

**SOUTHWESTERN VERMONT MEDICAL CENTER**  
**Financial Summary**  
**Fiscal Year ended September 30, 2018**

**Southwestern Vermont Medical Center (hereafter “SVMC”)**

The gain from operations was \$7,618,120 or a 4.6% operating margin. Below is the comparative summary FY 2018 financial results vs. FY 2018 budget.

Table #1 – Summary Financial Results

	<b><u>FY 2017 Actual</u></b>	<b><u>FY 2018 Budget</u></b>	<b><u>FY 2018 Actual</u></b>
Net patient service revenues	\$152,602,902	\$160,078,864	\$155,861,148
Fixed prospective payments			5,254,618
<i>Total net patient care revenue</i>	<u>152,602,902</u>	<u>160,078,864</u>	<u>161,115,766</u>
Other operating revenues	4,564,357	3,963,786	5,058,629
<i>Total operating revenues</i>	<u>157,167,259</u>	<u>164,042,650</u>	<u>166,174,395</u>
<i>Operating expenses</i>	<u>151,391,369</u>	<u>157,736,630</u>	<u>158,556,275</u>
<i>Operating gain</i>	5,775,890	6,306,020	7,618,120
Non-operating activities-net	<u>2,034,841</u>	<u>685,862</u>	<u>2,084,454</u>
<b><i>Excess revenues over expenses</i></b>	<b><u>\$7,810,731</u></b>	<b><u>\$6,991,882</u></b>	<b><u>\$9,702,574</u></b>
<b><i>Operating margin</i></b>	<b><u>3.67%</u></b>	<b><u>3.8%</u></b>	<b><u>4.6%</u></b>

This higher than budget operating gain/margin was driven mostly by the increased other operating revenues and slightly higher than plan net patient services revenue that will be discussed later in this document. The actual operating margin of 4.6% was in the range of acceptable of operating margins when rating agencies, lending institutions and well as affiliation partners.

SVMC entered the OneCare Medicaid Risk Payment Model effective January 1, 2018. Over the first nine months of the program SVMC has seen a favorable difference of OneCare payments over claims activity incurred at SVMC. This favorable variance is one of the primary drivers of the positive net patient service revenue variance.

**Net Patient Service Revenues (hereafter “NPSR”)**

In FY 2018, NPSR of \$161,115,766 was \$1,036,902 greater than budget or 0.6%. Included in the recorded NPSR is \$382,000 of reserves related to the OneCare VT Medicaid claims run out for out of network excess utilization. If the reserve was not recorded the Hospital’s NPSR variance would have been .88%. The reserve will be evaluated when the calendar year OneCare VT Medicaid program is reconciled in FY 2019.

The variance to budget was mainly driven by favorable OneCare VT Medicaid risk experience incurred at SVMC and increased volumes in the outpatient setting. Inpatient services were under budget and prior years. The outpatient services were higher than anticipated volumes in oncology drugs in the Cancer Center, physical therapy, CT scan and emergency room. These positive variances were offset by lower than anticipated volume in physician practices, operating room, endoscopy, MRI and medical surgical supplies. Additionally, bad debt, charity care amounts were over budget.

The table #2 below provides a summary of the significant revenue variances and the approximate amounts:

Table #2 – Significant NPSR variances from budget

<b><u>Net Patient Revenue by Payer</u></b>	<b><u>Sep YTD Actual</u></b>	<b><u>Sep YTD Budget</u></b>	<b><u>Variance</u></b>
Medicare	\$62,664,062	\$58,765,850	\$3,898,212
Medicaid	14,718,455	19,088,121	(4,369,666)
OneCare	5,254,618		5,254,618
<i>Subtotal Medicaid</i>	19,973,073	19,088,121	884,952
Commercial and Self Pay	86,368,746	89,153,893	(2,785,147)
Less: Bad debts / Free care	(7,890,115)	(6,929,000)	(961,115)
<i>Subtotal Commercial</i>	78,478,631	82,224,893	(3,746,262)
<b><i>NPSR</i></b>	<b><u>\$161,115,766</u></b>	<b><u>\$160,078,864</u></b>	<b><u>\$1,036,902</u></b>

As the table above shows when factoring in the revenue received from OneCare the year to date NPSR had a positive budget variance of over \$1,036,000.

Payer Mix

Total gross patient charges were \$7,989,528 under budget for FY 2018 or 2.3%. The largest decreases in gross patient charge volume was in Medicaid and Commercial revenue with decreases of approximately 8.0% and 3.7% under budget, respectively. Medicare volume increased as a percentage of total this was offset by the significant reduction in Commercial payer volume.

Inpatient Volumes

Table #3 below shows the key inpatient volume indicators compared to budget and prior fiscal year for the twelve months ended September.

Table #3 – Inpatient volumes

	<i>Twelve months ended September 30, 2018</i>			
	<i>Actual FY 2018</i>	<i>Budget FY 2018</i>	<i>Variance</i>	<i>Prior year FY 2017</i>
<b><u>Patient Days</u></b>				
Medical/Surgical	8,464	8,316	148	8,444
ICU	1,831	2,046	(215)	1,998
Pediatrics	86	114	(28)	131
Maternity	1,089	1,094	(5)	1,156
<b>Total Medical/Surgical</b>	<b>11,470</b>	<b>11,570</b>	<b>(100)</b>	<b>11,729</b>
<b>Admissions M/S</b>	<b>3,419</b>	<b>3,398</b>	<b>21</b>	<b>3,383</b>

Inpatient days were 100 under plan with lower ancillary services per patient being incurred. Adult inpatient admission volumes are 42 over budget year to date or 0.6%.

Inpatient Ancillary Services

The downward trend, over the years, on inpatient volume and patient acuity continued in fiscal year 2018 as ancillary test volumes have declined. Lower than anticipated inpatient surgical cases drove significant variances in operating room, medical surgical supply, respiratory therapy, physical therapy and laboratory revenue.

Table #4 below shows significant fiscal year 2018 variances in inpatient statistics to budget:

Table #4 – Inpatient ancillary volume significant statistic variances

<b>Twelve months ended September 30, 2018</b>				
<b>Visits/Procedures</b>	<b>Actual</b>	<b>Budget</b>	<b>Variance</b>	<b>%Var</b>
Adult Patient Days	11,470	11,570	(100)	-0.86%
Operating Room	663	710	(47)	-6.62%
Respiratory Therapy	17,361	19,356	(1,995)	-10.31%
Physical Therapy	8,219	9,764	(1,545)	-15.82%
Laboratory	55,637	60,516	(4,879)	-8.06%
Radiology	3,646	3,714	(68)	-1.83%
MRI	221	182	39	21.43%

The overall Case Mix, which measures patient acuity was 1.21 which was just slightly under the budgeted 1.23, however, the Surgical Case mix decreased to 1.90 down from a budget of 2.03. This decrease is one of the drivers of lower ancillary volumes.

Most of the inpatient indicators look negative, the hospital experiences a favorable shift in inpatient admission payer mix. Medicaid admissions were under budget by 5.5% and commercial admissions were over budget by 4.5%. As table #5 on the next page shows.

Table #5 – Admissions by Payer —Fiscal Year 2018

<b>Twelve months ended September 30, 2018</b>				
<b>Payer</b>	<b>Actual</b>	<b>Budget</b>	<b>Variance</b>	<b>%Var</b>
Medicare	2,118	2,115	3	0.1%
Medicaid	813	860	(47)	-5.5%
Commercial and Self Pay	946	905	41	4.5%
<b>Total Admissions</b>	<b>3,877</b>	<b>3,880</b>	<b>(3)</b>	<b>-0.1%</b>

Outpatient Ancillary Volume

Outpatient charge volume was under budget by 1.0% in FY 2018. Table #6 is below which shows departments with significant variances to budget for fiscal year 2018.

Table #6 – Outpatient significant statistic variances—Fiscal Year 2018  
September 30, 2018 Year to Date

<u>Visits/Procedures</u>	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>	<u>%Var</u>
Drugs Sold	2,849,394	2,471,375	378,019	15%
Cat Scan	10,063	9,224	839	9%
Physical Therapy	34,105	25,789	8,316	32%
Emergency Room	20,780	20,792	(12)	0%
Physician Practice visits	133,586	147,708	(14,122)	-10%
Radiation Therapy	4,346	7,038	(2,692)	-38%
Operating Room	2,264	2,617	(353)	-13%
Renal	6,234	6,683	(449)	-7%
MRI	3,029	3,051	(22)	-1%
Endoscopy	3,141	3,488	(347)	-10%

Table #7 on the next page lists departments with the most significant fiscal year charge volume variances.

**Table #7 – Outpatient significant gross charge variances –FY 2018**

<b><u>Department</u></b>	<b><u>Twelve months ended September 30, 2018</u></b>			<b><u>% Var</u></b>
	<b><u>Actual</u></b>	<b><u>Budget</u></b>	<b><u>Variance</u></b>	
Drugs Sold	\$48,291,754	\$41,885,060	\$6,406,694	15.3%
CT Scan	22,554,763	20,693,967	1,860,796	9.0%
Physical Therapy	5,700,100	4,612,233	1,087,867	23.6%
Emergency Room	22,877,802	22,154,700	723,102	3.3%
Radiology	16,838,949	16,261,559	577,390	3.6%
Physician Office Prac.	52,510,781	58,577,609	(6,066,828)	-10.4%
Radiation Therapy	5,642,841	9,230,641	(3,587,800)	-38.9%
Operating Room	15,817,022	17,668,922	(1,851,900)	-10.5%
Renal Dialysis	5,715,876	6,451,643	(735,767)	-11.4%
MRI	7,564,015	8,023,408	(459,393)	-5.7%
Endoscopy	7,026,716	7,474,435	(447,719)	-6.0%
Nuclear Medicine	2,343,228	2,618,536	(275,308)	-10.5%
All other depts	64,134,122	64,159,329	(25,207)	0.0%
<b><u>Total Outpatient Gross Charges</u></b>	<b><u>\$277,017,969</u></b>	<b><u>\$279,812,042</u></b>	<b><u>(\$2,794,073)</u></b>	<b><u>-1.0%</u></b>

Outpatient physician gross charge revenue of \$52,510,781 were under budget by \$6,066,828 or 10.4%. The primary driver of the gross charge revenue variance was significant budgeted increases in FY 2018 which did not materialize due to recruitment and physician turnover. Practices included orthopedics, gastroenterology, medical oncology, and primary care practices in Northshire and Pownal. The primary care practice volumes were behind budget visits were 5.3% higher than FY17.

There is significant details that management can provided related to the significant increase in the drugs sold unit of service. Patient volumes, new technology and more effective drugs in fighting cancer and improving the quality of life of the patients during treatment are all drivers to the increase in charges and net revenues related to drugs sold.

Additionally, management can provide further details on out of state revenues as well as any other item related to NPSR at the request of the GMCB.

**Healthcare Reform Initiatives**

The impact of SVMC's health reform initiatives were significant in FY 2018. Continued expansion and access to primary care services and the transitional care program both focused on keeping patients healthy so they don't require more expensive inpatient care. Physician practice primary care visits increased by 3,635 visits in FY 2018 or 5.3%.

Other Operating Revenue

Other operating revenue of \$5,058,629 was over budget by \$1,094,843 in FY 2018. The significant positive budget variances to budget are listed below:

- SVMC expanded our 340b contract pharmacy program which was launched in the last quarter of FY 2017 as an initiative for the performance enhancement program. Revenue recorded for the 340b Contract Pharmacy program in FY 2018 totaled \$2.4 million and exceeded budget by over \$500,000.
- Meaningful use revenue received in the physician practices was approximately \$112,000 higher than budget;
- SVMC received \$146,700 more than planned in grant revenue for the Blue Print, transitional care and diabetic education. Additional expenses offset the additional grant revenue received.

### Operating Expenses

Operating expenses of \$158,556,275 were \$819,645 over budget for the year or 0.5%. The significant budget variances include:

- Staff salary expenses were over budget by \$43,013 or 0.1% and total year to date FTE's of 765.8 are 9.5 FTE's over budgeted FTE's of 756.3;
- Employee benefit expenses were \$1,346,764 under budget in FY 18 or 9.48%. The year to date variance is primarily due to the defined benefit pension expense credit being better than plan by \$1,177,179 year to date;
- Physician fees and salaries of \$30,383,966 were \$149,149 under budget or 0.5% due to unfilled provider positions offset by expense related to hiring costly locum physicians to cover vacancies in the emergency department, hospitalist and orthopedic practice;
- Other operating expenses of \$51,455,618 were \$2,772,601 over budget or 5.7%. Contract labor to fill vacant staff positions accounted for approximately \$1.7 million of this variance. Significant variances include:
  - Pharmacy drugs were over budget by \$392,817 related to increased utilization and cost primarily in Oncology;
  - Emergency department expenses were over budget by \$424,293 related to contract labor and purchased services expense;
  - Chargeable medical supplies were \$420,146 under budget primarily due to the lower than anticipated surgical volume;
  - Laboratory expense was over budget by \$406,280 primarily related to increase in referral lab testing and contract labor expense ;
  - Acute care Medical/surgical other expense were \$598,895 over budget primarily due to unbudgeted contract labor expense in nursing to cover vacant staff positions;
  - Radiology other expenses were \$334,645 over budget due to a combination of higher supply costs and purchased services than planned;
  - Physician office practice other expenses were \$1,109,538 over budget due primarily to budgeted expense reduction that were not achieved;

- Plant operation and maintenance expenses were \$238,785 over budget with the largest variance in contracted labor in the security department.

SVMC Balance Sheet changes in FY 2018

- Cash and cash equivalents decreased by \$1,993,240 from FY 2017 at SVMC. Total days of cash on hand and investments at September 30, 2018 for Southwestern Vermont Health Care were 162.2 days;
- Accounts receivables increased by \$629,704 from FY 2017. The days revenues outstanding in accounts receivables were at 34.2 days at the end of September compared to 33.4 as of September 30, 2017.

Further detail information is available upon request and management urges the GMCB and staff of the GMCB to communicate their additional needs. Additional information can be requested from Stephen D. Majetich, CFO at 802-447-5011 or [stephen.majetich@svhealthcare.org](mailto:stephen.majetich@svhealthcare.org) and James Roy, Controller at 802-447-5040 or [james.roy@svhealthcare.org](mailto:james.roy@svhealthcare.org).