

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

Independent Auditor's Report and Financial Statements

September 30, 2018 and 2017

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

September 30, 2018 and 2017

Contents

Independent Auditor’s Report..... 1

Financial Statements

Balance Sheets..... 3
Statements of Operations..... 4
Statements of Changes in Net Assets 5
Statements of Cash Flows 6
Notes to Financial Statements 7

Supplementary Information

Net Patient Service Revenue 38
Expenses 39
Other Revenue 41
Property and Equipment 42

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, 2018 and 2017, and the related statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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, 2018 and 2017, 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 25, 2019

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Balance Sheets
September 30, 2018 and 2017

Assets

	<u>2018</u>	<u>2017</u>
Current Assets		
Cash and cash equivalents	\$ 7,330,571	\$ 9,725,780
Patient accounts receivable, net of allowance; 2018 – \$8,510,000 and 2017 – \$7,630,000	26,832,549	27,274,766
Other receivables	5,198,945	4,381,660
Due from affiliates	5,589,575	5,441,347
Supplies	1,766,816	1,735,125
Prepaid expenses and other	3,759,940	3,425,295
Total current assets	<u>50,478,396</u>	<u>51,983,973</u>
Assets Limited As To Use		
Workers' compensation trust fund	828,917	494,485
Restricted by donors	4,957,850	4,901,282
Internally designated	139,394,745	130,453,848
	<u>145,181,512</u>	<u>135,849,615</u>
Property and Equipment, At Cost		
Land and land improvements	3,721,172	3,808,080
Buildings and leasehold improvements	104,229,690	103,978,236
Equipment	130,990,748	139,441,938
Construction in progress	3,660,435	3,841,932
	<u>242,602,045</u>	<u>251,070,186</u>
Less accumulated depreciation	161,155,950	169,932,960
	<u>81,446,095</u>	<u>81,137,226</u>
Other Assets		
Pledges receivable	15,386	37,235
Other	3,379,858	5,427,806
	<u>3,395,244</u>	<u>5,465,041</u>
 Total assets	 <u>\$ 280,501,247</u>	 <u>\$ 274,435,855</u>

Liabilities and Net Assets

	2018	2017
Current Liabilities		
Current maturities of long-term debt	\$ 1,885,160	\$ 1,795,006
Accounts payable and accrued expenses	10,620,687	9,942,305
Accrued compensation and related taxes	13,124,089	12,066,535
Estimated amounts due to and advances from third-party payers	<u>7,963,185</u>	<u>7,886,938</u>
Total current liabilities	33,593,121	31,690,784
Other Liabilities	5,788,853	8,585,012
Accrued Pension Obligation	595,421	7,244,302
Long-Term Debt	<u>34,468,653</u>	<u>36,264,083</u>
Total liabilities	<u>74,446,048</u>	<u>83,784,181</u>
Net Assets		
Unrestricted	201,028,235	185,674,131
Temporarily restricted	4,348,322	4,298,901
Permanently restricted	<u>678,642</u>	<u>678,642</u>
Total net assets	<u>206,055,199</u>	<u>190,651,674</u>
Total liabilities and net assets	<u><u>\$ 280,501,247</u></u>	<u><u>\$ 274,435,855</u></u>

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Statements of Operations
Years Ended September 30, 2018 and 2017

	2018	2017
Unrestricted Revenues, Gains and Other Support		
Patient service revenue (net of contractual discounts and allowances)	\$ 262,832,235	\$ 249,249,842
Provision for uncollectible accounts	8,597,207	7,056,413
Net patient service revenue less provision for uncollectible accounts	254,235,028	242,193,429
Other revenue	14,613,015	11,515,193
Net assets released from restrictions used for operations	567,551	537,289
Total unrestricted revenues, gains and other support	269,415,594	254,245,911
Expenses and Losses		
Salaries and benefits	161,654,118	150,191,993
Supplies and other	93,254,759	85,586,622
Depreciation and amortization	11,919,033	12,801,745
Interest	1,290,424	1,531,765
Total expenses and losses	268,118,334	250,112,125
Operating Income	1,297,260	4,133,786
Other Income (Expense)		
Investment return	3,334,734	3,069,220
Contributions received and other	(77,920)	525,672
Change in unrealized gains and losses on trading securities	5,409,401	10,587,509
Gain on interest rate swap agreement	1,486,656	1,854,320
Total other income (expense)	10,152,871	16,036,721
Excess of Revenues Over Expenses	11,450,131	20,170,507
Net assets released from restriction for purchase of property and equipment	439,511	146,892
Defined benefit pension and postretirement benefit costs		
Net loss arising during the year	1,973,648	9,559,619
Amortization of net loss and prior service credit	1,740,875	2,683,740
Recognition of net gain	(250,061)	(152,888)
Increase in Unrestricted Net Assets	\$ 15,354,104	\$ 32,407,870

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Statements of Changes in Net Assets
Years Ended September 30, 2018 and 2017

	2018	2017
Unrestricted Net Assets		
Excess of revenues over expenses	\$ 11,450,131	\$ 20,170,507
Net assets released from restriction used for purchase of property and equipment	439,511	146,892
Defined benefit pension costs		
Net loss arising during the year	1,973,648	9,559,619
Amortization of net loss and prior service credit	1,740,875	2,683,740
Recognition of net gain	(250,061)	(152,888)
Increase in unrestricted net assets	15,354,104	32,407,870
Temporarily Restricted Net Assets		
Contributions received	938,682	550,084
Investment return	117,801	245,331
Net assets released from restrictions	(1,007,062)	(684,181)
Increase in temporarily restricted net assets	49,421	111,234
Change in Net Assets	15,403,525	32,519,104
Net Assets, Beginning of Year	190,651,674	158,132,570
Net Assets, End of Year	\$ 206,055,199	\$ 190,651,674

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Statements of Cash Flows
Years Ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Activities		
Change in net assets	\$ 15,403,525	\$ 32,519,104
Items not requiring (providing) cash		
Depreciation and amortization	11,919,033	12,801,745
Loss on disposal of property and equipment	77,090	29,595
Net gain on investments	(5,497,394)	(10,791,850)
Restricted contributions received	(938,682)	(550,084)
Change in defined benefit pension and postretirement benefit plans	(3,464,462)	(12,090,471)
Change in fair value of interest rate swap agreements	(1,486,656)	(1,854,320)
Changes in		
Patient accounts receivable, net	442,217	(3,210,455)
Other receivables	(819,299)	205,974
Estimated third-party settlements and advances	76,247	(1,265,774)
Other current assets and liabilities	(1,805,382)	(2,444,932)
	<u>13,906,237</u>	<u>13,348,532</u>
Investing Activities		
Proceeds from disposition of trading securities	522,543	867,862
Purchases of trading securities	(4,357,046)	(4,062,297)
Net advances to related parties	(148,228)	(181,346)
Purchase of property and equipment	(11,486,282)	(11,921,599)
	<u>(15,469,013)</u>	<u>(15,297,380)</u>
Financing Activities		
Principal payments on long-term debt	(1,794,978)	(1,877,055)
Proceeds from restricted contributions	962,545	609,850
	<u>(832,433)</u>	<u>(1,267,205)</u>
Decrease in Cash and Cash Equivalents	(2,395,209)	(3,216,053)
Cash and Cash Equivalents, Beginning of Year	<u>9,725,780</u>	<u>12,941,833</u>
Cash and Cash Equivalents, End of Year	<u>\$ 7,330,571</u>	<u>\$ 9,725,780</u>
Supplemental Cash Flows Information		
Interest paid	\$ 1,494,457	\$ 1,546,302
Property and equipment purchases in accounts payable	\$ 894,620	\$ 1,694,811

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2018 and 2017

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 controlled 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, 2018 and 2017, 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, 2018, 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, 2018 and 2017

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.

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 percent of self-pay accounts receivable at September 30, 2018 and 2017. In addition, RRMC's write-offs increased approximately \$1,906,000 from approximately \$9,833,000 for the year ended September 30, 2017, to approximately \$11,739,000 for the year ended September 30, 2018.

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, 2018 and 2017

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, 2018 and 2017.

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, 2018 and 2017

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 Pledges 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.

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2018 and 2017

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.

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, 2018 and 2017.

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2018 and 2017

Electronic Health Records Incentive Program

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

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, 2018 and 2017, RRMC has recorded revenue of approximately \$0 and \$544,000, respectively, which is included in other revenue within operating revenues in the statements of operations and changes 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, 2018 and 2017

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, 2018 and 2017, was approximately:

	2018	2017
Medicare	\$ 99,684,559	\$ 92,361,520
Medicaid	29,954,833	32,084,271
Other third-party payers	123,182,928	115,045,841
Patients	10,009,915	9,758,210
	<u>\$ 262,832,235</u>	<u>\$ 249,249,842</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, 2018 and 2017, was:

	2018	2017
Medicare	51%	50%
Medicaid	15%	13%
Other third-party payers and patients	34%	37%
	<u>100%</u>	<u>100%</u>

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2018 and 2017

Note 4: Investments and Investment Return

Assets Limited As To Use

Assets limited as to use, at September 30, include:

	2018	2017
Cash	\$ 1,261,098	\$ 639,793
Mutual funds - equity	92,228,614	85,973,359
Mutual funds - fixed	51,333,597	48,882,712
Interest in assets of Vermont Community Foundation	339,333	335,877
Interest receivable	18,870	17,874
	<u>\$ 145,181,512</u>	<u>\$ 135,849,615</u>

Total investment return is comprised of the following:

	2018	2017
Interest and dividend income, net of investment expenses	\$ 3,364,542	\$ 3,110,210
Realized gains on trading securities	30,028	20,150
Unrealized gains on trading securities	5,467,366	10,771,700
	<u>\$ 8,861,936</u>	<u>\$ 13,902,060</u>

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

	2018	2017
Unrestricted net assets		
Investment return	\$ 3,334,734	\$ 3,069,220
Change in unrealized gains and losses on trading securities	5,409,401	10,587,509
Temporarily restricted net assets	117,801	245,331
	<u>\$ 8,861,936</u>	<u>\$ 13,902,060</u>

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2018 and 2017

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 \$730,000 and \$2,110,000, respectively, of estimated insurance coverage receivables and recorded \$2,340,000 and \$3,380,000, respectively, of estimated insurance liabilities as of September 30, 2018 and 2017. 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, 2018 and 2017. Actual results could differ from these estimates.

Estimated employee health insurance and dental claim liabilities recorded by RRMC totaled \$1,235,756 and \$735,148 as of September 30, 2018 and 2017, respectively.

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 \$339,333 and \$335,877 at September 30, 2018 and 2017, respectively (*Note 4*).

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2018 and 2017

Note 7: Line of Credit

RRMC has a \$5,000,000 revolving bank line of credit expiring May 31, 2019. At September 30, 2018 and 2017, there was \$0 borrowed against this line. The line is collateralized by substantially all of RRMC's unrestricted revenues. Interest varies with the bank's prime rate, which was and 5.25 percent on September 30, 2018 and 2017, respectively, and is payable monthly.

Note 8: Long-Term Debt

	2018	2017
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)	4,751,723	6,495,389
Capital lease (C)	68,783	-
Note payable, bank (D)	367,487	418,800
	36,537,993	38,264,189
Less unamortized costs of issuance	184,180	205,100
Less current maturities	1,885,160	1,795,006
	\$ 34,468,653	\$ 36,264,083

(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 percent times 71 percent. Effective February 1, 2016, the variable interest rate was reduced to 70 percent of the one-month LIBOR rate plus 0.826 percent 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 2.29 percent and 1.69 percent at September 30, 2018 and 2017, respectively. Unamortized costs of issuance were \$143,917 and \$153,565 at September 30, 2018 and 2017, 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, 2018 and 2017

- (B) Note payable (taxable) with a local financial institution, with a variable rate of LIBOR plus 1.5 percent, 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 percent. The effective interest rate was 3.12 percent and 2.26 percent at September 30, 2018 and 2017, respectively. Unamortized debt issuance costs were \$40,263 and \$51,535 at September 30, 2018 and 2017, 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 \$2,437 through June 2021; collateralized by certain equipment of RRMC.
- (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 percent, 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 and payments on capital lease obligations at September 30, 2018, are:

	Long-Term Debt	Capital Lease Obligations
2019	\$ 1,865,452	\$ 22,627
2020	1,938,819	29,240
2021	2,014,909	21,930
2022	2,093,956	-
2023	28,475,820	-
Thereafter	80,254	-
	<u>\$ 36,469,210</u>	<u>73,797</u>
Less amount representing interest		<u>5,014</u>
Present value of future minimum lease payments		<u>68,783</u>
Less current maturities		<u>19,708</u>
Noncurrent portion		<u>\$ 49,075</u>

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2018 and 2017

Note 9: 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 percent and receive a variable rate equal to the 71 percent 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 percent. At September 30, 2018 and 2017, the notional amount was \$16,286,244 and \$15,660,801, 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 percent and receive a variable rate equal to the 71 percent 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 percent. The notional amount is being reduced over the term of the note payable. At September 30, 2018 and 2017, the notional amount was \$4,751,724 and \$6,495,389, 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 percent and receive a variable rate equal to the 69 percent 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 percent. 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 percent and receive a variable rate equal to the 69 percent 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, 2018 and 2017, the notional amount was \$15,063,756 and \$15,689,199, respectively.

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2018 and 2017

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, 2018 and 2017, that were designated as hedging instruments.

	2018	2017
Other Liabilities		
Fair value of interest rate swap agreements	\$ 995,108	\$ 2,481,763
Interest Expense		
Additional interest expense incurred from interest rate swap agreements	517,963	769,967
Other Income (Expense)		
Gain (loss) recognized in change in interest rate swap agreement	1,486,656	1,854,320

Note 10: Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	2018	2017
Indigent care or operating room equipment	\$ 1,639,766	\$ 1,695,137
Capital	65,626	72,666
General use	1,101,895	1,261,993
Operating support	341,065	337,441
Special purpose endowments	834,692	545,307
Various departments and other	365,278	386,357
	\$ 4,348,322	\$ 4,298,901

During the years ended September 30, 2018 and 2017, net assets were released from donor restrictions by incurring expenses, satisfying the restricted operating purposes in the amounts of \$567,551 and \$537,289, respectively. During the years ended September 30, 2018 and 2017, net assets of \$439,511 and \$146,892, respectively, were released to purchase equipment.

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2018 and 2017

Permanently restricted net assets are restricted to:

	2018	2017
Investments to be held in perpetuity, the income is unrestricted	\$ 678,642	\$ 678,642

Note 11: 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, 2018 and 2017

The composition of net assets by type of endowment fund at September 30, 2018 and 2017, was:

	2018			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds	\$ -	\$ 133,422	\$ 486,246	\$ 619,668
Board-designated endowment funds	-	-	-	-
Total endowment funds	<u>\$ -</u>	<u>\$ 133,422</u>	<u>\$ 486,246</u>	<u>\$ 619,668</u>

	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>

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

	2018			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of the year	\$ -	\$ 202,861	\$ 486,246	\$ 689,107
Investment return and net appreciation	-	30,561	-	30,561
Appropriation of endowment net assets for expenditure	-	(100,000)	-	(100,000)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 133,422</u>	<u>\$ 486,246</u>	<u>\$ 619,668</u>

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2018 and 2017

	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	-	74,330	-	74,330
Appropriation of endowment net assets for expenditure	<u>(6,898,042)</u>	<u>(121,260)</u>	<u>-</u>	<u>(7,019,302)</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 202,861</u>	<u>\$ 486,246</u>	<u>\$ 689,107</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, 2018 and 2017. 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 percent 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 12: Charity Care

The costs of charity care provided under RRMC's charity care policy were approximately \$2,322,000 and \$2,643,000 for 2018 and 2017, 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, 2018 and 2017

Note 13: Functional Expenses

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

	2018	2017
Health care services	\$ 198,871,328	\$ 198,130,032
General and administrative	69,247,006	51,982,093
	\$ 268,118,334	\$ 250,112,125

Note 14: Operating Leases

Rental expense under operating lease agreements totaled \$1,640,350 and \$1,673,740 for the years ended September 30, 2018 and 2017, respectively.

Note 15: 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 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, 2018, are summarized as follows:

2019	\$ 12,555,726
2020	12,921,327
2021	13,298,964
2022	13,424,310
2023	10,287,729
	\$ 62,488,056

Expenses under this agreement totaled \$10,097,212 and \$10,502,602 for the years ended September 30, 2018 and 2017, respectively.

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2018 and 2017

Note 16: 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 \$210,306 to the postretirement health care plan in 2018.

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	
	2018	2017	2018	2017
Benefit obligation	\$ 117,650,858	\$ 126,358,847	\$ 337,808	\$ 728,785
Fair value of plan assets	<u>117,055,437</u>	<u>119,114,545</u>	<u>-</u>	<u>-</u>
Funded status	<u>\$ (595,421)</u>	<u>\$ (7,244,302)</u>	<u>\$ (337,808)</u>	<u>\$ (728,785)</u>

Assets and liabilities recognized in the balance sheets:

	Pension Benefits		Other Benefits	
	2018	2017	2018	2017
Current liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 210,306</u>	<u>\$ 392,359</u>
Noncurrent liabilities	<u>\$ 595,421</u>	<u>\$ 7,244,302</u>	<u>\$ 127,502</u>	<u>\$ 336,426</u>

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2018 and 2017

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

	Pension Benefits		Other Benefits	
	2018	2017	2018	2017
Prior service credit	\$ -	\$ -	\$ -	\$ -
Net loss (gain)	\$ 28,139,592	\$ 31,889,957	\$ (194,575)	\$ (480,478)

The accumulated benefit obligation for the defined benefit pension plan was \$117,650,858 and \$126,358,847 at September 30, 2018 and 2017, respectively.

Other significant balances and costs are:

	Pension Benefits		Other Benefits	
	2018	2017	2018	2017
Benefit costs (credit)	\$ (898,516)	\$ 68,554	\$ (242,094)	\$ (138,965)
Employer contributions	2,000,000	2,000,000	434,786	205,668
Benefits paid	5,756,793	5,073,024	434,786	205,668

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

	Pension Benefits		Other Benefits	
	2018	2017	2018	2017
Amounts arising during the period				
Net loss (gain)	\$ (2,009,490)	\$ (9,338,545)	\$ 35,842	\$ (221,074)
Amortization of net loss	1,740,875	2,683,740	-	-
Recognition of net loss (gain)	-	-	(250,061)	(152,888)

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 \$1,645,679.

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2018 and 2017

Significant assumptions include:

	Pension Benefits		Other Benefits	
	2018	2017	2018	2017
Weighted average assumptions used to determine benefit obligations				
Discount rate	4.25%	3.75%	2.75%	1.50%
Rate of compensation increase	N/A	N/A	N/A	N/A
Weighted average assumptions used to determine benefit costs				
Discount rate	3.75%	3.50%	1.50%	1.50%
Expected return on plan assets	6.20%	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 6.50 percent and 7.00 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 2018 and 2017, respectively. The rate was assumed to decrease gradually to 6 percent 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, 2018:

	Pension Benefits	Other Benefits
2019	\$ 5,937,938	\$ 213,198
2020	6,299,669	132,777
2021	6,599,468	-
2022	6,865,839	-
2023	7,110,663	-
2024 - 2028	37,751,622	-

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2018 and 2017

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, 2018 and 2017, 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)
2018				
Investments				
Money market funds	\$ 632,351	\$ 632,351	\$ -	\$ -
Mutual funds - equity	23,155,570	23,155,570	-	-
Mutual funds - fixed	<u>93,267,516</u>	<u>93,267,516</u>	-	-
Total	<u>\$ 117,055,437</u>	<u>\$ 117,055,437</u>	<u>\$ -</u>	<u>\$ -</u>
2017				
Investments				
Money market funds	\$ 556,365	\$ 556,365	\$ -	\$ -
Mutual funds - equity	61,255,496	61,255,496	-	-
Mutual funds - fixed	<u>57,302,684</u>	<u>57,302,684</u>	-	-
Total	<u>\$ 119,114,545</u>	<u>\$ 119,114,545</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, 2018 and 2017

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, 2018 and 2017, plan assets by category are as follows:

	Pension Benefits	
	2018	2017
Equity securities	19%	51%
Debt securities	80%	48%
Cash and cash equivalents	1%	1%
	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 percent of the eligible employee's compensation.

403(b) Plan - Employer Matching Contributions

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

Pension plan expense for these two plans for the years ended September 30, 2018 and 2017, was \$5,369,751 and \$5,216,780, respectively.

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2018 and 2017

Note 17: 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, 2018 and 2017, plan assets amounted to \$1,688,514 and \$1,787,806, respectively.

Note 18: Related Party Transactions

A receivable from RRHS, RRMC's parent organization, of \$5,589,575 and \$5,416,029 is recorded at September 30, 2018 and 2017, respectively. RRMC has advanced RRHS funds to cover operating expenses.

A receivable from The Meadows Associates, an investment of RRHS of \$0 and \$25,318 is recorded at September 30, 2018 and 2017, respectively. RRMC advanced The Meadows Associates funds to cover operating expenses.

Note 19: Community Health Centers of the Rutland Region, Inc.

Effective December 1, 2013, RRHS entered into an agreement to provide Community Health Centers of the Rutland Region, Inc. 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, 2018 and 2017, \$288,026 and \$496,283, respectively, was expended for the grant award from RRMC and is included in RRMC's general operating expenses.

Note 20: 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.

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2018 and 2017

- 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, 2018 and 2017:

	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, 2018				
Investments				
Money market funds	\$ 834,710	\$ 834,710	\$ -	\$ -
Mutual funds - equity	92,228,614	92,228,614	-	-
Mutual funds - fixed	51,333,597	51,333,597	-	-
Interest in assets of Vermont				
Community Foundation	339,333	-	-	339,333
Interest rate swap agreements	(995,108)	-	(995,108)	-
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)	-

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, 2018.

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2018 and 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, 2018 and 2017

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, 2016	\$ 295,839
Total realized and unrealized gains and losses included in other income (expense)	40,038
Balance, September 30, 2017	335,877
Total realized and unrealized gains and losses included in other income (expense)	3,456
Balance, September 30, 2018	\$ 339,333

Realized and unrealized gains and losses are included in excess of revenues over expenses for the period from October 1, 2017, through September 30, 2018.

Note 21: 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, 2018 and 2017, respectively, was approximately \$5,189,000 and \$3,161,000 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, 2018 and 2017

Note 22: 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 20 percent of RRMC's employees are covered by a collective bargaining agreement. The collective bargaining agreement covering these employees expires September 30, 2021.

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, 2018 and 2017. 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, 2018 and 2017

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 23: Construction in Progress

The construction in progress at September 30, 2018, 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, 2018. These projects include upgrades to nuclear medicine, replacement windows and cancer center renovations. Below is a table listing anticipated cost and completion date.

Project Description	Estimated Total Cost	Estimated Remaining to be Spent	Estimated Completion Date
Cancer center renovations	\$ 2,600,000	\$ 2,516,522	September 2019
Nuclear medicine upgrade	2,841,000	1,988,675	May 2019
Window replacement	2,799,000	2,395,219	October 2020
Medical office building	23,884,000	22,671,903	May 2020

Note 24: 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, 2018 and 2017

Note 25: Other Liabilities

Other liabilities consisted of the following at September 30, 2018 and 2017:

	2018	2017
Accrued postretirement health care benefit	\$ 127,502	\$ 336,426
Employee option payable	1,688,514	1,787,806
Accrued claims liabilities	2,337,845	3,383,488
Asset retirement obligation	584,912	586,529
Interest rate swap agreements	995,108	2,481,763
Other	54,972	9,000
	\$ 5,788,853	\$ 8,585,012

Note 26: 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 \$584,912 and \$586,529 has been recognized in the accompanying 2018 and 2017 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.

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2018 and 2017

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.

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Notes to Financial Statements
September 30, 2018 and 2017

Presentation of Financial Statements for Not-for-Profit Entities

The Financial Accounting Standards Board recently issued guidance which changes reporting and disclosure requirements for the financial statements of not-for-profit (NFP) entities. This standard will be effective for RRMC as of October 1, 2019. The significant impacts on the financial statements are as follows:

- Previously reported unrestricted, temporarily restricted and permanently restricted net assets will be changed to net assets with donor-imposed restrictions and those without.
- Expenses are reported by both nature and function in one location (either an additional statement or within the footnotes).
- Expanded disclosures regarding liquidity and cash flows available to meet operating expenses for one year from the balance sheet date.
- Amounts and purposes of governing board designations and appropriations as of the end of the period.

Restricted Cash

The Financial Accounting Standards Board clarified its standard related to the presentation of restricted cash on the consolidated statements of cash flows to remove diversity in practice. RRMC, which presents cash and cash equivalents with restrictions in multiple line items on the consolidated balance sheets, will now report these items as cash and cash equivalents for the consolidated statements of cash flows, and will disclose the location of its the cash and cash equivalents to reconcile the two statements for each period presented. This standard will be effective for RRMC as of October 1, 2019.

Accounting for Financial Instruments – Credit Losses

The Financial Accounting Standards Board amended its standards related to the accounting for credit losses on financial instruments. This amendment introduces new guidance for accounting for credit losses on instruments including trade receivables and finance receivables. The new standard is effective for annual and interim periods beginning after December 15, 2020. RRMC is in the process of evaluating the impact the amendment will have on the financial statements.

Note 28: Subsequent Events

Subsequent events have been evaluated through February 25, 2019, which is the date the financial statements were available to be issued.

Supplementary Information

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Net Patient Service Revenue
Years Ended September 30, 2018 and 2017

	Inpatient		Outpatient		Total	
	2018	2017	2018	2017	2018	2017
Routine Services						
Medical and surgical	\$ 45,266,615	\$ 39,435,435	\$ -	\$ -	\$ 45,266,615	\$ 39,435,435
Psychiatric	16,362,124	15,537,865	-	-	16,362,124	15,537,865
Obstetrics and gynecology	2,963,039	2,922,118	-	-	2,963,039	2,922,118
Intensive care	9,499,411	9,519,850	-	-	9,499,411	9,519,850
Nursery	1,071,336	1,009,195	-	-	1,071,336	1,009,195
	<u>75,162,525</u>	<u>68,424,463</u>	<u>-</u>	<u>-</u>	<u>75,162,525</u>	<u>68,424,463</u>
Special Services						
Operating room	39,796,278	38,647,713	32,340,425	29,845,008	72,136,703	68,492,721
Recovery room	2,597,727	2,548,844	2,625,043	2,748,659	5,222,770	5,297,503
Emergency room	11,687,783	9,781,963	33,244,051	31,479,646	44,931,834	41,261,609
Endoscopy	1,389,183	1,000,107	11,875,710	12,146,345	13,264,893	13,146,452
Ambulatory care	3,654	13,042	248,004	194,225	251,658	207,267
Delivery room	1,244,109	1,225,937	586,532	461,058	1,830,641	1,686,995
Medical and surgical supplies	323,952	550,448	680,513	1,200,221	1,004,465	1,750,669
Oncology	176,747	131,678	5,484,670	4,713,568	5,661,417	4,845,246
Laboratory	13,117,401	11,565,110	29,548,621	26,873,055	42,666,022	38,438,165
Cardiology	7,365,777	6,350,393	21,933,224	22,010,483	29,299,001	28,360,876
Pulmonary	227,147	229,752	812,079	798,979	1,039,226	1,028,731
Electroencephalography	93,908	110,956	636,013	563,407	729,921	674,363
Radiology - diagnostic	8,208,144	6,630,570	37,329,720	34,915,462	45,537,864	41,546,032
Radiology - isotopes	661,146	593,312	1,536,611	1,588,586	2,197,757	2,181,898
Chemotherapy	761,786	1,003,726	3,507,333	4,212,538	4,269,119	5,216,264
CT scanning	7,865,948	6,636,423	19,175,265	17,875,203	27,041,213	24,511,626
Radiation therapy	471,775	373,667	10,402,167	8,248,448	10,873,942	8,622,115
Pharmacy	16,856,647	16,010,112	54,876,914	49,374,180	71,733,561	65,384,292
Respiratory care	8,991,869	9,482,868	1,562,710	1,464,317	10,554,579	10,947,185
Psychiatric counseling	1,757,154	1,671,362	2,912,320	2,831,163	4,669,474	4,502,525
Physical therapy	1,425,273	1,380,183	2,312,921	2,205,888	3,738,194	3,586,071
Physiatry	46,035	29,033	2,837,814	2,538,394	2,883,849	2,567,427
Occupational therapy	1,833,404	1,747,487	582,272	571,044	2,415,676	2,318,531
Speech therapy	748,613	739,811	287,476	256,852	1,036,089	996,663
Hospitalist	6,669,289	6,505,334	682,857	801,496	7,352,146	7,306,830
OB/GYN oncology	1,731,652	1,704,925	3,470,051	2,986,959	5,201,703	4,691,884
Digestive services	209,753	188,949	3,402,182	3,694,486	3,611,935	3,883,435
Sleep services	10,560	6,065	5,122,776	3,834,966	5,133,336	3,841,031
Endocrinology	221,918	199,974	1,798,551	1,739,282	2,020,469	1,939,256
Gastroenterology	133,132	168,633	946,680	827,835	1,079,812	996,468
Infectious diseases	234,331	274,923	230,731	226,131	465,062	501,054
Miscellaneous clinical services	7,393,407	7,439,737	24,086,708	23,671,912	31,480,115	31,111,649
Opiate addiction center	-	-	3,487,842	3,906,772	3,487,842	3,906,772
Urology clinic	422,158	489,308	3,204,327	3,029,776	3,626,485	3,519,084
Eye clinic	4,187	1,610	3,571,594	2,528,204	3,575,781	2,529,814
Neurology	187,301	160,089	1,141,185	1,140,567	1,328,486	1,300,656
	<u>144,869,148</u>	<u>135,594,044</u>	<u>328,483,892</u>	<u>307,505,115</u>	<u>473,353,040</u>	<u>443,099,159</u>
Gross Patient Service Revenue	<u>\$ 220,031,673</u>	<u>\$ 204,018,507</u>	<u>\$ 328,483,892</u>	<u>\$ 307,505,115</u>	<u>548,515,565</u>	<u>511,523,622</u>
Less Contractual Allowances						
Medicare					178,357,552	164,025,155
Medicaid					65,733,956	56,881,663
Blue Cross					22,653,357	22,403,382
Charity care					4,702,339	5,753,971
Other					<u>14,236,126</u>	<u>13,209,609</u>
					<u>285,683,330</u>	<u>262,273,780</u>
Patient Service Revenue (Net of Contractual Discounts and Allowances)					<u>262,832,235</u>	<u>249,249,842</u>
Provision for uncollectible accounts					<u>8,597,207</u>	<u>7,056,413</u>
Net Patient Service Revenue Less Provision for Uncollectible Accounts					<u>\$ 254,235,028</u>	<u>\$ 242,193,429</u>

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Expenses
Years Ended September 30, 2018 and 2017

	Salaries and Wages		Supplies and Other		Total	
	2018	2017	2018	2017	2018	2017
Nursing Services						
Nursing administration	\$ 756,181	\$ 736,934	\$ 55,358	\$ 47,928	\$ 811,539	\$ 784,862
Nursing education	1,067,448	1,003,782	202,055	214,514	1,269,503	1,218,296
Medical and surgical	11,617,864	9,919,137	782,088	731,679	12,399,952	10,650,816
Psychiatric	4,977,074	4,328,642	185,040	193,638	5,162,114	4,522,280
Obstetrics and gynecology	1,270,738	1,024,131	123,359	97,151	1,394,097	1,121,282
Intensive care	4,740,812	4,477,747	328,245	335,340	5,069,057	4,813,087
Nursery	320,170	315,810	45,677	54,120	365,847	369,930
	<u>24,750,287</u>	<u>21,806,183</u>	<u>1,721,822</u>	<u>1,674,370</u>	<u>26,472,109</u>	<u>23,480,553</u>
Other Professional Services						
Operating room	5,492,132	4,430,498	9,984,652	9,388,500	15,476,784	13,818,998
Recovery room	661,865	564,797	62,783	65,548	724,648	630,345
Emergency room	11,049,225	10,686,611	999,238	810,175	12,048,463	11,496,786
Endoscopy	819,712	869,898	459,885	439,145	1,279,597	1,309,043
Ambulatory care	1,149,671	1,140,053	224,124	204,278	1,373,795	1,344,331
Physical rehabilitation services	1,747,308	1,728,341	75,844	64,209	1,823,152	1,792,550
Delivery room	1,164,553	1,034,733	65,406	71,396	1,229,959	1,106,129
HIV clinic	404,760	398,841	11,935	21,577	416,695	420,418
Central supply	754,091	650,868	911,011	856,793	1,665,102	1,507,661
Anesthesiology	2,457,797	1,884,753	53,372	62,000	2,511,169	1,946,753
Oncology	2,173,505	2,118,223	300,328	260,502	2,473,833	2,378,725
Laboratory	4,951,752	4,524,859	4,733,918	4,402,949	9,685,670	8,927,808
Cardiology	3,951,137	3,726,033	825,833	711,728	4,776,970	4,437,761
Pulmonary	734,389	778,747	21,773	12,905	756,162	791,652
Cardiac cath	181,613	226,148	733,513	594,631	915,126	820,779
Electroencephalography	418,067	275,030	16,890	27,599	434,957	302,629
Radiology - diagnostic	4,221,303	4,190,358	2,200,171	1,895,258	6,421,474	6,085,616
Radiology - isotopes	206,999	160,296	413,554	350,137	620,553	510,433
CT scanning	477,229	467,749	566,971	728,746	1,044,200	1,196,495
Radiation therapy	467,684	442,067	501,658	500,052	969,342	942,119
Pharmacy	2,397,532	2,234,040	16,782,662	14,062,689	19,180,194	16,296,729
Respiratory care	1,730,581	1,761,009	314,716	318,109	2,045,297	2,079,118
Psychiatric counseling	2,971,229	2,442,649	144,576	130,673	3,115,805	2,573,322
Physical therapy	1,091,212	1,041,966	38,754	34,041	1,129,966	1,076,007
Occupational therapy	493,386	482,534	27,707	23,219	521,093	505,753
Hospitalists	4,372,442	4,063,787	64,721	66,812	4,437,163	4,130,599
Speech therapy	207,547	219,318	6,558	9,574	214,105	228,892
OB/GYN oncology	13,674	15,057	723	800	14,397	15,857
OB/GYN clinic	2,858,846	2,726,391	317,949	307,002	3,176,795	3,033,393
Gastroenterology	2,141,399	1,953,918	101,769	112,241	2,243,168	2,066,159
Sleep services	943,519	826,068	78,266	91,947	1,021,785	918,015
Endocrinology	1,307,383	1,240,887	171,711	157,514	1,479,094	1,398,401
Miscellaneous clinical services	9,595,695	9,658,530	1,884,058	1,789,971	11,479,753	11,448,501
Opiate addiction center	1,363,213	1,352,832	827,941	985,700	2,191,154	2,338,532
Urology clinic	1,077,233	1,113,235	347,819	325,414	1,425,052	1,438,649
Eye clinic	1,154,338	720,151	162,088	106,135	1,316,426	826,286
Neurology	829,919	845,402	71,571	72,610	901,490	918,012
Retail pharmacy	219,034	205,392	1,520,701	744,422	1,739,735	949,814
	<u>78,252,974</u>	<u>73,202,069</u>	<u>46,027,149</u>	<u>40,807,001</u>	<u>124,280,123</u>	<u>114,009,070</u>

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Expenses
Years Ended September 30, 2018 and 2017

	Salaries and Wages		Supplies and Other		Total	
	2018	2017	2018	2017	2018	2017
General and Support Services						
Dietary	\$ 1,562,669	\$ 1,534,680	\$ 1,139,333	\$ 1,066,571	\$ 2,702,002	\$ 2,601,251
Plant operations	196,935	190,963	2,596,257	2,271,242	2,793,192	2,462,205
Maintenance	1,413,116	1,311,486	983,494	964,258	2,396,610	2,275,744
Housekeeping	1,465,265	1,375,031	410,362	380,936	1,875,627	1,755,967
Laundry and linen	100,043	95,588	674,112	660,988	774,155	756,576
Purchasing	379,822	364,607	110,679	96,574	490,501	461,181
Security	580,097	524,680	50,925	41,473	631,022	566,153
FQHC	-	-	288,026	496,283	288,026	496,283
Medicaid tax assessment	-	-	14,701,522	14,644,716	14,701,522	14,644,716
Administration/development/planning	6,969,998	6,918,970	8,280,292	7,921,922	15,250,290	14,840,892
Financial services	2,382,741	2,388,833	382,513	379,564	2,765,254	2,768,397
Patient access	2,321,210	2,248,293	1,418,517	1,303,328	3,739,727	3,551,621
Outpatient and oncology services management	98,450	89,488	200	571	98,650	90,059
Mail services	118,272	111,330	231,734	224,803	350,006	336,133
Telecommunications	343,683	330,881	63,899	60,318	407,582	391,199
Personnel	1,882,665	1,820,861	1,178,817	981,955	3,061,482	2,802,816
Medical records and library	3,386,128	3,305,202	728,498	797,872	4,114,626	4,103,074
Social services	501,873	505,879	140,789	193,605	642,662	699,484
Employee health	227,331	221,329	75,091	81,510	302,422	302,839
Volunteer services	132,341	128,804	68,103	68,937	200,444	197,741
Community health improvement	1,449,054	1,193,444	109,376	82,718	1,558,430	1,276,162
Information technology services	5,337,896	4,962,280	11,022,152	9,862,561	16,360,048	14,824,841
Employee benefits	28,133,287	24,786,777	-	-	28,133,287	24,786,777
Pension expense (credit)	(623,478)	505,788	-	-	(623,478)	505,788
James T. Bowse Community Trust	35,059	44,136	370,833	330,617	405,892	374,753
Rutland Health Foundation	189,824	148,830	87,362	96,759	277,186	245,589
Gift shoppe	66,576	75,581	100,039	79,929	166,615	155,510
Community investment	-	-	292,863	15,241	292,863	15,241
	<u>58,650,857</u>	<u>55,183,741</u>	<u>45,505,788</u>	<u>43,105,251</u>	<u>104,156,645</u>	<u>98,288,992</u>
Depreciation and Amortization	-	-	11,919,033	12,801,745	11,919,033	12,801,745
Interest	-	-	1,290,424	1,531,765	1,290,424	1,531,765
	<u>\$ 161,654,118</u>	<u>\$ 150,191,993</u>	<u>\$ 106,464,216</u>	<u>\$ 99,920,132</u>	<u>\$ 268,118,334</u>	<u>\$ 250,112,125</u>

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Other Revenue
Years Ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cafeteria	\$ 1,051,257	\$ 995,648
Cash discounts	4,431	5,782
Miscellaneous	3,928,682	3,867,254
Contract pharmacy revenue	7,892,681	4,794,823
Retail pharmacy revenue	1,345,908	885,971
Electronic health records incentive payment	-	544,488
Medical record fees	18,839	19,633
Rental income	220,524	259,722
Gift shoppe	150,693	141,872
	<u>\$ 14,613,015</u>	<u>\$ 11,515,193</u>

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Property and Equipment
Year Ended September 30, 2018

	Balance October 1, 2017	Additions	Reclassification	Disposals	Balance September 30, 2018
Assets					
Land	\$ 645,676	\$ -	\$ -	\$ -	\$ 645,676
Land improvements	3,162,404	186,856	-	(273,764)	3,075,496
Buildings	42,271,274	-	-	-	42,271,274
Building improvements	61,706,962	1,254,313	69,778	(1,072,637)	61,958,416
Fixed equipment	34,550,227	2,937,083	2,992,268	(10,608,456)	29,871,122
Major movable equipment	104,891,711	4,860,576	167,095	(8,799,756)	101,119,626
Construction in progress	3,841,932	3,047,644	(3,229,141)	-	3,660,435
	<u>\$ 251,070,186</u>	<u>\$ 12,286,472</u>	<u>\$ -</u>	<u>\$ (20,754,613)</u>	<u>242,602,045</u>
Accumulated Depreciation					
Land improvements	\$ 2,111,147	\$ 155,930	\$ -	\$ (273,764)	1,993,313
Buildings	25,875,001	1,060,108	-	-	26,935,109
Building improvements	29,815,415	3,547,458	-	(1,072,637)	32,290,236
Fixed equipment	25,778,441	1,187,531	-	(10,608,456)	16,357,516
Major movable equipment	86,352,956	5,949,486	-	(8,722,666)	83,579,776
	<u>\$ 169,932,960</u>	<u>\$ 11,900,513</u>	<u>\$ -</u>	<u>\$ (20,677,523)</u>	<u>161,155,950</u>
					<u>\$ 81,446,095</u>

The Rutland Hospital, Inc.
d/b/a Rutland Regional Medical Center
Property and Equipment
Year Ended 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>