

SOUTHWESTERN VERMONT MEDICAL CENTER
Financial Summary
Fiscal Year ended September 30, 2016

Southwestern Vermont Medical Center (hereafter “SVMC”)

The gain from operations was \$916,182 higher than budget or a 3.4% operating margin. Below is the comparative summary FY 2016 financial results vs. FY 2015 and FY 2016 budget.

Table #1 – Summary Financial Results

	<u>FY 2015 Actual</u>	<u>FY 2016 Budget</u>	<u>FY 2016 Actual</u>
Net patient service revenues	\$142,769,168	\$144,025,568	\$151,922,754
Other operating revenues	<u>2,743,411</u>	<u>2,022,823</u>	<u>2,730,803</u>
<i>Total operating revenues</i>	<i>145,512,579</i>	<i>146,048,391</i>	<i>154,653,557</i>
<i>Operating expenses</i>	<i><u>140,305,386</u></i>	<i><u>141,665,763</u></i>	<i><u>149,354,747</u></i>
<i>Operating gain</i>	<i>5,207,193</i>	<i>4,382,628</i>	<i>5,298,810</i>
Non-operating activities-net	<u>(5,187)</u>	<u>600,000</u>	<u>618,918</u>
<i>Excess revenues over expenses</i>	<u><u>\$5,202,006</u></u>	<u><u>\$4,982,628</u></u>	<u><u>\$5,917,728</u></u>
<i>Operating margin</i>	<u><u>3.57%</u></u>	<u><u>2.96%</u></u>	<u><u>3.42%</u></u>

This operating gain/margin was driven mostly by the increased revenues and expenses associated with volume in the Cancer Center, primary care, preventive diagnostic endoscopy services as well as others. The actual operating margin of 3.42% was in the range of acceptable of operating margins when rating agencies, lending institutions and well as affiliation partners.

Additionally, SVMC continues to improve efficiencies throughout the Hospital. This is being done on two fronts. First, management is making investments in the delivery of care model. The basic thought process is to provide more access to primary care and have early intervention which reduces costs. Second, management is looking at all its process within the Hospital to find less costly ways to improve the quality of everything we do for Vermonters as well as other patients we serve.

Net Patient Service Revenues

In FY 2016 net patient service revenues of \$151,922,754 was \$7,897,186 greater than budget or 6.4%. The variance to budget was mainly driven by increased volumes in the outpatient setting. Inpatient and observation services were under budget and prior years. The outpatient services increase was primarily due to higher than anticipated volumes in oncology drugs in the Cancer Center, physician practices – primary care, endoscopy, laboratory, MRI and emergency room. Orthopedic services overall were significantly under budget both in the inpatient service and outpatient surgery service. Additionally, bad debt and charity care amounts were under budget. The table #2 below provides a summary of the significant revenue variances and the approximate amounts:

Table #2 – Significant net revenue variances from budget

Drugs sold – Cancer Center	\$5,471,000
Inpatient volume	(2,806,000)
Surgical volume (orthopedics)	(1,338,000)
Physician practice primary care visits	1,411,000
Endoscopy – (colonoscopies)	901,000
Laboratory	887,000
Emergency room	791,000
MRI	691,000
Physical therapy	391,000
Ultrasound	329,000
Renal dialysis	184,000
Observation services	(423,000)
Other changes	433,000
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<i>Subtotal</i>	6,922,000
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Bad debt expense and charity care improvements	975,000
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<i>Total net patient service revenue</i>	<u>\$7,897,000</u>

A number of these service areas where revenue is over budget there are also significant costs associated with those revenues that are over budget. Table #3 on the following page provides a summary of those costs:

Table # 3 – Significant operating expense variances

<u>Expenses</u>	<u>Actual FY 2016</u>	<u>Budget FY 2016</u>	<u>Variance</u>
Drugs sold	\$11,999,582	\$7,263,331	(\$4,736,251)
Physician practices	23,494,817	22,755,070	(739,747)
Endoscopy	1,248,002	923,137	(360,865)
Laboratory	6,275,261	5,498,246	(777,015)
Emergency Room	7,669,978	6,872,233	(797,746)
MRI	725,169	575,921	(149,248)
Physical Therapy	1,034,424	1,075,863	41,439
Ultrasound	468,167	465,173	(2,994)
Renal Dialysis	881,063	819,760	(61,303)
<i>Subtotal</i>	<i>53,796,463</i>	<i>46,248,734</i>	<i>(7,583,730)</i>
All other costs	95,558,284	95,417,209	(141,255)
Total operating costs	<u>\$149,354,747</u>	<u>\$141,665,763</u>	<u>(\$7,688,984)</u>

Healthcare Reform Initiatives

The impact of SVMC's health reform initiatives were significant in FY 2016. Continued expansion and access to primary care services and the transitional care program both focused on keeping patients healthy so they don't require more expensive inpatient care. Inpatient and observation volume in fiscal year 2016 were lower than budget and prior fiscal years.

Inpatient patient days were 1,018 days under budget or 8.4% under plan for the year. In the FY 2016, our care management team implemented initiatives to reduce the length of stay were appropriate. The FY 2016 patient day volumes were 13.1% below FY 2015 levels or 1,686 patient days, reducing the acute length of stay from 3.8 days to 3.3 days a decrease of 13.2%.

Observation cases which require significant resource consumption very similar to inpatient cases were 201 cases under budget or 17.0% and 45 cases under prior year or a 4.4% reduction.

Table #4 below shows the combined volumes of inpatient and observation services.

Table #4 – Inpatient and Observation volumes

	Twelve months ended September 30, 2016			
	Actual FY 2016	Budget FY 2016	Variance	Prior year FY 2015
Inpatient Acute Patient Days	11,141	12,159	(1,018)	12,827
Observation patients	978	1,179	(201)	1,023

Access to primary care volume as measured by the number of patient visits to primary care practices have increased from 55,530 visits in FY 2015 to 69,249 visits in FY 2016 or a 24.7% increase. The opening of the Express Care Practice which offers same day appointments for patients unable to get into a primary care provider accounted for much of the increase. The Pownal Family Health Center practice opened in October of 2016 has also improved access to primary care for residents of Bennington County and the southern portion of our service area. These new expanded services are having a direct effect on inpatient volumes.

Inpatient Ancillary Services

The downward trend on inpatient volume continued in fiscal year 2016 as mentioned above and as a result ancillary volume variances have declined..

Table #5 below shows significant fiscal year 2016 variances to budget:

Table #5 – Inpatient ancillary volume significant statistic variances

Visits/Procedures	Twelve months ended September 30, 2016				
	Actual	Budget	Variance	%Var	Prior Yr
Adult Patient Days	11,141	12,159	(1,018)	-8.37%	-13.10%
Operating Room	656	725	(69)	-9.52%	-7.70%
Laboratory	56,116	61,046	(4,930)	-8.08%	-5.30%
Radiology	3,695	4,255	(560)	-13.16%	-10.30%
MRI	231	153	78	50.98%	63.90%

The increase in MRI volume is primarily due to a much needed neurologist hired at the end of FY 2015. Neurologist utilize this technology to diagnose tumors, causes of seizures, headaches, strokes, as well as others previously our patients

did not have access to this specialty. Since the physician was hired in August of FY 2015 the FY 2016 budget had already been prepared and the additional volume was not considered.

Outpatient Ancillary Volume

Outpatient charge volume was over budget by 9.8% in FY 2016. Below is table #6 which shows departments with significant variances to budget for fiscal year 2016 and compared to last fiscal year:

Table #6 – Outpatient significant statistic variances—Fiscal Year 2016

<u>Visits/Procedures</u>	<u>September 30, 2016 Year to Date</u>				<u>Prior Yr</u>
	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>	<u>%Var</u>	
Drugs Sold	2,302,145	1,573,403	728,742	46%	27%
Laboratory	335,167	329,559	5,608	2%	5%
Emergency Room	21,047	20,346	701	3%	-2%
MRI	3,543	3,287	256	8%	10%
Endoscopy	3,405	2,624	781	30%	26%
Physical Therapy	25,450	19,116	6,334	33%	21%
Renal	7,100	5,825	1,275	22%	16%
Ultrasound	11,679	11,139	540	5%	4%
Observation Patients	978	1,179	(201)	-17%	-4%
Operating Room	2,266	2,421	(155)	-6%	-9%

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

Payer Mix

Total gross patient charges were \$15,211,932 over budget for FY 2016 or 5.1%. The largest increases in gross patient charge volume was in Medicare and Medicaid revenue with increases which were both approximately 6.4% over budget.

Table #7 on the following page shows the year to date gross revenue by major payer classification, variance from budget and the percentage of total gross revenue:

Table #7 –Payer Mix—Fiscal Year 2016

<u>Payer</u>	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>	<u>%Var</u>	<u>FY16 %Total</u>	<u>FY15 %Total</u>
Medicare	\$155,332,115	\$145,929,973	\$9,402,142	6.44%	49.2%	48.7%
Medicaid	58,628,506	55,107,567	3,520,939	6.39%	18.6%	19.2%
Commercial/Other	101,449,416	99,160,565	2,288,851	2.31%	32.2%	32.1%
Total Gross Charges	\$315,410,037	\$300,198,105	\$15,211,932	5.07%	100.0%	100.0%

While Medicare volume increased as a percentage of total the reduction in Medicaid was a result of lower reimbursements. Commercial payers remained constant.

Table #8 below lists departments with the most significant fiscal year variance:

Table #8 – Outpatient significant gross charge variances –FY 2016

<u>Department</u>	<u>Twelve months ended September 30, 2016</u>			<u>% Var</u>
	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>	
Drugs Sold	\$39,016,931	\$26,666,160	\$12,350,771	46.3%
Laboratory	37,060,999	35,072,049	1,988,950	5.7%
Emergency Room	21,284,094	19,582,107	1,701,987	8.7%
MRI	8,062,234	6,493,653	1,568,581	24.2%
Endoscopy	6,174,418	4,925,458	1,248,960	25.4%
Physical Therapy	3,864,308	3,095,661	768,647	24.8%
Renal Dialysis	6,120,624	5,334,476	786,148	14.7%
Ultrasound	6,161,504	5,521,981	639,523	11.6%
Operating Room	14,366,709	15,736,403	(1,369,694)	-8.7%
Med/Surg Supplies	5,412,178	6,166,515	(754,337)	-12.2%
All other depts	51,601,699	51,384,065	217,634	0.4%
Total Outpatient Gross Charges	\$199,125,698	\$179,978,528	\$19,147,170	

Outpatient physician gross charge revenue of \$49,850,665 were over budget by \$2,620,080 or 5.5%. The primary driver of the gross charge revenue variance is in the primary care practices where charges were approximately \$1,250,000 over budget due expanded access to services in the Pownal and Express Care practices. Primary care patient visits increased by 24.7% over prior fiscal year. In addition, a concerted effort was made to improve access for preventive diagnostic tests in Gastroenterology. The Gastroenterology practice was able to

increase practice visits by approximately 22% resulting in charge revenue being over budget by approximately \$952,000.

Other Operating Revenue

Other operating revenue of \$2,730,803 was over budget by \$707,980 in FY 2016. The significant positive budget variances to budget are listed below:

- SVMC launched our 340b contract pharmacy program in the last quarter of FY 2016 as an initiative for the performance enhancement program. There was \$292,632 of unbudgeted revenue recorded for the 340b Contract Pharmacy program in FY 2016;
- Meaningful use revenue received in the physician practices was \$112,592 higher than budget;
- SVMC received \$227,387 more than planned in the primary care practices for Blue Print and Primary Care Incentive payments in part due to the significant increase in primary care access.

Operating Expenses

Operating expenses of \$149,354,747 were \$7,688,984 over budget for the year or 5.4%. The significant budget variances include:

- Staff salary expenses were under budget by \$170,613 or 0.4% and total year to date FTE's of 748.6 are 1.3 FTE's over budgeted FTE's of 747.9;
- Employee benefit expenses of \$11,836,099 were \$277,168 under budget or, 2.3% primarily as a result of lower than budgeted cost in self-insured employee health insurance and pension programs. The health insurance program was approximately \$536,721 under budget this fiscal year due to favorable claims experience and plan design changes;
- Physician fees and salaries of \$28,092,615 were \$1,711,084 over budget or 6% due in part to not being able to implement budgeted planned saving in FY 2016, higher expense for gastroenterology to address the backlog of services; additional expenses related to higher patient volumes and sign on and retention bonuses of primary care providers;
- Other operating expenses of \$50,049,511 were \$7,120,032 over budget or 16.6%. Significant variances include:
 - Pharmacy drugs were over budget by \$4,736,251 related to increased utilization and cost primarily in Oncology;

- Emergency department expenses were over budget by \$655,000 related to contract labor and purchased services expense;
- Chargeable medical supplies were \$330,000 over budget primarily due to the increase in inpatient surgical volume;
- Laboratory expense was over budget by \$891,780 primarily related to increase in referral lab testing related to diagnosing tick borne diseases;
- Total administrative expenses were \$2,824,755 over budget mostly related to the operational efficiency project that will help reduce expenses over the next few years and costs related to discussions with Dartmouth Hitchcock.

SVMC Balance Sheet changes in FY 2016

- Cash and cash equivalents decreased by \$1,271,795 from FY 2015 due primarily to the increase in capital spending in FY 2016;
- Accounts receivables increased by \$1,458,919 from FY 2015. The days revenues outstanding in accounts receivables were at 36.2 days at the end of September compared to 34.7 as of September 30, 2015.

It is worth noting that these are ratio's related to SVMC and SVMC only.

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