

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

Independent Auditor's Report and Financial Statements

September 30, 2017 and 2016

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

September 30, 2017 and 2016

Contents

Independent Auditor’s Report..... 1

Financial Statements

Balance Sheets..... 3
Statements of Operations and Changes in Net Assets 4
Statements of Cash Flows 6
Notes to Financial Statements 7

Supplementary Information

Net Patient Service Revenue 37
Expenses 38
Other Revenue 40
Property and Equipment 41

Independent Auditor's Report

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

We have audited the accompanying financial statements of The Rutland Hospital, Inc., d/b/a Rutland Regional Medical Center (RRMC), a subsidiary of Rutland Regional Health Services, Inc., which comprise the balance sheets as of September 30, 2017 and 2016, and the related statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Board of Directors
The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Page 2

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Rutland Hospital, Inc., d/b/a Rutland Regional Medical Center, as of September 30, 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 audit was performed for the purpose of forming an opinion on the basic financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Springfield, Missouri
February 21, 2018

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Balance Sheets
September 30, 2017 and 2016

Assets

	<u>2017</u>	<u>2016</u>
Current Assets		
Cash and cash equivalents	\$ 9,725,780	\$ 12,941,833
Patient accounts receivable, net of allowance; 2017 – \$7,630,000 and 2016 – \$7,680,000	27,274,766	24,064,311
Other receivables	4,381,660	4,611,053
Due from affiliates	5,441,347	5,260,001
Supplies	1,735,125	1,442,117
Prepaid expenses and other	3,425,295	3,013,521
Total current assets	<u>51,983,973</u>	<u>51,332,836</u>
 Assets Limited As To Use		
Workers' compensation trust fund	494,485	1,440,330
Restricted by donors	4,901,282	4,761,581
Internally designated	130,453,848	115,661,419
	<u>135,849,615</u>	<u>121,863,330</u>
 Property and Equipment, At Cost		
Land and land improvements	3,808,080	3,601,254
Buildings and leasehold improvements	103,978,236	99,032,230
Equipment	139,441,938	136,742,754
Construction in progress	3,841,932	3,422,993
	<u>251,070,186</u>	<u>242,799,231</u>
Less accumulated depreciation	169,932,960	161,073,106
	<u>81,137,226</u>	<u>81,726,125</u>
 Other Assets		
Pledges receivable	37,235	73,582
Other	5,427,806	5,022,086
	<u>5,465,041</u>	<u>5,095,668</u>
 Total assets	<u>\$ 274,435,855</u>	<u>\$ 260,017,959</u>

Liabilities and Net Assets

	<u>2017</u>	<u>2016</u>
Current Liabilities		
Current maturities of long-term debt	\$ 1,795,006	\$ 1,877,085
Accounts payable and accrued expenses	9,942,305	8,953,670
Accrued compensation and related taxes	12,066,535	11,294,779
Estimated amounts due to and advances from third-party payers	<u>7,886,938</u>	<u>9,152,712</u>
Total current liabilities	31,690,784	31,278,246
Other Liabilities	8,585,012	11,370,973
Accrued Pension Obligation	7,244,302	21,198,031
Long-Term Debt	<u>36,264,083</u>	<u>38,038,139</u>
Total liabilities	<u>83,784,181</u>	<u>101,885,389</u>
Net Assets		
Unrestricted	185,674,131	153,266,261
Temporarily restricted	4,298,901	4,187,667
Permanently restricted	<u>678,642</u>	<u>678,642</u>
Total net assets	<u>190,651,674</u>	<u>158,132,570</u>
Total liabilities and net assets	<u>\$ 274,435,855</u>	<u>\$ 260,017,959</u>

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Statements of Operations and Changes in Net Assets
Years Ended September 30, 2017 and 2016

	2017	2016
Unrestricted Revenues, Gains and Other Support		
Patient service revenue (net of contractual discounts and allowances)	\$ 249,249,842	\$ 250,006,644
Provision for uncollectible accounts	7,056,413	4,183,690
Net patient service revenue less provision for uncollectible accounts	242,193,429	245,822,954
Other revenue	11,515,193	8,507,217
Net assets released from restrictions used for operations	537,289	84,847
Total unrestricted revenues, gains and other support	254,245,911	254,415,018
Expenses and Losses		
Salaries and benefits	150,191,993	144,143,530
Supplies and other	85,586,622	84,099,603
Depreciation and amortization	12,801,745	13,612,591
Interest	1,531,765	1,787,141
Total expenses and losses	250,112,125	243,642,865
Operating Income	4,133,786	10,772,153
Other Income (Expense)		
Investment return	3,069,220	3,174,760
Investment return - change in fair value of investments accounted for under the fair value option of FASB ASC Topic 825	-	(463,914)
Contributions received	525,672	133,499
Change in unrealized gains and losses on trading securities	10,587,509	7,954,701
Gain (loss) on interest rate swap agreement	1,854,320	(235,135)
Total other income (expense)	16,036,721	10,563,911
Excess of Revenues Over Expenses	20,170,507	21,336,064
Contributions received for purchase of property and equipment	-	30,384
Net assets released from restriction for purchase of property and equipment	146,892	792,715
Change in donor designation	-	(321,360)
Transfer from affiliates	-	3,136,339
Defined benefit pension and postretirement benefit costs		
Net (gain) loss arising during the year	9,559,619	(2,707,828)
Amortization of net loss and prior service credit	2,683,740	2,564,114
Recognition of net gain	(152,888)	(65,123)
Increase in Unrestricted Net Assets	\$ 32,407,870	\$ 24,765,305

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Statements of Operations and Changes in Net Assets
Years Ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Unrestricted Net Assets		
Excess of revenues over expenses	\$ 20,170,507	\$ 21,336,064
Contributions received for purchase of property and equipment	-	30,384
Net assets released from restriction used for purchase of property and equipment	146,892	792,715
Change in donor designation	-	(321,360)
Transfer from affiliates	-	3,136,339
Defined benefit pension costs		
Net (gain) loss arising during the year	9,559,619	(2,707,828)
Amortization of net loss and prior service credit	2,683,740	2,564,114
Recognition of net gain	<u>(152,888)</u>	<u>(65,123)</u>
Increase in unrestricted net assets	<u>32,407,870</u>	<u>24,765,305</u>
Temporarily Restricted Net Assets		
Contributions received	550,084	575,429
Change in donor designation	-	321,360
Investment return	245,331	232,224
Net assets released from restrictions	<u>(684,181)</u>	<u>(877,562)</u>
Increase in temporarily restricted net assets	<u>111,234</u>	<u>251,451</u>
Change in Net Assets	32,519,104	25,016,756
Net Assets, Beginning of Year	<u>158,132,570</u>	<u>133,115,814</u>
Net Assets, End of Year	<u><u>\$ 190,651,674</u></u>	<u><u>\$ 158,132,570</u></u>

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Statements of Cash Flows
Years Ended September 30, 2017 and 2016

	2017	2016
Operating Activities		
Change in net assets	\$ 32,519,104	\$ 25,016,756
Items not requiring (providing) cash		
Depreciation and amortization	12,801,745	13,612,591
Loss on disposal of property and equipment	29,595	6,220
Transfer from affiliate	-	(3,136,339)
Net (gain) loss on investments	(10,791,850)	(8,141,523)
Restricted contributions received	(550,084)	(575,429)
Change in defined benefit pension and postretirement benefit plans	(12,090,471)	208,837
Change in fair value of interest rate swap agreements	(1,854,320)	235,135
Changes in		
Patient accounts receivable, net	(3,210,455)	(1,940,472)
Other receivables	205,974	(711,583)
Estimated third-party settlements and advances	(1,265,774)	560,179
Other current assets and liabilities	(2,444,932)	(3,277,354)
Net cash provided by operating activities	13,348,532	21,857,018
Investing Activities		
Proceeds from disposition of trading securities and investments accounted for under the fair value option of FASB ASC Topic 825	867,862	2,316,407
Purchases of trading securities and investments accounted for under the fair value option of FASB ASC Topic 825	(4,062,297)	(5,204,933)
Net repayments from (advances to) related parties	(181,346)	(92,532)
Purchase of property and equipment	(11,921,599)	(17,077,420)
Net cash used in investing activities	(15,297,380)	(20,058,478)
Financing Activities		
Principal payments on long-term debt	(1,877,055)	(2,278,897)
Proceeds from restricted contributions	609,850	618,874
Net cash used in financing activities	(1,267,205)	(1,660,023)
Increase (Decrease) in Cash and Cash Equivalents	(3,216,053)	138,517
Cash and Cash Equivalents, Beginning of Year	12,941,833	12,803,316
Cash and Cash Equivalents, End of Year	\$ 9,725,780	\$ 12,941,833
Supplemental Cash Flows Information		
Interest paid	\$ 1,546,302	\$ 1,814,878
Property and equipment purchases in accounts payable	\$ 1,694,811	\$ 1,998,263

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2017 and 2016

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

Nature of Operations

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

Use of Estimates

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

Cash and Cash Equivalents

RRMC considers all liquid investments, other than those limited as to use, with original maturities of three months or less to be cash equivalents. At September 30, 2017 and 2016, cash equivalents consisted primarily of money market accounts and short-term government obligations.

The FDIC's insurance limits have been permanently increased to \$250,000. RRMC has entered into an agreement with a local financial institution to purchase fully collateralized U.S. government securities with RRMC's funds that exceed FDIC insurance limits. At September 30, 2017 and 2016, cash accounts did not exceed federally insured limits and collateral arrangement coverage.

Investments and Investment Return

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

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2017 and 2016

Assets Limited As To Use

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

Patient Accounts Receivable

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

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

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

RRMC's allowance for uncollectible accounts for self-pay patients remained consistent at 95% of self-pay accounts receivable at September 30, 2017 and 2016. In addition, RRMC's write-offs decreased approximately \$212,000 from approximately \$10,045,000 for the year ended September 30, 2016, to approximately \$9,833,000 for the year ended September 30, 2017.

Supplies

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

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2017 and 2016

Property and Equipment

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

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

Donations of property and equipment are reported at fair value as an increase in 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

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

No asset impairment was recognized during the years ended September 30, 2017 and 2016.

Costs of Issuance

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt and remarketing fees. Such costs are being amortized using the straight-line method over the life of the respective debt.

Temporarily and Permanently Restricted Net Assets

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

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2017 and 2016

Net Patient Service Revenue

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

Charity Care

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

Contributions and Promises Receivable

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 reported as unrestricted contributions. Conditional contributions are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor.

Professional Liability Claims

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

Estimated Self-Insurance Costs

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

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2017 and 2016

Government Grants

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

Income Taxes

RRMC is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, RRMC is subject to federal income tax on any unrelated business taxable income.

RRMC files tax returns in the U.S. federal jurisdiction.

Excess of Revenues Over Expenses

The statements of operations and changes in net assets 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 unrealized gains and losses on investments other than trading securities, permanent transfers to and from affiliates for other than goods and services, change in the pension and postretirement liability and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

Transfers Between Fair Value Hierarchy Levels

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the period ending date. There were no transfers between fair value hierarchy levels during the years ended September 30, 2017 and 2016.

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

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2017 and 2016

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.

RRMC 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.

For the years ended September 30, 2017 and 2016, RRMC has recorded revenue of approximately \$544,000 and \$1,018,000, respectively, which is included in other revenue within operating revenues in the statements of operations and changes in net assets.

Reclassifications

Certain reclassifications have been made to the 2016 financial statements to conform to the 2017 financial statement presentation. In addition, certain reclassifications have been made to the 2016 consolidated financial statements for adoption of ASU 2015-03 *Interest-Imputation of Interest* (Subtopic 835.30): Simplifying the Presentation of Debt Issuance Costs that were deemed to be immaterial. These reclassifications had no effect on the change in net assets.

Note 2: Net Patient Service Revenue

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

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

Medicare. Inpatient acute care and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. RRMC is reimbursed for certain services at tentative rates with final settlements determined after submission of annual cost reports by RRMC and audits thereof by the Medicare administrative contractor.

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2017 and 2016

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. RRMC has entered into a contractual agreement with the state to care for patients with intensive inpatient psychiatric needs. RRMC is reimbursed for these services using a cost reimbursed methodology.

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

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

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

	2017	2016
Medicare	\$ 92,361,520	\$ 84,360,537
Medicaid	32,084,271	33,884,274
Other third-party payers	115,045,841	121,555,454
Patients	9,758,210	10,206,379
	<u>\$ 249,249,842</u>	<u>\$ 250,006,644</u>

Note 3: Concentration of Credit Risk

RRMC grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers at September 30, 2017 and 2016, respectively, was:

	2017	2016
Medicare	50%	55%
Medicaid	13%	6%
Other third-party payers and patients	37%	39%
	<u>100%</u>	<u>100%</u>

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2017 and 2016

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

	2017	2016
Unrestricted net assets		
Investment return	\$ 3,069,220	\$ 3,174,760
Change in unrealized gains and losses on trading securities	10,587,509	7,954,701
Investment return - change in fair value of investments accounted for under the fair value option of FASB ASC Topic 825	-	(463,914)
Temporarily restricted net assets	245,331	232,224
	\$ 13,902,060	\$ 10,897,771

Note 5: Professional Liability and Self-Insurance Claims

Professional Liability Claims

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

Based upon RRMC's claims experience, an accrual had been made for RRMC's estimated medical malpractice costs, including costs associated with litigating or settling claims, under its malpractice insurance policy. Claim liabilities are to be determined without regard for recoveries. Expected recoveries are presented separately. RRMC recorded \$2,110,000 and \$2,380,000, respectively, of estimated insurance coverage receivables and recorded \$3,380,000 and \$3,970,000, respectively, of estimated insurance liabilities as of September 30, 2017 and 2016. It is reasonably possible that this estimate could change materially in the near term.

Self-Insurance

RRMC is self-insured for employee health insurance and has accrued an estimate of the ultimate costs for both reported claims and claims incurred for the years ending September 30, 2017 and 2016. Actual results could differ from these estimates.

Estimated employee health insurance and dental claim liabilities recorded by RRMC totaled \$735,142 and \$786,415 as of September 30, 2017 and 2016, respectively.

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2017 and 2016

Note 6: Interest in Assets at the Vermont Community Foundation

RRMC has transferred assets to the Vermont Community Foundation and retained a beneficial interest in those assets. RRMC is to receive the interest annually, but none of the principal. RRMC has granted variance power to the Vermont Community Foundation to modify any restriction or condition on the distribution of funds for any specified charitable purposes or to a specified organization if, in the sole judgment of the Board of Trustees of the Vermont Community Foundation, such restriction or condition becomes, in effect, unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community served. The cumulative amount of the retained beneficial interest included in the balance sheets was \$335,877 and \$295,839 at September 30, 2017 and 2016, respectively (*Note 4*).

Note 7: Long-Term Debt

	2017	2016
Vermont Educational and Health Buildings Financing Agency (VEHBFA) Hospital Revenue Bonds, Rutland Regional Medical Center Project Series 2013A (A)	\$ 31,350,000	\$ 31,350,000
Note payable, bank (B)	6,495,389	8,173,100
Capital lease (C)	-	149,864
Note payable, bank (D)	418,800	468,280
	38,264,189	40,141,244
Less unamortized costs of issuance	205,100	226,020
Less current maturities	1,795,006	1,877,085
	\$ 36,264,083	\$ 38,038,139

(A) VEHBFA Series 2013A Bonds (tax exempt), issued during the year ended September 30, 2013, bearing a variable interest rate of the one-month LIBOR plus 1.5% times 71%. Effective February 1, 2016, the variable interest rate was reduced to 70% of the one-month LIBOR rate plus 0.826% per annum with principal payments due in monthly installments beginning in April 2021, ranging from approximately \$77,000 to \$179,000 with final payments of \$26,500,000 in September 2033. The bonds are secured by gross receipts of RRMC. The effective interest rate was 1.69% and 1.19% at September 30, 2017 and 2016, respectively. Unamortized costs of issuance were \$153,565 and \$163,213 at September 30, 2017 and 2016, respectively.

RRMC has entered into an interest rate swap agreement to help mitigate exposure to future changes in interest rates on the Series 2013A Bonds. See *Note 8* for additional discussion on the interest rate swap agreement.

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2017 and 2016

- (B) Note payable (taxable) with a local financial institution, with a variable rate of LIBOR plus 1.5%, per annum based on a 360-day year, due in monthly installments, including principal and interest, maturing April 1, 2021, and is secured by certain property. Effective February 1, 2016, the variable interest rate was reduced to the one-month LIBOR rate plus 1.02%. The effective interest rate was 2.26% and 1.54% at September 30, 2017 and 2016, respectively. Unamortized debt issuance costs were \$51,535 and \$62,807 at September 30, 2017 and 2016, respectively.

RRMC has entered into an interest rate swap agreement to help mitigate exposure to future changes in interest rates on the note payable. See *Note 8* for additional discussion on the interest rate swap agreement.

- (C) Capital lease obligation due in monthly installments of \$64,680 through December 2016; collateralized by certain equipment of RRMC. Capital lease obligation was paid in full in December 2016.
- (D) Note payable in the original amount of \$550,000 secured by real property that was purchased during the year ended September 30, 2015, bearing a fixed interest rate of 3.59%, with principal and interest payments of \$5,475 due monthly beginning on January 1, 2015, and continuing until the maturity date of December 1, 2024.

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

Aggregate annual maturities of long-term debt obligations at September 30, 2017, are:

	Long-Term Debt
2018	\$ 1,795,006
2019	1,865,658
2020	1,938,819
2021	2,014,909
2022	2,093,956
Thereafter	28,555,841
	\$ 38,264,189

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2017 and 2016

Note 8: Derivative Financial Instruments

RRMC has entered into an interest rate swap agreement with TD Bank, N.A. in conjunction with the Series 2013A Bonds. The swap agreement terminates on September 1, 2023, and provides for monthly settlement with RRMC to pay a fixed rate of 4.068% and receive a variable rate equal to the 71% of the one-month LIBOR plus a spread of 650 basis points on a notional amount equal to a portion of the outstanding balance of the Series 2013A Bonds, original notional amount of \$11,683,802. RRMC entered into the swap agreement with the objective of reducing its exposure to future variability in interest rates on the Series 2013A Bonds by effectively fixing the interest rate thereon at 4.068%. At September 30, 2017 and 2016, the notional amount was \$15,660,801 and \$15,062,739, respectively.

RRMC has entered into an interest rate swap agreement with TD Bank, N.A. in conjunction with the 2013 note payable. The swap agreement terminates on April 1, 2021, and provides for monthly settlement with RRMC to pay a fixed rate of 4.022% and receive a variable rate equal to the 71% of the one-month LIBOR plus a spread of 650 basis points on a notional amount equal to a portion of the outstanding balance of the note payable, original notional amount of \$12,712,652. RRMC entered into the swap agreement with the objective of reducing its exposure to future variability in interest rates on the note payable by effectively fixing the interest rate thereon at 4.022%. The notional amount is being reduced over the term of the note payable. At September 30, 2017 and 2016, the notional amount was \$6,495,389 and \$8,173,101, respectively.

RRMC had entered into an interest rate swap agreement with Deutsche Bank in conjunction with the Series 2010A Bonds. The swap agreement originally terminated on December 1, 2020, and provided for monthly settlement with RRMC to pay a fixed rate of 4.61% and receive a variable rate equal to the 69% of the one-month LIBOR plus a spread of 241.50 basis points on a notional amount equal to the then outstanding balance of the Series 2010A Bonds, original notional amount of \$19,100,000. RRMC entered into the swap agreement with the objective of reducing its exposure to future variability in interest rates on the Series 2010A Bonds by effectively fixing the interest rate thereon at 4.61%. The terms of this swap agreement were revised on September 17, 2013, with this issuance of the Series 2013A Bonds. The swap agreement was extended and now terminates on September 1, 2023, and provides for monthly settlement with RRMC to pay a fixed rate of 4.828% and receive a variable rate equal to the 69% of the one-month LIBOR plus a spread of 241.50 basis points on a notional amount in the swap agreement. The notional amount is being reduced over the term of the agreement. At September 30, 2017 and 2016, the notional amount was \$15,689,199 and \$16,287,260, respectively.

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2017 and 2016

The table below presents certain information regarding RRMC's interest rate swap agreements designated as a fair value hedge. RRMC did not have any derivative instruments at September 30, 2017 and 2016, that were designated as hedging instruments.

	2017	2016
Other Liabilities		
Fair value of interest rate swap agreements	\$ 2,481,763	\$ 4,336,084
Interest Expense		
Additional interest expense incurred from interest rate swap agreements	769,967	948,933
Other Income (Expense)		
Gain (loss) recognized in change in interest rate swap agreement	1,854,320	(235,135)

Note 9: Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	2017	2016
Indigent care or operating room equipment	\$ 1,695,137	\$ 1,692,360
Capital	72,666	97,648
General use	1,261,993	1,341,837
Operating support	337,441	297,073
Special purpose endowments	545,307	404,999
Various departments and other	386,357	353,750
	<u>\$ 4,298,901</u>	<u>\$ 4,187,667</u>

During the years ended September 30, 2017 and 2016, net assets were released from donor restrictions by incurring expenses, satisfying the restricted operating purposes in the amounts of \$537,289 and \$84,847, respectively. During the years ended September 30, 2017 and 2016, net assets of \$146,892 and \$792,715, respectively, were released to purchase equipment.

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2017 and 2016

Permanently restricted net assets are restricted to:

	2017	2016
Investments to be held in perpetuity, the income is unrestricted	\$ 678,642	\$ 678,642

Note 10: Endowments

RRMC’s endowments consist of various individual donor-restricted and board-designated 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 are classified and reported based on the existence or absence of donor-imposed restrictions.

RRMC’s governing body has interpreted the State of Vermont Prudent Management of Institutional Funds Act (SPMIFA) 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, RRMC classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by RRMC in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, RRMC 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 RRMC and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of RRMC
7. Investment policies of RRMC

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2017 and 2016

The composition of net assets by type of endowment fund at September 30, 2017 and 2016, was:

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds	\$ -	\$ 202,861	\$ 486,246	\$ 689,107
Board-designated endowment funds	-	-	-	-
Total endowment funds	<u>\$ -</u>	<u>\$ 202,861</u>	<u>\$ 486,246</u>	<u>\$ 689,107</u>

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds	\$ -	\$ 249,791	\$ 486,246	\$ 736,037
Board-designated endowment funds	6,898,042	-	-	6,898,042
Total endowment funds	<u>\$ 6,898,042</u>	<u>\$ 249,791</u>	<u>\$ 486,246</u>	<u>\$ 7,634,079</u>

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

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of the year	\$ 6,898,042	\$ 249,791	\$ 486,246	\$ 7,634,079
Investment return and net appreciation (depreciation)	-	74,330	-	74,330
Appropriation of endowment net assets for expenditure	(6,898,042)	(121,260)	-	(7,019,302)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 202,861</u>	<u>\$ 486,246</u>	<u>\$ 689,107</u>

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2017 and 2016

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of the year	\$ 6,614,642	\$ 184,364	\$ 486,246	\$ 7,285,252
Investment return and net appreciation (depreciation)	(7,769)	65,427	-	57,658
Appropriation of endowment net assets for expenditure	291,169	-	-	291,169
Endowment net assets, end of year	<u>\$ 6,898,042</u>	<u>\$ 249,791</u>	<u>\$ 486,246</u>	<u>\$ 7,634,079</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level RRMC is required to retain as a fund of perpetual duration pursuant to donor stipulation or SPMIFA. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets and aggregated \$0 at September 30, 2017 and 2016. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after investment of new permanently restricted contributions and continued appropriation for certain purposes that was deemed prudent by the governing body.

RRMC has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Under RRMC's policies, the primary investment goal is generation of income. RRMC expects its endowment funds to provide an average rate of return of approximately 5% gross of fees annually over time. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, RRMC relies on a strategy in which investment returns are achieved through current yield. RRMC invests in a variety of securities to achieve its long-term return objectives within prudent risk constraints.

Note 11: Charity Care

The costs of charity care provided under RRMC's charity care policy were approximately \$2,643,000 and \$2,866,000 for 2017 and 2016, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2017 and 2016

Note 12: Functional Expenses

RRMC provides health care services to residents within its service area. Expenses related to providing these services are as follows:

	2017	2016
Health care services	\$ 198,130,032	\$ 194,434,323
General and administrative	51,982,093	49,208,542
	\$ 250,112,125	\$ 243,642,865

Note 13: Operating Leases

Rental expense under operating lease agreements totaled \$1,673,740 and \$1,643,117 for the years ended September 30, 2017 and 2016, respectively.

Note 14: Significant Commitments

RRMC and Cerner Corporation (Cerner) have entered into a strategic information technology service agreement. Cerner has assumed operational and administrative responsibilities for RRMC's information technology environment and services, including remote hosting, monitoring and system performance capabilities. The agreement is effective from July 1, 2013, through September 30, 2023. At the end of the initial term, the agreement will automatically renew in one-year increments. The payments on these agreements are recognized as expense when incurred.

Future minimum payments required under these agreements at September 30, 2017, are summarized as follows:

2018	\$ 10,833,653
2019	10,934,331
2020	11,278,329
2021	11,632,650
2022	11,997,600
Thereafter	12,277,428
	\$ 68,953,991

Expenses under this agreement totaled \$10,502,602 and \$10,163,176 for the years ended September 30, 2017 and 2016, respectively.

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2017 and 2016

Note 15: Pension Plans

Defined Benefits Plans

RRMC has a noncontributory defined benefit pension plan and a defined benefit postretirement health care plan covering all employees who meet the eligibility requirements. RRMC's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as RRMC may determine to be appropriate from time to time. RRMC expects to contribute \$2,000,000 to the defined benefit pension plan and expects to contribute \$395,302 to the postretirement health care plan in 2017.

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

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

	Pension Benefits		Other Benefits	
	2017	2016	2017	2016
Benefit obligation	\$ 126,358,847	\$ 133,713,021	\$ 728,785	\$ 1,141,604
Fair value of plan assets	119,114,545	112,514,990	-	-
Funded status	<u>\$ (7,244,302)</u>	<u>\$ (21,198,031)</u>	<u>\$ (728,785)</u>	<u>\$ (1,141,604)</u>

Assets and liabilities recognized in the balance sheets:

	Pension Benefits		Other Benefits	
	2017	2016	2017	2016
Current liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 392,359</u>	<u>\$ 423,577</u>
Noncurrent liabilities	<u>\$ 7,244,302</u>	<u>\$ 21,198,031</u>	<u>\$ 336,426</u>	<u>\$ 718,027</u>

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2017 and 2016

Amounts recognized in unrestricted net assets not yet recognized as components of net periodic benefit cost consist of:

	Pension Benefits		Other Benefits	
	2017	2016	2017	2016
Prior service credit	\$ -	\$ -	\$ -	\$ -
Net loss (gain)	\$ 31,889,957	\$ 43,912,240	\$ (480,478)	\$ (412,292)

The accumulated benefit obligation for the defined benefit pension plan was \$126,358,847 and \$133,713,021 at September 30, 2017 and 2016, respectively.

Other significant balances and costs are:

	Pension Benefits		Other Benefits	
	2017	2016	2017	2016
Benefit costs	\$ 68,554	\$ 1,260,139	\$ (138,965)	\$ (102,177)
Employer contributions	\$ 2,000,000	\$ 2,000,000	\$ 205,668	\$ 278,579
Benefits paid	\$ 5,073,024	\$ 4,721,796	\$ 205,668	\$ 278,579

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

	Pension Benefits		Other Benefits	
	2017	2016	2017	2016
Amounts arising during the period				
Net loss (gain)	\$ (9,338,545)	\$ 2,982,216	\$ (221,074)	\$ (274,388)
Amounts reclassified as components of net periodic benefit cost of the period				
Amortization of prior service credit	-	-	-	(66,888)
Amortization of net loss	2,683,740	2,631,002	-	-
Recognition of net loss (gain)	-	-	(152,888)	(65,123)

The estimated net loss for the defined benefit pension plan that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year is \$1,740,875.

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2017 and 2016

Significant assumptions include:

	Pension Benefits		Other Benefits	
	2017	2016	2017	2016
Weighted average assumptions used to determine benefit obligations				
Discount rate	3.75%	3.50%	1.50%	1.50%
Rate of compensation increase	N/A	N/A	N/A	N/A
Weighted average assumptions used to determine benefit costs				
Discount rate	3.50%	4.25%	1.50%	2.25%
Expected return on plan assets	6.50%	6.50%	N/A	N/A

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

For measurement purposes, a 7.50% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2017 and 2016. The rate was assumed to decrease gradually to 6% by the year 2020 and remain at that level thereafter.

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

	Pension Benefits	Other Benefits
2018	\$ 5,653,393	\$ 395,302
2019	5,954,647	213,198
2020	6,301,451	132,777
2021	6,620,528	-
2022	6,887,686	-
2023 - 2027	37,262,140	-

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2017 and 2016

Pension Plan Assets

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

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

The fair values of RRMC's pension plan assets at September 30, 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				
Investments				
Money market funds	\$ 556,365	\$ 556,365	\$ -	\$ -
Mutual funds - equity	61,255,496	61,255,496	-	-
Mutual funds - fixed	57,302,684	57,302,684	-	-
Total	<u>\$ 119,114,545</u>	<u>\$ 119,114,545</u>	<u>\$ -</u>	<u>\$ -</u>
2016				
Investments				
Money market funds	\$ 549,335	\$ 549,335	\$ -	\$ -
Mutual funds - equity	56,157,358	56,157,358	-	-
Mutual funds - fixed	55,808,297	55,808,297	-	-
Total	<u>\$ 112,514,990</u>	<u>\$ 112,514,990</u>	<u>\$ -</u>	<u>\$ -</u>

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

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2017 and 2016

Plan assets are rebalanced quarterly. The postretirement health care plan is conducted on a pay-as-you-go basis, thus there are no assets available for investment. At September 30, 2017 and 2016, plan assets by category are as follows:

	Pension Benefits	
	2017	2016
Equity securities	51%	50%
Debt securities	48%	50%
Cash and cash equivalents	1%	0%
	100%	100%

Defined Contribution Plan

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

<u>Combined Age and Years of Service</u>	<u>Percentage of Compensation</u>
Less than 40 years	4%
40 - 59 years	6%
60 - 79 years	8%
80 + years	10%

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

403(b) Plan - Employer Matching Contributions

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

Pension plan expense for these two plans for the years ended September 30, 2017 and 2016, was \$5,216,780 and \$5,051,437, respectively.

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2017 and 2016

Note 16: Executive Option Plan

Prior to 2002, RRMC offered an Executive Option Plan for certain senior management and employed physicians. Through the plan, administered under Section 83 of the Internal Revenue Code, a designated group of employees is granted options to purchase shares, through salary reduction, of one or more mutual funds at a price that is equal to a specified percentage of the fair value of the shares on the date of the exercise. During 2002, contributions to the plan were frozen and no future options are expected to be granted. At September 30, 2017 and 2016, plan assets amounted to \$1,787,806 and \$1,697,374, respectively.

Note 17: Related Party Transactions

A receivable from RRHS, RRMC's parent organization, of \$5,416,029 and \$5,260,001 is recorded at September 30, 2017 and 2016, respectively. RRMC has advanced RRHS funds to cover operating expenses.

A receivable from The Meadows Associates, an investment of RRHS of \$25,318 and \$0 is recorded at September 30, 2017 and 2016, respectively. RRMC has advanced The Meadows Associates fund to cover operating expenses.

Note 18: Community Health Centers of the Rutland Region, Inc.

RRHS awarded a five-year community benefit grant to Community Health Centers of the Rutland Region, Inc. (CHCRR) in the amount of \$4,600,000 that was funded by RRMC and was effective May 1, 2008. The original term of the agreement ended on April 30, 2013, and original amounts granted had been expended by RRMC by that time. In 2011, the agreement was amended to include an additional subsidy from RRMC to CHCRR for up to \$600,000 per year, through June 30, 2016, to defray the cost of uncompensated care to support the Rutland Clinic for primary care service. This agreement was not extended beyond June 30, 2016.

Effective December 1, 2013, RRHS entered into an agreement to provide CHCRR a community benefit grant over a period of fifty-eight months from December 1, 2013, to September 30, 2018. These payments are being made monthly and range from \$17,358 to \$19,537, for a total grant of \$1,066,810.

For the years ended September 30, 2017 and 2016, respectively, \$496,283 and \$666,815 was expended for the grant award from RRMC and is included in RRMC's general operating expenses.

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2017 and 2016

Note 19: Disclosures About Fair Value of Financial Instruments

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

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

Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 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)
September 30, 2017				
Investments				
Money market funds	\$ 545,308	\$ 545,308	\$ -	\$ -
Mutual funds - equity	85,973,359	85,973,359	-	-
Mutual funds - fixed	48,882,712	48,882,712	-	-
Interest in assets of Vermont Community Foundation	335,877	-	-	335,877
Interest rate swap agreements	(2,481,763)	-	(2,481,763)	-
September 30, 2016				
Investments				
Money market funds	\$ 404,999	\$ 404,999	\$ -	\$ -
Mutual funds - equity	72,379,046	72,379,046	-	-
Mutual funds - fixed	47,724,554	47,724,554	-	-
Interest in assets of Vermont Community Foundation	295,839	-	-	295,839
Interest rate swap agreements	(4,336,084)	-	(4,336,084)	-

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2017 and 2016

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended September 30, 2017.

Investments

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

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

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

Interest in Assets of Vermont Community Foundation

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

Interest Rate Swap Agreements

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

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

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2017 and 2016

Level 3 Reconciliation

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

	Interest in Assets of Vermont Community Foundation
Balance, October 1, 2015	\$ 321,360
Total realized and unrealized gains and losses included in other income (expense)	(25,521)
Balance, September 30, 2016	295,839
Total realized and unrealized gains and losses included in other income (expense)	40,038
Balance, September 30, 2017	\$ 335,877

Realized and unrealized gains and losses are included in excess of revenues over expenses for the period from October 1, 2016, through September 30, 2017.

Note 20: Contract Pharmacy Program

RRMC participates in the 340B outpatient drug discount program administered by the Office of Pharmacy Affairs of the Health Resources and Services Administration (HRSA). In 2011, RRMC began operating a 340B retail drug program by contracting with local pharmacies. The net revenue from this program for the years ended September 30, 2017 and 2016, respectively, was approximately \$3,161,000 and \$2,329,000 greater than the cost of operating the program. Laws and regulations surrounding the 340B drug program are complex and are subject to interpretation and change.

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2017 and 2016

Note 21: Significant Estimates and Concentrations

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

Allowance for Net Patient Service Revenue Adjustments

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

Malpractice Claims

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

Investments

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

Collective Bargaining Agreement

Approximately 22% of RRMC's employees are covered by a collective bargaining agreement. The collective bargaining agreement covering these employees expires September 30, 2018.

Asset Retirement Obligation

As discussed in *Note 25*, RRMC has recorded a liability for its conditional asset retirement obligations related to both its administrative and patient care buildings.

Derivative Financial Instruments

As discussed in *Note 8*, RRMC has entered into interest rate swap agreements and has estimated the fair value of the swaps at September 30, 2017 and 2016. Due to the level of risk associated with the swaps it is reasonably possible that changes in the fair value will occur in the near term and that such change could materially affect the amounts reported in the accompanying balance sheets.

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2017 and 2016

Pension and Other Postretirement Benefit Obligations

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

Note 22: Construction in Progress

The construction in progress at September 30, 2017, primarily relates to numerous smaller projects and the Medical Office Building. Some larger projects are included in construction in progress, but most of the expenditures have not occurred as of September 30, 2017. These projects include upgrades to air handling units and nuclear medicine, replacement windows and mammography units. Below is a table listing anticipated cost and completion date. RRMC is still exploring financial options for these project as of September 30, 2017.

Project Description	Estimated Total Cost	Estimated Remaining to be Spent	Estimated Completion Date
Air handling units upgrade	\$5,674,000	\$2,691,000	March 2018
Nuclear medicine upgrade	\$2,841,000	\$2,804,000	August 2018
Window replacement	\$1,518,000	\$1,510,000	September 2018
Mammography units	\$1,160,000	\$1,125,000	July 2018
Medical office building	\$23,885,000	\$23,706,000	May 2020

In January 2018, RRMC received a construction of need approval for the Medical Office Building from the state's regulatory authority, the Green Mountain Care Board.

Note 23: Contingent Liabilities

Litigation

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

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2017 and 2016

Note 24: Other Liabilities

Other liabilities consisted of the following at September 30, 2017 and 2016:

	2017	2016
Accrued postretirement health care benefit	\$ 336,426	\$ 718,027
Employee option payable	1,787,806	1,697,374
Accrued claims liabilities	3,383,488	3,969,454
Asset retirement obligation	586,529	573,243
Interest rate swap agreement	2,481,763	4,336,084
Other	9,000	76,791
	<u>\$ 8,585,012</u>	<u>\$ 11,370,973</u>

Note 25: Asset Retirement Obligations

Accounting principles generally accepted in the United States of America, requires that an asset retirement obligation (ARO) associated with the retirement of a tangible long-lived asset be recognized as a liability in the period in which it is incurred or becomes determinable (as defined by the standard) even when the timing and/or method of settlement may be conditional on a future event. RRMC's conditional asset retirement obligations primarily relate to asbestos contained in buildings that RRMC owns. Environmental regulations exist in Vermont that require RRMC to handle and dispose of asbestos in a special manner if a building undergoes major renovations or is demolished. A liability of \$586,529 and \$573,243 has been recognized in the accompanying 2017 and 2016 financial statements, respectively, for the portion of the liability that can be reasonably estimated.

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

Note 26: Subsequent Events

Subsequent events have been evaluated through February 21, 2018, which is the date the financial statements were available to be issued.

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2017 and 2016

Note 27: Future Changes in Accounting Principles

Revenue Recognition (ASU 2014-09)

The Financial Accounting Standards Board amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for RRMCM for annual periods beginning after December 15, 2018, and any interim periods within annual reporting periods that begin after December 15, 2019. RRMCM is in the process of evaluating the impact the amendment will have on the consolidated financial statements.

Leases (ASU 2016-02)

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for RRMCM for annual periods beginning after December 15, 2019, and any interim periods within annual reporting periods that begin after December 15, 2019. The Health System is evaluating the impact the standard will have on the consolidated financial statements; however, the standard is expected to have a material impact on the consolidated financial statements due to the recognition of additional assets and liabilities for operating leases.

Supplementary Information

**The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Net Patient Service Revenue
September 30, 2017 and 2016**

	Inpatient		Outpatient		Total	
	2017	2016	2017	2016	2017	2016
Routine Services						
Medical and surgical	\$ 39,435,435	\$ 39,795,947	\$ -	\$ -	\$ 39,435,435	\$ 39,795,947
Psychiatric	15,537,865	15,930,898	-	-	15,537,865	15,930,898
Obstetrics and gynecology	2,922,118	3,111,643	-	-	2,922,118	3,111,643
Intensive care	9,519,850	10,060,832	-	-	9,519,850	10,060,832
Nursery	1,009,195	1,145,771	-	-	1,009,195	1,145,771
	<u>68,424,463</u>	<u>70,045,091</u>	<u>-</u>	<u>-</u>	<u>68,424,463</u>	<u>70,045,091</u>
Special Services						
Operating room	38,647,713	37,893,342	29,845,008	30,084,822	68,492,721	67,978,164
Recovery room	2,548,844	2,625,377	2,748,659	2,935,245	5,297,503	5,560,622
Emergency room	9,781,963	9,599,368	31,479,646	32,215,132	41,261,609	41,814,500
Endoscopy	1,000,107	1,172,745	12,146,345	12,235,512	13,146,452	13,408,257
Ambulatory care	13,042	71,644	194,225	361,013	207,267	432,657
Delivery room	1,225,937	1,240,181	461,058	427,833	1,686,995	1,668,014
Medical and surgical supplies	550,448	795,720	1,200,221	1,253,804	1,750,669	2,049,524
Oncology	131,678	133,074	4,713,568	5,027,695	4,845,246	5,160,769
Laboratory	11,565,110	12,201,176	26,873,055	28,753,526	38,438,165	40,954,702
Cardiology	6,350,393	6,920,926	22,010,483	21,213,031	28,360,876	28,133,957
Pulmonary	229,752	244,058	798,979	827,391	1,028,731	1,071,449
Electroencephalography	110,956	114,712	563,407	445,024	674,363	559,736
Radiology - diagnostic	6,630,570	6,764,272	34,915,462	37,259,398	41,546,032	44,023,670
Radiology - isotopes	593,312	644,390	1,588,586	1,508,954	2,181,898	2,153,344
Chemotherapy	1,003,726	757,407	4,212,538	4,736,964	5,216,264	5,494,371
CT scanning	6,636,423	6,783,227	17,875,203	17,858,825	24,511,626	24,642,052
Radiation therapy	373,667	512,352	8,248,448	11,021,310	8,622,115	11,533,662
Pharmacy	16,010,112	18,769,593	49,374,180	52,290,353	65,384,292	71,059,946
Respiratory care	9,482,868	8,570,709	1,464,317	1,525,334	10,947,185	10,096,043
Psychiatric counseling	1,671,362	1,745,649	2,831,163	2,781,095	4,502,525	4,526,744
Physical therapy	1,380,183	1,620,389	2,205,888	2,455,076	3,586,071	4,075,465
Physiatry	29,033	31,658	2,538,394	2,888,403	2,567,427	2,920,061
Occupational therapy	1,747,487	1,544,479	571,044	650,861	2,318,531	2,195,340
Speech therapy	739,811	829,460	256,852	339,538	996,663	1,168,998
Hospitalist	6,505,334	6,609,776	801,496	994,428	7,306,830	7,604,204
OB/GYN oncology	1,704,925	1,904,950	2,986,959	2,393,234	4,691,884	4,298,184
Digestive services	188,949	226,453	3,694,486	3,602,053	3,883,435	3,828,506
Sleep services	6,065	4,320	3,834,966	4,425,882	3,841,031	4,430,202
Endocrinology	199,974	250,440	1,739,282	1,851,435	1,939,256	2,101,875
Gastroenterology	168,633	162,612	827,835	888,503	996,468	1,051,115
Infectious diseases	274,923	111,329	226,131	66,192	501,054	177,521
Miscellaneous clinical services	7,439,737	6,788,834	23,671,912	24,949,299	31,111,649	31,738,133
Opiate addiction center	-	-	3,906,772	3,586,554	3,906,772	3,586,554
Urology clinic	489,308	519,446	3,029,776	3,180,777	3,519,084	3,700,223
Eye clinic	1,610	-	2,528,204	2,704,718	2,529,814	2,704,718
Neurology	160,089	169,448	1,140,567	743,319	1,300,656	912,767
	<u>135,594,044</u>	<u>138,333,516</u>	<u>307,505,115</u>	<u>320,482,533</u>	<u>443,099,159</u>	<u>458,816,049</u>
Gross Patient Service Revenue	<u>\$ 204,018,507</u>	<u>\$ 208,378,607</u>	<u>\$ 307,505,115</u>	<u>\$ 320,482,533</u>	<u>511,523,622</u>	<u>528,861,140</u>
Less Contractual Allowances						
Medicare					164,025,155	173,532,215
Medicaid					56,881,663	65,017,238
Blue Cross					22,403,382	21,242,793
Charity care					5,753,971	5,838,729
Other					13,209,609	13,223,521
					<u>262,273,780</u>	<u>278,854,496</u>
Patient Service Revenue (Net of Contractual Discounts and Allowances)					<u>249,249,842</u>	<u>250,006,644</u>
Provision for uncollectible accounts					<u>7,056,413</u>	<u>4,183,690</u>
Net Patient Service Revenue Less Provision for Uncollectible Accounts					<u>\$ 242,193,429</u>	<u>\$ 245,822,954</u>

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Expenses
September 30, 2017 and 2016

	Salaries and Wages		Supplies and Other		Total	
	2017	2016	2017	2016	2017	2016
Nursing Services						
Nursing administration	\$ 736,934	\$ 699,937	\$ 47,928	\$ 55,473	\$ 784,862	\$ 755,410
Nursing education	1,003,782	909,420	214,514	221,847	1,218,296	1,131,267
Medical and surgical	9,919,137	9,749,218	731,679	654,948	10,650,816	10,404,166
Psychiatric	4,328,642	4,351,444	193,638	221,439	4,522,280	4,572,883
Obstetrics and gynecology	1,024,131	1,033,688	97,151	97,967	1,121,282	1,131,655
Intensive care	4,477,747	4,165,192	335,340	304,829	4,813,087	4,470,021
Nursery	315,810	305,653	54,120	49,687	369,930	355,340
	<u>21,806,183</u>	<u>21,214,552</u>	<u>1,674,370</u>	<u>1,606,190</u>	<u>23,480,553</u>	<u>22,820,742</u>
Other Professional Services						
Operating room	4,430,498	4,483,687	9,388,500	9,264,948	13,818,998	13,748,635
Recovery room	564,797	602,998	65,548	65,157	630,345	668,155
Emergency room	10,686,611	9,642,553	810,175	766,425	11,496,786	10,408,978
Endoscopy	869,898	753,766	439,145	403,913	1,309,043	1,157,679
Ambulatory care	1,140,053	1,136,501	204,278	186,100	1,344,331	1,322,601
Physical rehabilitation services	1,728,341	1,664,337	64,209	71,559	1,792,550	1,735,896
Delivery room	1,034,733	1,034,938	71,396	66,097	1,106,129	1,101,035
HIV clinic	398,841	230,455	21,577	24,946	420,418	255,401
Central supply	650,868	597,431	856,793	854,083	1,507,661	1,451,514
Anesthesiology	1,884,753	1,729,778	62,000	33,635	1,946,753	1,763,413
Oncology	2,118,223	2,167,833	260,502	254,767	2,378,725	2,422,600
Laboratory	4,524,859	4,166,198	4,402,949	4,441,184	8,927,808	8,607,382
Cardiology	3,726,033	4,058,518	711,728	719,814	4,437,761	4,778,332
Pulmonary	778,747	799,320	12,905	26,313	791,652	825,633
Cardiac cath	226,148	236,899	594,631	570,064	820,779	806,963
Electroencephalography	275,030	251,213	27,599	23,207	302,629	274,420
Radiology - diagnostic	4,190,358	3,845,851	1,895,258	1,793,098	6,085,616	5,638,949
Radiology - isotopes	160,296	147,439	350,137	309,534	510,433	456,973
CT scanning	467,749	527,555	728,746	605,513	1,196,495	1,133,068
Radiation therapy	442,067	363,841	500,052	505,501	942,119	869,342
Pharmacy	2,234,040	2,197,543	14,062,689	16,228,269	16,296,729	18,425,812
Respiratory care	1,761,009	1,301,975	318,109	320,655	2,079,118	1,622,630
Psychiatric counseling	2,442,649	1,467,295	130,673	131,146	2,573,322	1,598,441
Physical therapy	1,041,966	979,650	34,041	32,554	1,076,007	1,012,204
Occupational therapy	482,534	441,491	23,219	29,949	505,753	471,440
Hospitalists	4,063,787	3,525,627	66,812	75,205	4,130,599	3,600,832
Speech therapy	219,318	285,389	9,574	5,359	228,892	290,748
OB/GYN oncology	15,057	17,766	800	973	15,857	18,739
OB/GYN clinic	2,726,391	2,403,730	307,002	286,039	3,033,393	2,689,769
Gastroenterology	1,953,918	2,019,422	112,241	112,822	2,066,159	2,132,244
Sleep services	826,068	862,280	91,947	66,284	918,015	928,564
Endocrinology	1,240,887	1,261,770	157,514	152,088	1,398,401	1,413,858
Miscellaneous clinical services	9,658,530	9,583,492	1,789,971	1,776,296	11,448,501	11,359,788
Opiate addiction center	1,352,832	1,233,709	985,700	1,118,860	2,338,532	2,352,569
Urology clinic	1,113,235	1,181,974	325,414	336,115	1,438,649	1,518,089
Eye clinic	720,151	711,860	106,135	114,271	826,286	826,131
Neurology	845,402	744,265	72,610	61,476	918,012	805,741
Retail pharmacy	205,392	6,897	744,422	24,646	949,814	31,543
	<u>73,202,069</u>	<u>68,667,246</u>	<u>40,807,001</u>	<u>41,858,865</u>	<u>114,009,070</u>	<u>110,526,111</u>

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Expenses
September 30, 2017 and 2016

	Salaries and Wages		Supplies and Other		Total	
	2017	2016	2017	2016	2017	2016
General and Support Services						
Dietary	\$ 1,534,680	\$ 1,499,529	\$ 1,066,571	\$ 1,023,198	\$ 2,601,251	\$ 2,522,727
Plant operations	190,963	179,383	2,271,242	2,276,134	2,462,205	2,455,517
Maintenance	1,311,486	1,208,816	964,258	856,000	2,275,744	2,064,816
Housekeeping	1,375,031	1,435,655	380,936	415,325	1,755,967	1,850,980
Laundry and linen	95,588	101,079	660,988	700,391	756,576	801,470
Purchasing	364,607	371,089	96,574	70,682	461,181	441,771
Security	524,680	458,504	41,473	21,726	566,153	480,230
FQHC	-	-	496,283	666,815	496,283	666,815
Medicaid tax assessment	-	-	14,644,716	14,052,304	14,644,716	14,052,304
Administration/development/planning	6,918,970	6,102,898	7,921,922	7,610,759	14,840,892	13,713,657
Financial services	2,388,833	2,259,331	379,564	1,445,367	2,768,397	3,704,698
Patient access	2,248,293	1,964,115	1,303,328	209,201	3,551,621	2,173,316
Outpatient and oncology services management	89,488	117,457	571	592	90,059	118,049
Mail services	111,330	108,524	224,803	243,156	336,133	351,680
Telecommunications	330,881	294,801	60,318	66,515	391,199	361,316
Personnel	1,820,861	1,445,605	981,955	845,532	2,802,816	2,291,137
Medical records and library	3,305,202	2,791,559	797,872	959,516	4,103,074	3,751,075
Social services	505,879	435,845	193,605	137,249	699,484	573,094
Employee health	221,329	202,538	81,510	53,303	302,839	255,841
Volunteer services	128,804	124,814	68,937	65,684	197,741	190,498
Community relations	-	32,133	-	-	-	32,133
Community health improvement	1,193,444	1,176,204	82,718	119,576	1,276,162	1,295,780
Information technology services	4,962,280	5,080,537	9,862,561	8,297,690	14,824,841	13,378,227
Employee benefits	24,786,777	24,640,444	-	-	24,786,777	24,640,444
Pension expense	505,788	1,730,729	-	-	505,788	1,730,729
James T. Bowse Community Trust	44,136	42,405	330,617	308,167	374,753	350,572
Rutland Health Foundation	148,830	393,573	96,759	89,384	245,589	482,957
Gift shoppe	75,581	64,165	79,929	100,282	155,510	164,447
Community investment	-	-	15,241	-	15,241	-
	<u>55,183,741</u>	<u>54,261,732</u>	<u>43,105,251</u>	<u>40,634,548</u>	<u>98,288,992</u>	<u>94,896,280</u>
Depreciation and Amortization	-	-	12,801,745	13,612,591	12,801,745	13,612,591
Interest	-	-	1,531,765	1,787,141	1,531,765	1,787,141
	<u>\$ 150,191,993</u>	<u>\$ 144,143,530</u>	<u>\$ 99,920,132</u>	<u>\$ 99,499,335</u>	<u>\$ 250,112,125</u>	<u>\$ 243,642,865</u>

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Other Revenue
September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cafeteria	\$ 995,648	\$ 938,844
Cash discounts	5,782	16,945
Miscellaneous	3,867,254	2,460,793
Contract pharmacy revenue	4,794,823	3,758,876
Retail pharmacy revenue	885,971	-
Electronic health records incentive payment	544,488	1,017,651
Medical record fees	19,633	22,089
Rental income	259,722	184,230
Gift shoppe	141,872	107,789
	<u>\$ 11,515,193</u>	<u>\$ 8,507,217</u>

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Property and Equipment
September 30, 2017

	Balance October 1, 2016	Additions	Reclassification	Disposals	Balance September 30, 2017
Assets					
Land	\$ 645,676	\$ -	\$ -	\$ -	\$ 645,676
Land improvements	2,955,578	206,826	-	-	3,162,404
Buildings	42,271,274	-	-	-	42,271,274
Building improvements	56,760,956	3,363,134	1,582,872	-	61,706,962
Fixed equipment	33,456,193	842,344	251,690	-	34,550,227
Major movable equipment	103,286,561	4,831,009	728,236	(3,954,095)	104,891,711
Construction in progress	3,422,993	2,981,737	(2,562,798)	-	3,841,932
	<u>\$ 242,799,231</u>	<u>\$ 12,225,050</u>	<u>\$ -</u>	<u>\$ (3,954,095)</u>	<u>251,070,186</u>
Accumulated Depreciation					
Land improvements	\$ 1,959,248	\$ 151,899	\$ -	\$ -	2,111,147
Buildings	24,791,598	1,083,403	-	-	25,875,001
Building improvements	26,344,377	3,471,038	-	-	29,815,415
Fixed equipment	24,755,689	1,022,752	-	-	25,778,441
Major movable equipment	83,222,194	7,055,262	-	(3,924,500)	86,352,956
	<u>\$ 161,073,106</u>	<u>\$ 12,784,354</u>	<u>\$ -</u>	<u>\$ (3,924,500)</u>	<u>169,932,960</u>
					<u>\$ 81,137,226</u>

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Property and Equipment
September 30, 2016

	Balance October 1, 2015	Additions	Transfer from RRHS	Reclassification	Disposals	Balance September 30, 2016
Assets						
Land	\$ 224,094	\$ -	\$ 421,582	\$ -	\$ -	\$ 645,676
Land improvements	2,230,614	364,506	310,425	50,033	-	2,955,578
Buildings	38,775,969	-	3,495,305	-	-	42,271,274
Building improvements	47,408,211	6,414,238	2,083,608	854,899	-	56,760,956
Fixed equipment	29,597,080	2,169,806	1,448,080	241,227	-	33,456,193
Major movable equipment	96,681,658	6,702,424	-	452,415	(549,936)	103,286,561
Construction in progress	2,197,239	2,824,328	-	(1,598,574)	-	3,422,993
	<u>\$ 217,114,865</u>	<u>\$ 18,475,302</u>	<u>\$ 7,759,000</u>	<u>\$ -</u>	<u>\$ (549,936)</u>	<u>242,799,231</u>
Accumulated Depreciation						
Land improvements	\$ 1,571,930	\$ 133,160	\$ 254,158	\$ -	\$ -	1,959,248
Buildings	21,317,496	1,139,250	2,334,852	-	-	24,791,598
Building improvements	22,077,024	3,172,123	1,095,230	-	-	26,344,377
Fixed equipment	22,872,018	945,250	938,421	-	-	24,755,689
Major movable equipment	75,558,526	8,209,036	-	-	(545,368)	83,222,194
	<u>\$ 143,396,994</u>	<u>\$ 13,598,819</u>	<u>\$ 4,622,661</u>	<u>\$ -</u>	<u>\$ (545,368)</u>	<u>161,073,106</u>
						<u>\$ 81,726,125</u>