liabilities	<u>1,745,713</u>	<u>1,720,695</u>
Net assets		
Unrestricted	12,738,186	12,295,859
Temporarily restricted	318,314	261,824
Permanently restricted	<u>996,922</u>	<u>994,936</u>
Total net assets	<u>14,053,422</u>	<u>13,552,619</u>
Total liabilities and net assets	\$ <u>15,799,135</u>	\$ <u>15,273,314</u>

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

VNA & HOSPICE OF THE SOUTHWEST REGION, INC.

Statements of Operations

Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating revenue		
Patient service revenue	\$ 17,533,898	\$ 16,658,132
Provision for bad debts	<u>(158,000)</u>	<u>(55,000)</u>
Net patient service revenue	17,375,898	16,603,132
Net assets released from restriction for operations	9,913	8,220
Other operating revenue	<u>1,411,994</u>	<u>1,367,192</u>
Total operating revenue	<u>18,797,805</u>	<u>17,978,544</u>
Operating expenses		
Salaries and benefits	13,869,016	13,613,168
Other operating expenses	5,245,775	4,498,119
Depreciation	<u>171,373</u>	<u>200,183</u>
Total operating expenses	<u>19,286,164</u>	<u>18,311,470</u>
Operating loss	<u>(488,359)</u>	<u>(332,926)</u>
Other revenue and gains (losses)		
United Way and municipal appropriations	246,822	245,341
Contributions, net	442,748	257,056
Investment income	89,905	109,513
Change in fair value of investments	161,239	(112,096)
Loss on disposal of assets	<u>(10,028)</u>	<u>-</u>
Total other revenue and gains (losses)	<u>930,686</u>	<u>499,814</u>
Excess of revenues and gains over expenses and losses and increase in unrestricted net assets	\$ <u>442,327</u>	\$ <u>166,888</u>

VNA & HOSPICE OF THE SOUTHWEST REGION, INC.

Statements of Changes in Net Assets

Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Unrestricted net assets		
Excess of revenue and gains over expenses and losses and increase in unrestricted net assets	\$ <u>442,327</u>	\$ <u>166,888</u>
Temporarily restricted net assets		
Investment income	9,913	8,220
Change in fair value of investments	56,490	(30,364)
Net assets released from restriction for operations	<u>(9,913)</u>	<u>(8,220)</u>
Change in temporarily restricted net assets	<u>56,490</u>	<u>(30,364)</u>
Permanently restricted net assets		
Contribution of beneficial interest in perpetual trust	-	476,705
Change in fair value of beneficial interest in perpetual trust	<u>1,986</u>	<u>-</u>
Change in permanently restricted net assets	<u>1,986</u>	<u>476,705</u>
Change in net assets	500,803	613,229
Net assets, beginning of year	<u>13,552,619</u>	<u>12,939,390</u>
Net assets, end of year	\$ <u>14,053,422</u>	\$ <u>13,552,619</u>

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

VNA & HOSPICE OF THE SOUTHWEST REGION, INC.

Statements of Cash Flows

Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Change in net assets	\$ 500,803	\$ 613,229
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	171,373	200,183
Provision for bad debt expense	158,000	55,000
Change in fair value of investments	(217,729)	142,460
Change in fair value of beneficial interest in perpetual trust	(1,986)	-
Contribution of beneficial interest in perpetual trust	-	(476,705)
Loss on disposal of assets	(10,028)	-
(Increase) decrease in the following assets:		
Patient accounts receivable	(292,646)	(609,018)
Other current assets	(71,540)	4,797
Increase (decrease) in the following liabilities:		
Accounts payable and accrued expenses	(73,284)	157,401
Accrued payroll and related expenses	106,657	(311,961)
Deferred revenue	<u>(8,355)</u>	<u>1,959</u>
Net cash provided (used) by operating activities	<u>261,265</u>	<u>(222,655)</u>
Cash flows from investing activities		
Purchases of investments	(1,724,058)	(1,436,783)
Proceeds from sale of investments	1,450,057	1,325,425
Capital expenditures	<u>(163,845)</u>	<u>(40,877)</u>
Net cash used by investing activities	<u>(437,846)</u>	<u>(152,235)</u>
Net decrease in cash and cash equivalents	(176,581)	(374,890)
Cash and cash equivalents, beginning of year	<u>4,721,726</u>	<u>5,096,616</u>
Cash and cash equivalents, end of year	\$ <u>4,545,145</u>	\$ <u>4,721,726</u>

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

VNA & HOSPICE OF THE SOUTHWEST REGION, INC.

Notes to Financial Statements

December 31, 2016 and 2015

1. Summary of Significant Accounting Policies

Organization

VNA & Hospice of the Southwest Region, Inc. (the Association) is a non-profit corporation organized in Vermont.

The Association's primary purposes are to provide home health, hospice, homemaker, private duty and community health services.

Income Taxes

The Association is a public charity under Section 501(c)(3) of the Internal Revenue Code. As a public charity, the Association is exempt from state and federal income taxes on income earned in accordance with its tax-exempt purpose. Unrelated business income is subject to state and federal income tax. Management has evaluated the Association's tax positions and concluded that the Association has no unrelated business income or uncertain tax positions that require adjustment to the financial statements.

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, excluding assets limited as to use and investments.

The Association has cash deposits in a major financial institution which may exceed federal depository insurance limits. The Association has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk with respect to these accounts.

VNA & HOSPICE OF THE SOUTHWEST REGION, INC.

Notes to Financial Statements

December 31, 2016 and 2015

Allowance For Uncollectible Accounts

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts by analyzing the Association's past history and identification of trends for all funding sources in the aggregate. In addition, balances in excess of 365 days are 100% reserved. Management regularly reviews data about revenue in evaluating the sufficiency of the allowance for uncollectible accounts. Amounts not collected after all reasonable collection efforts have been exhausted are applied against the allowance for uncollectible accounts.

A reconciliation of the allowance for uncollectible accounts follows:

	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 156,673	\$ 154,428
Provision	158,000	55,000
Write-offs	<u>(78,185)</u>	<u>(52,755)</u>
Balance, end of year	<u>\$ 236,488</u>	<u>\$ 156,673</u>

The increase in the current year provision is primarily due to prior-year Medicare denials which was a home health industry-wide issue.

Investments

The Association reports investments at fair value, and has elected to report all gains and losses in the excess of revenue and gains over expenses and losses to simplify the presentation of these accounts in the statement of operations, unless otherwise stipulated by the donor or State law.

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

Beneficial Interest in Perpetual Trust

The Association is the beneficiary of a perpetual trust administered by a regional financial institution. Although the Association does not have access to the underlying principal, a portion of income earned from the trust is available and distributed annually to the Association. The Association's share of trust principal is recognized as permanently restricted net assets at fair market value. Annual income distributions are recognized as increases in unrestricted net assets. Changes in market value of beneficial trust assets are reported as increases or decreases in permanently restricted assets.

VNA & HOSPICE OF THE SOUTHWEST REGION, INC.

Notes to Financial Statements

December 31, 2016 and 2015

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets include contributions for which donor-imposed restrictions have not been met. Net assets are released from restrictions as expenditures are made pursuant to restrictions specified under the terms of the contribution.

Permanently restricted net assets have been restricted by donors to be maintained by the Association in perpetuity. Generally, the donors of these assets permit the Association to use all or part of the income earned on related investments for general or specific purposes.

Assets Limited As To Use

Assets limited as to use include donor-restricted assets and assets established by the Board of Directors to fund an employee Internal Revenue Code Section 457(b) deferred compensation plan.

Cash and cash equivalents included in assets limited as to use are excluded from cash and cash equivalents for cash flow purposes.

Property and Equipment

Property and equipment are carried at cost, less accumulated depreciation. Maintenance, repairs and minor renewals are expensed as incurred and renewals and betterments are capitalized. Provision for depreciation is computed using the straight-line method over the useful lives of the related assets.

Goodwill

Goodwill represents costs incurred to acquire Southwestern Vermont VNA & Hospice, Inc. that were in excess of the estimated fair value of identifiable assets.

The Association reviews the carrying value of its goodwill for possible impairment at least annually or more frequently upon the occurrence of an event or when circumstances indicate that the carrying amount is greater than fair value. The Association considers relevant cash flow and profitability information in assessing whether the carrying value of goodwill can be recovered. There was no reported loss on impairment of goodwill as of December 31, 2016 and 2015.

Deferred Revenue

Deferred revenue represents advances on episodic payments that have not yet been earned. Revenue is recognized over the period in which treatment is provided (60 days) on a straight-line basis.

VNA & HOSPICE OF THE SOUTHWEST REGION, INC.

Notes to Financial Statements

December 31, 2016 and 2015

Patient Service Revenue

Providers of home health services to clients eligible for Medicare home health benefits are paid on a prospective basis, with no retrospective settlement. The prospective payment is based on the scoring attributed to the acuity level of the client at a rate determined by federal guidelines.

Providers of hospice services to clients eligible for Medicare hospice benefits are paid on a fee-for-service basis, with no retrospective settlement, provided the Association's aggregate annual Medicare reimbursement is below a predetermined aggregate capitated rate. Revenue is recognized as the services are performed based on the fixed rate amount.

Charges for services to all patients are recorded as revenue when services are rendered at the net realizable amounts from patients, third-party payers and others, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and in future periods as final settlements are determined. Patients unable to pay full charge, who do not have other third-party resources, are charged a reduced amount based on the Association's published sliding fee scale. Reductions in full charge are recognized when the service is rendered.

Contributions

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

VNA & HOSPICE OF THE SOUTHWEST REGION, INC.

Notes to Financial Statements

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2. Investments and Assets Limited As To Use

Investments and assets limited as to use, stated at fair value, are as follows:

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 1,104,463	\$ 861,540
Fixed income		
Corporate bonds	687,568	819,543
Real estate investment trust	55,708	52,303
Mutual funds	921,694	945,346
Equity securities	1,435,541	1,229,530
Equity mutual funds	1,373,763	1,178,745
Beneficial interest in perpetual trust	<u>478,691</u>	<u>476,705</u>
Total investments and assets limited as to use	<u>\$ 6,057,428</u>	<u>\$ 5,563,712</u>

Investments and assets limited as to use are classified as follows:

Investments	\$ 4,650,852	\$ 4,235,732
Assets limited as to use	927,885	851,275
Beneficial interest in perpetual trust	<u>478,691</u>	<u>476,705</u>
Total	<u>\$ 6,057,428</u>	<u>\$ 5,563,712</u>

A schedule of assets whose use is limited by designation or donor restriction is as follows:

	<u>2016</u>	<u>2015</u>
Funds held for Section 457(b) deferred compensation plan	\$ 91,340	\$ 71,220
Temporarily restricted, cumulative gains on endowment investments	318,314	261,824
Donor restricted endowment funds	<u>518,231</u>	<u>518,231</u>
Total	<u>\$ 927,885</u>	<u>\$ 851,275</u>

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Fair Value Measurements

Financial Accounting Standards Board Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants and also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The fair value hierarchy within ASC Topic 820 distinguishes three levels of inputs that may be utilized when measuring fair value:

- Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2: Significant observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.
- Level 3: Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The fair values of the Association's investments, with the exception of corporate bonds and real estate investment trusts, are measured on a recurring basis using Level 1 inputs. The fair value of the Association's corporate bonds and real estate investment trusts is measured based on Level 2 inputs. The fair value is determined annually based on quoted market prices of similar instruments. The fair value of the Association's beneficial trust held by others is based on Level 3 inputs. The fair value is determined annually based on the quoted market prices of the assets included in the trust held by a regional financial institution, and is provided by the custodian.

All of the Association's investments were measured at fair value on a recurring basis as follows:

	Assets at Fair Value as of December 31, 2016			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 1,104,463	\$ -	\$ -	\$ 1,104,463
Corporate bonds	-	687,568	-	687,568
Real estate investment trust	-	55,708	-	55,708
Equity securities	1,435,541	-	-	1,435,541
Mutual funds	2,295,457	-	-	2,295,457
Beneficial interest in perpetual trust	-	-	478,691	478,691
Total	<u>\$ 4,835,461</u>	<u>\$ 743,276</u>	<u>\$ 478,691</u>	<u>\$ 6,057,428</u>

VNA & HOSPICE OF THE SOUTHWEST REGION, INC.

Notes to Financial Statements

December 31, 2016 and 2015

	Assets at Fair Value as of December 31, 2015			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 861,540	\$ -	\$ -	\$ 861,540
Corporate bonds	-	819,543	-	819,543
Real estate investment trust	-	52,303	-	52,303
Equity securities	1,229,530	-	-	1,229,530
Mutual funds	2,124,091	-	-	2,124,091
Beneficial interest in perpetual trust	-	-	476,705	476,705
Total	<u>\$ 4,215,161</u>	<u>\$ 871,846</u>	<u>\$ 476,705</u>	<u>\$ 5,563,712</u>

Investment income and gains (losses) on investments and assets whose use is limited, cash and cash equivalents, and other investments are comprised of the following:

	<u>2016</u>	<u>2015</u>
Unrestricted net assets		
Interest and dividends	\$ 89,905	\$ 109,513
Change in fair value of investments	<u>161,239</u>	<u>(112,096)</u>
Total unrestricted net assets	<u>251,144</u>	<u>(2,583)</u>
Restricted net assets		
Interest and dividends	9,913	8,220
Change in fair value of investments	56,490	(30,364)
Change in fair value of beneficial interest in perpetual trust	<u>1,986</u>	<u>-</u>
Total restricted net assets	<u>68,389</u>	<u>(22,144)</u>
Total	<u>\$ 319,533</u>	<u>\$ (24,727)</u>

The following table sets forth a summary of the change in beneficial interest in perpetual trust:

	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 476,705	\$ -
Contributions	-	476,705
Change in fair market value	<u>1,986</u>	<u>-</u>
Balance, end of year	<u>\$ 478,691</u>	<u>\$ 476,705</u>

The change in fair market value is net of distributions totaling \$23,626 in 2016. There were no distributions received in 2015. Distributions are recognized as unrestricted contributions in the statement of operations.

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3. **Endowment**

The Association has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Association classifies as a donor-restricted endowment (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent donor-restricted endowment gifts and (c) accumulations to the donor-restricted endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Association in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund;
- (2) The purposes of the organization and the donor-restricted endowment fund;
- (3) General economic conditions;
- (4) The possible effect of inflation and deflation;
- (5) The expected total return from income and the appreciation of investments;
- (6) Other resources of the Association;
- (7) The investment policies of the Association;
- (8) The spending policy; and
- (9) Funds with deficiencies.

Investment and Spending Policies

The Association has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Investment income earned on endowments is expended when earned unless otherwise stipulated by the donor. Changes in fair value of investments remain temporarily restricted.

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Notes to Financial Statements

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Endowment Net Asset Composition by Type of Fund

The Association had the following endowment-related activities:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, December 31, 2014	\$ -	\$ 292,188	\$ 518,231	\$ 810,419
Investment income	-	8,220	-	8,220
Change in fair value of investments	-	(30,364)	-	(30,364)
Net assets released for operations	<u>-</u>	<u>(8,220)</u>	<u>-</u>	<u>(8,220)</u>
Endowment net assets, December 31, 2015	-	261,824	518,231	780,055
Investment income	-	9,913	-	9,913
Change in fair value of investments	-	56,490	-	56,490
Net assets released for operations	<u>-</u>	<u>(9,913)</u>	<u>-</u>	<u>(9,913)</u>
Endowment net assets, December 31, 2016	<u>\$ -</u>	<u>\$ 318,314</u>	<u>\$ 518,231</u>	<u>\$ 836,545</u>

4. Property and Equipment

Property and equipment consists of the following:

	<u>2016</u>	<u>2015</u>
Land	\$ 46,500	\$ 46,500
Building	1,574,637	1,580,098
Furniture, fixtures, and equipment	<u>2,847,111</u>	<u>2,677,804</u>
Total cost	4,468,248	4,304,402
Less accumulated depreciation	<u>3,609,363</u>	<u>3,448,017</u>
Property and equipment, net	<u>\$ 858,885</u>	<u>\$ 856,385</u>

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Notes to Financial Statements

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5. Line of Credit

The Association has a \$1,200,000 revolving line of credit collateralized by all corporate assets and bearing interest at the Wall Street prime rate plus 0.50%. The line of credit is on-demand and does not have a maturity date. There was no outstanding balance at December 31, 2016 or 2015.

6. Patient Service Revenue

Patient service revenue is as follows:

	<u>2016</u>	<u>2015</u>
Medicare	\$10,508,526	\$ 9,343,133
Medicaid	4,681,585	4,756,144
Other third-party payers	1,584,324	1,667,663
Private pay	<u>759,463</u>	<u>891,192</u>
Total	<u>\$17,533,898</u>	<u>\$16,658,132</u>

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medicaid programs. The Association believes that it is in substantial compliance with all applicable laws and regulations. However, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term. Differences between amounts previously estimated and amounts subsequently determined to be recoverable or payable are included in patient service revenue in the year that such amounts become known.

The Association also provides services to Medicaid and other services reimbursed by the State at costs exceeding reimbursement, which the Association considers to be partial charity care. The Association estimates the loss from providing services to these patients to equal the difference between reimbursement received and the cost of providing these services using the Medicare cost report methodology. The unreimbursed care incurred in these activities amounted to \$1,025,802 in 2016 and \$939,571 in 2015.

The Association provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Association does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The cost to provide such services is not considered material to the financial statements.

The Association was able to provide charity care through a combination of local community support. Local community support consisted of United Way, municipal appropriations, and contributions.

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Notes to Financial Statements

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7. Functional Expenses

The Association provides various services to residents within its geographic location. Expenses related to providing these services are as follows:

	<u>2016</u>	<u>2015</u>
Program services	\$17,174,507	\$16,481,476
Administrative and general	<u>2,111,657</u>	<u>1,829,994</u>
 Total	 <u>\$19,286,164</u>	 <u>\$18,311,470</u>

8. Retirement Plan

The Association has a defined contribution retirement plan. Retirement contributions amounted to \$233,895 in 2016 and \$234,941 in 2015.

The Association has established a nonqualified deferred compensation plan under Internal Revenue Code Section 457(b) for certain key employees as determined by the Board of Directors. The assets of the plan are reported as assets limited as to use in Note 2. The activity in the plan was as follows:

	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 71,220	\$ 54,888
Contributions	18,000	18,000
Investment income, net of fees	696	1,825
Change in fair value of investments	<u>1,424</u>	<u>(3,493)</u>
 Balance, end of year	 <u>\$ 91,340</u>	 <u>\$ 71,220</u>

The Association's obligation under the plan is included in accrued payroll and related expenses on the balance sheet.

9. Concentration of Risk

The Association grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payer agreements. A summary of accounts receivable by funding source is as follows:

	<u>2016</u>	<u>2015</u>
Medicare	47 %	46 %
Medicaid	26	30
Other	<u>27</u>	<u>24</u>
 Total	 <u>100 %</u>	 <u>100 %</u>

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Notes to Financial Statements

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10. Commitments and Contingencies

Leases

Leases that do not meet the criteria for capitalization are classified as operating leases with related rental charged to operations as incurred.

The following is a schedule, by year, of future minimum lease payments under operating leases for office facilities and an automobile as of December 31, 2016 that have initial or remaining lease terms in excess of one year:

2017	\$ 44,172
2018	9,768
2019	<u>5,498</u>
Total	<u>\$ 59,438</u>

Total rental expense for the years ended December 31, 2016 and 2015 for all operating leases was \$65,082 and \$65,118, respectively.

The Association has entered into a 30-year land lease, expiring July 2020 with a 5-year option to renew at a cost of \$1 per year, with Rutland Regional Health Services, Inc. The lease is for the land located in Rutland on which the Association has constructed its administrative and program offices.

Malpractice Insurance

The Association insures its medical malpractice risks on a claims-made basis. There were no known malpractice claims outstanding at December 31, 2016 and 2015, which, in the opinion of management, will be settled for amounts in excess of insurance coverage, nor are there any unasserted claims or incidents which require loss accrual. The Association intends to renew coverage on a claims-made basis and anticipates that such coverage will be available.

11. Board of Directors Composition

A majority of the members of the Board of Directors or their family members have received or are currently receiving home health services from the Association.

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12. Home Health Provider Tax Expense

During fiscal year 2016, Vermont state legislation passed changes to the tax base for home health providers from 19.30% of core home healthcare services (primarily Medicaid services) with a cap of 6% of net patient service revenue to 3.63% of net patient service revenue for fiscal year 2017 and fiscal year 2018. Home health providers tax incurred, which is included in other operating expenses, was \$627,744 in 2016 and \$632,445 in 2015.

13. Subsequent Events

For financial reporting purposes, subsequent events have been evaluated by management through March 29, 2017, which is the date the financial statements were available to be issued.