

Southwestern Vermont Health Care Corporation

Independent Auditor's Report and Consolidated Financial Statements

September 30, 2017 and 2016

Southwestern Vermont Health Care Corporation

September 30, 2017 and 2016

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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, 2017 and 2016, 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, 2017 and 2016, and the results of its operations, the changes in its net assets and its 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
January 5, 2018

Southwestern Vermont Health Care Corporation
Consolidated Balance Sheets
September 30, 2017 and 2016

Assets

	<u>2017</u>	<u>2016</u>
Current Assets		
Cash and cash equivalents	\$ 14,053,746	\$ 18,033,496
Patient accounts receivable, net of allowance; 2017 - \$9,709,000; 2016 - \$8,915,000	15,825,444	16,635,800
Other receivables	863,909	850,272
Supplies	2,880,118	2,581,300
Prepaid expenses and other	<u>1,318,179</u>	<u>972,777</u>
Total current assets	<u>34,941,396</u>	<u>39,073,645</u>
 Assets Limited As To Use		
Internally designated	66,666,797	60,959,803
Externally restricted	<u>12,660,312</u>	<u>11,313,470</u>
	<u>79,327,109</u>	<u>72,273,273</u>
 Property and Equipment, At Cost	168,078,253	155,210,891
Less accumulated depreciation	<u>117,914,553</u>	<u>111,469,892</u>
	<u>50,163,700</u>	<u>43,740,999</u>
 Other Assets		
Beneficial interest in perpetual trust	2,152,532	2,059,766
Deferred compensation plan assets	1,009,537	854,920
Other	<u>387,040</u>	<u>416,523</u>
	<u>3,549,109</u>	<u>3,331,209</u>
Total assets	<u>\$ 167,981,314</u>	<u>\$ 158,419,126</u>

Liabilities and Net Assets

	2017	2016
Current Liabilities		
Current maturities of long-term debt	\$ 505,575	\$ 448,392
Accounts payable	7,599,391	7,845,520
Accrued expenses	16,691,902	14,142,348
Estimated amounts due to third-party payers	1,229,984	3,542,995
Estimated self-insurance costs	703,050	772,449
Other	223,215	220,806
	<hr/>	<hr/>
Total current liabilities	26,953,117	26,972,510
Long-Term Debt	11,448,825	10,328,151
Asset Retirement Obligations	1,175,465	1,180,362
Accrued Pension Liabilities	14,495,369	25,506,243
Deferred Compensation	1,004,349	850,443
Interest Rate Swap Agreement	1,238,408	1,892,230
Other Liabilities	1,281,597	1,087,327
	<hr/>	<hr/>
Total liabilities	57,597,130	67,817,266
Net Assets		
Unrestricted	95,345,218	77,159,294
Temporarily restricted	3,784,724	2,381,434
Permanently restricted	11,254,242	11,061,132
	<hr/>	<hr/>
Total net assets	110,384,184	90,601,860
	<hr/>	<hr/>
Total liabilities and net assets	\$ 167,981,314	\$ 158,419,126
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Southwestern Vermont Health Care Corporation
Consolidated Statements of Operations
Years Ended September 30, 2017 and 2016

	2017	2016
Unrestricted Revenues, Gains and Other Support		
Net patient service revenue	\$ 170,659,436	\$ 168,100,150
Provision for uncollectible accounts	(5,340,353)	(4,751,890)
Net patient service revenue less provision for uncollectible accounts	165,319,083	163,348,260
Other	5,581,132	4,000,436
Net assets released from restrictions used for operations	1,144,611	667,962
Total unrestricted revenues, gains and other support	172,044,826	168,016,658
Expenses and Losses		
Salaries and wages	54,786,057	52,770,858
Employee benefits	14,437,274	13,725,126
Purchased services	41,267,234	39,959,725
Supplies and other	50,466,411	50,326,539
Depreciation and amortization	6,981,367	6,361,587
Interest	529,616	536,690
Total expenses and losses	168,467,959	163,680,525
Operating Income	3,576,867	4,336,133
Other Income (Expense)		
Investment return	6,869,903	6,195,161
Change in fair value of interest rate swap agreement	653,822	(340,504)
Contributions	1,675,253	537,084
Other	(670,966)	-
Total other income (expense)	8,528,012	6,391,741
Excess of Revenues Over Expenses	12,104,879	10,727,874
Net assets released from restriction used for purchase of property and equipment	81,025	353,541
Defined benefit pension costs		
Net gain (loss) arising during the period	4,606,126	(7,216,847)
Amortization of net loss included in net periodic pension cost	1,393,894	1,166,919
Increase in Unrestricted Net Assets	\$ 18,185,924	\$ 5,031,487

Southwestern Vermont Health Care Corporation
Consolidated Statements of Changes in Net Assets
Years Ended September 30, 2017 and 2016

	2017	2016
Unrestricted Net Assets		
Excess of revenues over expenses	\$ 12,104,879	\$ 10,727,874
Net assets released from restriction used for purchase of property and equipment	81,025	353,541
Defined benefit pension costs		
Net gain (loss) arising during the period	4,606,126	(7,216,847)
Amortization of net loss included in net periodic pension cost	1,393,894	1,166,919
Increase in unrestricted net assets	18,185,924	5,031,487
Temporarily Restricted Net Assets		
Contributions received	2,431,245	1,277,325
Investment return	197,681	38,732
Net assets released from restriction	(1,225,636)	(1,021,503)
Increase in temporarily restricted net assets	1,403,290	294,554
Permanently Restricted Net Assets		
Contributions received	100,344	-
Change in beneficial interest in trust	92,766	14,633
Increase in permanently restricted net assets	193,110	14,633
Change in Net Assets	19,782,324	5,340,674
Net Assets, Beginning of Year	90,601,860	85,261,186
Net Assets, End of Year	\$ 110,384,184	\$ 90,601,860

Southwestern Vermont Health Care Corporation
Consolidated Statements of Cash Flows
Years Ended September 30, 2017 and 2016

	2017	2016
Operating Activities		
Change in net assets	\$ 19,782,324	\$ 5,340,674
Items not requiring (providing) operating cash flow		
(Gain) loss on sale of property and equipment	23,293	(923)
Depreciation and amortization	6,981,367	6,361,587
Net gain on investments	(6,349,305)	(5,477,241)
Change in fair value of interest rate swap agreement	(653,822)	340,504
Change in beneficial interest in perpetual trusts	(92,766)	(14,633)
Restricted contributions and investment income received	(2,729,270)	(1,316,057)
Defined benefit pension costs	(11,010,874)	1,474,615
Changes in		
Patient accounts receivable, net	810,356	(1,606,593)
Estimated amounts due from and to third-party payers	(2,313,011)	1,405,342
Accounts payable and accrued expenses	2,557,256	(896,475)
Asset retirement obligations	(4,897)	4,140
Other assets and liabilities	(434,815)	1,942,010
Net cash provided by operating activities	6,565,836	7,556,950
Investing Activities		
Purchase of investments	(18,756,345)	(42,032,123)
Proceeds from sale of investments	18,051,814	44,479,202
Purchase of property and equipment	(13,195,851)	(12,386,367)
Proceeds from sale of property and equipment	1,120,033	-
Net cash used in investing activities	(12,780,349)	(9,939,288)
Financing Activities		
Proceeds from restricted contributions and investment income	2,729,270	1,316,057
Principal payments on long-term debt	(494,507)	(513,170)
Net cash provided by financing activities	2,234,763	802,887
Decrease in Cash and Cash Equivalents	(3,979,750)	(1,579,451)
Cash and Cash Equivalents, Beginning of Year	18,033,496	19,612,947
Cash and Cash Equivalents, End of Year	\$ 14,053,746	\$ 18,033,496
Supplemental Cash Flows Information		
Interest paid	\$ 528,485	\$ 528,105
Property and equipment in accounts payable	\$ 1,190,861	\$ 1,511,682
Capital lease obligation incurred	\$ 1,667,031	\$ 1,635,928

Southwestern Vermont Health Care Corporation

Notes to Consolidated Financial Statements

September 30, 2017 and 2016

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.

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, and NBM (collectively, the "Corporation"). All significant intercompany transactions and balances have been eliminated.

Southwestern Vermont Health Care Corporation
Notes to Consolidated Financial Statements
September 30, 2017 and 2016

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, 2017 and 2016, 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, 2017, the Corporation held approximately \$11,285,000 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, 2017, the Corporation's deposit accounts exceeded federally insured limits by approximately \$915,000.

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. 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.

Southwestern Vermont Health Care Corporation
Notes to Consolidated Financial Statements
September 30, 2017 and 2016

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 decreased from 87% of self-pay accounts receivable at September 30, 2016, to 86% of self-pay accounts receivable at September 30, 2017. In addition, the Corporation's write-offs decreased approximately \$870,000 from approximately \$5,415,000 for the year ended September 30, 2016, to approximately \$4,545,000 for the year ended September 30, 2017. The decrease was the result of positive trends experienced in the collection of amounts from self-pay patients in fiscal year 2017.

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

	2017	2016
Balance, beginning of year	\$ 8,915,000	\$ 9,580,000
Provision for year	5,340,353	4,751,890
Accounts charged off during the year	<u>(4,546,353)</u>	<u>(5,416,890)</u>
Balance, end of year	<u>\$ 9,709,000</u>	<u>\$ 8,915,000</u>

Supplies

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

Southwestern Vermont Health Care Corporation
Notes to Consolidated Financial Statements
September 30, 2017 and 2016

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, 2017 and 2016.

Guarantee

The Corporation guarantees certain third-party debt of employees and unconsolidated affiliated organizations. Should the Corporation be obligated to perform under the guarantee agreement, the Corporation may seek reimbursement from the related organization of amounts expended under the guarantee. No liability has been recorded in the consolidated financial statements for the guarantees.

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.

Southwestern Vermont Health Care Corporation

Notes to Consolidated Financial Statements

September 30, 2017 and 2016

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.

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.

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*.

Income Taxes

SVHC, SVMC, MAHC, SVHCA, the Foundation, SVHCNY, Twin Rivers, and NBM 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*).

Southwestern Vermont Health Care Corporation

Notes to Consolidated Financial Statements

September 30, 2017 and 2016

The Corporation files tax returns in the U.S. federal jurisdiction. With a few exceptions, the Corporation is no longer subject to U.S. federal examinations by tax authorities for years before 2014.

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 \$225,000, up to an aggregate of \$1,000,000, which is contingent upon individual health claims reaching 125% 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.

Southwestern Vermont Health Care Corporation

Notes to Consolidated Financial Statements

September 30, 2017 and 2016

During the years ended September 30, 2017 and 2016, the Corporation has recorded revenue of approximately \$285,000 and \$240,000, respectively, which is included in other revenue within operating revenues in the consolidated statements of operations.

Reclassifications

Certain reclassifications have been made to the 2016 consolidated financial statements to conform to the 2017 consolidated financial statement presentation. These reclassifications had no effect on the change in net assets.

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.

Southwestern Vermont Health Care Corporation
Notes to Consolidated Financial Statements
September 30, 2017 and 2016

Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the years ended September 30, 2017 and 2016, was approximately:

	2017	2016
Medicare	\$ 63,187,000	\$ 63,101,000
Medicaid	23,016,000	25,541,000
Blue Cross	46,792,000	45,322,000
Other third-party payers	32,058,000	29,001,000
Self-pay	5,606,000	5,135,000
	<u>\$ 170,659,000</u>	<u>\$ 168,100,000</u>

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, 2017 and 2016, is:

	2017	2016
Medicare	34%	31%
Medicaid	14%	15%
Blue Cross	15%	16%
Other third-party payers	21%	22%
Self-pay	16%	16%
	<u>100%</u>	<u>100%</u>

Southwestern Vermont Health Care Corporation
Notes to Consolidated Financial Statements
September 30, 2017 and 2016

Note 4: Investments and Investment Return

Assets Limited as to Use

Assets limited as to use include:

	2017	2016
Cash and short-term investments	\$ 2,063,741	\$ 1,556,544
Brokered certificate of deposit	1,300,592	1,408,364
Fixed income mutual funds	2,480,806	1,469,403
Investment fund - total return strategies	9,836,407	9,779,516
Investment fund - fixed income	1,311,709	1,664,130
Investment fund - equity	3,717,806	4,114,321
Investment fund - defensive equity	8,107,202	7,303,947
Investment fund - Global Absolute Return Strategies	8,182,117	7,419,166
Limited partnership	9,581,499	9,820,392
Equity securities		
Materials	45,237	17,174
Industrials	186,982	132,066
Consumer discretionary	231,970	223,775
Consumer staples	160,070	69,337
Energy	86,877	93,772
Financial institutions	184,102	164,079
Health care	205,702	226,080
Utilities	24,767	37,266
Telecom	4,998	-
Information technology	288,915	225,932
Foreign equity mutual funds	17,463,523	13,057,361
Domestic equity mutual funds	6,168,287	6,840,362
Government agency securities	163,764	93,945
Corporate obligations	2,362,296	2,117,662
Balanced mutual funds	90,513	81,622
Investment fund - Treasury Inflation Protected Securities (TIPS)	5,077,227	4,357,057
	<u>\$ 79,327,109</u>	<u>\$ 72,273,273</u>

Southwestern Vermont Health Care Corporation
Notes to Consolidated Financial Statements
September 30, 2017 and 2016

Total investment return is comprised of the following:

	2017	2016
Interest and dividend income	\$ 718,279	\$ 756,652
Net realized and unrealized gains on investments	4,393,128	3,586,730
Change in fair value of investments accounted for in accordance with Topic 825	<u>1,956,177</u>	<u>1,890,511</u>
	<u><u>\$ 7,067,584</u></u>	<u><u>\$ 6,233,893</u></u>

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

	2017	2016
Other nonoperating income	\$ 6,869,903	\$ 6,195,161
Temporarily restricted net assets	<u>197,681</u>	<u>38,732</u>
	<u><u>\$ 7,067,584</u></u>	<u><u>\$ 6,233,893</u></u>

Alternative Investments

Except as described below, the fair value of alternative investments has been estimated using the net asset value per share of the investments. Alternative investments held at September 30 consist of the following:

	2017 Fair Value	2016 Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Investment fund (A)	\$ 5,077,227	\$ 4,357,057	\$ -	Daily	2-day written notice
Investment fund (B)	9,836,407	9,779,516	-	Monthly	30-day written notice
Investment fund (C)	1,311,709	1,664,130	-	Daily	Daily
Investment fund (D)	3,717,806	4,114,321	-	Daily	Daily
Investment fund (E)	8,107,202	7,303,947	-	Monthly	5-day written notice
Limited Partnership (F)	9,581,499	9,820,392	-	Monthly	15-day written notice
Investment fund (G)	8,182,117	7,419,166	-	Monthly	5-day written notice

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

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- (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% per annum. The funds' composite portfolio includes investments in equity, fixed income including exchange traded funds, other securities and pooled investment vehicles.

Note 5: Property and Equipment

Property and equipment consists of the following at September 30, 2017 and 2016:

	2017	2016
Land and land improvements	\$ 4,440,321	\$ 4,400,791
Buildings and leasehold improvements	65,097,465	60,966,571
Equipment	95,045,975	89,534,612
Construction in progress	3,494,492	308,917
	<u>168,078,253</u>	<u>155,210,891</u>
Less accumulated depreciation	117,914,553	111,469,892
	<u>\$ 50,163,700</u>	<u>\$ 43,740,999</u>

Construction in progress at September 30, 2017, consists of various construction costs related to a dental clinic, a new boiler, and healthcare services expansion. The estimated remaining cost to complete these projects is \$1,660,000, with anticipated completion dates ranging from fall 2017 to spring 2018.

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Note 6: Beneficial Interest in Trust

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 \$2,152,532 and \$2,059,766, which represents the fair value of the trust assets at September 30, 2017 and 2016, respectively. The distributions received from this trust in 2017 and 2016 were approximately \$104,000 and \$105,000, respectively.

Note 7: Professional Liability

MAHC, SVMC, SVHCE, SVHC, Twin Rivers, and NBM 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

	2017	2016
Hospital revenue bonds (A)	\$ 7,510,000	\$ 7,725,000
Capital lease obligation (B)	999,958	1,021,464
Capital lease obligations (C)	2,035,929	2,126,897
Capital lease obligations (D)	1,500,000	-
	<u>12,045,887</u>	<u>10,873,361</u>
Less current maturities	505,575	448,392
Less unamortized debt issuance costs	<u>91,487</u>	<u>96,818</u>
	<u><u>\$ 11,448,825</u></u>	<u><u>\$ 10,328,151</u></u>

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- (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, 0.94% and 0.80% at September 30, 2017 and 2016, 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 \$91,487 and \$96,818 at September 30, 2017 and 2016, 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%. 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) 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% 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, 2017 and 2016, was \$600,907 and \$640,401, respectively. Approximately \$39,000 was recognized during 2017 and 2016.
- (C) Various capital lease agreements, which require monthly payments at various interest rates. Agreements are due through 2040, secured by property and equipment.
- (D) During 2017, 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% 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, 2017.

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Property and equipment include the following property under capital leases:

	2017	2016
Property and equipment	\$ 9,089,353	\$ 7,422,321
Less accumulated depreciation	<u>4,841,334</u>	<u>4,446,738</u>
	<u>\$ 4,248,019</u>	<u>\$ 2,975,583</u>

Aggregate annual maturities and sinking fund requirements of long-term debt and payments on capital lease obligations at September 30, 2017, are:

	Long-Term Debt (Excluding Capital Lease Obligations)	Capital Lease Obligations
2018	\$ 225,000	\$ 710,621
2019	235,000	668,863
2020	240,000	627,219
2021	250,000	589,535
2022	260,000	580,198
Thereafter	<u>6,300,000</u>	<u>8,397,195</u>
	<u>\$ 7,510,000</u>	11,573,631
Less amount representing interest		<u>7,037,744</u>
Present value of future minimum lease payments		4,535,887
Less current maturities		<u>280,575</u>
Noncurrent portion		<u>\$ 4,255,312</u>

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Note 9: Interest Rate Swap Agreement

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% of LIBOR and to pay interest to the counterparty at a fixed rate of 3.167% on notional amounts of \$7,510,000 and \$7,725,000 at September 30, 2017 and 2016, 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 agreement 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 swap at September 30, 2017 and 2016, was \$(1,238,408) and \$(1,892,230), respectively, and is recorded in long-term liabilities. The change recognized as a component of excess of revenues over expenses at September 30, 2017 and 2016, was \$635,822 and \$(340,504), respectively. Synthetic interest expense related to the swap recognized as a component of excess of revenues over expenses was \$209,579 and \$224,557 for the years ended September 30, 2017 and 2016, respectively.

Note 10: Temporarily and Permanently Restricted Net Assets

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

	2017	2016
Health care services	\$ 3,758,889	\$ 2,345,132
Other	25,835	36,302
	\$ 3,784,724	\$ 2,381,434

Permanently restricted net assets are restricted to:

	2017	2016
Investments to be held in perpetuity, the income is unrestricted	\$ 8,919,420	\$ 8,819,075
Investments to be held in perpetuity, the income is temporarily restricted	2,334,822	2,242,057
	\$ 11,254,242	\$ 11,061,132

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During 2017 and 2016, net assets were released from donor restrictions by incurring expenses, satisfying the restricted purposes in the amounts of \$1,144,611 and \$667,962, respectively. During 2017 and 2016, net assets of \$81,025 and \$353,541, 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

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Changes in endowment net assets for the years ended September 30, 2017 and 2016, were:

	Temporarily Restricted	2017 Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 10,562	\$ 11,061,132	\$ 11,071,694
Investment return and net depreciation	131,326	92,766	224,092
Contributions and reclassifications	-	100,344	100,344
Appropriation of endowment assets for expenditure	(9,014)	-	(9,014)
Endowment net assets, end of year	<u>\$ 132,874</u>	<u>\$ 11,254,242</u>	<u>\$ 11,387,116</u>
	Temporarily Restricted	2016 Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 24,442	\$ 11,046,499	\$ 11,070,941
Investment return and net depreciation	38,731	14,633	53,364
Contributions	-	-	-
Appropriation of endowment assets for expenditure	(52,611)	-	(52,611)
Endowment net assets, end of year	<u>\$ 10,562</u>	<u>\$ 11,061,132</u>	<u>\$ 11,071,694</u>

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.

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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 \$957,000 and \$651,000 in 2017 and 2016, 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:

	2017	2016
Health care services	\$ 150,571,394	\$ 146,624,496
Fundraising costs	2,607,562	1,999,789
General and administrative	15,289,003	15,056,240
	\$ 168,467,959	\$ 163,680,525

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 \$4,475,000 to the plan in 2018. The plan was frozen effective September 30, 2009.

For the years ended September 30, 2017 and 2016, the Corporation adopted the mortality tables and mortality improvement projection scales that were released during 2017 and 2016, respectively, by the Society of Actuaries which provide updated projections on the life expectancy of participants.

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

	2017	2016
Change in benefit obligations		
Beginning of the year	\$ 118,036,679	\$ 106,464,584
Interest cost	4,039,683	4,460,029
Actuarial (gain) loss	(4,515,369)	10,693,851
Benefits paid	<u>(3,934,697)</u>	<u>(3,581,785)</u>
End of the year	<u>113,626,296</u>	<u>118,036,679</u>
Change in fair value of plan assets		
Beginning of the year	92,530,436	82,432,956
Actual return on plan assets	6,685,188	9,454,265
Employer contributions	3,850,000	4,225,000
Benefits paid	<u>(3,934,697)</u>	<u>(3,581,785)</u>
End of the year	<u>99,130,927</u>	<u>92,530,436</u>
Funded status at the end of the year (noncurrent liability)	<u>\$ (14,495,369)</u>	<u>\$ (25,506,243)</u>

The accumulated benefit obligation was \$113,626,296 and \$118,036,679 for 2017 and 2016, respectively.

Other significant balances and costs are:

	2017	2016
Employer contributions	\$ 3,850,000	\$ 4,225,000
Benefits paid	3,934,697	3,581,785
Benefit income recorded in excess of revenues over expenses	(810,854)	(350,315)

Amounts recognized in unrestricted net assets and not yet recognized as components of net periodic benefit cost consist of a net actuarial loss of \$43,813,612 and \$50,163,632 at September 30, 2017 and 2016, respectively.

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

	2017	2016
Projected benefit obligation	\$ 113,626,296	\$ 118,036,679
Accumulated benefit obligation	113,626,296	118,036,679
Fair value of plan assets	99,130,927	92,530,436
	2017	
Components of net periodic benefit cost		2016
Interest cost	\$ 4,039,683	\$ 4,460,029
Expected return on plan assets	(6,244,431)	(5,977,263)
Amortization of net loss	1,393,894	1,166,919
	2017	
Net periodic benefit cost	\$ (810,854)	\$ (350,315)
	2017	
	2016	

The following amounts have been recognized in the consolidated statements of operations and changes in net assets for the years ended September 30, 2017 and 2016:

	2017	2016
Amounts arising during the period		
Net gain (loss)	\$ 4,906,126	\$ (7,216,848)
Amounts reclassified as components of net periodic benefit cost of the period		
Net loss	\$ 1,393,894	\$ 1,166,919

The estimated net loss that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year is \$1,219,503.

Significant assumptions include:

	2017	2016
Weighted average assumptions used to determine benefit obligations		
Discount rate	3.72%	4.01%
Rate of compensation increase	-	-
Weighted average assumptions used to determine benefit costs		
Discount rate	3.48%	4.26%
Expected return on plan assets	6.75%	7.25%
Rate of compensation increase	-	-

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The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of September 30, 2017:

2018	\$ 4,387,879
2019	4,677,262
2020	4,911,903
2021	5,245,815
2022	5,533,625
2023 - 2026	31,293,010

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.

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The fair values of the Corporation's pension plan assets at September 30, 2017 and 2016, by asset class are as follows:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2017				
Cash equivalents	\$ 851,306	\$ 851,306	\$ -	\$ -
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	-
2016				
Cash equivalents	\$ 685,330	\$ 685,330	\$ -	\$ -
Investment funds - equity	19,828,392	-	19,828,392	-
Equity mutual funds	6,332,293	6,332,293	-	-
Bond mutual funds	6,877,823	6,877,823	-	-
International equity mutual funds	13,279,115	13,279,115	-	-
Investment funds - fixed income	8,948,073	-	8,948,073	-
Investment fund - defensive equity	8,971,262	-	-	8,971,262
Limited partnership	11,524,811	-	-	11,524,811

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

	Investment Fund - Total Return Strategies	
	2017	2016
Balance, beginning of year	\$ 6,718,391	\$ 5,890,011
Purchases (sales)	(31,137)	456,166
Total included in change in net assets reported in the statements of changes in net assets	70,211	372,214
Balance, end of year	\$ 6,757,465	\$ 6,718,391

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

Defined Contribution Pension Plan

The Corporation has a defined contribution 403(b) pension plan covering substantially all employees. The Corporation matches the first 3% of employee compensation plus 50% of employee contributions between 3% and 5%. The Corporation also provides a 2.5% salary contribution to a select group of employees within the Corporation. Defined contribution pension expense for 2017 and 2016 was approximately \$1,700,000 and \$1,500,000, 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 \$1,004,349 and \$850,443 at September 30, 2017 and 2016, respectively.

SVMC also funds a deferred compensation plan for the benefit of certain employees. A deferred compensation obligation is recorded in the amount of \$618,871 and \$381,429 at September 30, 2017 and 2016, respectively.

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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 \$1,175,465 and \$1,180,362 has been recognized for all significant known areas containing an ARO at September 30, 2017 and 2016, 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 2017 and 2016, the Corporation recognized expense of approximately \$27,040,000 and \$24,750,000, 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 \$9,700,000 and \$6,340,000 at September 30, 2017 and 2016, respectively, recorded as accrued expenses on the consolidated balance sheets.

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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 2017 and 2016, SVMC charged UHA approximately \$1,320,000 and \$1,360,000, respectively, for these services. SVMC has other receivables from UHA of approximately \$105,000 and \$127,000 at September 30, 2017 and 2016, respectively.

UHA charges SVMC for services provided under a hospital service agreement. The total amount charged for these services was approximately \$10,000 for 2017 and 2016.

UHA charges Twin Rivers for services provided under a service agreement. The total amount charged for these services was approximately \$17,000 and \$0 for the years ended September 30, 2017 and 2016, respectively.

SVHC pays dues to UHA for continued participation in the managed care system. The total amount charged for these services was approximately \$124,000 and \$138,000 for 2017 and 2016, 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.

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, 2017. For assets classified with Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

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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.

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

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

Interest 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.

Southwestern Vermont Health Care Corporation
Notes to Consolidated Financial Statements
September 30, 2017 and 2016

Recurring Measurements

The following table presents 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, 2017 and 2016:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		2017		
Cash equivalents	\$ 2,063,741	\$ 2,063,741	\$ -	\$ -
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	-
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	-
Beneficial interest in perpetual trust	2,152,532	-	2,152,532	-
Interest rate swap agreement	(1,238,408)	-	(1,238,408)	-
Deferred compensation plan assets (equity and fixed income mutual funds)	1,009,537	1,009,537	-	-

Southwestern Vermont Health Care Corporation
Notes to Consolidated Financial Statements
September 30, 2017 and 2016

	2016			
	Fair Value Measurements Using			
Fair Value	Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Cash equivalents	\$ 1,556,544	\$ 1,556,544	\$ -	\$ -
Equities, equity mutual funds and balanced funds	21,168,826	21,168,826	-	-
Fixed income securities and mutual funds	5,089,374	1,469,403	3,619,971	-
Investment fund - total return strategies	9,779,516	-	-	9,779,516
Investment fund - global return strategies	7,419,166	-	7,419,166	-
Investment fund - fixed income	1,664,130	-	1,664,130	-
Investment fund - equity	4,114,321	-	4,114,321	-
Investment fund - defensive equity	7,303,947	-	7,303,947	-

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

	Investment Fund - Total Return Strategies	
	2017	2016
Balance, beginning of year	\$ 9,779,516	\$ 9,281,442
Purchases (sales)	212,351	(69,431)
Total included in change in net assets reported in the statements of changes in net assets	<u>(155,460)</u>	<u>567,505</u>
Balance, end of year	<u>\$ 9,836,407</u>	<u>\$ 9,779,516</u>

Southwestern Vermont Health Care Corporation
Notes to Consolidated Financial Statements
September 30, 2017 and 2016

Sensitivity of Significant Unobservable Inputs

The following is a discussion of the sensitivity of significant unobservable inputs, the interrelationships between those inputs and other unobservable inputs used in recurring fair value measurement and how those inputs might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement.

Alternative Investments – Total Return Strategies

The significant unobservable inputs used in the fair value measurement are fund assets that are invested in portfolio funds which are valued in accordance with the terms and conditions of the investment advisory agreement or similar agreement as agreed to by the investment advisor, in its discretion. Such values are supplied to the fund by the portfolio managers or administrators of the underlying portfolio funds. The total fair market value of the fund at any date shall be determined on the accrual basis of accounting using United States generally accepted accounting principles.

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, 2017 and 2016, are \$45,813,967 and \$44,458,529, 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.

Southwestern Vermont Health Care Corporation

Notes to Consolidated Financial Statements

September 30, 2017 and 2016

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.

Southwestern Vermont Health Care Corporation
Notes to Consolidated Financial Statements
September 30, 2017 and 2016

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: Subsequent Events

The Corporation is in process of executing an Affiliation Agreement with the Center for Nursing and Rehabilitation (CNR), a skilled nursing facility in Hoosick Falls, New York, pursuant to which the Corporation will become the sole member of CNR. The parties are currently seeking necessary regulatory and board approvals and anticipate that this merger will be completed in the near future.

Subsequent events have been evaluated through January 5, 2018, which is the date the consolidated financials were issued.

Supplementary Information

Southwestern Vermont Health Care Corporation
Consolidating Schedule – Balance Sheet Information
September 30, 2017

Assets

	SVHC	SVMC	Foundation	NBM PC	Twin Rivers	Obligated Group Eliminations	Obligated Group Total	MAHC	SVHCA	SVHCE	SVHCNY	Eliminations	Consolidated
Current Assets													
Cash and cash equivalents	\$ 131,905	\$ 10,804,832	\$ 1,174,763	\$ 85,576	\$ 110,176	\$ -	\$ 12,307,252	\$ 438,622	\$ 138,370	\$ 2,743	\$ 1,166,759	\$ -	\$ 14,053,746
Patient accounts receivable, net of allowance - \$9,709,000	-	13,977,305	-	136,692	117,210	-	14,231,207	1,594,237	-	-	-	-	15,825,444
Other receivables	22,456	822,481	4,265	-	-	-	849,202	1,435	13,272	-	-	-	863,909
Supplies	-	2,831,786	-	-	-	-	2,831,786	32,952	15,380	-	-	-	2,880,118
Prepaid expenses and other	11,927	1,288,357	2,569	2,192	300	-	1,305,345	12,834	-	-	-	-	1,318,179
Total current assets	166,288	29,724,761	1,181,597	224,460	227,686	-	31,524,792	2,080,080	167,022	2,743	1,166,759	-	34,941,396
Assets Limited As To Use													
Internally designated	61,963,385	6,606,342	4,703,412	-	-	(6,606,342)	66,666,797	1,226,327	-	-	-	(1,226,327)	66,666,797
Externally restricted	-	102,383	12,557,929	-	-	-	12,660,312	-	-	-	-	-	12,660,312
	61,963,385	6,708,725	17,261,341	-	-	(6,606,342)	79,327,109	1,226,327	-	-	-	(1,226,327)	79,327,109
Property and Equipment, At Cost													
Land and land improvements	1,070,774	3,220,566	-	12,925	11,105	-	4,315,370	124,951	-	-	-	-	4,440,321
Buildings and leasehold improvements	12,241,055	43,183,263	-	373,740	-	-	55,798,058	7,798,307	-	1,100	1,500,000	-	65,097,465
Equipment	881,937	90,786,203	6,997	316,270	317,158	-	92,308,565	2,663,405	11,912	62,093	-	-	95,045,975
Construction in progress	50,160	3,444,327	-	-	5	-	3,494,492	-	-	-	-	-	3,494,492
	14,243,926	140,634,359	6,997	702,935	328,268	-	155,916,485	10,586,663	11,912	63,193	1,500,000	-	168,078,253
Less accumulated depreciation	9,090,289	100,770,322	700	42,287	21,614	-	109,925,212	7,865,455	11,912	61,974	50,000	-	117,914,553
	5,153,637	39,864,037	6,297	660,648	306,654	-	45,991,273	2,721,208	-	1,219	1,450,000	-	50,163,700
Due from Affiliates	1,761,001	6,951,651	1,034,050	-	500	(5,088,106)	4,659,096	1,392	346,878	-	480,190	(5,487,556)	-
Other Assets													
Beneficial interest in perpetual trust	-	-	2,152,532	-	-	-	2,152,532	-	-	-	-	-	2,152,532
Deferred compensation plan assets	1,009,537	-	-	-	-	-	1,009,537	-	-	-	-	-	1,009,537
Other	58,533	-	328,507	-	-	-	387,040	-	-	-	-	-	387,040
	1,068,070	-	2,481,039	-	-	-	3,549,109	-	-	-	-	-	3,549,109
Total assets	\$ 70,112,381	\$ 83,249,174	\$ 21,964,324	\$ 885,108	\$ 534,840	\$ (11,694,448)	\$ 165,051,379	\$ 6,029,007	\$ 513,900	\$ 3,962	\$ 3,096,949	\$ (6,713,883)	\$ 167,981,314

Southwestern Vermont Health Care Corporation

Consolidating Schedule – Balance Sheet Information

September 30, 2017

Liabilities and Net Assets

	SVHC	SVMC	Foundation	NBM PC	Twin Rivers	Obligated Group Eliminations	Obligated Group Total	MAHC	SVHCA	SVHCE	SVHCNY	Eliminations	Consolidated
Current Liabilities													
Current maturities of long-term debt	\$ -	\$ 462,621	\$ -	\$ -	\$ -	\$ -	\$ 462,621	\$ -	\$ -	\$ -	\$ 42,954	\$ -	\$ 505,575
Accounts payable	299,981	6,881,036	56,588	4,434	72,183	-	7,314,222	266,946	12,546	-	5,677	-	7,599,391
Accrued expenses	58,315	15,763,455	162,511	17,933	-	-	16,002,214	642,804	-	-	46,884	-	16,691,902
Estimated amounts due to third-party payers	-	1,229,984	-	-	-	-	1,229,984	-	-	-	-	-	1,229,984
Estimated self-insurance costs	40,621	630,902	-	-	-	-	671,523	31,527	-	-	-	-	703,050
Other	101,253	68,332	-	-	-	-	169,585	46,232	7,145	253	-	-	223,215
Total current liabilities	500,170	25,036,330	219,099	22,367	72,183	-	25,850,149	987,509	19,691	253	95,515	-	26,953,117
Long-Term Debt	-	9,991,779	-	-	-	-	9,991,779	-	-	-	1,457,046	-	11,448,825
Asset Retirement Obligations	-	1,175,465	-	-	-	-	1,175,465	-	-	-	-	-	1,175,465
Accrued Pension Liabilities	205,358	13,544,034	-	-	-	-	13,749,392	745,977	-	-	-	-	14,495,369
Deferred Compensation	1,004,349	-	-	-	-	-	1,004,349	-	-	-	-	-	1,004,349
Due To Affiliates	10,471,252	-	829,845	1,256,031	1,172,108	(11,694,448)	2,034,788	2,834,700	11,033	327,979	1,505,383	(6,713,883)	-
Interest Rate Swap Agreement	-	1,238,408	-	-	-	-	1,238,408	-	-	-	-	-	1,238,408
Other Liabilities	606,643	618,871	56,083	-	-	-	1,281,597	-	-	-	-	-	1,281,597
Total liabilities	12,787,772	51,604,887	1,105,027	1,278,398	1,244,291	(11,694,448)	56,325,927	4,568,186	30,724	328,232	3,057,944	(6,713,883)	57,597,130
Net Assets													
Unrestricted	57,324,609	31,644,287	5,820,331	(393,290)	(709,451)	-	93,686,486	1,460,821	483,176	(324,270)	39,005	-	95,345,218
Temporarily restricted	-	-	3,784,724	-	-	-	3,784,724	-	-	-	-	-	3,784,724
Permanently restricted	-	-	11,254,242	-	-	-	11,254,242	-	-	-	-	-	11,254,242
Total net assets	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
Total liabilities and net assets	\$ 70,112,381	\$ 83,249,174	\$ 21,964,324	\$ 885,108	\$ 534,840	\$ (11,694,448)	\$ 165,051,379	\$ 6,029,007	\$ 513,900	\$ 3,962	\$ 3,096,949	\$ (6,713,883)	\$ 167,981,314

Southwestern Vermont Health Care Corporation
Consolidating Schedule – Statement of Operations Information
Year Ended September 30, 2017

	SVHC	SVMC	Foundation	NBM PC	Twin Rivers	Obligated Group Eliminations	Obligated Group Total	MAHC	SVHCA	SVHCE	SVHCNY	Eliminations	Consolidated
Unrestricted Revenues, Gains and Other Support													
Net patient service revenue	\$ -	\$ 157,589,121	\$ -	\$ 836,964	\$ 781,802	\$ (25,421)	\$ 159,182,466	\$ 11,549,970	\$ -	\$ -	\$ -	\$ (73,000)	\$ 170,659,436
Provision for uncollectible accounts	-	(4,985,696)	-	(36,095)	(27,329)	-	(5,049,120)	(291,233)	-	-	-	-	(5,340,353)
Net patient service revenue less provision for uncollectible accounts	-	152,603,425	-	800,869	754,473	(25,421)	154,133,346	11,258,737	-	-	-	(73,000)	165,319,083
Other	2,329,685	4,564,361	129,958	230	501	(1,717,681)	5,307,054	4,860	328,723	-	537,305	(596,810)	5,581,132
Net assets released from restrictions used for operations	-	-	1,144,611	-	-	-	1,144,611	-	-	-	-	-	1,144,611
Total unrestricted revenues, gains and other support	2,329,685	157,167,786	1,274,569	801,099	754,974	(1,743,102)	160,585,011	11,263,597	328,723	-	537,305	(669,810)	172,044,826
Expenses and Losses													
Salaries and wages	422,260	46,028,375	848,668	233,286	-	-	47,532,589	6,823,638	92,571	-	337,259	-	54,786,057
Employee benefits	97,328	12,335,211	182,896	60,179	-	-	12,675,614	1,656,522	38,788	-	66,350	-	14,437,274
Purchased services	-	38,523,215	332,170	678,228	1,168,979	-	40,702,592	1,044,769	110,636	-	11,191	(601,954)	41,267,234
Supplies and other	1,092,048	47,938,494	1,243,362	180,409	273,832	(2,426,740)	48,301,405	2,113,424	114,675	411	11,149	(74,653)	50,466,411
Depreciation and amortization	518,782	6,036,981	466	42,287	21,614	-	6,620,130	288,448	-	438	72,351	-	6,981,367
Interest	-	529,616	-	-	-	-	529,616	-	-	-	-	-	529,616
Total expenses and losses	2,130,418	151,391,892	2,607,562	1,194,389	1,464,425	(2,426,740)	156,361,946	11,926,801	356,670	849	498,300	(676,607)	168,467,959
Operating Income (Loss)	199,267	5,775,894	(1,332,993)	(393,290)	(709,451)	683,638	4,223,065	(663,204)	(27,947)	(849)	39,005	6,797	3,576,867
Other Income (Expense)													
Investment return	4,201,717	690,851	1,940,105	-	-	-	6,832,673	13,457	23,773	-	-	-	6,869,903
Change in fair value of interest rate swap agreement	-	653,822	-	-	-	-	653,822	-	-	-	-	-	653,822
Contributions	-	655,819	1,700,897	-	-	(683,638)	1,673,078	2,007	6,965	-	-	(6,797)	1,675,253
Other	(704,163)	34,349	-	-	-	-	(669,814)	-	(1,152)	-	-	-	(670,966)
Total other income (expense)	3,497,554	2,034,841	3,641,002	-	-	(683,638)	8,489,759	15,464	29,586	-	-	(6,797)	8,528,012
Excess (Deficiency) of Revenues Over Expenses	3,696,821	7,810,735	2,308,009	(393,290)	(709,451)	-	12,712,824	(647,740)	1,639	(849)	39,005	-	12,104,879
Net assets released from restriction used for purchase of property and equipment	-	-	81,025	-	-	-	81,025	-	-	-	-	-	81,025
Defined benefit pension costs													
Net gain arising during the period	65,245	4,303,822	-	-	-	-	4,369,067	237,059	-	-	-	-	4,606,126
Amortization of net loss included in net periodic pension cost	19,748	1,302,412	-	-	-	-	1,322,160	71,734	-	-	-	-	1,393,894
Other	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer (to) from affiliates, net	-	81,025	(81,025)	-	-	-	-	-	-	-	-	-	-
Increase (Decrease) in Unrestricted Net Assets	\$ 3,781,814	\$ 13,497,994	\$ 2,308,009	\$ (393,290)	\$ (709,451)	\$ -	\$ 18,485,076	\$ (338,947)	\$ 1,639	\$ (849)	\$ 39,005	\$ -	\$ 18,185,924

Southwestern Vermont Health Care Corporation
Consolidating Schedule – Statement of Changes in Net Assets Information
Year Ended September 30, 2017

	SVHC	SVMC	Foundation	NBM PC	Twin Rivers	Obligated Group Eliminations	Obligated Group Total	MAHC	SVHCA	SVHCE	SVHCNY	Eliminations	Consolidated
Unrestricted Net Assets													
Excess (deficiency) of revenues over expenses	\$ 3,696,821	\$ 7,810,735	\$ 2,308,009	\$ (393,290)	\$ (709,451)	\$ -	\$ 12,712,824	\$ (647,740)	\$ 1,639	\$ (849)	\$ 39,005	\$ -	\$ 12,104,879
Net assets released from restriction used for purchase of property and equipment	-	-	81,025	-	-	-	81,025	-	-	-	-	-	81,025
Defined benefit pension costs													
Net loss arising during the period	65,245	4,303,822	-	-	-	-	4,369,067	237,059	-	-	-	-	4,606,126
Amortization of net loss included in net periodic pension cost	19,748	1,302,412	-	-	-	-	1,322,160	71,734	-	-	-	-	1,393,894
Transfer (to) from affiliates, net	-	81,025	(81,025)	-	-	-	-	-	-	-	-	-	-
Increase (decrease) in unrestricted net assets	3,781,814	13,497,994	2,308,009	(393,290)	(709,451)	-	18,485,076	(338,947)	1,639	(849)	39,005	-	18,185,924
Temporarily Restricted Net Assets													
Contributions received	-	-	2,431,245	-	-	-	2,431,245	-	-	-	-	-	2,431,245
Investment return	-	-	197,681	-	-	-	197,681	-	-	-	-	-	197,681
Net assets released from restriction	-	-	(1,225,636)	-	-	-	(1,225,636)	-	-	-	-	-	(1,225,636)
Increase in temporarily restricted net assets	-	-	1,403,290	-	-	-	1,403,290	-	-	-	-	-	1,403,290
Permanently Restricted Net Assets													
Contributions received	-	-	100,344	-	-	-	100,344	-	-	-	-	-	100,344
Change in beneficial interest in trust	-	-	92,766	-	-	-	92,766	-	-	-	-	-	92,766
Increase in permanently restricted net assets	-	-	193,110	-	-	-	193,110	-	-	-	-	-	193,110
Change in Net Assets	3,781,814	13,497,994	3,904,409	(393,290)	(709,451)	-	20,081,476	(338,947)	1,639	(849)	39,005	-	19,782,324
Net Assets, Beginning of Year	53,542,795	18,146,293	16,954,888	-	-	-	88,643,976	1,799,768	481,537	(323,421)	-	-	90,601,860
Net Assets, End 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