



State of Vermont
Green Mountain Care Board
144 State Street
Montpelier VT 05620

Report to the Legislature

Analysis of Brattleboro Retreat's Financial Statements for FY19

In accordance with Act 53 of 2019

*Submitted by the
Green Mountain Care Board*

January 15, 2021

Executive Summary

Per Act 53 of 2019 *An Act Relating to Informed Health Care Financial Decision Making and the Consent Policy for the Vermont Health Information Exchange* the Green Mountain Care Board (GMCB, The Board), was given the additional duties of limited budget oversight of each psychiatric hospital in the state licensed pursuant to chapter 43 of Title 18. The Board's oversight of mental health facilities is limited to a significantly smaller process than the one the Board undertakes for the other 14 hospitals in the state per 18 V.S.A. § 9375(b)(7), § 9372, and § 9456, allowing for a review of financial statements, but not the setting of financial targets or commercial rates.

Last year Board staff analyzed the most recent available three years of audited financials from the Brattleboro Retreat in order to assess its financial condition. This report updates the report issued by the Green Mountain Care Board (GMCB, The Board), dated January 9, 2020, regarding a financial analysis of Brattleboro Retreat's (Retreat, Organization) Financial Statements from FY 2015-2018 with Fiscal Year (FY) 2019 data. The analysis of 2019 financials points to serious threats to the Brattleboro Retreat's financial sustainability, evidenced by the continued downward spiral of operating margins paired with an increasing age of plant and shrinking net assets. GMCB staff also analyzed year-to-date (YTD) October 2020 internal financial statements, which are unaudited, representing the first 10 months of the Retreat's 2020 fiscal year. Based on these interim financials, FY20 was an improvement over FY19, however, the compounding nature of the losses puts the Retreat at continued risk.

Despite the significant infusion of state and federal funding into the Brattleboro Retreat in 2020, the Brattleboro Retreat's poor financial health is likely to continue until they can get a handle on sustainable funding of service lines. In an effort to work toward sustainability, the Brattleboro Retreat re-organized and worked to transfer some services they offer to other community providers. As we have seen in our work on Hospital Sustainability planning, essential services are critical to sustain in underserved areas. The essential services provided by the Brattleboro Retreat are further critical to ensuring the state's performance on a number of our All-Payer Model goals, such as reducing deaths due to suicide and drug overdose.

We look forward to presenting the findings in this report to you and welcome any feedback as we carry out our expanded duties for limited budget oversight of the Brattleboro Retreat.

Summary:

Key Points:

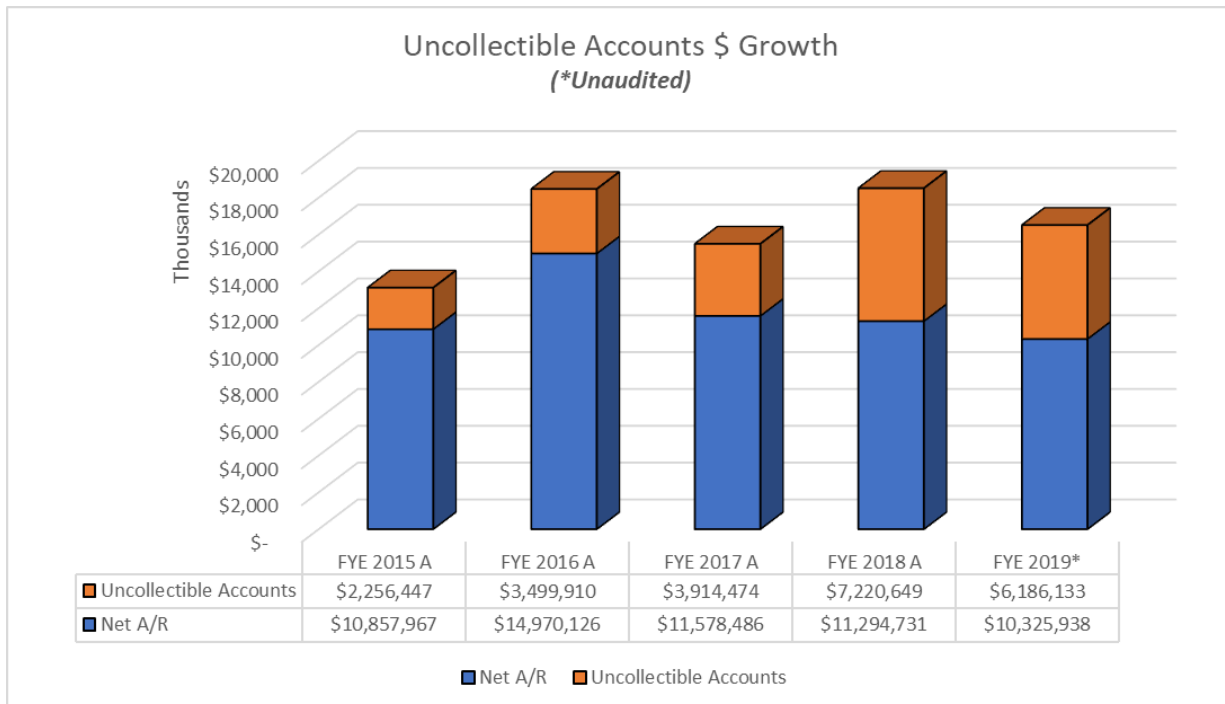
Key Points: Balance Sheet	2018	2019
Net Assets	\$ 24,548,012	\$ 19,346,759
Days Receivable	60.2	55.8
Days Payable	59.4	110.0
Days Cash on Hand	40.2	23.6
Age of Plant	20.4	21.8

Key Points: Income Statement	2018	2019
Total Operating Revenues	\$ 72,740,735	\$ 73,232,779
Total Operating Expenses	\$ 73,968,324	\$ 79,101,795
Operating Margin (%)	-1.7%	-8.0%
Operating Margin (\$)	\$ (1,227,589)	\$ (5,869,016)
Total Margin (%)	-1.5%	-7.5%
Total Margin (\$)	\$ (1,100,830)	\$ (5,490,590)

- Net Patient Service Revenue Payer Mix (UNAUDITED FY 2019)
 - Medicaid (Overall): 52%; (Inpatient-Only: 55%; Vermont Inpatient-Only: 67%)
 - Medicare (Overall): 19.5%; (Inpatient-Only: 19.6%; Vermont Inpatient-Only: 20%)
 - Commercial (Overall): 24.3%; (Inpatient-Only: 21.1%; Vermont Inpatient-Only: 10%)

Balance Sheet

Asset values of the Retreat totaled \$42.9 million as of fiscal year end (FYE) 2019, marking an 11% reduction in values from prior year 2018. The 5-year compound annual growth rate (CAGR) for total assets is now -1.7%. Current assets values declined 15.5% from prior year, falling to \$12.6 million and as a percentage of total assets, declined from 31% in FY 2018, down to 29% as of FY 2019. Cash values fell 95%, down to \$41 thousand and net accounts receivable (A/R) declined 5.7%, down to \$10.7 million. A/R balances as of FYE 2019 are at their lowest figure of the audited periods analyzed in this or the prior report. A/R has not shown net growth since FY 2015 into FY 2016. It is important to note that from the FY 2018 audit to the FY 2019 audit, there was a migration from gross to net accounts receivable, indicating the amount of allowance for doubtful accounts is no longer published in the audited financial statements. Thus, to report on those figures, we must use the unaudited FY 2019 statements for our analysis. According to unaudited FY 2019 financial statements the allowance for doubtful (uncollectible) accounts was reduced for FY 2019 by over \$1 million, down to \$6.19 million from \$7.22 million. The allowance for doubtful accounts still represents a large amount of gross A/R at 37% as of FY 2019, compared to 39% as of FY 2018. In the current asset category, prepaid expenses declined 32.7% from prior year which is comparable to the drop from FY 2017-2018. The reason for the reduction to this line item is not clear, but may relate to timing of business operations and closing of the financial period, supplies management usage/improvements, etc.



NOTE: The net A/R figure for unaudited FY 2019 in the table above at \$10.3 million is different than the final audited figure for FY 2019 at \$10.7 million.

See Appendix for Asset Concentrations graphs.

Board designated assets (funds from operating reserves without restriction) fell 30% from FY 2018. The CAGR for Board designated assets over the past five years indicates an annual average reduction of 15.2%. As stated in the initial report, likely due to ongoing operational losses and the need for the Board of Directors, or other designated committee, to release reserved funds to cover operating losses. Additionally, donor restricted funds fell nearly 27.4% from FY 2018; however, this category spiked in FY 2018 with the infusion of State of Vermont funds to construct additional psychiatric beds at the facility. During FY 2019, some of those funds were utilized towards the goal of constructing the additional beds. The asset value of those improvements is being transferred into property, plant and equipment (PP&E) as construction continued thus causing the decline in the value of the donor restricted asset category.

The largest asset of the Retreat, PP&E (net of depreciation), increased 5.8% in value over prior year, rising to almost \$19.3 million. The increase, as stated above, was due to the progress of construction of new psychiatric beds at the facility. This category should continue to grow as construction is completed on that portion of the facility and becomes available for patient use. Finally, other assets continued a trend of decline, falling nearly 21% from prior year, since reaching a high value at the end of 2017. Drivers of this trend are difficult to determine absent additional context.

Total liabilities of the Retreat declined slightly year-over-year from FY 2018, falling 0.6%, to \$23.6 million. However, the 5-year CAGR indicates total liabilities are relatively stagnant, growing at an annual rate of 0.6%.

Current liabilities (obligations due within one year), indicate a CAGR of 25.3% annually since FY 2015. This is skewed, however, by a significant shift in debt activity from FYE 2018. As of FYE 2018, current liabilities (valued at \$11.7 million) represented roughly 49% of total liabilities. As of FYE 2019, current liabilities now represent 98% of total. The near doubling of current liabilities has its roots in the continued lag of the Retreat's operating performance; several years of negative margins led the Retreat's bond holders to consider their note in default as the Retreat failed to maintain specific covenants related to financial performance. This triggered the former long-term debt obligation to now be considered a current liability with a balance as of FYE 2019 of nearly \$11.2 million.

Two other current liability line items of importance that underline the Retreat's financial distress are the continued growth of bank overdraft fees and a balance on their line of credit. Both items indicate the organization's struggles to maintain positive cash flow to fund its operations without incurring heavy fees or relying on cash flow mitigators such as a line of credit. It should be noted however, that balance sheets represent a moment in time for a business and therefore it is possible the line of credit is paid down on a revolving basis and in this instance a balance could have existed to this extent only when the financial books were closed. Rounding out current liabilities, the line item accounts payable and accrued expenses has seen a rising trend since FY 2017. It could be related to timing of bill payment or accruals being released at the close of business FY 2019 but, given the Retreat's current financial situation, it may be an indication of cash flow struggles and an inability to pay bills on time.

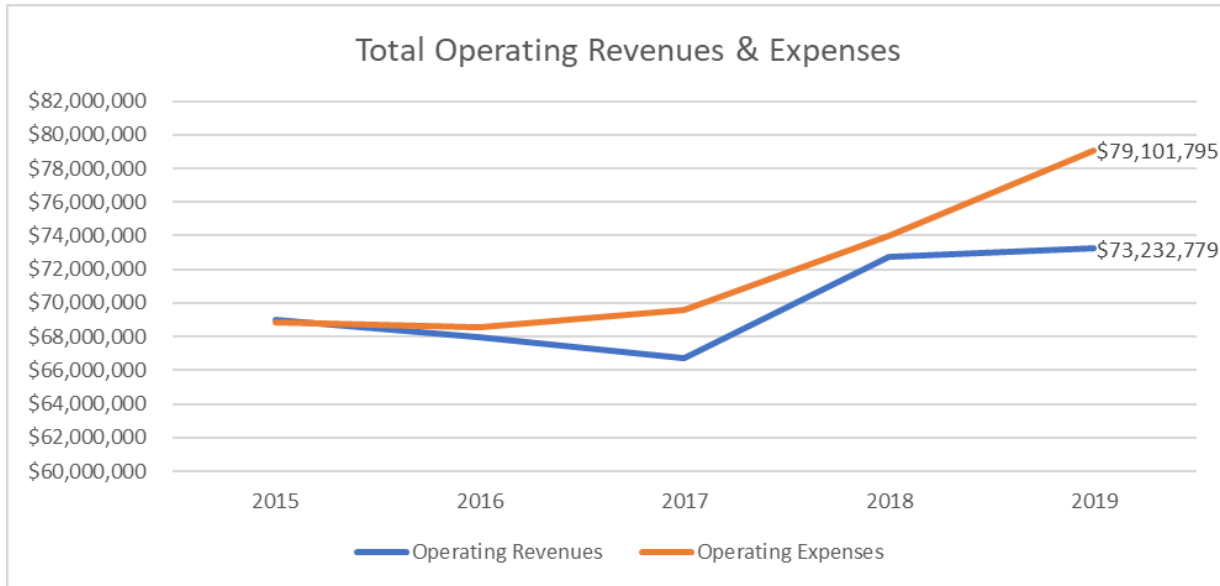
See Appendix for Liabilities Concentrations graphs.

Long-term liabilities (obligations due over one year), are nearly non-existent with the shift of the aforementioned bond note to current status and payment of another bond debt obligation in December 2019. The only remaining line item considered long-term on the balance sheet is the long-term portion of deferred compensation obligations at \$498 thousand. Deferred compensation has been declining at an average rate of 4.4% with this sole line item experiencing material decline for the past two years.

Total net assets (equity) declined more than 21% from prior year, falling to \$19.3 million, after growing 21% in FY 2018. FY 2018's growth was driven by the restricted funds for the aforementioned psych beds. The FY 2019 decline in equity was driven by the losses incurred by the organization. Net assets consist of two categories, 'Without donor restriction' and 'With donor restriction.' The CAGR related to Without donor restriction indicates an average annual reduction in values of 12% and overall total net asset values are declining at a rate of 4.2% annually as the organization has been forced to use its resources to cover its operational shortfalls.

Income Statement

The Brattleboro Retreat's income statement demonstrates continued financial difficulties through FY 2019, with a net operating loss of \$5.87 million or -8% margin. Cumulatively, The Retreat's net operating losses since FY 2015 now exceed \$10.57 million.



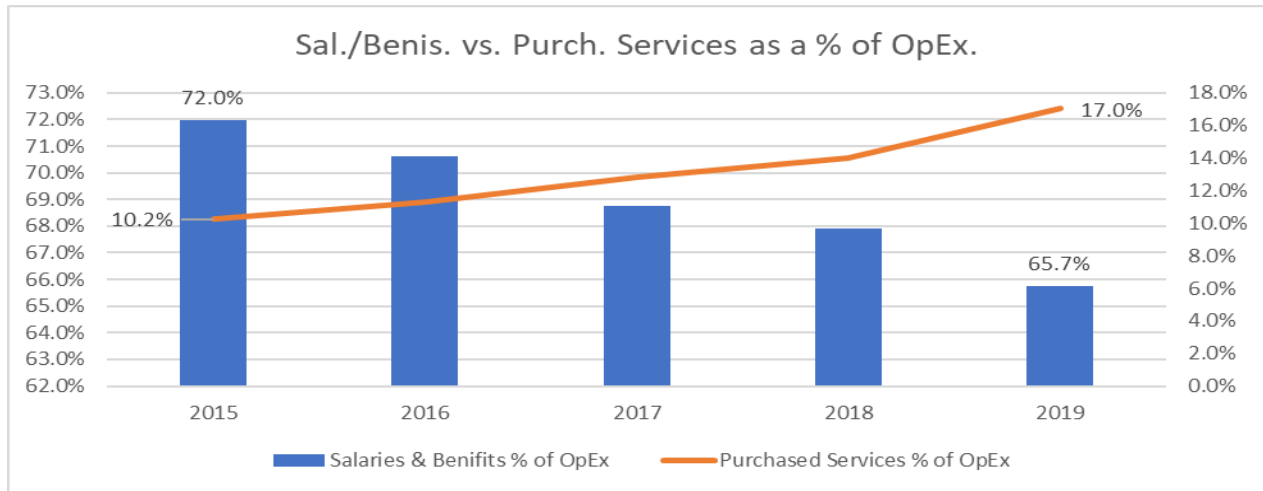
Patient service revenues net of contractual allowances, discounts and bad debts (NPR) grew by less than 2% over FY 2018 (a 1.8% CAGR since FY 2015). There was a 17% reduction in other operating revenues (OOR) over prior year (a -3% CAGR since FY 2015). Overall, total operating revenues, as indicated by the graph above, were relatively flat year-to-year at just over \$73.2 million for FY 2019.

Total operating expenses of the Retreat continue to grow at a rate that exceeds the growth of operating revenues. From FY 2018 to FY 2019, operating expenses increased year-over-year nearly 7%, driving up the CAGR since FY 2015 to 3.5% which outpaces average total operating revenue growth over the same period by almost 2%. Over the past 3 fiscal years, the allocation of expenses between healthcare services and administrative support of those services has been consistent with healthcare services comprising 82%-83% of total operating expenses and administrative support, 17%-18% of total. Below is a breakdown of 2019's allocations in greater detail.

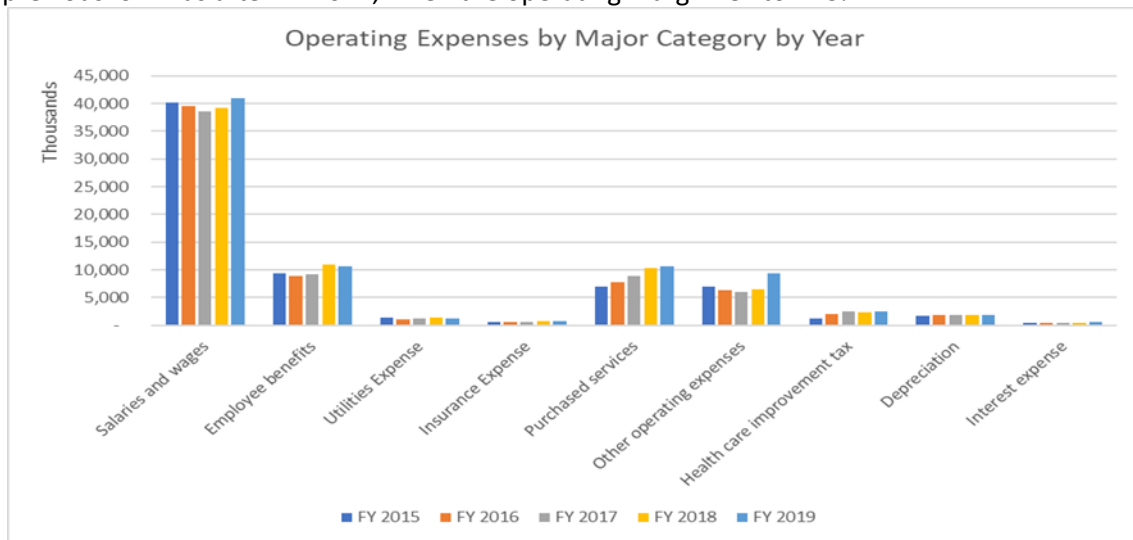
	2019:		
	Healthcare Services	Administrative Support	Total
Salary, payroll taxes and fringe benefits	\$ 44,761,622	\$ 7,231,919	\$ 51,993,541
Supplies and other	\$ 4,045,505	\$ 4,798,671	\$ 8,844,176
Purchased services	\$ 12,633,592	\$ 827,598	\$ 13,461,190
Provider Tax	\$ 2,482,916	\$ -	\$ 2,482,916
Depreciation	\$ 999,766	\$ 813,416	\$ 1,813,182
Interest expense	\$ 275,288	\$ 231,502	\$ 506,790
	\$ 65,198,689	\$ 13,903,106	\$ 79,101,795

Salaries and wages grew 5.1% year-over-year from FY 2018, rising to \$41.3 million. Despite the year-over-year growth the overall CAGR since FY 2015 indicates relative stagnation in salaries, rising an average of 0.7% per year. Employee benefits, however, fell by double-digits for the first time since FY

2016, falling 2.2% year-over-year. Although benefits growth declined from FY 2017 and 2018 increases, the CAGR since FY 2015 indicates annual growth of 3.2%. That said, salaries and benefits continue to decline as a percentage of total operating expenses at 65.7%, down from 72% as of FY 2015.



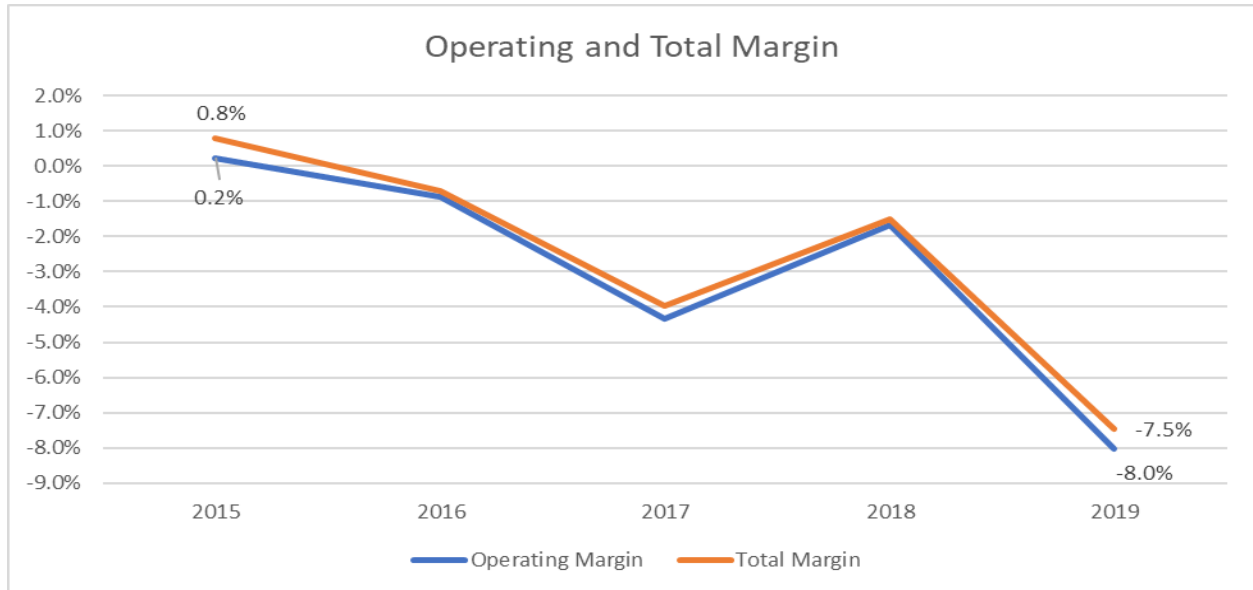
Other drivers of operating expense growth were: Insurance costs, rising 6% over FY 2018; purchased services, consisting largely of contracted labor, which rose 29.7% with a 5-year CAGR of 17.6%; interest expenses related to debt, which rose 5.4%; and other operating expenses, which increased 5.5% year-over-year. As stated above, the Retreat continues to experience a prolonged period of financial losses. The Retreat's operating margin reached a new low with FY 2019's financial performance, falling to -8%. The previous low was after FY 2017, when the operating margin fell to -4.3%.



See Appendix for more Operating Expense graphs.

As reported by the Retreat, combined non-operating revenues (derived from investments), release of net assets, realized and unrealized gains on sales or and equity investments totaled \$378.4 thousand. The addition of non-operating gains to the Retreat's bottom line, did little towards improvement. Even with the inclusion of non-operating gains the Retreat still posted a total loss of nearly \$5.5 million

marking the third consecutive year of multi-million-dollar losses. With the FYE 2019 total loss of \$5.5 million, the Retreat's total (excess) margin fell to a new low of -7.5%.

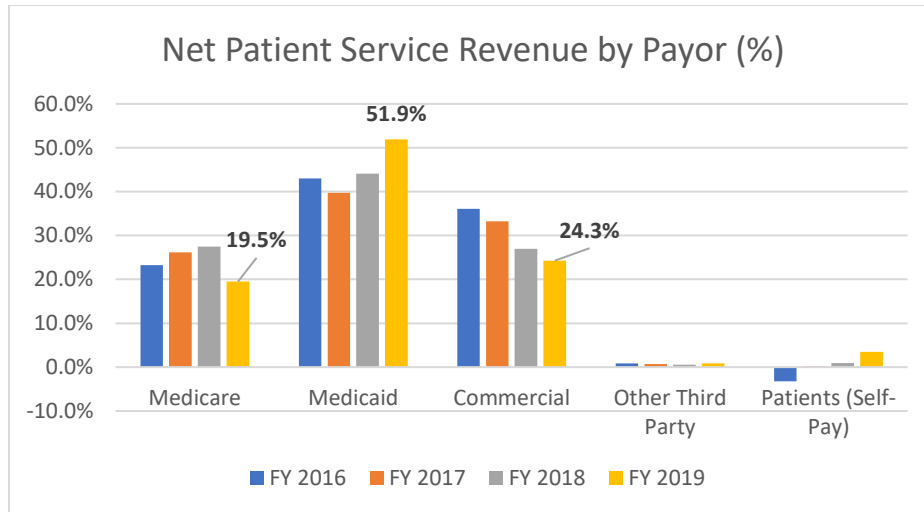


Payer Mix:

The Board's prior report on this topic, analyzing the Retreat's financial statements for FY 2018, did not include input from the Retreat. Brattleboro Retreat leadership and GMCB testified on The Retreat's financial situation; this testimony included differing data on current payer mix and trends, and the impact of payer mix on the Retreat's finances. This discrepancy was due to the Retreat's categorization of additional state and local revenue as Medicaid revenue. Following discussions between GMCB staff and Retreat staff, the GMCB is satisfied that the data presented in this report is aligned with the Retreat's prior reports to the Legislature. The initial discrepancy was based on a matter of timing and regulatory scope of work. The GMCB staff completed their limited initial review prior to the news of The Retreat's financial situation.

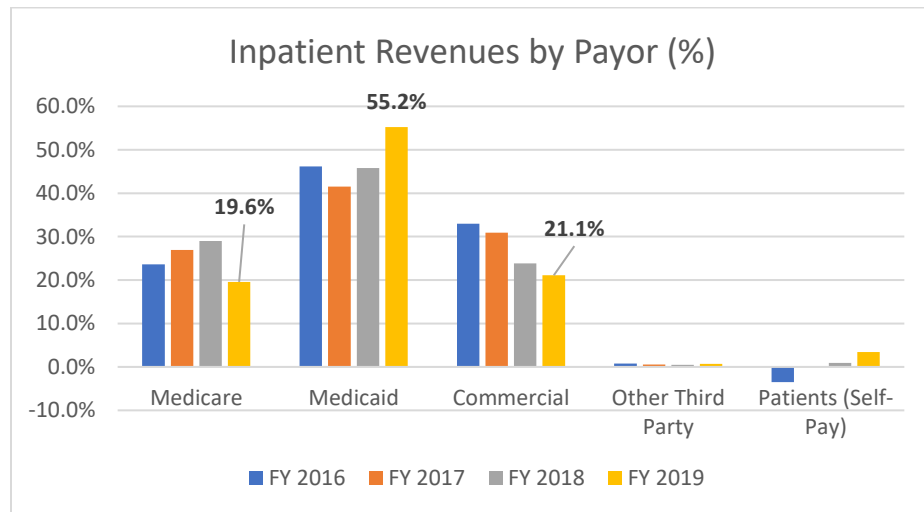
NOTE: The information included in this section cannot be derived from audited financial statements and instead is derived from FY 2019 unaudited financial statements supplied by the Brattleboro Retreat. Some figures in this section may not correspond with data discussed earlier in the report.

Overall, net patient service revenues (NPSR) of the Retreat have been concentrated in Medicaid for several years. As of FY 2019 Medicaid revenues represented 52% of NPSR while commercial payers and Medicare represented 24.3% and 19.5%, respectively.

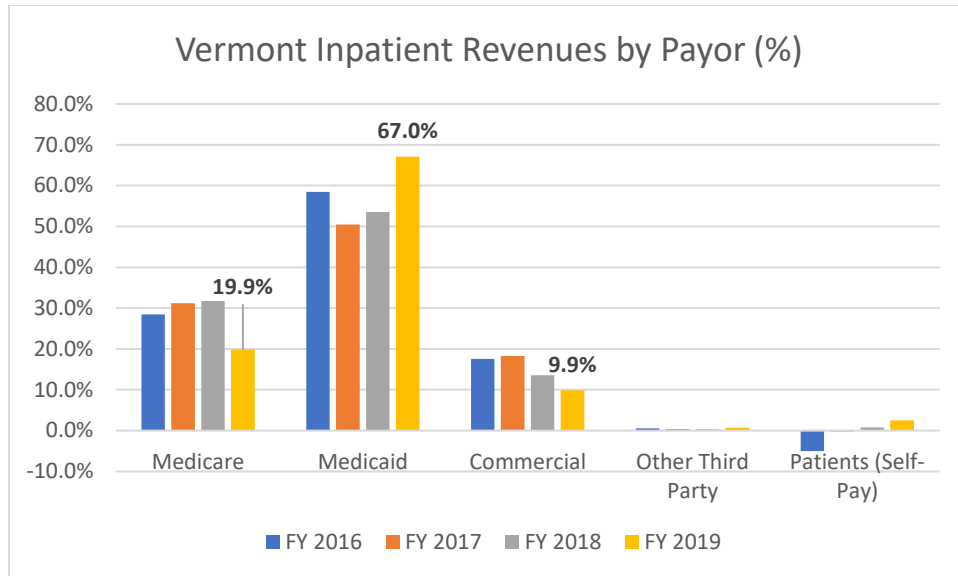


There was an increase in Medicaid payer mix percentage in FY 2019 and a drop in Medicare payer mix percentage; commercial concentrations continued a downward trend.

Additionally, of total NPSR (unaudited: \$69.1 million), Inpatient (I/P) revenues accounted for roughly 90 percent at \$62.26 million. Here too, Medicaid dominates the Retreat’s payer mix in FY 2019 and in prior years as well.



Finally, of the \$62.26 million in I/P revenues, I/P revenues derived from Vermont consist of 75 percent of that figure, equating to \$46.39 million in FY 2019. The payer mix discussion becomes more disparate regarding Vermont I/P revenues as they relate to Medicaid concentrations and thereby, the Retreat’s reliance on Medicaid dollars. As can be seen below, Medicaid as a percentage of total Vermont I/P revenues grew to 67% as of FY 2019 while Medicare continued to hold around 20% as it does in the other two examples above, but commercial concentrations only consist of 10% of all Vermont I/P revenues generated by the Retreat. To simplify matters, of the \$46.39 million in Vermont I/P revenues, \$31.1 million was derived from Medicaid, representing the 67% concentration.



Conclusions:

The Retreat’s financial situation deteriorated significantly from FYE 2018 to FYE 2019, incurring operational losses that challenge its existing operations as a healthcare provider. To cover the losses, the Retreat has liquidated its cash reserves, undermining its days cash on hand (DCOH) position and its balance sheet overall. The liquidation of reserves impedes the liquidity of the organization and its financial flexibility to meet any future challenges. GMCB staff analysis indicates that DCOH has fallen under 24 days as of FYE 2019. This means that if the Retreat’s reimbursements were to cease, it would be able to survive for less than 24 days to meet operating needs as of 12/31/2019.

Supporting the liquidity concern, the Retreat’s current ratio, a measure of ability to meet short-term obligations, has fallen from 2.40:1 (FY 2015), down to 0.76:1 (FY 2019). This means that in FY 2015, the Retreat had \$2.28 of current/liquid (short-term) assets for every \$1 of current (short-term) liabilities. As of FY 2019, the Retreat has \$0.76 of current assets for every \$1 of current liabilities, placing it in a precarious position from a liquidity perspective. The dilution of this ratio is evident in the reduction of current asset values and the growth of short-term obligation balances as outlined in the balance sheet analysis. Additionally, despite the new psychiatric beds currently under construction, the average age of physical plant continues to rise, exceeding 21 years as of FYE 2019. Without needed cash reserves and with an established history of negative operating margins, borrowing money to make future improvements to the aging facility will be difficult.

The Retreat’s FY 2019 audit outlines the auditor’s concern about the Brattleboro Retreat’s continued ability to operate as a going concern, citing the significance of losses over several years and the resulting impact on cash flow.

Fiscal Year-to-Date 2020 Update:

Below is a brief, high-level update of the Retreat’s FY 2020 position through month-end October 2020, representing 10 months of the organization’s fiscal year. As the YTD FY 2020 finances are incomplete and unaudited, caution should be used when generating comparative insights.

The Retreat’s balance sheet as of 10/31/2020 reports total asset values of \$46.9 million. In current assets, a notable surge in cash values is being reported, with cash nearly exceeding \$10.5 million. These amounts are likely the result of various monetary infusions by the State of Vermont and federal funds received to support the organization in the near-term as it navigates operational challenges and those brought about by the COVID-19 pandemic, respectively. A/R balances indicate a reduction, with values being reported at \$7.3 million. It is possible that COVID-19 has had a similar impact on this healthcare provider as it has others throughout the state, as COVID-related challenges have limited/alterd the Retreat’s standard operations related to patient care and thereby its finances; however, this cannot be known for certain based on YTD financial statements. The preliminary information provided by the Retreat offers some limited insight into this possibility.

Year-To-Date 10/31/2020 Patient Statistics			
	Actual	Budget	Prior Year
Inpatient (I/P)			
Admissions	1,649	3,316	3,165
Patient Days	21,861	32,485	30,685
Avg. Daily Census (ADC)	71.7	106.5	100.9
Avg. Length of Stay (LOS)	12.5	10.2	9.9
Residential			
Admissions	15	29	26
Patient Days	2,800	4,575	4,164
ADC	9.2	15	13.7
LOS	157.3	155	158.8
Outpatient (O/P)			
Visits/Hospital/Starting	19,522	23,790	23,682

See Appendix for chart showing I/P ADC from 2017-2018 as supplied by Brattleboro Retreat.

Long-term assets reporting material shifts in values are related to assets limited to use, both board designated and donor restricted, as well as the net value of PP&E. Board designated assets are reporting a value of only \$4.15 million and donor restricted, only \$169.7 thousand. The former has been utilized in the past to help cover operational losses with reserve funds and it is likely that is still occurring. The latter was bolstered during FY 2018 and 2019 to hold State of Vermont funds being used to build new psych beds. The small balance existing indicates those funds have been largely exhausted towards that purpose. The net value to PP&E is reportedly just shy of \$22 million, having grown due to the ongoing construction of the psych beds as an asset to the Retreat.

Total liabilities of the Retreat are being reported at \$26.9 million as of 10/31/2020, with current liabilities consisting of 97% of the total. The major line item is the previously mentioned bond debt that was shifted to the ‘current’ portion of liabilities as of FY 2019. This singular item does appear to be in repayment with a balance at month-end October of \$10.56 million. Accounts payable and accrued expenses total \$6.2 million and accrued salaries total \$4.4 million. The line of credit continues to report a balance, at \$413 thousand and other current liabilities are reported at \$4.8 million the majority of which is likely bank overdraft debt.

Long-term liabilities total less than \$790 thousand and the organization’s net assets continue to hover around \$20 million at month-end October 2020.

Vermont's health care providers have experienced significant challenges in 2020, and the Brattleboro Retreat is not immune from those challenges. Year-to-date NPR as of month-end October of \$41.3 million is more than 36% under budget. A high-level analysis indicates the Retreat was budgeting, on average, roughly \$6.4 million per month. YTD actual average monthly revenues are roughly \$4.1 million through month-end October. Other operating revenues are exceeding budgeted figures by 380%, largely due to various infusions of funding to support operations and mitigate the impact of the COVID-19 pandemic. Overall, even with those financial infusions, total operating revenues of \$57.6 million are still below budgeted figures by almost 15%, or \$9.8 million.

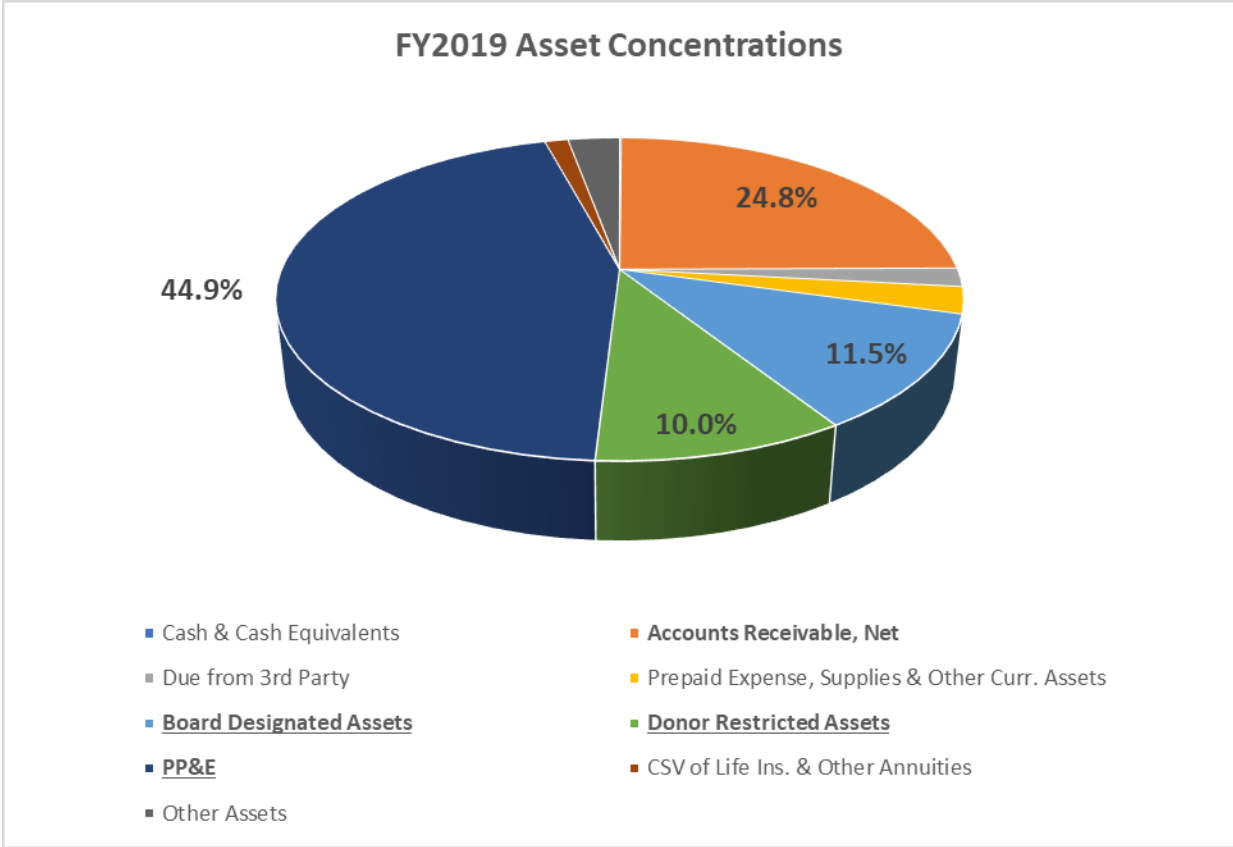
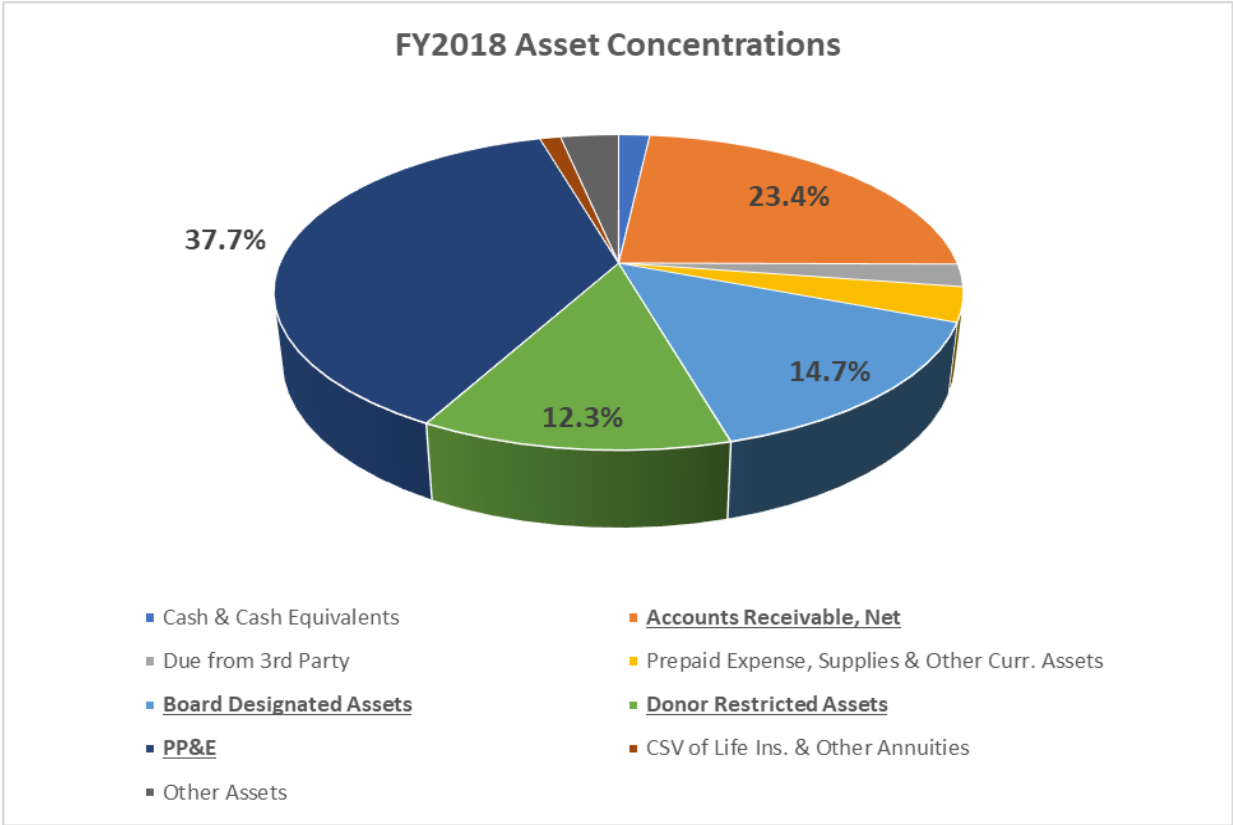
Overall, operating expenses year-to-date total \$59.4 million and are underperforming budget by 11.3%, or \$7.6 million. Salaries and benefits are off budget by 20.2%, or \$7.65 million and 13.8%, or \$1.35 million, respectively. Utilities expense is also missing budget by 13.8%, or nearly \$130 thousand. Major line items exceeding budget are purchased services, 17.7% over budget, or \$1 million, insurance expense, other operating expenses, and provider tax, all over budget by 8.7%, 6.2%, and 8.1%, respectively. Overall, the Retreat is missing its budgeted margin by nearly \$2.3 million, generating a YTD loss on margin of \$1.73 million, an operating margin of -3%. Non-operating revenues do little to offset the operational losses and therefore, YTD October 2020 produces a total margin for the Retreat of -\$1.54 million, a loss on total margin of -2.7%.

In late October 2020, the leadership of Brattleboro Retreat announced steps to mitigate the declining financial situation. It was announced that 85 employees would be laid off and 4 programs would be cut in subsequent months. The programs to be cut were the addiction treatment, addiction management program, the early education center (Mulberry Bush Independent School) and the K-12 school (Meadows Education Center).

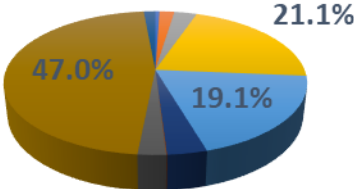
Recommendation:

Given the current financial condition of the Retreat, GMCB staff recommends that upon receipt of FY 2020 audited financial statements, the Retreat should forward a copy to the GMCB for review. Additionally, GMCB staff recommends that quarterly financial documents be forwarded to GMCB for monitoring. The submission of those quarterly documents should occur in the month following the close of fiscal quarters on 3/31, 6/30, 9/30, 12/31/2020. The GMCB requests the mandatory delivery of fiscal quarter-end balance sheet, income statement, and cash flow statements following the dates above.

Appendix:

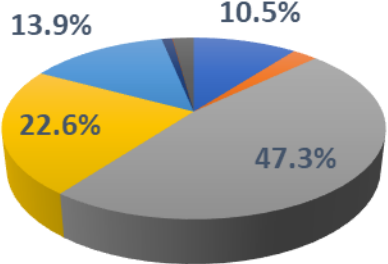


FY2018 Liabilities Concentrations



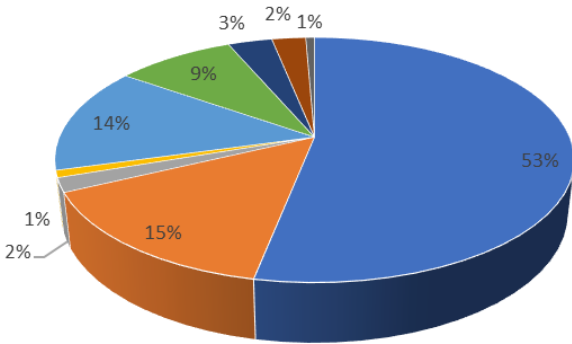
- Bank Overdraft
- Line of credit
- Current portion LTD
- Accounts payable and accrued expenses
- Accrued salaries and related amounts
- Due to third-party payors
- Other Current Liabilities
- Current portion of deferred compensation obligations
- Deferred compensation obligations, excluding current portion
- Long term debt, excluding current portion
- Other long-term liabilities

FY2019 Liabilities Concentrations



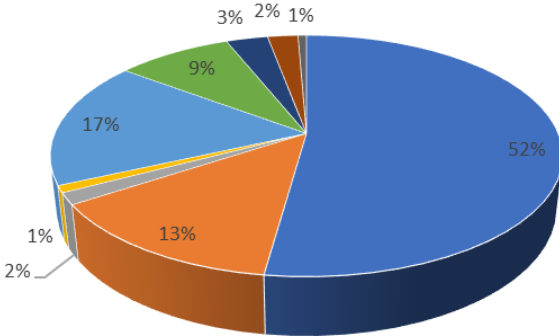
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FY2018 Operating Expenses by Line Item



- Salaries and Wages
- Employee benefits
- Utilities expense
- Insurance Expense
- Purchased Services
- Other operating expenses
- Health Care improvement (Provider) tax
- Depreciation
- Interest Expense

FY2019 Operating Expenses by Line Item



- Salaries and Wages
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