



Gifford Medical Center

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January 29, 2021

Mr. Patrick Rooney
Green Mountain Care Board
144 State Street
Montpelier, VT 05602

Dear Mr. Rooney,

The following narrative summarizes Gifford Medical Center's actual financial performance for the fiscal year ended September 30, 2020. Additionally, enclosed you will find the audited financial statements for Gifford Health Care and its subsidiaries, which includes Gifford Medical Center.

Overview

Fiscal year 2020, was undoubtedly the most challenging year Gifford has faced as a healthcare provider. As a result of the COVID-19 pandemic, net revenues, expenses, and operating margins were challenged at various points of uncertainty throughout the fiscal year. Consequently, it was only on account of the Federal and State stimulus funding that GMC was able to close the fiscal year with an operating margin of 2.5%, which was 0.4% below budgeted expectations.

Net Patient Revenue & FPP

Gifford Medical Center's Net Patient Revenue as compared to the approved FY 2020 budget was unfavorable by 9.8%. Statistical performance indicators fell significantly below budgeted expectations due to the pandemic. Aside from the unfavorable utilization impact brought on by the pandemic, two other factors contributed to the net revenue shortfall:

- Payer Mix/Reimbursement – slight shifts in payer mix resulted in less than anticipated revenue by \$104K. Additionally, budgeted contractual allowances for two of our largest commercial payers reflected higher adjustments than historical trending.
- Bad Debt – bad debt is reflecting a favorable variance to budget as a result of the adoption of the accounting standard for Revenue from Contracts with Customers.

NPR/FPP	Total	% over/under
FY 20 Approved Budget	\$ 52,382,984	
Utilization	\$ (4,870,787)	-9.3%
Reimbursement/Payer Mix	\$ (1,713,946)	-3.3%
Bad Debt/Free Care	\$ 1,071,630	2.0%
Physician Acq/Trans	\$ -	0.0%
Changes in Accounting	\$ -	0.0%
Changes in DSH	\$ 1,555	0.0%
FPP	\$ 360,971	0.7%
FY 20 Actual Results	\$ 47,232,407	-9.8%

Other Operating Revenue

Other operating revenue experienced a significant increase over budgeted expectations, which is primarily driven by the COVID-19 stimulus grant funding. The increase in grant income is attributed to the State Hazard Pay Grant, which is offset in salary expense for those payments made to eligible employees. The favorable increase in "Other" is related to income received from the FQHC for testing expenses incurred by the hospital, but provided to the FQHC. Additionally, as it pertains to the summative "Other" category, at the instruction of our auditing firm, there was a change in methodology for the depreciation allocation that occurs for each entity within Gifford Health Care. Therefore, the accounting adjustment required the recognition of rental income from the other two corporations. Please refer to the expense section for an explanation regarding the offsetting depreciation expense variance.

Other Operating Revenue	Amount	% over/under
FY 20 Approved Budget	\$ 820,818	
Grant Income	288,399	35.1%
Other	1,177,883	143.5%
COVID-19 Stimulus & Grants	6,598,814	803.9%
Miscellaneous	(96,171)	-11.7%
FY 20 Actual Results	\$ 8,789,743	970.9%

Operating Expenses

Total operating expenses exceeded budgeted expectations by 5.7%. Noteworthy variances exceeding +/- 0.5% include the following:

- *Unfavorable Variances*
 - Contract Staffing – unfavorable to budget by 1.8%, primarily due to the reliance on temporary labor in the areas of imaging and surgical services. Additionally, locum tenens were needed to sustain our general surgery program due to leaves of absence and contracted revenue cycle assistance was necessitated to support efficiency and improvement strategies.
 - Pharmaceuticals – the significant increase in expense was related to the use of high cost oncology drugs as a result of increased oncology service volume.
 - Depreciation – at the instruction of our auditing firm, there was a change in methodology for the depreciation allocation that occurs for each entity under Gifford

Health Care. Gifford Medical Center holds the majority of the assets for all corporations on its balance sheet. Customarily, the calculated depreciation was simply expensed for each of the corps and recognized on each income statement as an expense. The accounting change required the depreciation to be fully expensed to the corporation who holds the assets and required a billback to the other corporations for a rental expense. This transaction nets to zero for GMC as there is offsetting revenue in other operating.

- Purchased Services – unfavorable to budget due to COVID testing expense and increased laundry expense related to a change in vendor as a result of the former vendor ceasing all business activity. The costing methodology for the new vendor differs greatly from the former resulting in a much higher than anticipated increase in expense.
 - Other Expenses & Purchased Services – unfavorable to budget by 1.9% due primarily to COVID related expense increases throughout the organization.
- *Favorable Variances*
 - Salaries – favorable to budget by 0.7%, which was primarily attributed to the voluntary furlough program established during the COVID-19 pandemic.
 - Physician Salaries – favorable to budget by 0.6%. This was primarily attributed to the reduction in Orthopedic leased physician expense due to the suspension of all elective, non-emergent surgical cases during the height of the COVID-19 pandemic.

Expenses	Amount	% over/under
FY 20 Approved Budget	\$ 51,663,036	
Salaries	\$ (362,037)	-0.7%
Fringe Benefits	\$ 173,911	0.3%
Physician Contracts	\$ (327,875)	-0.6%
Contract Staffing	\$ 907,874	1.8%
Supplies	\$ 16,288	0.0%
Drugs	\$ 872,444	1.7%
Facilities	\$ 61,739	0.1%
IT Related	\$ 192,297	0.4%
Depreciation	\$ 446,962	0.9%
Interest	\$ (38,986)	-0.1%
Health Care Provider Tax	\$ 1	0.0%
Other Expenses & Purchased Services	\$ 998,771	1.9%
FY 20 Actual Results	\$ 54,604,423	5.7%

Non-Operating Revenue

Non-Operating Revenue exceeded budgeted expectations as a result of favorable investment returns.

Audit Footnote Related to COVID-19 Relief Funding

Gifford Medical Center has chosen to follow the conditional contribution model for the treatment of the HHS Provider Relief funds. In FY 2020, the full amount of the federal funding received was recognized on the statement of operations. It was determined, by management, that GMC substantially met the

conditions outlined in the most recent guidance issued by HHS. The possibility does exist that this guidance will be revised in the future, which may require some of the funds to be repaid.

As always, we are available to answer all questions and inquires at your convenience.

Sincerely,

A handwritten signature in cursive script that reads "J. Bertrand". The signature is written in black ink and is positioned above the printed name and title.

Jennifer Bertrand
Chief Financial Officer

CC: Mr. Kevin Mullin, Chair – Green Mountain Care Board
Dan Bennet, CEO – Gifford Health Care