Southwestern Vermont Health Care Corporation

Independent Auditor's Report and Consolidated Financial Statements

September 30, 2018 and 2017

BKD
CPAs & Advisors

Southwestern Vermont Health Care Corporation
September 30, 2018 and 2017

Contents

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Independent Auditor's Report

Board of Trustees
Southwestern Vermont Health Care Corporation
Bennington, Vermont

We have audited the accompanying consolidated financial statements of Southwestern Vermont Health Care Corporation (the "Corporation"), which comprise the consolidated balance sheets as of September 30, 2018 and 2017, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Southwestern Vermont Health Care Corporation as of September 30, 2018 and 2017, and the results of its operations, changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

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

BKD, LLP

Springfield, Missouri
December 11, 2018

Southwestern Vermont Health Care Corporation
Consolidated Balance Sheets
September 30, 2018 and 2017

Assets

	2018	2017
Current Assets		
Cash and cash equivalents	$ 10,664,727	$ 14,053,746
Patient accounts receivable, net of allowance; 2018 – $10,770,000; 2017 – $9,709,000	17,219,172	15,825,444
Other receivables	1,805,669	863,909
Supplies	3,297,450	2,880,118
Prepaid expenses and other	1,756,201	1,318,179
Total current assets	34,743,219	34,941,396
Assets Limited As To Use		
Internally designated	68,556,894	66,666,797
Externally restricted	13,250,863	12,660,312
	81,807,757	79,327,109
Property and Equipment, At Cost	181,180,643	168,078,253
Less accumulated depreciation	125,221,524	117,914,553
	55,959,119	50,163,700
Other Assets		
Beneficial interest in perpetual trust	2,280,596	2,152,532
Deferred compensation plan assets	1,088,624	1,009,537
Other	572,142	387,040
	3,941,362	3,549,109
Total assets	$ 176,451,457	$ 167,981,314

Liabilities and Net Assets

	2018	2017
Current Liabilities		
Current maturities of long-term debt	$ 1,190,617	$ 505,575
Accounts payable	8,565,414	7,599,391
Accrued expenses	15,029,375	16,691,902
Estimated amounts due to third-party payers	1,489,168	1,229,984
Estimated self-insurance costs	1,025,776	703,050
Other	164,566	223,215
Total current liabilities	27,464,916	26,953,117
Long-Term Debt	10,983,572	11,448,825
Asset Retirement Obligations	1,190,238	1,175,465
Accrued Pension Liabilities	7,564,224	14,495,369
Deferred Compensation	1,082,867	1,004,349
Interest Rate Swap Agreements	770,117	1,238,408
Other Liabilities	1,456,598	1,281,597
Total liabilities	50,512,532	57,597,130
Net Assets		
Unrestricted	109,732,710	95,345,218
Temporarily restricted	4,703,909	3,784,724
Permanently restricted	11,502,306	11,254,242
Total net assets	125,938,925	110,384,184
Total liabilities and net assets	$ 176,451,457	$ 167,981,314

Southwestern Vermont Health Care Corporation
Consolidated Statements of Operations
Years Ended September 30, 2018 and 2017

	2018	2017
Unrestricted Revenues, Gains and Other Support		
Net patient service revenue	$ 180,313,420	$ 170,659,436
Provision for uncollectible accounts	(6,151,299)	(5,340,353)
Net patient service revenue less provision for uncollectible accounts	174,162,121	165,319,083
Other	5,660,876	5,580,632
Fixed prospective revenue	5,254,620	-
Net assets released from restrictions used for operations	833,036	1,144,611
Total unrestricted revenues, gains and other support	185,910,653	172,044,326
Expenses and Losses		
Salaries and wages	60,846,202	54,786,057
Employee benefits	15,788,303	14,437,274
Purchased services	44,154,538	41,267,234
Supplies and other	53,845,808	50,466,411
Depreciation and amortization	7,372,802	6,981,367
Interest	697,934	529,616
Total expenses and losses	182,705,587	168,467,959
Operating Income	3,205,066	3,576,367
Other Income (Expense)		
Investment return	2,169,463	6,869,903
Change in fair value of interest rate swap agreements	481,554	653,822
Contributions	1,799,182	1,675,753
Contribution of The Center for Nursing and Rehabilitation at Hoosick Falls	1,135,620	-
Other	379,741	(670,966)
Total other income (expense)	5,965,560	8,528,512
Excess of Revenues Over Expenses	9,170,626	12,104,879
Net assets released from restriction used for purchase of property and equipment	32,000	81,025
Grant received for acquisition of property and equipment	2,173,289	-
Defined benefit pension costs		
Net gain arising during the period	1,792,074	4,606,126
Amortization of net loss included in net periodic pension cost	1,219,503	1,393,894
Increase in Unrestricted Net Assets	$ 14,387,492	$ 18,185,924

Southwestern Vermont Health Care Corporation
Consolidated Statements of Changes in Net Assets
Years Ended September 30, 2018 and 2017

	2018	2017
Unrestricted Net Assets		
Excess of revenues over expenses	$ 9,170,626	$ 12,104,879
Grant received for acquisition of property and equipment	2,173,289	-
Net assets released from restriction used for purchase of property and equipment	32,000	81,025
Defined benefit pension costs		
Net gain arising during the period	1,792,074	4,606,126
Amortization of net loss included in net periodic pension cost	1,219,503	1,393,894
Increase in unrestricted net assets	14,387,492	18,185,924
Temporarily Restricted Net Assets		
Contributions received	1,628,552	2,431,245
Change in interest in net assets of Hoosick Falls Health Center Foundation	12,310	-
Investment return	25,259	197,681
Contribution of The Center for Nursing and Rehabilitation at Hoosick Falls	118,100	-
Net assets released from restriction	(865,036)	(1,225,636)
Increase in temporarily restricted net assets	919,185	1,403,290
Permanently Restricted Net Assets		
Contribution of The Center for Nursing and Rehabilitation at Hoosick Falls	67,846	-
Contributions received	120,000	100,344
Change in beneficial interest in trusts	60,218	92,766
Increase in permanently restricted net assets	248,064	193,110
Change in Net Assets	15,554,741	19,782,324
Net Assets, Beginning of Year	110,384,184	90,601,860
Net Assets, End of Year	$ 125,938,925	$ 110,384,184

Southwestern Vermont Health Care Corporation
Consolidated Statements of Cash Flows
Years Ended September 30, 2018 and 2017

	2018	2017
Operating Activities		
Change in net assets	$ 15,554,741	$ 19,782,324
Items not requiring (providing) operating cash flow		
(Gain) loss on sale of property and equipment	(1,163)	23,293
Contribution of CNR	(1,321,566)	-
Depreciation and amortization	7,372,802	6,981,367
Net gain on investments	(1,280,288)	(6,349,305)
Change in fair value of interest rate swap agreement	(481,554)	(653,822)
Change in beneficial interest in perpetual trusts	(60,218)	(92,766)
Restricted contributions and investment income received	(1,786,121)	(2,729,270)
Grant received for acquisition of property and equipment	(2,173,289)	-
Defined benefit pension costs	(6,931,145)	(11,010,874)
Changes in		
Patient accounts receivable, net	(520,040)	810,356
Estimated amounts due from and to third-party payers	109,740	(2,313,011)
Accounts payable and accrued expenses	(2,900,992)	2,557,256
Asset retirement obligations	14,773	(4,897)
Other assets and liabilities	(1,889,445)	(434,815)
Net cash provided by operating activities	3,706,235	6,565,836
Investing Activities		
Purchase of investments	(19,264,378)	(18,756,345)
Proceeds from sale of investments	18,241,090	18,051,814
Cash contributed from CNR	215,575	-
Purchase of property and equipment	(8,303,243)	(13,195,851)
Proceeds from sale of property and equipment	-	1,120,033
Net cash used in investing activities	(9,110,956)	(12,780,349)
Financing Activities		
Proceeds from restricted contributions and investment income	1,469,498	2,729,270
Proceeds from grant income	1,365,076	-
Principal payments on long-term debt	(818,872)	(494,507)
Net cash provided by financing activities	2,015,702	2,234,763
Decrease in Cash and Cash Equivalents	(3,389,019)	(3,979,750)
Cash and Cash Equivalents, Beginning of Year	14,053,746	18,033,496
Cash and Cash Equivalents, End of Year	$ 10,664,727	$ 14,053,746
Supplemental Cash Flows Information		
Interest paid	$ 695,408	$ 528,485
Property and equipment in accounts payable	$ 2,147,694	$ 1,190,861
Capital lease obligation incurred	$ -	$ 1,667,031
Assets acquired	$ 5,813,488	$ -
Liabilities assumed	$ 4,491,922	$ -

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

Nature of Operations

Southwestern Vermont Health Care Corporation (SVHC) is a not-for-profit corporation organized under the laws of the State of Vermont for the purpose of serving as a parent organization for wholly owned or controlled subsidiary corporations. Activities performed by SVHC include managing investments and operating and managing buildings and equipment owned and leased by subsidiaries and other related entities. SVHC and its subsidiaries are providers of health services with facilities in and around the Bennington, Vermont, area. The subsidiaries of the Corporation are:

Southwestern Vermont Medical Center, Inc. (SVMC) is a not-for-profit, acute care hospital which provides diagnostic and treatment services.

Mount Anthony Housing Corporation (MAHC) is doing business as Centers for Living and Rehabilitation (CLR) and is a not-for-profit corporation organized for the purpose of developing, managing and operating nursing homes.

Southwestern Vermont Health Care Auxiliary, Inc. (SVHCA) is a not-for-profit corporation organized for the purpose of serving and assisting SVHC and its subsidiaries in promoting the health and welfare of the community in accordance with SVMC's objectives and to conduct various philanthropic activities for SVMC.

Southwestern Vermont Health Care Enterprises (SVHCE) is a for-profit corporation organized for the purpose of providing family practice and other specialty physician services.

Southwestern Vermont Health Care Foundation, Inc. (Foundation) is a not-for-profit corporation organized exclusively for charitable and educational purposes for SVHC, its successors, subsidiaries and affiliates.

Southwestern Vermont Health Care New York, LLC (SVHCNY) is a not-for-profit professional employment corporation organized for staffing purposes in addition to owning and leasing property for Twin Rivers Medical, P.C.

Twin Rivers Medical, P.C. (Twin Rivers) is a New York not-for-profit corporation organized for the purpose of providing family practice and other specialty physician services. SVMC controls the operations of Twin Rivers.

Northern Berkshire Medical, P.C. (NBM) is a Massachusetts not-for-profit corporation organized for the purpose of providing orthopedic practice and other specialty physician services. SVMC controls the operations of NBM.

Effective February 5, 2018, the Corporation acquired Hoosick Falls Health Center, Inc., d/b/a The Center for Nursing and Rehabilitation at Hoosick Falls (CNR). CNR is a not-for-profit organization organized for the purpose of developing, managing and operating nursing homes. See *Note 20* for further information. CNR is a wholly owned entity of SVHCNY.

Principles of Consolidation

The consolidated financial statements include the accounts of SVHC and its controlled entities, SVMC, MAHC, SVHCA, SVHCE, the Foundation, SVHCNY, Twin Rivers, NBM and SVHCHF (collectively, the "Corporation"). All significant intercompany transactions and balances have been eliminated.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated 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

The Corporation considers all liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2018 and 2017, cash equivalents consisted primarily of money market sweep accounts with banks, which are not FDIC insured, but may be covered by separate agreements with the financial institution. At September 30, 2018, the Corporation held approximately $9,206,000 in sweep products with one financial institution.

Effective July 21, 2010, the FDIC's insurance limits were permanently increased to $250,000. At September 30, 2018, the Corporation's deposit accounts exceeded federally insured limits by approximately $614,000.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investments in private equity funds and hedge funds are recorded at net asset value (NAV), as a practical expedient. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the consolidated statements of operations and changes in net assets as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

Assets Limited as to Use

Assets limited as to use include (1) assets set aside by the Board of Trustees for future capital improvements over which the Board retains control and may at its discretion subsequently use for other purposes and (2) assets restricted by donors.

Patient Accounts Receivable

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

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

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Corporation records a significant provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

The Corporation's allowance for uncollectible accounts for self-pay patients increased from 87 percent of self-pay accounts receivable at September 30, 2017, to 92 percent of self-pay accounts receivable at September 30, 2018. In addition, the Corporation's write-offs increased approximately $545,000 from approximately $4,545,000 for the year ended September 30, 2017, to approximately $5,090,000 for the year ended September 30, 2018. The increase was the result of negative trends experienced in the collection of amounts from self-pay patients in fiscal year 2018, as well as the acquisition of CNR.

Activity within the allowance for uncollectible accounts is recapped as follows:

	2018	2017
Balance, beginning of year	$ 9,709,000	$ 8,915,000
Provision for year	6,151,299	5,340,353
Accounts charged off during the year	(5,094,299)	(4,546,353)
Balance, end of year	$ 10,766,000	$ 9,709,000

Supplies

The Corporation states supply inventories at the lower of cost, determined using the first-in, first-out method, or net realizable value.

Property and Equipment

Property and equipment acquisitions are recorded at cost and are depreciated using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

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

Buildings and improvements	20 – 50 years
Leasehold improvements	5 – 25 years
Equipment	1 – 20 years

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

Long-Lived Asset Impairment

The Corporation evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended September 30, 2018 and 2017.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Corporation 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 Corporation in perpetuity.

Net Patient Service Revenue

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

Fixed Prospective Revenue

Beginning January 1, 2018, the Corporation began to receive monthly fixed prospective payments for services provided by hospitals and hospital-owned physician practices participating in the Vermont Medicaid next Generation Accountable Care Organization (ACO) Pilot Program. This is a monthly, per member payment received in advance of the services being performed and is recognized as revenue in the month to which it relates.

Medicaid fee-for service payments continue for all other nonhospital providers in the ACO, for all providers who are not part of the ACO, and for all services that are not in the fixed prospective payment. The ACO is responsible for both the cost and the quality of care for each attributed member, regardless of individual member's utilization. SVMC is subject to an annual contracted maximum risk corridor, of which for calendar 2018 is a maximum potential gain or loss of $550,000. As of September 30, 2018, SVMC has recorded a liability of $412,497, which is recorded within estimated amounts due to third-party payers.

Charity Care

The Corporation provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Corporation does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Contributions

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

Gifts received with donor stipulations are reported as either temporarily or permanently restricted support. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified and reported as an increase in unrestricted net assets. Donor-restricted contributions whose restrictions are met within the same year as received are initially reported as temporarily restricted contributions. Conditional contributions are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor. At September 30, 2018, a donor has promised a $5,000,000 conditional gift, contingent upon donor approval of signage and completion of an emergency room project within three years of the gift date. No amounts related to this contribution have been recognized on the consolidated financial statements as of September 30, 2018.

Professional Liability Claims

The Corporation recognizes an accrual for claim liabilities based on estimated ultimate losses and costs associated with settling claims and a receivable to reflect the estimated insurance recoveries, if any. Professional liability claims are described more fully in *Note 7*.

Government Grants

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

Income Taxes

SVHC, SVMC, MAHC, SVHCA, the Foundation, SVHCNY, Twin Rivers, NBM and CNR have been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, these entities are subject to federal income tax on any unrelated business taxable income.

SVHCE accounts for income taxes in accordance with income tax accounting guidance (ASC Topic 740, *Income Taxes*).

Self-Insurance

The Corporation records estimated liabilities for self-insurance costs for employee health insurance and workers' compensation insurance. These liabilities include an estimate of the ultimate costs for both reported claims and claims incurred but not reported. The Corporation has purchased insurance that limits its exposure for individual health claims that exceed $250,000, up to an aggregate of $1,000,000, which is contingent upon individual health claims reaching 125 percent of annual projected claims. The Corporation has also purchased insurance for workers' compensation claims that exceed $200,000 up to an aggregate of $800,000, annually.

Excess of Revenues Over Expenses

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

Transfers Between Fair Value Hierarchy Levels

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the period ending date.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on the hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Corporation recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

During the years ended September 30, 2018 and 2017, the Corporation has recorded revenue of approximately $187,000 and $285,000, respectively, which is included in other revenue within operating revenues in the consolidated statements of operations.

Note 2: Net Patient Service Revenue

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

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

Medicare. Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient skilled nursing services are paid at prospectively determined per diem rates that are based on the patients' acuity. Certain outpatient costs are paid based on a cost reimbursement methodology. The Corporation is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Corporation and audits thereof by the Medicare administrative contractor. SVMC is designated as a Sole Community hospital "SCH" and a Rural Referral Center by CMS.

Medicaid. Inpatient, outpatient and skilled nursing services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates.

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

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

Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the years ended September 30, 2018 and 2017, was approximately:

	2018	2017
Medicare	$ 68,981,000	$ 63,187,000
Medicaid	19,928,000	23,016,000
Blue Cross	46,800,000	46,792,000
Other third-party payers	39,251,000	32,058,000
Self-pay	5,353,000	5,606,000
	$ 180,313,000	$ 170,659,000

Note 3: Concentration of Credit Risk

The Corporation grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of net receivables from patients and third-party payers at September 30, 2018 and 2017, is:

	2018	2017
Medicare	36%	34%
Medicaid	10%	14%
Blue Cross	15%	15%
Other third-party payers	23%	21%
Self-pay	16%	16%
	100%	100%

Note 4: Investments and Investment Return

Assets Limited as to Use

Assets limited as to use include:

	2018	2017
Cash and short-term investments	$ 1,773,855	$ 2,063,741
Brokered certificate of deposit	815,561	1,300,592
Fixed income mutual funds	458,143	2,480,806
Investment fund – total return strategies	11,029,485	9,836,407
Investment fund – fixed income	5,502,075	1,311,709
Investment fund – equity	4,381,459	3,717,806
Investment fund – defensive equity	8,823,879	8,107,202
Investment fund – Global Absolute Return Strategies	8,052,213	8,182,117
Limited partnership	8,405,464	9,581,499
Equity securities		
Materials	40,101	45,237
Industrials	161,367	186,982
Consumer discretionary	223,323	231,970
Consumer staples	72,549	160,070
Energy	91,649	86,877
Financial institutions	217,838	184,102
Health care	265,881	205,702
Utilities	25,308	24,767
Telecom	5,170	4,998
Information technology	425,651	288,915
Foreign equity mutual funds	16,218,565	17,463,523
Domestic equity mutual funds	7,271,951	6,168,287
Government agency securities	832,099	163,764
Corporate obligations	2,007,611	2,362,296
Balanced mutual funds	91,936	90,513
Investment fund - Treasury Inflation Protected Securities (TIPS)	4,614,624	5,077,227
	$ 81,807,757	$ 79,327,109

Total investment return is comprised of the following:

	2018	2017
Interest and dividend income	$ 914,434	$ 718,279
Net realized and unrealized gains on investments	897,566	4,393,128
Change in fair value of investments accounted for in accordance with Topic 825	382,722	1,956,177
	$ 2,194,722	$ 7,067,584

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

	2018	2017
Other nonoperating income	$ 2,169,463	$ 6,869,903
Temporarily restricted net assets	25,259	197,681
	$ 2,194,722	$ 7,067,584

Alternative Investments

The fair value of alternative investments that have been estimated using the net asset value per share as a practical expedient consist of the following at September 30:

	2018 Fair Value	2017 Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Investment fund (A)	$ 4,614,624	$ 5,077,227	$ -	Daily	2-day written notice
Investment fund (B)	11,029,485	9,836,407	-	Monthly	30-day written notice
Investment fund (C)	-	1,311,709	-	Daily	Daily
Investment fund (D)	4,381,459	3,717,806	-	Daily	Daily
Investment fund (E)	8,823,879	8,107,202	-	Monthly	5-day written notice
Limited Partnership (F)	8,405,464	9,581,499	-	Monthly	15-day written notice
Investment fund (G)	8,052,213	8,182,117	-	Monthly	5-day written notice
Investment fund (H)	5,502,075	-	-	Daily	Daily

(A) This category includes investments in Treasury Inflation-Protected Securities (TIPS).

(B) This category includes investments managed on a total return basis, and is an unconstrained, nonbenchmark oriented investment fund. The funds' composite portfolio includes investments in fixed income corporate obligations, U.S. government and agency fixed income securities and investments in other funds. The fund also invests in convertible preferred stock, warrants, future contracts, forward currency contracts and other investment vehicles.

(C) This category includes investment in U.S. fixed income securities intended to track with the long U.S. fixed income security market index.

(D) This category includes investments in equity securities designed to track with the S&P 500 index.

(E) This category includes investments designed to provide a defensive equity exposure that is expected to provide favorable risk adjusted performance relative to the S&P 500 index over the long-term, and is expected to produce the strongest relative performance when the S&P 500 index is experiencing negative returns.

(F) This category includes a hedge fund used by the Corporation to diversify risk.

(G) This category includes investments managed on a global return basis, and is a U.S. 1-month London Interbank Bid Rate oriented investment fund, seeking to outperform the benchmark by 5 percent per annum. The funds' composite portfolio includes investments in equity, fixed income including exchange traded funds, other securities and pooled investment vehicles.

(H) This category includes investments in other collective investment funds with the objective of approximating performance of the Bloomberg Barclays U.S. Government Bond Index on the long term.

Note 5: Property and Equipment

Property and equipment consists of the following at September 30, 2018 and 2017:

	2018	2017
Land and land improvements	$ 5,262,639	$ 4,440,321
Buildings and leasehold improvements	71,358,392	65,097,465
Equipment	103,210,824	95,045,975
Construction in progress	1,348,788	3,494,492
	181,180,643	168,078,253
Less accumulated depreciation	125,221,524	117,914,553
Property and equipment, net	$ 55,959,119	$ 50,163,700

Construction in progress at September 30, 2018, comprises various construction costs related to healthcare facilities modernization. The estimated remaining cost to complete these projects is $2,560,000, with anticipated completion dates ranging from fall 2018 to fall 2019.

Note 6: Beneficial Interest in Trusts

SVHC is an income beneficiary under a charitable trust administered by an unrelated third-party trustee. The beneficial interest in the assets of this trust is included in the consolidated financial statements as permanently restricted net assets. Income is distributed in accordance with the trust document and is included in temporarily restricted contributions received. The estimated value of the expected future cash flows is $2,212,749 and $2,152,532, which represents the fair value of the trust assets at September 30, 2018 and 2017, respectively. The distributions received from this trust in 2018 and 2017 were approximately $112,000 and $104,000, respectively.

CNR is an income beneficiary under a charitable trust administered by an unrelated third-party trustee. The beneficial interest in the assets of this trust is included in the consolidated financial statements as permanently restricted net assets. Income is distributed in accordance with the trust document and is included in temporarily restricted contributions received. The estimated value of the expected future cash flows is $67,846 and $0, which represents the fair value of the trust assets at September 30, 2018 and 2017, respectively. The distributions received from this trust in 2018 and 2017 were approximately $0.

Note 7: Professional Liability

MAHC, SVMC, SVHCE, SVHC, Twin Rivers, NBM and CNR purchase medical malpractice insurance under a claims-made policy on a fixed premium basis. Under such a policy, only claims made and reported to the insurer during the policy term, regardless of when the incidents giving rise to the claims occurred, are covered. The Corporation also purchases excess umbrella liability coverage, which provides additional coverage above the basic policy limits up to the amount specified in the umbrella policy.

Based upon the Corporation’s claims experience, an accrual has been made for the Corporation’s estimated medical malpractice costs, including costs associated with litigating or settling claims, under its malpractice insurance policy. It is reasonably possible that this estimate could change materially in the near term.

Note 8: Long-Term Debt

	2018	2017
Hospital revenue bonds (A)	$ 7,285,000	$ 7,510,000
Note payable (B)	475,000	-
Facility revenue bonds, Series 1999A (C)	238,900	-
Capital lease obligations (D)	977,014	999,958
Capital lease obligations (E)	1,827,873	2,035,929
Capital lease obligations (F)	1,457,056	1,500,000
	12,260,843	12,045,887
Less current maturities	1,190,617	505,575
Less unamortized debt issuance costs	86,654	91,487
	$ 10,983,572	$ 11,448,825

(A) In March 2008, SVMC entered into an agreement with the Vermont Educational and Health Building Financing Agency (VEHBFA) to issue $8,865,000 of Hospital Revenue Bonds (Southwestern Vermont Medical Center Project) Series 2008A. The bonds bear interest at variable rates based on the daily rate, 1.61 percent and 0.94 percent at September 30, 2018 and 2017, respectively, and mature in various amounts beginning October 1, 2010, through October 1, 2038. The bonds are secured by the gross revenues of SVMC and SVHC (the "Obligated Group"). Unamortized debt issuance costs were $86,654 and $91,487 at September 30, 2018 and 2017, respectively.

The indenture agreement requires the Obligated Group to comply with certain restrictive covenants including maintaining a historical debt-service coverage and days cash on hand requirement.

SVHC maintains a letter-of-credit facility that permits the trustee to draw an amount up to the principal amount outstanding should the bonds not be remarketed and become due. The letter of credit, which expires on March 31, 2020, can be used to pay principal and interest on the 2008 bonds. Amounts drawn under the letter of credit will bear an interest rate of prime plus 2 percent. Scheduled maturities do not change if the letter of credit is drawn upon. The letter of credit is renewable, subject to trustee approval, throughout the term of the Series 2008A Bonds.

(B) A non-revolving line of credit agreement between the Dormitory Authority of the State of New York (DASNY) and CNR. The interest rate on the outstanding balance is 1 percent. The line of credit is secured by certain property. Principal payments of $5,000 were due monthly through July 2018, at which time the remaining payment was due. CNR did not make the required full payment of principal on July 1, 2018, but continued to make monthly payments of $5,000, and has requested DASNY amend the agreement to extend the payment terms. All outstanding amounts due have been included within current maturities of long-term debt on the balance sheet as of September 30, 2018.

(C) Rensselaer County Industrial Development Agency (IDA) Civic Facility Revenues Bonds Series 1999A, with variable monthly principal payments and an interest rate equal to that of the prime rate. The bonds are collateralized by certain property and equipment and all other rights and interest of CNR. The agreement requires that CNR maintain certain restrictive covenants, for which CNR was not in compliance at September 30, 2018. As a result, all outstanding amounts due have been included within current maturities of long-term debt on the balance sheet as of September 30, 2018.

(D) During 2013, the Corporation sold a medical office building to a real estate management company and entered into a capital lease agreement for continued use of the property. This transaction is accounted for as a sale-leaseback arrangement. The lease term is through November 2032, and requires initial annual payments of $127,187, with an increase of 3.5 percent each year. The sale of the property resulted in a gain that is accounted for as deferred revenue to be amortized and recognized over the lease term. The balance of the deferred revenue recorded as other long-term liabilities at September 30, 2018 and 2017, was $561,413 and $600,907, respectively. Approximately $39,000 was recognized during 2018 and 2017.

(E) Various capital lease agreements, which require monthly payments at various interest rates. Agreements are due through 2040, secured by property and equipment.

(F) During 2018, the Corporation sold a medical office building to a real estate management company and entered into a capital lease agreement for continued use of the property. This transaction is accounted for as a sale-leaseback arrangement. The lease term is through September 2032, and requires initial annual payments of $200,655, with an increase of 2.75 percent each year. The sale of the property did not result in any gain or loss, therefore, there is no deferred or recognized revenue or expense recorded for the year ended September 30, 2018.

Property and equipment include the following property under capital leases:

	2018	2017
Property and equipment	$ 9,089,353	$ 9,089,353
Less accumulated depreciation	5,231,734	4,841,334
	$ 3,857,619	$ 4,248,019

Aggregate annual maturities and sinking fund requirements of long-term debt and payments on capital lease obligations at September 30, 2018, are:

	Long-Term Debt (Excluding Capital Lease Obligations)	Capital Lease Obligations
2019	$ 948,900	$ 671,246
2020	240,000	629,830
2021	250,000	591,172
2022	260,000	579,577
2023	270,000	580,782
Thereafter	6,030,000	7,818,394
	$ 7,998,900	10,871,001
Less amount representing interest		6,609,058
Present value of future minimum lease payments		4,261,943
Less current maturities		241,717
Noncurrent portion		$ 4,020,226

Note 9: Interest Rate Swap Agreements

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, the Corporation entered into an interest rate swap agreement for a portion of its floating rate debt. The agreement provides for the Corporation to receive interest from the counterparty at 68 percent of LIBOR and to pay interest to the counterparty at a fixed rate of 3.167 percent on notional amounts of $7,285,000 and $7,510,000 at September 30, 2018 and 2017, respectively. Under the agreement, the Corporation pays or receives the net interest amount monthly, with the monthly settlements included in interest expense.

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, CNR entered into an interest rate swap agreement for a portion of its floating rate debt. The agreement provides for CNR to receive interest from the counterparty at the prime rate and to pay interest to the counterparty at a fixed rate of 6.48 percent on notional amounts of $238,900 and $0 at September 30, 2018 and 2017, respectively. Under the agreement, the Corporation pays or receives the net interest amount monthly, with the monthly settlements included in interest expense.

Management has not designated the interest rate swap agreements as a hedging instrument. As a result, the agreement is recorded at fair value with subsequent changes in fair value included in excess of revenues over expenses. The fair value of the swaps at September 30, 2018 and 2017, were $(770,117) and $(1,238,408), respectively, and is recorded in long-term liabilities. The change recognized as a component of excess of revenues over expenses at September 30, 2018 and 2017, was $481,554 and $635,822, respectively. Synthetic interest expense related to the swap recognized as a component of excess of revenues over expenses was $148,964 and $209,579 for the years ended September 30, 2018 and 2017, respectively.

Note 10: Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purpose or periods:

	2018	2017
Health care services	$ 4,681,648	$ 3,758,889
Other	22,261	25,835
	$ 4,703,909	$ 3,784,724

Permanently restricted net assets are restricted to:

	2018	2017
Investments to be held in perpetuity, the income is unrestricted	$ 9,008,508	$ 8,919,420
Investments to be held in perpetuity, the income is temporarily restricted	2,493,798	2,334,822
	$ 11,502,306	$ 11,254,242

During 2018 and 2017, net assets were released from donor restrictions by incurring expenses, satisfying the restricted purposes in the amounts of $833,036 and $1,144,611, respectively. During 2018 and 2017, net assets of $32,000 and $81,025, respectively, were released to purchase equipment.

Note 11: Endowment

The Corporation's endowment consists of various individual donor-restricted funds which were established for general operational and certain departmental purposes. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Corporation's governing body has interpreted the Uniform Management of Institutional Funds Act (UPMIFA) as requiring 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 Corporation classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment, and temporarily restricted net assets, the investment earnings of the gifts donated which have not met the donor stipulations for recognition in unrestricted net assets. In accordance with UPMIFA, the Corporation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

Changes in endowment net assets for the years ended September 30, 2018 and 2017, were:

	2018		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 132,874	$ 11,254,242	$ 11,387,116
Investment return and net appreciation	32,372	60,218	92,590
Contributions and reclassifications	97,810	120,000	217,810
Appropriation of endowment assets for expenditure	(183,427)	-	(183,427)
Endowment net assets, end of year	$ 79,629	$ 11,434,460	$ 11,514,089

	2017		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 10,562	$ 11,061,132	$ 11,071,694
Investment return and net appreciation	131,326	92,766	224,092
Contributions	-	100,344	100,344
Appropriation of endowment assets for expenditure	(9,014)	-	(9,014)
Endowment net assets, end of year	$ 132,874	$ 11,254,242	$ 11,387,116

The Corporation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Under the Corporation's policies, the primary investment goal is growth in the endowment accounts. The Corporation expects its endowment funds to provide an average rate of return that exceeds benchmark returns indicated for various asset classes. Actual returns in any given year may vary.

To satisfy its long-term rate of return objectives, the Corporation relies on a strategy in which investment returns are achieved through both current yield and capital appreciation (both realized and unrealized). The Corporation invests in a variety of securities to achieve its long-term return objectives within prudent risk constraints.

Note 12: Charity Care

The Corporation provides services without charge or at amounts less than its established rates, to patients who meet the criteria of its charity care policy. Charity care is granted on a sliding scale based on gross income and family size as compared to the federal poverty guidelines. The estimated cost of charity care, which is estimated based on overall cost to charge ratios, was approximately $795,000 and $957,000 in 2018 and 2017, respectively.

Note 13: Functional Expenses

The Corporation provides health care services primarily to residents within its geographic area. Expenses related to providing these services are as follows:

	2018	2017
Health care services	$ 165,801,598	$ 150,571,394
Fundraising costs	2,490,001	2,607,562
General and administrative	14,413,988	15,289,003
	$ 182,705,587	$ 168,467,959

Note 14: Pension Plans

Defined Benefit Pension Plan

The Corporation participates in a defined benefit pension plan covering all employees who meet the eligibility requirements. The Corporation's funding policy is to make the maximum annual contribution allowable by applicable regulations, plus such amounts as the Corporation may deem to be appropriate from time to time. The Corporation expects to contribute $4,500,000 to the plan in 2019. The plan was frozen effective September 30, 2009.

For the years ended September 30, 2018 and 2017, the Corporation adopted the mortality tables and mortality improvement projection scales that were released during 2018 and 2017, respectively, by the Society of Actuaries which provide updated projections on the life expectancy of participants.

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

	2018	2017
Change in benefit obligations		
Beginning of the year	$ 113,626,296	$ 118,036,679
Interest cost	4,146,029	4,039,683
Actuarial (gain) loss	(7,198,214)	(4,515,369)
Benefits paid	(4,173,697)	(3,934,697)
End of the year	106,400,414	113,626,296
Change in fair value of plan assets		
Beginning of the year	99,130,927	92,530,436
Actual return on plan assets	928,960	6,685,188
Employer contributions	2,950,000	3,850,000
Benefits paid	(4,173,697)	(3,934,697)
End of the year	98,836,190	99,130,927
Funded status at the end of the year (noncurrent liability)	$ (7,564,224)	$ (14,495,369)

The accumulated benefit obligation was $106,400,414 and $113,626,296 for 2018 and 2017, respectively.

Other significant balances and costs are:

	2018	2017
Employer contributions	$ 2,950,000	$ 3,850,000
Benefits paid	4,173,697	3,934,697
Benefit income recorded in excess of revenues over expenses	(1,319,568)	(810,854)

Amounts recognized in unrestricted net assets and not yet recognized as components of net periodic benefit cost consist of a net actuarial loss of $41,152,035 and $43,813,612 at September 30, 2018 and 2017, respectively.

Information for pension plans with an accumulated benefit obligation in excess of plan assets:

	2018	2017
Projected benefit obligation	$ 106,400,414	$ 113,626,296
Accumulated benefit obligation	106,400,414	113,626,296
Fair value of plan assets	98,836,190	99,130,927

	2018	2017
Components of net periodic benefit cost		
Interest cost	$ 4,146,029	$ 4,039,683
Expected return on plan assets	(6,685,100)	(6,244,431)
Amortization of net loss	1,219,503	1,393,894
Net periodic benefit cost	$ (1,319,568)	$ (810,854)

The following amounts have been recognized in the consolidated statements of operations and changes in net assets for the years ended September 30, 2018 and 2017:

	2018	2017
Amounts arising during the period		
Net gain	$ 1,792,074	$ 4,906,126
Amounts reclassified as components of net periodic benefit cost of the period		
Net loss	$ 1,219,503	$ 1,393,894

The estimated net loss that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year is $1,182,635.

Significant assumptions include:

	2018	2017
Weighted average assumptions used to determine benefit obligations		
Discount rate	4.19%	3.72%
Rate of compensation increase	-	-
Weighted average assumptions used to determine benefit costs		
Discount rate	3.72%	3.72%
Expected return on plan assets	6.75%	6.75%
Rate of compensation increase	-	-

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of September 30, 2018:

2019	$ 4,781,539
2020	4,936,276
2021	5,252,853
2022	5,525,821
2023	5,787,071
2024 – 2026	32,108,311

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

The primary objectives of the Corporation's investment policy are to maintain investment portfolios that diversify risk through prudent asset allocation parameters, achieve asset returns that meet or exceed the plans' actuarial assumptions, achieve asset returns that are competitive with like institutions employing similar investment strategies and meet expected future benefits. The investment policy is periodically reviewed by the Corporation and a third-party fiduciary.

Defined Benefit Pension Plan Assets

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

Where quoted market prices are available in an active market, plan assets are classified within Level 1 of the valuation hierarchy. Level 1 plan assets include commingled cash equivalents and mutual funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. In certain cases where Level 1 or Level 2 inputs are not available, plan assets are classified within Level 3. The Level 3 securities include an investment fund. Significant inputs and valuation techniques used in measuring Level 3 fair values include inputs developed using estimates and assumptions which reflect market participants' perspective.

The fair values of the Corporation's pension plan assets at September 30, 2018 and 2017, by asset class are as follows:

		2018 Fair Value Measurements Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV (A)
Cash equivalents	$ 438,941	$ 438,941	$ -	$ -	$ -
Investments					
Investment funds – equity	27,355,513	-	-	-	27,355,513
Equity mutual funds	3,170,752	3,170,752	-	-	-
Bond mutual funds	8,459,741	8,459,741	-	-	-
International equity mutual funds	12,055,507	12,055,507	-	-	-
Investment funds – fixed income	10,587,486	-	-	-	10,587,486
Investment fund – defensive equity	4,961,958	-	-	-	4,961,958
Limited partnership	12,370,862	-	-	-	12,370,862
Investment fund – total return strategies	7,891,722	-	-	-	7,891,722
Investment fund – global return strategies	11,543,708	-	-	-	11,543,708
Total	$ 98,836,190	$ 24,124,941	$ -	$ -	$ 74,711,249

		2017 Fair Value Measurements Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV (A)
Cash equivalents	$ 851,306	$ 851,306	$ -	$ -	$ -
Investments					
Investment funds – equity	16,696,686	-	-	-	16,696,686
Equity mutual funds	6,738,522	6,738,522	-	-	-
Bond mutual funds	7,297,859	7,297,859	-	-	-
International equity mutual funds	17,037,889	17,037,889	-	-	-
Investment funds – fixed income	9,455,281	-	-	-	9,455,281
Investment fund – defensive equity	9,895,538	-	-	-	9,895,538
Limited partnership	12,622,489	-	-	-	12,622,489
Investment fund – total return strategies	6,757,465	-	-	-	6,757,465
Investment fund – global return strategies	11,777,892	-	-	-	11,777,892
Total	$ 99,130,927	$ 31,925,576	$ -	$ -	$ 67,205,351

(A) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy.

Defined Contribution Pension Plan

The Corporation has a defined contribution 403(b) pension plan covering substantially all employees. The Corporation matches the first 3 percent of employee compensation plus 50 percent of employee contributions between 3 percent and 5 percent. The Corporation also provides a 2.5 percent salary contribution to a select group of employees within the Corporation. Defined contribution pension expense for 2018 and 2017 was approximately $1,600,000 and $1,700,000, respectively, for this plan.

Deferred Compensation Plans

SVHC funds a deferred compensation plan for the benefit of certain physicians and senior executives. The trust account assets are classified as other assets and a corresponding deferred compensation obligation is recorded in the amount of $1,082,867 and $1,004,349 at September 30, 2018 and 2017, respectively.

SVMC also funds a deferred compensation plan for the benefit of certain employees. A deferred compensation obligation is recorded in the amount of $840,907 and $618,871 at September 30, 2018 and 2017, respectively.

Note 15: Asset Retirement Obligation

Accounting principles generally accepted in the United States of America require that an asset retirement obligation (ARO) associated with the retirement of a tangible long-lived asset be recognized as a liability in the period in which it is incurred or becomes determinable (as defined by the standard) even when the timing and/or method of settlement may be conditional on a future event. The Corporation’s conditional asset retirement obligations primarily relate to asbestos contained in buildings that the Corporation owns. Environmental regulations exist that require the Corporation to handle and dispose of asbestos in a special manner if a building undergoes major renovations or is demolished. A liability of $1,190,238 and $1,175,465 has been recognized for all significant known areas containing an ARO at September 30, 2018 and 2017, respectively.

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

Note 16: Related Parties and Significant Agreements

Dartmouth-Hitchcock Health

Effective July 1, 2012, the Corporation and Dartmouth-Hitchcock Health (DHH) entered into an Affiliation Agreement, and the first common project under this Agreement is the integration of the professional medical services of the Corporation and DHH. The Corporation reimburses DHH for certain professional medical services under a Professional Services Agreement. During 2018 and 2017, the Corporation recognized expense of approximately $27,525,000 and $27,040,000, respectively, to DHH for professional medical services. Under this arrangement, the Corporation continues to provide the physician clinic services as well as bill and collect for these services, and DHH is reimbursed for providing the professional medical staff in accordance with the terms of the Professional Services Agreement. The Corporation has amounts owed to DHH of approximately $6,840,000 and $9,700,000 at September 30, 2018 and 2017, respectively, recorded as accrued expenses on the consolidated balance sheets.

United Health Alliance

SVHC is a member of the United Health Alliance (UHA), a corporation organized for the purpose of providing for health care delivery under a managed care system in and around the Bennington, Vermont, area. SVMC leases space to UHA, provides payroll services and administers employee benefits for UHA. During 2018 and 2017, SVMC charged UHA approximately $1,140,000 and $1,320,000, respectively, for these services. SVMC has other receivables from UHA of approximately $97,000 and $105,000 at September 30, 2018 and 2017, respectively.

UHA charges SVMC for services provided under a hospital service agreement. The total amount charged for these services was approximately $10,000 for 2018 and 2017.

UHA charges Twin Rivers for services provided under a service agreement. The total amount charged for these services was approximately $45,000 and $17,000 for the years ended September 30, 2018 and 2017, respectively.

SVHC pays dues to UHA for continued participation in the managed care system. The total amount charged for these services was approximately $107,000 and $124,000 for 2018 and 2017, respectively.

Note 17: Disclosures About Fair Value of Assets and Liabilities

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

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Recurring Measurements

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2018 and 2017:

		Fair Value Measurements Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV (A)
September 30, 2018					
Assets					
Investments					
Equities, equity mutual funds and balanced funds	$ 25,111,290	$ 25,111,290	$ -	$ -	$ -
Fixed income securities and mutual funds	4,113,413	458,143	3,655,270	-	-
Alternative investments					
Investment fund – total return strategies	11,029,485	-	-	-	11,029,485
Investment fund – global return strategies	8,052,213	-	-	-	8,052,213
Investment fund – fixed income	5,502,075	-	-	-	5,502,075
Investment fund – equity	4,381,459	-	-	-	4,381,459
Investment fund – defensive equity	8,823,879	-	-	-	8,823,879
Limited partnership	8,405,464	-	-	-	8,405,464
Investment fund – Treasury Inflation Protected Securities (TIPS)	4,614,624	-	-	-	4,614,624
Deferred compensation plan assets (equity and fixed income mutual funds)	1,088,621	1,088,621	-	-	-
Total investments	81,122,523	26,658,054	3,655,270	-	50,809,199
Beneficial interest in perpetual trust	2,280,596	-	2,280,596	-	-
Cash equivalents	1,773,855	1,773,855	-	-	-
Total assets	$ 85,176,974	$ 28,431,909	$ 5,935,866	$ -	$ 50,809,199
Liabilities					
Interest rate swap agreement	$ (4,703,909)	$ -	$ (4,703,909)	$ -	$ -

	Total	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV [(A)]
September 30, 2017					
Assets					
Equities, equity mutual funds and balanced funds	$ 25,141,943	$ 25,141,943	$ -	$ -	$ -
Fixed income securities and mutual funds	6,307,458	2,480,806	3,826,652	-	-
Alternative investments					
Investment fund – total return strategies	9,836,407	-	-	-	9,836,407
Investment fund – global return strategies	8,182,117	-	-	-	8,182,117
Investment fund – fixed income	1,311,709	-	-	-	1,311,709
Investment fund – equity	3,717,806	-	-	-	3,717,806
Investment fund – defensive equity	8,107,202	-	-	-	8,107,202
Limited partnership	9,581,499	-	-	-	9,581,499
Investment fund – Treasury Inflation Protected Securities (TIPS)	5,077,227	-	-	-	5,077,227
Deferred compensation plan assets (equity and fixed income mutual funds)	1,009,537	1,009,537	-	-	-
Total investments	78,272,905	28,632,286	3,826,652	-	45,813,967
Beneficial interest in perpetual trust	2,212,750	-	2,212,750	-	-
Cash equivalents	2,063,741	2,063,741	-	-	-
Total assets	$ 82,549,396	$ 30,696,027	$ 6,039,402	-	$ 45,813,967
Liabilities					
Interest rate swap agreement	$ (2,476,816)	$ -	$ (1,238,408)	$ -	$ (1,238,408)

(A) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented on the consolidated balance sheets.

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended September 30, 2018.

Cash Equivalents, Investments and Deferred Compensation Plan Assets

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

Interest Rate Swap Agreement

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

Beneficial Interest in Perpetual Trust

Fair value is estimated at the present value of the future distributions expected to be received over the term of the agreement. Due to the nature of the valuation inputs, the interest is classified within Level 2 of the hierarchy.

Note 18: Fair Value Option

As permitted by Topic 825, the Corporation has elected to measure the investment funds and limited partnerships, included in assets limited as to use, at fair value. Management has elected the fair value option for these items because it more accurately reflects the portfolio returns and financial position of the Corporation. Total investment funds and limited partnerships at September 30, 2018 and 2017, are $50,809,199 and $45,813,967, respectively.

See *Note 17* for additional disclosures regarding fair value of the consolidated balance sheet line items listed in the preceding paragraph.

Note 19: Significant Estimates and Concentrations

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

Allowance for Net Patient Service Revenue Adjustments

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

Electronic Health Records Incentive Program

Payments under the program are contingent upon audit determinations by the fiscal intermediary. If issues arise during the audit, it is reasonably possible that events could occur that would change the estimated payment, materially, in the near term.

Self-Insurance Costs

Estimates related to the accrual for self-insured liabilities are described in *Note 1*.

Medical Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in *Notes 1* and *7*.

Litigation

In the normal course of business, the Corporation is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Corporation's self-insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegations regarding employment practices or performance of contracts.

The Corporation evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Asset Retirement Obligation

As discussed in *Note 15*, the Corporation has recorded a liability for its conditional asset retirement obligations related to asbestos abatement. It is reasonably possible that events could occur that would materially change this estimated liability.

Pension Benefit Obligations

The Corporation has a defined benefit pension plan whereby it agrees to provide certain postretirement benefits to eligible employees. The benefit obligation is the actuarial present value of all benefits attributed to service rendered prior to the valuation date. It is reasonably possible that events could occur that would change the estimated amount of this liability materially in the near term.

Investments

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

Admitting Physicians

The Corporation is served by a group of admitting physicians whose patients comprise the majority of the Corporation's net patient service revenue.

Note 20: Acquisition

On February 5, 2018, the Corporation acquired The Center for Nursing and Rehabilitation at Hoosick Falls (CNR), (the "Acquiree") a not-for-profit skilled nursing facility that provides long-term care services in the Hoosick Falls and Rensselaer County communities. The Corporation expects the acquisition will allow it to provide more comprehensive health care services in its current service area and achieve cost savings through elimination of certain duplicative administrative and other functions. The acquisition was accomplished by Southwestern Vermont Healthcare New York, LLC (SVHCNY), becoming the sole member of the Acquiree, and no consideration was or will be transferred for the acquisition.

The following table summarizes the amounts of the assets acquired and liabilities assumed recognized at the acquisition date.

Recognized amounts of identifiable assets acquired and liabilities assumed

Current assets	$	1,382,258
Property and equipment		3,902,149
Long-term investments		67,846
Other assets		461,235
Total assets		5,813,488
Current liabilities		2,017,564
Related party liabilities		1,440,530
Long-term debt		1,033,828
Total liabilities		4,491,922
Total identifiable net assets – contribution received	$	1,321,566

Accordingly, an implied contribution to the Corporation from CNR was recorded. The implied contribution of $1,321,566, was reflected within the consolidated financial statements at September 30, 2018, is as follows:

Unrestricted net assets	$	1,135,620
Temporarily restricted net assets		118,100
Permanently restricted net assets		67,846
	$	1,321,566

Acquired current assets include patient accounts receivable recorded at their estimated fair value of $873,688. The amount due for these patient accounts receivable, net of contractual allowances and the portion thereof estimated to be uncollectible was $1,254,781 and $381,093, respectively, at the acquisition date.

CNR contributed revenues of $3,700,456, and a deficiency of revenues over expenses of $1,664,219, and changes in net assets of $521,380 to the Corporation for the period from the acquisition date through September 30, 2018. The following unaudited pro forma summary presents consolidated information of the Corporation as if the acquisition had occurred on October 1, 2017, or October 1, 2016:

	Pro Forma Year Ended September 30, 2018	Pro Forma Year Ended September 30, 2017
Revenue	$ 191,522,872	$ 178,052,914
Excess of revenues over expenses	10,422,178	12,971,248
Change in		
Unrestricted net assets (deficit)	15,639,044	19,030,745
Temporarily restricted net assets	1,037,295	1,514,116
Permanently restricted net assets	315,910	254,540

Note 21: Change in Accounting Principle

In 2018, the Corporation adopted the provisions of ASU 2015-07, Fair Value Measurement (*Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent*). This standard allows a reporting entity to measure the fair value of certain investments using the net asset value per share (or its equivalent) (NAV) as a practical expedient, and eliminates the requirement that these investments be categorized as Level 2 or 3 within the fair value hierarchy. The amendments are shown retrospectively.

In 2018, the Corporation changed its method of accounting for the subsequent measurement of inventory by adopting the provisions of ASU 2015-11, Simplifying the Measurement of Inventory. The new accounting guidance provided for in ASU 2015-11 allows the Corporation to apply a simplified subsequent measurement of inventory. Upon adoption, the Corporation is no longer required to consider replacement cost but only evaluate cost and net realizable value when evaluating the potential impairment of inventory. This change was applied prospectively as of the beginning of the period of adoption.

Note 22: Future Changes in Accounting Principles

Revenue Recognition

The Financial Accounting Standards Board amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The Corporation has adopted this standard as of October 1, 2018, with a full retrospective transition method. The Corporation expects no significant changes to its previously reported net patient service revenue as a result of this adoption; however, the disclosures within the annual consolidated financial statements will be significantly expanded.

In connection with the revenue recognition accounting standard update above, Financial Accounting Standards Board recently clarified grants and contract guidance for not-for-profit entities. Based upon the updated guidance, the Corporation expects many of its grants to be considered contributions when effective, as commensurate value is not received by the resource provider. The Corporation has adopted this standard as of October 1, 2018.

Presentation of Financial Statements for Not-for-Profit Entities

The Financial Accounting Standards Board recently issued guidance which changes reporting and disclosure requirements for the financial statements of not-for-profit (NFP) entities. The Corporation has adopted this standard as of October 1, 2018. The significant impacts on the financial statements are as follows:

- Previously reported unrestricted, temporarily restricted and permanently restricted net assets will be changed to net assets with donor-imposed restrictions and those without.

- Expenses are reported by both nature and function in one location (either an additional statement or within the footnotes).

- Expanded disclosures regarding liquidity and cash flows available to meet operating expenses for one year from the balance sheet date.

- Amounts and purposes of governing board designations and appropriations as of the end of the period.

Restricted Cash

The Financial Accounting Standards Board clarified its standard related to the presentation of restricted cash on the consolidated statements of cash flows to remove diversity in practice. The Corporation, which presents cash and cash equivalents with restrictions in multiple line items on the consolidated balance sheets, will now report these items as cash and cash equivalents for the consolidated statements of cash flows, and will disclose the location of its the cash and cash equivalents to reconcile the two statements for each period presented. The Corporation has adopted this standard as of October 1, 2018.

Accounting for Leases

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual and interim periods beginning after December 15, 2018. The Corporation is evaluating the impact the standard will have on the consolidated financial statements.

Accounting for Financial Instruments – Credit Losses

The Financial Accounting Standards Board amended its standards related to the accounting for credit losses on financial instruments. This amendment introduces new guidance for accounting for credit losses on instruments including trade receivables and finance receivables. The new standard is effective for annual and interim periods beginning after December 15, 2019. The Corporation is in the process of evaluating the impact the amendment will have on the consolidated financial statements.

Note 23: Subsequent Events

Subsequent events have been evaluated through December 11, 2018, which is the date the consolidated financials were issued.

Supplementary Information

Southwestern Vermont Health Care Corporation

Consolidating Schedule – Balance Sheet Information

September 30, 2018

Assets

	SVHC	SVMC	Foundation	NBM	Twin Rivers	Obligated Group Eliminations	Obligated Group Total	MAHC	SVHCA	SVHCE	SVHCNY	SVHC Hoosick Falls	Eliminations	Consolidated
Current Assets														
Cash and cash equivalents	$ 200,922	$ 8,811,592	$ 922,889	$ 64,353	$ 80,337	$ -	$ 10,080,093	$ 195,083	$ 125,643	$ -	$ 17,595	$ 246,313	$ -	$ 10,664,727
Patient accounts receivable, net of allowance – $10,770,000	-	14,607,010	-	102,352	107,250	-	14,816,612	1,780,911	-	-	-	621,649	-	17,219,172
Other receivables	9,416	705,259	264,661	-	-	-	979,336	-	10,918	-	215	815,200	-	1,805,669
Supplies	-	3,218,225	-	-	-	-	3,218,225	34,078	12,868	-	-	32,279	-	3,297,450
Prepaid expenses and other	12,947	1,387,186	12,629	-	16,721	-	1,429,483	34,330	-	-	1,500	290,888	-	1,756,201
Total current assets	223,285	28,729,272	1,200,179	166,705	204,308	-	30,523,749	2,044,402	149,429	-	19,310	2,006,329	-	34,743,219
Assets Limited As To Use														
Internally designated	63,636,053	6,961,813	4,740,652	-	-	(6,961,813)	68,376,705	1,219,540	-	-	-	180,189	(1,219,540)	68,556,894
Externally restricted	-	100,784	13,150,079	-	-	-	13,250,863	-	-	-	-	-	-	13,250,863
	63,636,053	7,062,597	17,890,731	-	-	(6,961,813)	81,627,568	1,219,540	-	-	-	180,189	(1,219,540)	81,807,757
Property and Equipment, At Cost														
Land and land improvements	1,272,006	3,280,124	-	12,925	11,105	-	4,576,160	502,479	-	-	-	184,000	-	5,262,639
Buildings and leasehold improvements	12,354,543	45,711,726	-	373,740	-	-	58,440,009	7,820,349	-	1,100	1,500,000	3,596,934	-	71,358,392
Equipment	895,149	95,921,114	6,997	326,845	324,472	-	97,474,577	2,811,199	11,912	62,093	-	2,851,043	-	103,210,824
Construction in progress	1,500	1,336,051	-	-	-	-	1,337,551	11,237	-	-	-	-	-	1,348,788
	14,523,198	146,249,015	6,997	713,510	335,577	-	161,828,297	11,145,264	11,912	63,193	1,500,000	6,631,977	-	181,180,643
Less accumulated depreciation	9,563,920	106,881,742	1,166	128,977	64,901	-	116,640,706	8,159,523	11,912	62,209	150,000	197,174	-	125,221,524
	4,959,278	39,367,273	5,831	584,533	270,676	-	45,187,591	2,985,741	-	984	1,350,000	6,434,803	-	55,959,119
Due from Affiliates	1,225,880	5,846,288	782,731	-	-	(4,095,566)	3,759,333	19,058	258,851	-	143,778	-	(4,181,020)	-
Other Assets														
Beneficial interest in perpetual trust	-	-	2,212,750	-	-	-	2,212,750	-	-	-	-	67,846	-	2,280,596
Deferred compensation plan assets	1,088,624	-	-	-	-	-	1,088,624	-	-	-	-	-	-	1,088,624
Other	58,533	-	383,199	-	-	-	441,732	-	-	-	-	130,410	-	572,142
	1,147,157	-	2,595,949	-	-	-	3,743,106	-	-	-	-	198,256	-	3,941,362
Total assets	$ 71,191,653	$ 81,005,430	$ 22,475,421	$ 751,238	$ 474,984	$ (11,057,379)	$ 164,841,347	$ 6,268,741	$ 408,280	$ 984	$ 1,513,088	$ 8,819,577	$ (5,400,560)	$ 176,451,457

Southwestern Vermont Health Care Corporation

Consolidating Schedule – Balance Sheet Information

September 30, 2018

Liabilities and Net Assets

	SVHC	SVMC	Foundation	NBM	Twin Rivers	Obligated Group Eliminations	Obligated Group Total	MAHC	SVHCA	SVHCE	SVHCNY	SVHC Hoosick Falls	Eliminations	Consolidated
Current Liabilities														
Current maturities of long-term debt	$ -	$ 428,528	$ -	$ -	$ -	$ -	$ 428,528	$ -	$ -	$ -	$ 45,806	$ 716,283	$ -	$ 1,190,617
Accounts payable	388,579	6,786,591	53,854	16,122	24,000	-	7,269,146	284,341	10,417	-	3,186	998,324	-	8,565,414
Accrued expenses	63,142	13,148,385	248,906	30,694	-	-	13,491,127	670,759	-	-	84,118	783,371	-	15,029,375
Estimated amounts due to third-party payers	-	1,351,414	-	-	-	-	1,351,414	-	-	-	-	137,754	-	1,489,168
Estimated self-insurance costs	41,195	916,418	-	-	-	-	957,613	68,163	-	-	-	-	-	1,025,776
Other	28,295	65,322	-	-	-	-	93,617	63,821	6,874	254	-	-		164,566
Total current liabilities	521,211	22,696,658	302,760	46,816	24,000	-	23,591,445	1,087,084	17,291	254	133,110	2,635,732	-	27,464,916
Long-Term Debt	-	9,568,084	-	-	-	-	9,568,084	-	-	-	1,411,240	4,248	-	10,983,572
Asset Retirement Obligations	-	1,190,238	-	-	-	-	1,190,238	-	-	-	-	-	-	1,190,238
Accrued Pension Liabilities	107,163	7,067,782	-	-	-	-	7,174,945	389,279	-	-	-	-	-	7,564,224
Deferred Compensation	1,082,867	-	-	-	-	-	1,082,867	-	-	-	-	-	-	1,082,867
Due To Affiliates	9,914,372	-	-	617,497	525,510	(11,057,379)	-	524,791	11,406	325,670	204,468	4,334,225	(5,400,560)	-
Interest Rate Swap Agreements	-	767,691	-	-	-	-	767,691	-	-	-	-	2,426	-	770,117
Other Liabilities	567,149	840,906	48,543	-	-	-	1,456,598	-	-	-	-	-	-	1,456,598
Total liabilities	12,192,762	42,131,359	351,303	664,313	549,510	(11,057,379)	44,831,868	2,001,154	28,697	325,924	1,748,818	6,976,631	(5,400,560)	50,512,532
Net Assets														
Unrestricted	58,998,891	38,874,071	6,116,159	86,925	(74,526)	-	104,001,520	4,267,587	379,583	(324,940)	(235,730)	1,644,690	-	109,732,710
Temporarily restricted	-	-	4,573,499	-	-	-	4,573,499	-	-	-	-	130,410	-	4,703,909
Permanently restricted	-	-	11,434,460	-	-	-	11,434,460	-	-	-	-	67,846	-	11,502,306
Total net assets	58,998,891	38,874,071	22,124,118	86,925	(74,526)	-	120,009,479	4,267,587	379,583	(324,940)	(235,730)	1,842,946	-	125,938,925
Total liabilities and net assets	$ 71,191,653	$ 81,005,430	$ 22,475,421	$ 751,238	$ 474,984	$ (11,057,379)	$ 164,841,347	$ 6,268,741	$ 408,280	$ 984	$ 1,513,088	$ 8,819,577	$ (5,400,560)	$ 176,451,457

Southwestern Vermont Health Care Corporation

Consolidating Schedule – Statement of Operations Information

Year Ended September 30, 2018

	SVHC	SVMC	Foundation	NBM	Twin Rivers	Obligated Group Eliminations	Obligated Group Total	MAHC	SVHCA	SVHCE	SVHCNY	SVHC Hoosick Falls	Eliminations	Consolidated
Unrestricted Revenues, Gains and Other Support														
Net patient service revenue	$ -	$ 161,603,261	$ -	$ 950,070	$ 1,761,127	$ (9,178)	$ 164,305,280	$ 12,362,515	$ -	$ -	$ -	$ 3,703,878	$ (58,253)	$ 180,313,420
Provision for uncollectible accounts	-	(5,745,980)	-	11,288	(28,981)	-	(5,763,673)	(243,601)	-	-	-	(144,025)	-	(6,151,299)
Net patient service revenue less provision for uncollectible accounts	-	155,857,281	-	961,358	1,732,146	(9,178)	158,541,607	12,118,914	-	-	-	3,559,853	(58,253)	174,162,121
Fixed prospective revenue	-	5,254,620	-	-	-	-	5,254,620	-	-	-	-	-	-	5,254,620
Other	2,096,387	5,058,630	164,217	26,785	8,690	(1,864,492)	5,490,217	7,177	296,220	-	1,298,184	10,693	(1,441,615)	5,660,876
Net assets released from restrictions used for operations	-	-	833,036	-	-	-	833,036	-	-	-	-	-	-	833,036
Total unrestricted revenues, gains and other support	2,096,387	166,170,531	997,253	988,143	1,740,836	(1,873,670)	170,119,480	12,126,091	296,220	-	1,298,184	3,570,546	(1,499,868)	185,910,653
Expenses and Losses														
Salaries and wages	167,599	49,061,823	811,313	312,740	-	-	50,353,475	7,002,492	94,324	-	736,462	2,659,449	-	60,846,202
Employee benefits	42,086	12,862,405	202,702	76,144	-	-	13,183,337	1,788,402	45,323	-	206,880	564,361	-	15,788,303
Purchased services	-	40,330,260	409,141	602,789	2,290,350	-	43,632,540	1,099,307	107,373	-	8,617	430,773	(1,124,072)	44,154,538
Supplies and other	1,334,109	49,620,407	1,104,461	168,587	587,346	(2,571,761)	50,243,149	2,288,077	169,452	435	123,549	1,383,671	(362,525)	53,845,808
Depreciation and amortization	505,834	6,156,990	466	86,690	43,286	-	6,793,266	294,067	-	235	100,000	185,234	-	7,372,802
Interest	-	524,901	-	-	-	-	524,901	1,113	-	-	157,701	37,429	(23,210)	697,934
Total expenses and losses	2,049,628	158,556,786	2,528,083	1,246,950	2,920,982	(2,571,761)	164,730,668	12,473,458	416,472	670	1,333,209	5,260,917	(1,509,807)	182,705,587
Operating Income (Loss)	46,759	7,613,745	(1,530,830)	(258,807)	(1,180,146)	698,091	5,388,812	(347,367)	(120,252)	(670)	(35,025)	(1,690,371)	9,939	3,205,066
Other Income (Expense)														
Investment return	1,206,631	360,519	593,834	-	-	-	2,160,984	(6,787)	12,149	-	-	3,117	-	2,169,463
Change in fair value of interest rate swap agreements	-	470,717	-	-	-	-	470,717	-	-	-	-	10,837	-	481,554
Contributions	-	1,248,841	1,232,839	-	45	(698,091)	1,783,634	5,934	7,355	-	-	12,198	(9,939)	1,799,182
Contribution of The Center for Nursing and Rehabilitation at Hoosick Falls	-	-	-	-	-	-	-	-	-	-	-	1,135,620	-	1,135,620
Other	378,227	4,374	(15)	-	-	-	382,586	-	(2,845)	-	-	-	-	379,741
Total other income (expense)	1,584,858	2,084,451	1,826,658	-	45	(698,091)	4,797,921	(853)	16,659	-	-	1,161,772	(9,939)	5,965,560
Excess (Deficiency) of Revenues Over Expenses	1,631,617	9,698,196	295,828	(258,807)	(1,180,101)	-	10,186,733	(348,220)	(103,593)	(670)	(35,025)	(528,599)	-	9,170,626
Net assets released from restriction used for purchase of property and equipment	-	-	32,000	-	-	-	32,000	-	-	-	-	-	-	32,000
Grant received for acquisition of property and equipment	-	-	-	-	-	-	-	-	-	-	-	2,173,289	-	2,173,289
Defined benefit pension costs														
Net gain arising during the period	25,388	1,674,459	-	-	-	-	1,699,847	92,227	-	-	-	-	-	1,792,074
Amortization of net loss included in net periodic pension cost	17,277	1,139,467	-	-	-	-	1,156,744	62,759	-	-	-	-	-	1,219,503
Transfer (to) from affiliates, net	-	(5,282,338)	(32,000)	739,022	1,815,026	-	(2,760,290)	3,000,000	-	-	(239,710)	-	-	-
Increase (Decrease) in Unrestricted Net Assets	$ 1,674,282	$ 7,229,784	$ 295,828	$ 480,215	$ 634,925	$ -	$ 10,315,034	$ 2,806,766	$ (103,593)	$ (670)	$ (274,735)	$ 1,644,690	$ -	$ 14,387,492

Southwestern Vermont Health Care Corporation

Consolidating Schedule – Statement of Changes in Net Assets Information

Year Ended September 30, 2018

	SVHC	SVMC	Foundation	NBM	Twin Rivers	Obligated Group Eliminations	Obligated Group Total	MAHC	SVHCA	SVHCE	SVHCNY	SVHC Hoosick Falls	Eliminations	Consolidated
Unrestricted Net Assets														
Excess (deficiency) of revenues over expenses	$ 1,631,617	$ 9,698,196	$ 295,828	$ (258,807)	$ (1,180,101)	$ -	$ 10,186,733	$ (348,220)	$ (103,593)	$ (670)	$ (35,025)	$ (528,599)	$ -	$ 9,170,626
Net assets released from restriction used for purchase of property and equipment	-	-	32,000	-	-	-	32,000	-	-	-	-	-	-	32,000
Grant income for acquisition of property and equipment	-	-	-	-	-	-	-	-	-	-	-	2,173,289	-	2,173,289
Defined benefit pension costs														
Net loss arising during the period	25,388	1,674,459	-	-	-	-	1,699,847	92,227	-	-	-	-	-	1,792,074
Amortization of net loss included in net periodic pension cost	17,277	1,139,467	-	-	-	-	1,156,744	62,759	-	-	-	-	-	1,219,503
Transfer (to) from affiliates, net	-	(5,282,338)	(32,000)	739,022	1,815,026	-	(2,760,290)	3,000,000	-	-	(239,710)	-	-	-
Increase (decrease) in unrestricted net assets	1,674,282	7,229,784	295,828	480,215	634,925	-	10,315,034	2,806,766	(103,593)	(670)	(274,735)	1,644,690	-	14,387,492
Temporarily Restricted Net Assets														
Contribution of The Center for Nursing and Rehabilitation at Hoosick Falls	-	-	-	-	-	-	-	-	-	-	-	118,100	-	118,100
Change in interest in net assets of Hoosick Falls Health Center Foundation	-	-	-	-	-	-	-	-	-	-	-	12,310	-	12,310
Contributions received	-	-	1,628,552	-	-	-	1,628,552	-	-	-	-	-	-	1,628,552
Investment return	-	-	25,259	-	-	-	25,259	-	-	-	-	-	-	25,259
Net assets released from restriction	-	-	(865,036)	-	-	-	(865,036)	-	-	-	-	-	-	(865,036)
Increase in temporarily restricted net assets	-	-	788,775	-	-	-	788,775	-	-	-	-	130,410	-	919,185
Permanently Restricted Net Assets														
Contribution of The Center for Nursing and Rehabilitation at Hoosick Falls	-	-	-	-	-	-	-	-	-	-	-	67,846	-	67,846
Contributions received	-	-	120,000	-	-	-	120,000	-	-	-	-	-	-	120,000
Change in beneficial interest in trusts	-	-	60,218	-	-	-	60,218	-	-	-	-	-	-	60,218
Increase in permanently restricted net assets	-	-	180,218	-	-	-	180,218	-	-	-	-	67,846	-	248,064
Change in Net Assets	1,674,282	7,229,784	1,264,821	480,215	634,925	-	11,284,027	2,806,766	(103,593)	(670)	(274,735)	1,842,946	-	15,554,741
Net Assets, Beginning of Year	57,324,609	31,644,287	20,859,297	(393,290)	(709,451)	-	108,725,452	1,460,821	483,176	(324,270)	39,005	-	-	110,384,184
Net Assets, End of Year	$ 58,998,891	$ 38,874,071	$ 22,124,118	$ 86,925	$ (74,526)	$ -	$ 120,009,479	$ 4,267,587	$ 379,583	$ (324,940)	$ (235,730)	$ 1,842,946	$ -	$ 125,938,925