BRATTLEBORO MEMORIAL HOSPITAL, INC.

FINANCIAL STATEMENTS

September 30, 2018 and 2017

With Independent Auditor's Report

BRATTLEBORO MEMORIAL HOSPITAL, INC.

September 30, 2018 and 2017

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Brattleboro Memorial Hospital, Inc.

We have audited the accompanying financial statements of Brattleboro Memorial Hospital, Inc. (Hospital), a Vermont not-for-profit corporation and wholly-controlled subsidiary of Southern Vermont Health Services Corporation, which comprise the balance sheets as of September 30, 2018 and 2017, 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 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 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 Hospital'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 Hospital'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 Brattleboro Memorial Hospital, Inc. as of September 30, 2018 and 2017, 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
December 14, 2018
Registration No. 92-0000278

BRATTLEBORO MEMORIAL HOSPITAL, INC.

Balance Sheets

September 30, 2018 and 2017

ASSETS

	2018	2017
Current assets		
Cash and cash equivalents	**$ 3,827,859**	$ 2,595,840
Patient and other accounts receivable, net	**7,553,064**	10,247,913
Supplies inventory	**2,720,216**	2,438,411
Other current assets	**297,229**	278,698
Due from affiliate	**96,401**	165,373
Total current assets	**14,494,769**	15,726,235
Assets limited as to use		
Investments		
Internally designated	**37,760,848**	37,571,529
Under bond agreement for capital acquisition	**2,021,948**	2,014,807
Other temporarily restricted investments	**58,366**	96,224
Total assets limited as to use	**39,841,162**	39,682,560
Interest in net assets of Southern Vermont Health Service Corporation (SVHSC)	**884,344**	882,724
Deferred system development costs, net	**2,262,734**	2,775,051
Property and equipment, net	**24,779,298**	25,194,483
Interest rate swap	**308,419**	120,472
Total assets	**$ 82,570,726**	$ 84,381,525

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

LIABILITIES AND NET ASSETS

	2018	2017
Current liabilities		
Current portion of long-term debt	**$ 1,274,387**	$ 1,258,699
Accounts payable	**4,919,328**	5,235,047
Salaries, wages, and payroll taxes payable	**1,571,872**	1,432,267
Accrued retirement plan contribution	**1,146,777**	1,140,139
Accrued compensated absences	**2,653,812**	2,626,222
Other accrued expenses	**2,494,681**	2,310,669
Deferred revenue	**-**	41,971
Estimated third-party payor settlements	**1,435,567**	2,861,139
Total current liabilities	**15,496,424**	16,906,153
Long-term debt, less current portion	**7,691,557**	8,949,675
Total liabilities	**23,187,981**	25,855,828
Net assets		
Unrestricted	**58,440,034**	57,546,749
Temporarily restricted	**663,669**	699,906
Permanently restricted	**279,042**	279,042
Total net assets	**59,382,745**	58,525,697
Total liabilities and net assets	**$ 82,570,726**	$ 84,381,525

BRATTLEBORO MEMORIAL HOSPITAL, INC.

Statements of Operations

Years Ended September 30, 2018 and 2017

	2018	2017
Unrestricted revenues, gains, and other support		
Patient service revenue (net of contractual allowances and discounts)	**$ 75,479,210**	$ 78,599,568
Less provision for bad debts	**5,383,192**	3,915,046
Net patient service revenue	**70,096,018**	74,684,522
Meaningful use revenue	**34,000**	212,535
Fixed prospective revenue	**7,798,792**	378,010
Other revenue	**3,814,940**	3,590,636
Net assets released from restrictions for operations	**37,073**	-
Total unrestricted revenues, gains, and other support	**81,780,823**	78,865,703
Expenses		
Salaries, wages, and benefits	**46,522,504**	43,848,152
Supplies and other	**17,279,157**	17,331,375
Contracted services	**10,595,365**	11,269,303
Depreciation and amortization	**4,605,275**	4,255,310
Health care improvement tax	**4,541,687**	4,420,086
Interest expense	**161,794**	178,685
Total expenses	**83,705,782**	81,302,911
Operating loss	**(1,924,959)**	(2,437,208)
Nonoperating gains		
Income from investments	**1,839,559**	796,105
Other nonoperating income	**91,400**	85,511
Unrealized gain on interest rate swap	**187,947**	273,734
Change in net unrealized gains on investments	**566,941**	1,760,254
Nonoperating gains, net	**2,685,847**	2,915,604
Excess of revenues, gains, other support, and nonoperating gains over expenses	**760,888**	478,396
Net assets transferred from SVHSC for capital expenditures	**132,397**	284,991
Increase in unrestricted net assets	**$ 893,285**	$ 763,387

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

BRATTLEBORO MEMORIAL HOSPITAL, INC.

Statements of Changes in Net Assets

Years Ended September 30, 2018 and 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balances, October 1, 2016	$ 56,783,362	$ 654,574	$ 279,042	$ 57,716,978
Excess of revenues, gains, other support, and nonoperating gains over expenses	478,396	-	-	478,396
Change in net unrealized gains on investments	-	(1,135)	-	(1,135)
Investment gain	-	8,997	-	8,997
Change in interest in SVHSC	-	37,470	-	37,470
Net assets transferred from SVHSC for capital acquisitions	284,991	-	-	284,991
Change in net assets	763,387	45,332	-	808,719
Balances, September 30, 2017	57,546,749	699,906	279,042	58,525,697
Excess of revenues, gains, other support, and nonoperating gains over expenses	**760,888**	**-**	**-**	**760,888**
Change in net unrealized gains on investments	**-**	**(1,588)**	**-**	**(1,588)**
Investment gain	**-**	**804**	**-**	**804**
Change in interest in SVHSC	**-**	**1,620**	**-**	**1,620**
Net assets released from restrictions for operations	**-**	**(37,073)**	**-**	**(37,073)**
Net assets transferred from SVHSC for capital acquisitions	**132,397**	-	-	**132,397**
Change in net assets	**893,285**	**(36,237)**	**-**	**857,048**
Balances, September 30, 2018	**$ 58,440,034**	**$ 663,669**	**$ 279,042**	**$ 59,382,745**

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

BRATTLEBORO MEMORIAL HOSPITAL, INC.

Statements of Cash Flows

Years Ended September 30, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Change in net assets	$ 857,048	$ 808,719
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	4,605,275	4,255,310
Amortization of debt issuance costs, included in interest expense	15,851	15,852
Provision for bad debts	5,383,192	3,915,046
Gain on sale of equipment	(3,400)	(2,500)
Net realized gain on investments	(1,332,464)	(358,503)
Net unrealized gain on investments	(565,353)	(1,759,119)
Unrealized gain on interest rate swap	(187,947)	(273,734)
Change in interest in net assets of SVHSC	(1,620)	(37,470)
Net assets transferred from SVHSC for capital acquisition	(132,397)	(284,991)
(Increase) decrease in		
Patient and other accounts receivable, net	(2,688,343)	(7,712,653)
Supplies inventory	(281,805)	62,892
Other current assets	(18,531)	123,548
Due from affiliate	68,972	104,333
(Decrease) increase in		
Accounts payable	(315,719)	2,927,847
Accrued salaries, wages and benefits	167,195	279,053
Deferred revenue	(41,971)	41,971
Other current liabilities	190,650	173,414
Estimated third-party payor settlements	(1,425,572)	(1,881,324)
Net cash provided by operating activities	4,293,061	397,691
Cash flows from investing activities		
Purchase of property and equipment	(3,674,373)	(5,040,539)
Additions to deferred system development costs	-	(276,804)
Proceeds from the sale of investments	7,241,216	14,208,949
Purchase of investments	(5,502,001)	(9,922,707)
Net cash used by investing activities	(1,935,158)	(1,031,101)
Cash flows from financing activities		
Additions to deferred financing costs, net	-	-
Net assets transferred from SVHSC for capital acquisition	132,397	284,991
Repayments of long-term debt	(1,258,281)	(1,248,981)
Net cash used by financing activities	(1,125,884)	(963,990)
Net increase (decrease) in cash and cash equivalents	1,232,019	(1,597,400)
Cash and cash equivalents, beginning of year	2,595,840	4,193,240
Cash and cash equivalents, end of year	$ 3,827,859	$ 2,595,840
Supplementary disclosures of cash flow information		
Cash payment for interest	$ 236,596	$ 227,267

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

Nature of Business

Brattleboro Memorial Hospital, Inc. (Hospital) is a Vermont not-for-profit hospital. SVHSC, a not-for-profit organization, is the sole corporate member of the Hospital. The Hospital is a provider of healthcare services with facilities in the Brattleboro, Vermont area.

1. Summary of Significant Accounting Policies

Basis of Presentation

The Hospital's financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic (ASC) 958, *Not-For-Profit Entities*. Under FASB ASC 958, all not-for-profit organizations are required to provide a balance sheet, a statement of activities, and a statement of cash flows. The ASC and related guidance for healthcare entities require reporting amounts for the Hospital's total assets, liabilities, and net assets in a balance sheet; reporting the change in an organization's net assets in statements of operations and changes in net assets; and reporting the change in its cash and cash equivalents in a statement of cash flows.

FASB ASC 958 also requires net assets and revenues, expenses, gains, and losses be classified based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of the three classes of net assets - permanently restricted, temporarily restricted, and unrestricted - be displayed in a balance sheet and that the amounts of change in each of those classes of net assets be displayed in a statement of changes in net assets.

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less.

Patient Accounts Receivable

Patient accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to operations and a credit to a valuation allowance based on its assessment of individual accounts and historical adjustments. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to patient accounts receivable.

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

During 2018, the Hospital increased its estimate from $5,414,985 to $7,177,617 in the allowance for doubtful accounts relating to self-pay patients, and during 2017 the Hospital decreased its estimate from $5,719,983 to $5,414,985 in the allowance for doubtful accounts relating to self-pay patients. During 2018, self-pay write-offs decreased from $4,407,730 to $3,933,657 and during 2017 self-pay write-offs increased from $3,567,049 to $4,407,730. The changes resulted from trends experienced in the collection of amounts from self-pay patients and deterioration in the aging of self-pay receivables.

Supplies Inventory

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

Investments and Investment Income

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheets. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in the excess of revenues, gains, other support, and nonoperating gains over expenses unless the income or loss is restricted by donor or law.

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

The Hospital has elected the fair value option in FASB ASC 825, *Financial Instruments*, relative to its investments to simplify the presentation of all investment performance activity from unrestricted investments within the nonoperating gains section of the statements of operations.

Assets Limited as to Use

Assets limited as to use primarily consist of assets held by trustees under indenture agreements and designated assets set aside by the Hospital's Board of Trustees (Board), over which the Board retains control and which it may at its discretion subsequently use for other purposes.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Hospital are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received and the conditions are met, subject to a present value discount and an allowance for uncollectible amounts. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

Property and Equipment

Property and equipment acquisitions are recorded at cost, or if contributed, at fair market value determined at the date of donation. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from the excess of revenues, gains, other support, and nonoperating gains over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Interest Rate Swap

The Hospital uses an interest rate swap contract to mitigate the cash flow exposure of interest rate movements on variable-rate debt. The Hospital has adopted FASB ASC 815, *Derivatives and Hedging*, to account for its interest rate swap contract. The interest rate swap contract has not been designated as a cash flow hedge and thus changes in fair value are included within nonoperating gains.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Hospital in perpetuity.

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Changes in these estimates resulted in an increase in net patient service revenue of approximately $848,000 and $867,000 in 2018 and 2017, respectively.

Charity Care

The Hospital 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 Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Fixed Prospective Revenue

The Hospital is a participant in OneCare Vermont, LLC, a statewide Accountable Care Organization (ACO). Beginning January 1, 2018, the Hospital entered into a risk-bearing arrangement by participating in the Medicare Next Generation Model. Under both the Medicare Next Generation Model program and the Vermont Medicaid program, the Hospital receives monthly fixed prospective payments for services provided to attributed members. The ACO is responsible for both the cost and quality of care for each attributed member. This is true whether that person uses little or no care or whether they require services consistently throughout the year. The Hospital recognizes its share of annual contract settlements as an increase or decrease in fixed prospective revenue.

Employee Fringe Benefits

The Hospital has an "earned time" plan which provides benefits to employees for paid leave hours. Under this plan, each employee earns paid leave for each period worked. These hours of paid leave may be used for vacations, holidays, or illnesses. Hours earned, but not used, are vested with the employee. The Hospital accrues a liability for such paid leave as it is earned. The earned time plan does not cover any contracted employees.

Excess of Revenues, Gains, Other Support, and Nonoperating Gains Over Expenses

The statements of operations include excess of revenues, gains, other support, and nonoperating gains over expenses. Changes in unrestricted net assets which are excluded from this measure, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

Income Taxes

The Hospital is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income.

Functional Expenses

The Hospital provides general healthcare services to residents within its geographic location. Expenses related to providing these services were as follows for the years ended:

	2018	2017
Healthcare services	**$ 70,644,286**	$ 66,962,295
General and administrative	**13,061,496**	14,340,616
	$ 83,705,782	$ 81,302,911

Subsequent Events

For purposes of the preparation of these financial statements in conformity with GAAP, management has considered transactions or events occurring through December 14, 2018, the date the financial statements were available to be issued.

2. Community Benefit

The Hospital's charity care program is designed to assist those patients who are either uninsured, are underinsured or have limited financial resources that impact their ability to fully pay for their hospital care. Before completing an application for charity care, patients are first asked to investigate whether or not they may be eligible for Medicare, Medicaid, Veteran's Benefits or other governmental or public assistance programs.

The Hospital's qualifications for charity care are as follows:

- Charity care is limited to medically necessary services. Patients receiving certain elective services, such as those considered cosmetic, investigational or experimental, are expected to make payment arrangements in advance, as these types of services are not covered by the charity care program.

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

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies and equivalent service statistics. The following information measures the level of the charity care provided during the years ended September 30:

	2018	2017
Charges foregone, based on established rates	**$ 1,091,000**	$ 1,192,000
Estimated costs and expenses incurred to provide charity care[1]	**$ 575,000**	$ 647,000
Equivalent percentage of charity care services to all services	**0.69 %**	0.80 %

[1] The cost estimate is based on an overall cost to charge ratio applied to charges written-off as charity care.

In addition, the Hospital incurs a payment shortfall in the treatment of Medicaid patients. This government program reimburses for medical services at less than the costs incurred to provide those services. In 2018 and 2017, respectively, the Hospital incurred a shortfall of approximately $9,395,000 and $9,219,000 related to treating Medicaid patients.

The Hospital also provided other community benefits upon which no monetary value has been placed.

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

Patient and Other Accounts Receivable

Patient and other accounts receivable is stated net of contractual allowances and allowance for doubtful accounts and is comprised of the following as of September 30:

	2018	2017
Patient accounts receivable	**$ 28,854,188**	$ 30,307,046
Other accounts receivable	**807,944**	743,932
Contractual allowances	**(14,931,451)**	(15,388,080)
Allowance for doubtful accounts	**(7,177,617)**	(5,414,985)
Patient accounts receivable, net	**$ 7,553,064**	$ 10,247,913

Net Patient Service Revenue

Patient service revenue and contractual and other allowances consisted of the following for the years ended September 30:

	2018	2017
Patient services		
Inpatient services	**$ 35,907,728**	$ 31,585,955
Outpatient services	**122,904,900**	118,254,506
	158,812,628	149,840,461
Less (plus):		
Medicare and Medicaid allowances	**65,335,026**	58,372,738
State disproportionate share	**(539,206)**	(866,228)
Other contractual allowances	**17,446,503**	12,542,299
Charity care allowances	**1,091,095**	1,192,084
	83,333,418	71,240,893
Patient service revenue (net of contractual allowances and discounts)	**75,479,210**	78,599,568
Less provision for bad debts	**5,383,192**	3,915,046
Net patient service revenue	**$ 70,096,018**	$ 74,684,522

The Hospital has agreements with the Centers for Medicare & Medicaid Services (CMS or Medicare) and the State of Vermont Department of Health and Human Services (Medicaid) that provide for payments at amounts different from its established rates. Revenue from the Medicare and Medicaid programs accounted for approximately 53% and 51% of the Hospital's net patient service revenue for the years ended September 30, 2018 and 2017, respectively.

The Hospital recognizes patient service revenue associated with services rendered to patients who have third-party payor coverage on the basis of contractual rates for such services. For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates (or on the basis of discounted rates, if negotiated or provided by policy). Based on historical trends, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services rendered. Thus, the Hospital records a provision for bad debts related to uninsured patients in the period the services are rendered. Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized during the year ended September 30, 2018 totaled $75,479,210, of which $71,111,907 was revenue from third-party payors and $4,367,303 was revenue from self-pay patients, and during the year ended September 30, 2017 totaled $78,599,568, of which $73,636,693 was revenue from third-party payors and $4,962,875 was revenue from self-pay patients.

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. During 2016, the Hospital identified and submitted a voluntary refund as a result of an error in the use of a particular billing code. The impact of this billing error, estimated at $595,000, was reflected as an amount due to Medicare within the estimated third-party payor settlements amount in the financial statements at September 30, 2016, and was paid during 2017. Also during 2016, the Hospital identified and submitted a self-disclosure that certain claims were made in error to Medicare and other government payors between 2012 and 2014. The impact of these billing errors resulted in an overpayment to the Hospital estimated to be in the amount of $1,700,000 and was reflected within the estimated third-party payor settlements amount in the financial statements at September 30, 2017. During 2018, the Hospital reached a settlement agreement and paid $1,655,000. The Hospital has assessed the risk and financial impact of any other errors it believes may exist, and has reflected their estimated impact in its estimated third-party payor settlements in the financial statements. Differences between amounts previously estimated and amounts subsequently determined to be recoverable or payable are included in net patient service revenues in the year that such amounts become known.

A summary of the payment arrangements with major third-party payors follows:

Medicare

Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2015.

Medicaid

Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively-determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors and are not subject to retroactive adjustment.

Other Arrangements

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

4. Meaningful Use Revenue

The Medicare and Medicaid electronic health record (EHR) incentive programs provide a financial incentive for achieving "meaningful use" of certified EHR technology. The Medicare criteria for meaningful use will be staged in three steps with stage three beginning in fiscal year 2018. The Medicaid program will provide incentive payments to hospitals and eligible professionals as they adopt, implement, and upgrade or demonstrate meaningful use in the first year of participation and demonstrate meaningful use for up to five remaining participation years. The Hospital has recorded meaningful use revenue of approximately $34,000 and $213,000 in 2018 and 2017, respectively.

The Medicare EHR meaningful use attestation is subject to audit by CMS in future years. As part of this process, a final settlement amount for the incentive payments could be established that differs from the initial calculation. There are no payment adjustments under the Medicaid EHR incentive program.

5. Supplies Inventory

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

	2018	2017
Central storeroom	**$ 234,342**	$ 220,569
Operating room	**1,427,803**	1,518,053
Pharmacy	**412,173**	403,359
340B program retail pharmacy	**454,198**	117,629
Other	**191,700**	178,801
	$ 2,720,216	$ 2,438,411

6. Investments

Investments consisted of the following as of September 30:

	2018	2017
Assets limited as to use internally designated		
Cash and cash equivalents	**$ 22,070,468**	$ 3,937,059
Marketable equity securities	**8,089,565**	9,720,142
Mutual funds	**7,600,815**	7,208,855
Corporate bonds	**-**	1,224,887
U.S. Treasury securities and other government securities	**-**	15,480,586
	$ 37,760,848	$ 37,571,529
Assets limited as to use under bond agreement for capital acquisition		
Cash and cash equivalents	**$ 2,021,948**	$ 2,014,807
Other temporarily restricted investments		
Cash and cash equivalents	**$ 58,366**	$ 58,571
U.S. Treasury securities and other government securities	**-**	37,653
	$ 58,366	$ 96,224

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

	2018	2017
Income		
Interest and dividend income		
Assets limited as to use	**$ 507,095**	$ 437,602
Other temporarily restricted investments	**804**	8,997
	507,899	446,599
Net realized gain on investments		
Assets limited as to use internally designated	**1,332,464**	358,503
Total investment income	**$ 1,840,363**	$ 805,102
Change in net unrealized gains (losses) on investments		
Assets limited as to use internally designated	**$ 566,941**	$ 1,760,254
Other temporarily restricted investments	**(1,588)**	(1,135)
Total	**$ 565,353**	$ 1,759,119

7. Property and Equipment

As of September 30, 2018 and 2017, the cost and accumulated depreciation of depreciable assets by major classes of assets were as follows:

	2018	2017
Land	**$ 45,499**	$ 45,499
Land improvements	**2,335,937**	2,335,937
Building and improvements	**40,899,424**	40,532,356
Major moveable equipment	**24,861,075**	23,883,084
Construction-in-progress	**2,531,135**	543,190
	70,673,070	67,340,066
Less accumulated depreciation	**45,893,772**	42,145,583
	$ 24,779,298	$ 25,194,483

Depreciation expense for the years ended September 30, 2018 and 2017 was $4,092,958 and $4,084,538, respectively.

8. Long-Term Debt

On June 1, 2016, the Hospital entered into a loan agreement with Vermont Educational and Health Buildings Finance Agency issuing $10,500,000 in direct placement bonds (Brattleboro Memorial Hospital Project Series 2016 A). The bonds are held by Peoples United Bank. The proceeds were used to advance refund the previously issued Series 2008 A bonds, terminate the associated swap agreement, and finance the Hospital's capital expenditures. Interest on the bonds is based on monthly rates as determined by the loan and trust agreement. The Hospital may prepay certain of the bonds according to the terms of the loan and trust agreement. The bonds are collateralized by the assets of the Hospital.

There are various restrictive covenants, which include compliance with certain financial ratios and a detail of events constituting defaults. The Hospital is in compliance with these requirements at September 30, 2018.

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

	2018	2017
Series 2016 A bonds with variable rate interest (2.07655% at September 30, 2018), payable in monthly installments, including interest, of approximately $89,796 through February 2027.	**$ 8,435,730**	$ 9,362,855
Unsecured note payable, due in quarterly installments of $83,162 through September 2020, including interest calculated at 3.5%.	**662,312**	993,468
Total long-term debt before unamortized bond issuance costs	**9,098,042**	10,356,323
Less: unamortized bond issuance costs	**132,098**	147,949
Total long-term debt	**8,965,944**	10,208,374
Less current portion	**1,274,387**	1,258,699
Total long-term debt, excluding current portion	**$ 7,691,557**	$ 8,949,675

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

2019 (included in current liabilities)	$ 1,274,387
2020	1,290,012
2021	975,403
2022	991,900
2023	1,008,677
Thereafter	3,557,663
	$ 9,098,042

Interest Rate Swap

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

The Hospital is required to include the fair value of the swap in the balance sheet, and annual changes, if any, in the fair value of the swap in the statements of operations. For example, during the term of the swap, the annually calculated value of the swap will be reported as an asset if interest rate expectations increase above those expected on the date the swap was entered into (as an unrealized gain in the statements of operations), which will generally be indicative that the net fixed rate the Hospital is paying is below market expectations of rates during the remaining term of the swap. The swap will be reported as a liability (as an unrealized loss in the statements of operations) if interest rate expectations decrease below those expected on the date the swap was entered into, which will generally be indicative that the net fixed rate the Hospital is paying on the swap is above market expectations of rates during the remaining term of the swap. These annual accounting adjustments of value changes in the swap transaction are non-cash recognition requirements, the net effect of which will be zero at the end of the swap's term. The Hospital retains the sole right to terminate the swap agreement should the need arise. The Hospital recorded the swap at its asset position of $308,419 and $120,472 at September 30, 2018 and 2017, respectively.

9. Temporarily and Permanently Restricted Net Assets

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

	2018	2017
Auxiliary programs	**$ 58,366**	$ 57,186
Time restriction - Life Income Trust	**-**	39,038
Charity care	**72,762**	63,828
Other programs	**529,521**	537,202
Capital acquisition	**3,020**	2,652
	$ 663,669	$ 699,906

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

	2018	2017
Income restricted for:		
Medical library	**$ 1,202**	$ 1,202
Capital	**20,000**	20,000
Income unrestricted	**257,840**	257,840
	$ 279,042	$ 279,042

10. Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at September 30, 2018 and 2017 was as follows:

	2018	2017
Medicare	**32 %**	40 %
Other third-party payors	**20**	15
Patient	**23**	13
Blue Cross	**10**	13
Medicaid	**15**	19
	100 %	100 %

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

11. Health Care Improvement Tax

Effective July 1, 1991, a health care improvement tax was imposed on hospitals, nursing homes, and home health agencies as part of a program to upgrade services in Vermont. The State of Vermont pays the Hospital with funds received from the health care improvement trust fund and federal matching funds. Hospitals in Vermont are assessed a certain percentage of net patient service revenue which is determined annually by the General Assembly. The following tax was paid and disproportionate share funds received for the years ended September 30:

	2018	2017
Disproportionate share	**$ 539,206**	$ 866,228
Medicaid assessment expensed	**4,541,687**	4,420,086
	$ (4,002,481)	$ (3,553,858)

12. Commitments and Contingencies

Self-Funded Insurance Plans - The Hospital is self-insured with respect to healthcare coverage. This coverage is used to provide medical health benefits to its eligible employees and their eligible dependents. An accrual for management's estimate of healthcare claims incurred, but not reported, is included in other accrued expenses in the balance sheets.

Professional Liability Insurance - The Hospital is insured against malpractice loss contingencies under a claims-made insurance policy. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrence during its term, but reported subsequently, will be uninsured. The Hospital has also created a tail coverage reserve in the event that insurance providers are changed. This reserve was $1,015,977 as of September 30, 2018 and 2017. The Hospital is subject to complaints, claims and litigation due to potential claims which arise in the normal course of business. FASB ASC 954-450, *Health Care Entities - Contingencies*, provides clarification to companies in the healthcare industry on the accounting for professional liability and similar insurance. ASC 954-450 states that insurance liabilities should not be presented net of insurance recoveries and that an insurance receivable should be recognized on the same basis as the liabilities, subject to the need for a valuation allowance for uncollectible accounts. The Hospital has evaluated its exposure to losses arising from identifiable potential claims and has properly accounted for them in the balance sheets for the years ended September 30, 2018 and 2017.

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

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

Certificate of Need Approval - In December 2016, the Hospital filed a certificate of need application with the State of Vermont to build a new four story medical office building, renovate the existing operating room suite and perioperative area, and replace the Hospital's three boilers. The total anticipated cost of the project is approximately $23 million. In October 2017, the State of Vermont approved the certificate of need application. The Hospital expects to fund the project using internally designated investments and new tax-exempt borrowings.

The Hospital has paid or accrued costs of approximately $1.9 million for the CON project as of September 30, 2018. The majority of these expenditures are for architect and engineering services. The Hospital has spent approximately $500,000 related to the boiler replacement portion of the CON project as of September 30, 2018. Estimated costs to complete the boiler replacements are approximately $1.6 million and are expected to be completed in the spring of 2019.

Deferred System Development Costs - During 2016, the Hospital entered into an agreement with Cerner Corporation (Cerner) to implement a hospital-wide EHR system. The Cerner agreement has an initial term of seven years with successive 12-month terms. The costs incurred by the Hospital related to the implementation of the EHR system through June 1, 2017, the date the EHR system was placed in service, have been deferred and are being amortized over the remaining term of the Cerner agreement. Net deferred system development costs as of September 30, 2018 and 2017 were $2,262,734 and $2,775,051, respectively. Associated amortization expense was $512,317 and $170,772 in 2018 and 2017, respectively. The following is a schedule of future amortization of deferred system development costs as of September 30, 2018:

2019	$ 512,317
2020	512,317
2021	512,317
2022	512,317
2023	213,466
	$ 2,262,734

The following schedule reflects the Hospital's minimum payments to Cerner under the agreement for future subscription, transaction, and maintenance services as of September 30, 2018:

2019	$ 772,336
2020	772,336
2021	772,336
2022	756,096
2023	121,331
	$ 3,194,435

13. Related Party Transactions

The Hospital contracts with SVHSC for management services. The Hospital recorded $1,115,040 and $1,575,000 in management service expenses in 2018 and 2017, respectively. As of September 30, 2018 and 2017, the Hospital had a receivable from SVHSC of $96,401 and $165,373, respectively, for funds received by SVHSC on behalf of the Hospital.

In accordance with FASB ASC 958, the Hospital has recognized an interest in the net assets of SVHSC for assets donated to SVHSC with the Hospital designated as beneficiary.

14. Fair Value Measurements and Disclosures

FASB ASC 820, *Fair Value Measurement*, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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

	Fair Value Measurements at September 30, 2018		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Assets:			
Investments			
Cash and short-term investments	**$ 24,150,782**	**$ 24,150,782**	**$ -**
Marketable equity securities	**8,089,565**	**8,089,565**	**-**
Mutual funds	**7,600,815**	**7,600,815**	**-**
Interest rate swap	**308,419**	**-**	**308,419**
Total assets	**$ 40,149,581**	**$ 39,841,162**	**$ 308,419**

	Fair Value Measurements at September 30, 2017		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Assets:			
Investments			
Cash and short-term investments	$ 6,010,437	$ 6,010,437	$ -
Corporate bonds	1,224,887	-	1,224,887
U.S. Treasury obligations and government securities	15,518,239	15,518,239	-
Marketable equity securities	9,720,142	9,720,142	-
Mutual funds	7,208,855	7,208,855	-
Interest rate swap	120,472	-	120,472
Total assets	$ 39,803,032	$ 38,457,673	$ 1,345,359

The fair value of Level 2 assets is primarily based on quoted market prices of the underlying or similar securities, interest rates, and credit risk. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

15. Retirement Plans

The Hospital has a defined contribution plan for active employees to which the Hospital contributes 5% of the annual salary of the participating employee. Plan expense for the years ended September 30, 2018 and 2017 was $1,277,337 and $1,327,706, respectively.

The Hospital also has a defined contribution plan for active employees to which the Hospital contributes a matching contribution. In order to receive the match, employees must meet certain eligibility requirements. The Hospital matches 100% of elective deferrals to a limit based on years of service. Participants must be employed on the last day of the calendar year in order to receive the match. Plan expense for the years ended September 30, 2018 and 2017 was $242,958 and $222,165, respectively.