



Berkshire Health Systems, Inc. and Affiliates

**Audited Consolidated Financial Statements
and Supplementary Information**

Years ended September 30, 2018 and 2017

Berkshire Health Systems, Inc. and Affiliates

Audited Consolidated Financial Statements
and Supplementary Information

Years ended September 30, 2018 and 2017

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Report of Independent Certified Public Accountants

Board of Trustees
Berkshire Health Systems, Inc.

We have audited the accompanying consolidated financial statements of Berkshire Health Systems, Inc. and Affiliates (the Health System), which comprise the consolidated balance sheets as of September 30, 2018 and 2017, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Health System's preparation and fair presentation of the consolidated 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 Health System'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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Berkshire Health Systems, Inc. and Affiliates as of September 30, 2018 and 2017 and the results of their operations, changes in their net assets, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating information is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and certain additional procedures. These additional procedures include comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Brent Thornton LLP

Iselin, New Jersey
January 22, 2019

Berkshire Health Systems, Inc. and Affiliates

Consolidated Balance Sheets

	September 30	
	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 49,390,097	\$ 41,489,682
Patient accounts receivable, less allowance for uncollectable amounts of \$21,730,000 in 2018 and \$20,447,000 in 2017	61,543,638	58,074,965
Note and other receivables	7,241,675	7,510,071
Inventories	12,958,951	12,007,651
Funds held by trustees	7,818,829	7,744,513
Due from managed entities	1,398,567	1,334,263
Prepaid expenses and other current assets	<u>5,900,931</u>	<u>4,184,567</u>
Total current assets	146,252,688	132,345,712
Assets whose use is limited:		
Funds designated by Boards	254,168,223	234,669,328
Funds held as endowments	8,141,444	8,141,444
Funds held for donor-restricted purposes	22,868,092	18,947,241
Deferred compensation	<u>14,800,885</u>	<u>12,589,046</u>
Total assets whose use is limited	299,978,644	274,347,059
Property and equipment, net	220,549,823	229,386,845
Other assets	<u>8,678,177</u>	<u>7,166,642</u>
Total assets	<u>\$ 675,459,332</u>	<u>\$ 643,246,258</u>
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 15,735,587	\$ 19,844,637
Accrued salaries and related withholdings	29,769,402	28,811,621
Accrued expenses	13,380,525	14,705,429
Deferred revenue	1,058,102	996,043
Due to third-party payors	21,883,759	17,930,219
Current portion of long-term obligations	<u>6,080,000</u>	<u>5,935,000</u>
Total current liabilities	87,907,375	88,222,949
Deferred compensation	14,800,885	12,589,046
Other liabilities	15,213,479	13,902,976
Long-term obligations, less current portion	<u>74,497,448</u>	<u>81,052,876</u>
Total liabilities	192,419,187	195,767,847
Net assets:		
Unrestricted	446,991,629	414,425,264
Temporarily restricted	27,907,072	24,911,703
Permanently restricted	<u>8,141,444</u>	<u>8,141,444</u>
Total net assets	<u>483,040,145</u>	<u>447,478,411</u>
Total liabilities and net assets	<u>\$ 675,459,332</u>	<u>\$ 643,246,258</u>

See accompanying notes.

Berkshire Health Systems, Inc. and Affiliates

Consolidated Statements of Operations and Changes in Net Assets

	Years ended September 30	
	2018	2017
Revenues:		
Patient service revenue (net of contractual allowances and discounts)	\$ 575,246,320	\$ 550,636,312
Less: provision for bad debts	11,765,859	11,163,786
Patient service revenue, net	563,480,461	606,962,775
Other revenue	60,130,052	56,326,463
Total revenues	623,610,513	595,798,989
Expenses:		
Salaries and wages	313,550,086	304,255,914
Fringe benefits	77,282,527	74,724,956
Supplies and other	179,233,727	164,142,470
Health Safety Net assessment	5,747,589	5,654,809
Depreciation and amortization	35,670,043	35,374,550
Interest	2,936,821	3,229,003
Total expenses	614,420,793	587,381,702
Income from operations	9,189,720	8,417,287
Nonoperating gains:		
Investment gains, net	21,055,387	9,969,200
Gain on advanced refunding of long-term debt	-	92,892
Other, net	121,977	519,604
Total nonoperating gains	21,177,364	10,581,696
Excess of revenues over expenses	\$ 30,367,084	\$ 18,998,983

Continued on next page

Berkshire Health Systems, Inc. and Affiliates

Consolidated Statements of Operations and Changes in Net Assets (continued)

	Years ended September 30	
	2018	2017
Unrestricted net assets:		
Excess of revenues over expenses	\$ 30,367,084	\$ 18,998,983
Net unrealized gains on investments	577,366	18,352,384
Grant funds used for property and equipment	406,672	127,250
Net assets released from restrictions used for purchase of property and equipment	1,215,243	376,860
Other	-	(41,140)
Increase in unrestricted net assets	32,566,365	37,814,337
Temporarily restricted net assets:		
Restricted contributions	2,929,676	1,189,661
Net realized gains on investments	1,632,655	607,423
Net unrealized gains on investments	41,125	1,980,278
Net assets released from restrictions for operating purposes	(392,844)	(330,901)
Net assets released from restrictions for purchase of property and equipment	(1,215,243)	(376,860)
Increase in temporarily restricted net assets	2,995,369	3,069,601
Permanently restricted net assets		
Contributions for endowment funds	-	1,135,285
Increase in permanently restricted net assets	-	1,135,285
Increase in net assets	35,561,734	42,019,223
Net assets, beginning of year	447,478,411	405,459,188
Net assets, end of year	\$ 483,040,145	\$ 447,478,411

See accompanying notes.

Berkshire Health Systems, Inc. and Affiliates

Consolidated Statements of Cash Flows

	Years ended September 30	
	2018	2017
Operating activities and net gains		
Increase in net assets	\$ 35,561,734	\$ 42,019,223
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Net unrealized gains on unrestricted investments	(577,366)	(18,352,384)
Realized and unrealized gains on restricted investments	(1,673,780)	(2,587,701)
Amortization of debt premium	(624,432)	(661,659)
Depreciation and amortization	35,670,043	35,374,550
Equity income in Yankee Alliance, LLC	(1,359,787)	(1,081,453)
Restricted contributions	(2,929,676)	(2,324,946)
Gain on advanced refunding of debt	-	(92,892)
Effects of changes in operating assets and liabilities:		
Accounts receivable, net	(3,468,673)	(2,479,959)
Note and other receivables, inventories, prepaid expenses and other current assets	(2,399,268)	(2,528,316)
Accounts payable	(4,109,050)	2,490,920
Accrued salaries and related withholdings, accrued expenses, and deferred revenue	(305,064)	3,009,402
Due to third-party payors, net	3,953,540	(4,576,417)
Other liabilities	1,310,503	(909,147)
Net cash provided by operating activities	59,048,724	47,299,221
Investing activities		
Additions to property and equipment, net	(26,684,017)	(36,412,806)
(Increase) decrease in funds held by trustees	(74,316)	6,377,804
Increase in funds designated by Boards	(18,921,529)	(10,119,095)
Increase in funds held for donor-restricted purposes	(2,247,071)	(1,089,153)
Decrease in amounts due from managed entities	189,456	225,674
(Increase) decrease in other assets	(405,508)	6,290
Net cash used in investing activities	(48,142,985)	(41,011,286)

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Berkshire Health Systems, Inc. and Affiliates

Consolidated Statements of Cash Flows (continued)

	Years ended September 30	
	2018	2017
Financing activities		
Repayment of long-term obligations	\$ (5,935,000)	\$ (6,640,000)
Advanced refunding of long-term debt	-	(15,205,000)
Proceeds from issuance of long-term debt	-	10,540,000
Payment of deferred financing costs	-	(206,301)
Restricted contributions	2,929,676	2,324,946
Net cash used in financing activities	(3,005,324)	(9,186,355)
Net increase (decrease) in cash and cash equivalents	7,900,415	(2,898,420)
Cash and cash equivalents at beginning of year	41,489,682	44,388,102
Cash and cash equivalents at end of year	\$ 49,390,097	\$ 41,489,682
Supplemental disclosure of cash flow information for interest paid	\$ 3,008,957	\$ 3,757,602

See accompanying notes.

Berkshire Health Systems, Inc. and Affiliates

Notes to Consolidated Financial Statements

Years Ended September 30, 2018 and 2017

1. Organization

The consolidated financial statements include the accounts of Berkshire Health Systems, Inc. and its controlled affiliates (collectively, the Health System). The following is a summary of controlled affiliated organizations included in the consolidated financial statements:

Organization	Nature and Purpose
Parent Berkshire Health Systems, Inc. (BHS)	The parent corporation which provides support for its controlled affiliates.
Hospitals Berkshire Medical Center, Inc. (the Medical Center) Fairview Hospital (the Hospital)	Not-for-profit hospital-operating corporations organized for the delivery of health care services.
Management Company BHS Management Services, Inc. (BMS)	A corporation that provides management services to the controlled affiliates of BHS and the non-controlled Berkshire Healthcare Systems, Inc. and its affiliates (the Managed Entities).
Others Berkshire Faculty Services, Inc. (BFS)	A corporation that provides medical education, primary care, medical, surgical subspecialty and other physician services for the benefit of the Medical Center and the Hospital.
Tri-State Medical Management Corp.	A corporation that manages a physician office location for the benefit of the Hospital.
Berkshire Indemnity Company SPC, LTD. - BHS Segregated Portfolio (BIC)	A 100% owned segregated portfolio organized in 2003, within Berkshire Indemnity Company SPC, LTD., a Cayman Islands Insurance Captive.
Other controlled entities Berkshire Orthopedic Associates, Inc.	A single shareholder corporation that provides orthopedic physician services.

Berkshire Health Systems, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

Years Ended September 30, 2018 and 2017

1. Organization (continued)

BHS controls each of its affiliated entities through its status either as sole corporate member, as sole stockholder or under a management control agreement. BHS, the Medical Center and the Hospital are an obligated group for purposes of various debt financings.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements have been presented in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). The consolidated financial statements include the accounts of the above-named entities. All intercompany balances and transactions have been eliminated.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Health System 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 the Health System in perpetuity. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified for operations as a component of other revenue and as unrestricted net assets for property and equipment purchases, and are reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The significant management estimates and assumptions relate to the determination of allowance for doubtful accounts and contractual allowances for patient accounts receivable, estimated settlements with third-party payors, useful lives of property and equipment, self-insured professional, workers' compensation, and employee health liabilities, asset retirement obligations and the reported fair values of certain of the Health System's assets and liabilities. Actual results could differ from those estimates.

Berkshire Health Systems, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

Years Ended September 30, 2018 and 2017

2. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash and cash equivalents include currency on hand, demand deposits with banks or other financial institutions, and short-term investments with maturities of 90 days or less from the date of purchase. Included in cash and cash equivalents is BIC liquid short-term investments of \$13,442,057 and \$13,170,352 as of September 30, 2018 and 2017, respectively. The carrying values reported in the consolidated balance sheets approximate fair value.

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market.

Investments and Investment Income

Investments in equity and debt securities are measured at fair value in the consolidated balance sheets. Investment income or loss (including realized gains and losses on investments, other than temporary impairments of investments, interest and dividends) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of revenues over expenses. The Health System reviews investments where the fair value is substantially below cost, and in cases where the decline is considered to be other than temporary, an adjustment is recorded to recognize the loss. Investment income on proceeds of borrowings that are held by a trustee, to the extent not capitalized, and unrestricted income of endowment funds are reported as other revenue. Investment income from all other general fund investments is reported as nonoperating gains.

The Medical Center accounts for its investment in Yankee Alliance, LLC on the equity method of accounting. The Medical Center's ownership in Yankee Alliance, LLC was 16.66% for both years ended September 30, 2018 and 2017. The Medical Center's interest in the earnings of Yankee Alliance, LLC was \$1,359,787 and \$1,081,453 for the years ended September 30, 2018 and 2017, respectively.

Property and Equipment

Property and equipment is recorded at cost or, if received by gift or bequest, at fair value when received. Depreciation is charged to operations using the straight-line method, based upon the estimated useful lives of the depreciable assets. Property and equipment under capital leases is amortized using the straight-line method over the shorter of the lease term or its estimated useful life. Such amortization is included with depreciation and amortization expense. Renovations and improvements which extend the useful lives of property and equipment are capitalized and recorded at cost.

Berkshire Health Systems, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

Years Ended September 30, 2018 and 2017

2. Summary of Significant Accounting Policies (continued)

Costs of Borrowing

Deferred financing costs and original issue premiums are amortized over the period that the related obligation is outstanding using the effective interest method.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Allowance for Uncollectable Amounts

Accounts receivable are reduced by an allowance for uncollectable amounts. In evaluating the collectability of accounts receivable, the Health System analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectable amounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectable amounts. For receivables associated with services provided to patients who have third-party coverage, the Health System analyzes contractually due amounts and provides for bad debts, if necessary, on anticipated patient balances. For receivables associated with self-pay patients, the Health System records a significant provision for bad debts 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. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectable amounts.

The allowance for uncollectable amounts was approximately \$21,730,000 and \$20,447,000 as of September 30, 2018 and 2017, respectively. These balances as a percent of accounts receivable, net of contractual adjustments, were approximately 26% for both years ended September 30, 2018 and 2017.

Berkshire Health Systems, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

Years Ended September 30, 2018 and 2017

2. Summary of Significant Accounting Policies (continued)

Gifts and Bequests

Unrestricted gifts and bequests are included in other revenue in the consolidated statements of operations and changes in net assets. Restricted gifts and bequests are credited directly to the applicable restricted net asset category.

Professional Liability Insurance

The Health System covers its primary hospital and physician professional liability and commercial general liability risk on a claims-made basis with tail coverage through a captive insurance company, BIC. The Health System establishes reserves for unpaid losses, with the assistance of consulting actuaries, based on a combination of industry and hospital-specific data. Management believes these reserves recorded in other liabilities in the accompanying consolidated balance sheets, which at September 30, 2018 and 2017, total \$11,091,000 and \$10,215,000, respectively, are adequate; however, no assurance can be given that the ultimate settlement of losses may not vary materially from the liability recorded. Future adjustments to the amounts recorded resulting from the continual review process, as well as differences between estimates and ultimate payments, will be reflected in the consolidated statements of operations and changes in net assets of future years when such adjustments, if any, become known.

Income Taxes

BHS and its affiliates, except those described below, are not-for-profit organizations as described in Section 501(c)(3) of the Internal Revenue Code, as amended (the Code), and are generally exempt from income taxes pursuant to Section 501(a) of the Code.

Tri-State Medical Management, Inc. (Tri-State) and Berkshire Orthopedics Associates (BOA) are for-profit corporations. An immaterial provision for income taxes incurred for each corporation has been made in these consolidated financial statements.

BIC is a segregated portfolio organized within a Cayman Islands Insurance Captive and is not subject to income taxes within the United States.

The Health System follows the accounting guidance for uncertainties in income tax positions, which requires that a tax position be recognized or derecognized based on a “more likely than not” threshold. The Health System has determined that there are no such positions, individually or in the aggregate, that are material to the consolidated financial statements.

Berkshire Health Systems, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

Years Ended September 30, 2018 and 2017

2. Summary of Significant Accounting Policies (continued)

Asset Retirement Obligation

Conditional asset retirement obligations for certain buildings and land improvements amounted to \$3,684,000 and \$3,187,000 as of September 30, 2018 and 2017, respectively. The change in amounts resulted from \$556,000 and \$203,000 of accretion expense, less \$59,000 and \$31,000 of abatement work for 2018 and 2017, respectively. The obligations are recorded within other liabilities in the accompanying consolidated balance sheets.

Reclassification

Certain amounts for the year ended September 30, 2017 have been reclassified to be consistent with the presentation of the amounts for the year ended September 30, 2018. The reclassifications had no effect on the excess of revenues over expenses, or the increase in total net assets, or on total net assets as previously reported.

Pending Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, to clarify the principles for recognizing revenue and to improve financial reporting by creating common revenue recognition guidance for U.S. GAAP and International Financial Reporting Standards. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for these goods and services. This standard is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early application is not permitted. An entity will apply the amendments in this update using either a full retrospective application, which applies the standard to each prior period presented, or under the modified retrospective application, in which an entity recognizes the cumulative effect of initially applying the new standard as an adjustment to the opening balance sheet of retained earnings at the date of initial application. Revenue in periods presented before that date will continue to be reported under guidance in effect before the change.

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, to make targeted improvements to how entities: (1) account for equity investments; (2) present and disclose financial instruments; and (3) measure the valuation allowance on deferred tax assets related to available-for-sale debt securities. The new standard is effective for fiscal years beginning after December 15, 2017. Early application of the guidance in ASU 2016-01 is not permitted.

Berkshire Health Systems, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

Years Ended September 30, 2018 and 2017

2. Summary of Significant Accounting Policies (continued)

In February 2016, the FASB issued ASU 2016-02, *Leases*, which requires that most leased assets be recognized on the balance sheet as assets and liabilities for the rights and obligations created by these leases. This ASU is effective for fiscal years beginning after December 15, 2018. Early application is permitted. An entity is required to apply the amendments in the standard under the modified retrospective transition approach. This approach includes a number of optional practical expedients, which are described in the final standard. Under these practical expedients, an organization will continue to account for leases that commence before the effective date in accordance with current U.S. GAAP, unless the lease is modified. However, lessees are required to recognize on the balance sheet leased assets and liabilities for operating leases at each reporting date.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. This standard intends to make certain improvements to the current reporting requirements for not-for-profit entities including: (1) the presentation for two classes of net assets at the end of the period, rather than the currently required three classes, as well as the annual change in each of the two classes; (2) the removal of the requirement to present or disclose the indirect method (reconciliation) when using the direct method for the statement of cash flows; and (3) the requirement to provide various enhanced disclosures relating to various not-for-profit specific topics. The new standard is effective for annual financial statements beginning after December 15, 2017.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU will impact all organizations that receive or make contributions of cash or other assets and includes specific criteria to consider when determining whether a contract or agreement should be accounted for as a contribution or as an exchange transaction. It also provides a framework for determining whether a contribution is conditional or unconditional, which will impact the timing of revenue recognition. The determining factor for whether an organization will account for a grant/contract/ agreement as a contribution or an exchange transaction is whether the asset provider is receiving commensurate value in return for those assets. If commensurate/proportionate value is received, the contribution will be accounted for as an exchange transaction and revenue recognition or other applicable standards will be followed. If commensurate value is not received by the asset provider, the contribution is accounted for as a contribution and will follow contribution standards. If some value but not commensurate value is received, then the contribution will be accounted for as both an exchange transaction and a contribution. For resource recipients, the new standard is effective for annual financial statements beginning after June 15, 2018 and for resource providers, the new standard is effective for annual financial statements beginning after December 15, 2018.

The Health System has not determined the impact of these standards at this time.

Berkshire Health Systems, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

Years Ended September 30, 2018 and 2017

3. Third-Party Payment Arrangements

The Medical Center, the Hospital and BFS maintain agreements with the Centers for Medicare and Medicaid Services under the Medicare Program and the Commonwealth of Massachusetts (Commonwealth) under the Medicaid Program and various other insurance companies. These agreements provide for payment to the Medical Center, the Hospital and BFS for services rendered to patients covered by these programs based on the applicable regulations or contracts as described below.

Medicare

The Medical Center is paid for Medicare patients under the Prospective Payment System (PPS), the national Medicare system in which hospitals are paid a standard amount for inpatients adjusted for the patient's diagnosis, and a majority of Medicare outpatient services are paid based upon ambulatory payment classifications (APCs). Certain services are excluded from APCs and are paid under fee schedules or other payment methodologies.

The Hospital received the Critical Access Hospital (CAH) designation from Medicare during 2003. CAHs are reimbursed on a reasonable-cost basis for inpatient and outpatient services.

BFS receives payment on standard fee schedules.

Medicaid

The Commonwealth Executive Office of Health & Human Services utilizes a prospective payment methodology for acute hospital services provided to Medicaid beneficiaries. Medicaid pays hospitals a case mix adjusted fixed amount per discharge for inpatient services. Outpatient services were paid on a prospective payment methodology based upon a Payment Amount Per Episode (PAPE) through November 30, 2016 and based on an Adjudicated Payment per Episode of Care (APEC) methodology from December 1, 2016 to present. The APEC reimburses hospitals a payment that is specific to each outpatient episode by multiplying an outpatient statewide standard by a case mix weight for that particular case. The Hospital is reimbursed on a reasonable cost basis for inpatient and outpatient services. BFS is paid under fee schedules. The Medical Center and the Hospital contract with various Medicaid HMO's. Payments are based on the Medicaid payment methodology for inpatient services and a percentage of charges or the Medicaid fee schedule for outpatient services.

Berkshire Health Systems, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

Years Ended September 30, 2018 and 2017

3. Third-Party Payment Arrangements (continued)

Health Safety Net Program

The Health Safety Net (HSN) program reimburses hospitals for uncompensated care based on actual services provided at rates approximating the Medicare PPS rates. Reimbursement rates are subject to available funds. The HSN program is partially funded by acute hospitals through an assessment on gross charges billed to non-government payors. The Medical Center and the Hospital have recorded estimates of their final settlements with the HSN program. HSN also pays hospitals incentive payments to support patient access to medical and diagnostic equipment. The Medical Center and the Hospital have recorded their gross obligations to the program as an expense in the consolidated statements of operations and changes in net assets. Reimbursement from the HSN program is recorded as net patient service revenue. During 2018 and 2017, the Medical Center and the Hospital received \$3,765,249 and \$4,189,953, respectively, for the incentive payments. During 2018 and 2017, the Medical Center and the Hospital received \$1,285,547 and \$1,207,203, respectively, from the HSN program for reimbursement of charity care. During 2018 and 2017, the Medical Center and the Hospital paid an assessment into the HSN program of \$5,747,589 and \$5,654,809, respectively.

Qualified Health Plans (QHP)

The Hospital and Medical Center have entered into contracts with Health New England, Celticare and Network Health and are paid at discounted rates under these programs.

Non-governmental Payors

The Medical Center and the Hospital have entered into contracts with non-governmental payors at a discount on gross charges whereby they are paid on a per case, per diem or percentage of charge basis.

Third-Party Settlements

Medicare and Medicaid agreements require the Medical Center and the Hospital to prepare and file settlement reports annually. Net revenue from the Medicare and Medicaid programs accounted for approximately 45% and 9%, and 45% and 6%, respectively, of the Health System's net patient service revenue for the years ended September 30, 2018 and 2017. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation, and noncompliance could result in significant regulatory action, including

Berkshire Health Systems, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

Years Ended September 30, 2018 and 2017

3. Third-Party Payment Arrangements (continued)

finances and penalties. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Health System believes that it is in compliance with applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subjected to future government review and interpretations as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs. Settlement reports have been submitted for all prior years; final settlements have been made with Medicare through 2015 for the Medical Center and through 2016 for the Hospital. Provisions have been made in the consolidated financial statements for prior and current year estimated final settlements.

Adjustments to estimates of prior year settlements with third-party payors are reflected in current year net patient service revenue and (decreased) increased net patient service revenue by approximately \$(847,000) and \$6,651,000 in 2018 and 2017, respectively.

4. Charity Care

The Health System provides care to patients who meet charity care policy criteria without charge or at amounts less than established rates. Because Health System entities do not pursue collection of amounts qualifying as charity care, such amounts are not reported as revenue. The Health System's charity care policy is based on the poverty income guidelines established by the Massachusetts Center for Health Information and Analysis.

If a patient is ineligible for charity care or care at reduced rates because the patient's income exceeds the eligibility guidelines, services rendered are recorded at established rates and any unpaid account receivable balance is written off to bad debts after a reasonable collection effort has been made.

During 2018 and 2017, the Health System provided \$5,185,153 and \$5,015,559 in charity care, respectively, based on established rates. The net cost of charity includes the direct and indirect cost of providing charity care services, offset by revenues received from financial assistance donations. The cost is estimated by utilizing a ratio of cost to gross charges applied to the gross uncompensated charges associated with providing charity care. The cost of charity care provided during the years ended September 30, 2018 and 2017, was \$2,206,290 and \$2,127,428, respectively. Donations received to offset charity services provided totaled \$196,984 and \$62,042 for the years ended September 30, 2018 and 2017, respectively.

Berkshire Health Systems, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

Years Ended September 30, 2018 and 2017

5. Related-Party Transactions

As of September 30, 2018 and 2017, BHS had \$1,398,567 and \$1,334,263, respectively, due from the Managed Entities for ongoing management fees and purchased services. The management fee revenue recorded by BMS related to these services was \$14,857,010 and \$15,755,844 for 2018 and 2017, respectively, and is recorded in other revenue in the consolidated statements of operations and changes in net assets.

On August 31, 2009, the Managed Entities issued a promissory note to BHS related to the transfer of Pittsfield Management Systems, Inc. The note bears interest at 2.75% with monthly installments of \$25,308 through September 1, 2024. As of September 30, 2018 and 2017, the note had a balance of \$1,678,049 and \$1,931,809, respectively, of which \$260,827 and \$253,760 is included in note and other receivables, and \$1,417,222 and \$1,678,049 is included in other assets in 2018 and 2017, respectively.

6. Investments

Assets Limited as to Use

The composition and classification of investments at September 30, 2018 and 2017, is set forth in the following table. Investments are stated at fair value.

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 49,390,097	\$ 41,489,682
Funds held by trustees - current	7,818,829	7,744,513
Assets whose use is limited:		
Funds designated by Boards	254,168,223	234,669,328
Funds held as endowments	8,141,444	8,141,444
Funds held for donor-restricted purposes	22,868,092	18,947,241
Deferred compensation	14,800,885	12,589,046
	<u>\$ 357,187,570</u>	<u>\$ 323,581,254</u>

Berkshire Health Systems, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

Years Ended September 30, 2018 and 2017

6. Investments (continued)

The following is a summary of the composition of cash, investments, and assets whose use is limited as of September 30:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 57,319,835	\$ 45,654,623
Equity securities:		
Consumer discretionary	27,466,735	27,041,035
Energy and utilities	11,038,168	10,240,146
Financials	23,716,129	22,276,380
Health care	22,578,649	21,225,227
Industrials and materials	23,008,098	21,576,738
Information technologies	33,672,764	32,565,728
Telecommunication services	5,385,551	2,412,739
Total U.S. equities	<u>146,866,094</u>	137,337,993
Non-U.S. equities	18,475,317	22,402,507
U.S. Treasury and U.S. Government Agency debt	18,954,010	17,477,387
Other government debt issues	39,289,724	33,025,455
Corporate debt securities	26,327,163	22,757,951
REITs and mortgage-backed securities	30,550,261	27,734,373
Mutual funds	<u>19,405,166</u>	17,190,965
	<u>\$ 357,187,570</u>	<u>\$ 323,581,254</u>

Berkshire Health Systems, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

Years Ended September 30, 2018 and 2017

6. Investments (continued)

Investment income and realized and unrealized gains on investments consisted of the following for the years ended September 30:

	<u>2018</u>	<u>2017</u>
Income:		
Other revenue - interest income	<u>\$ 566,536</u>	<u>\$ 1,611,525</u>
Nonoperating gains:		
Interest income, net	<u>\$ 6,267,828</u>	<u>\$ 5,582,641</u>
Realized gains on sale of investments	<u>14,787,559</u>	<u>4,386,559</u>
Total investment gains	<u>\$ 21,055,387</u>	<u>\$ 9,969,200</u>
Other changes in net assets:		
Net unrealized gains - unrestricted net assets	<u>\$ 577,366</u>	<u>\$ 18,352,384</u>
Net realized gains - restricted net assets	<u>\$ 1,632,655</u>	<u>\$ 607,423</u>
Net unrealized gains - restricted net assets	<u>\$ 41,125</u>	<u>\$ 1,980,278</u>

Management continually reviews its investment portfolio and evaluates whether declines in the fair value of securities should be considered other than temporary. Factored into this evaluation are the general market conditions, the issuer's financial condition and near-term prospects, conditions in the issuer's industry, the recommendation of advisors, and the length of time and extent to which the market value has been less than cost. During the years ended September 30, 2018 and 2017, the Health System recorded losses of \$14,038 and \$19,435 for other than temporary declines in the fair value of investments within investment gains on the accompanying consolidated statements of operations and changes in net assets.

At September 30, 2018, investments with a fair value of \$59,874,333 have unrealized losses of \$2,833,616, of which \$2,582,037 had been unrealized for over one year. At September 30, 2017, investments with a fair value of \$50,707,192 had unrealized losses of \$1,075,444, of which \$1,053,008 had been unrealized for over one year. The Health System has the intent and ability to hold these investments until recovery.

Investment management fees were \$107,829 and \$98,614 for the years ended September 30, 2018 and 2017, respectively.

Berkshire Health Systems, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

Years Ended September 30, 2018 and 2017

6. Investments (continued)

Fair Value of Financial Instruments

As of September 30, 2018, the Health System held certain assets that are required to be measured at fair value on a recurring basis. These include cash and cash equivalents, investments and assets whose use is limited. The valuation techniques used to measure fair value are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs are generally unsupported by market activity. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs. For the Health System, investments classified in this level generally include exchange-traded equity and debt securities.

Level 2: Inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. For the Health System, investments classified in this level are pooled investment funds which are not traded on an exchange.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, the Health System uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible, and considers non-performance risk in its assessment of fair value.

Berkshire Health Systems, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

Years Ended September 30, 2018 and 2017

6. Investments (continued)

Financial instruments carried at fair value, are classified in the tables below in one of the three categories described above as of September 30:

<u>2018</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 57,139,948	\$ 179,887	\$ -	\$ 57,319,835
Equity securities:				
Consumer discretionary	21,731,539	5,735,196	-	27,466,735
Energy and utilities	8,061,014	2,977,154	-	11,038,168
Financials	19,228,152	4,487,977	-	23,716,129
Health care	17,506,007	5,072,642	-	22,578,649
Industrials and materials	18,907,699	4,100,399	-	23,008,098
Information technologies	26,594,754	7,078,010	-	33,672,764
Telecommunication services	2,004,611	3,380,940	-	5,385,551
Non-U.S. equities	18,475,317	-	-	18,475,317
U.S. Treasury and U.S.				
Government Agency debt	12,322,236	6,631,774	-	18,954,010
Other government debt issues	39,289,724	-	-	39,289,724
Corporate debt securities	22,849,244	3,477,919	-	26,327,163
REITs and mortgage-backed securities	29,654,350	895,911	-	30,550,261
Mutual funds	19,405,166	-	-	19,405,166
	<u>\$313,169,761</u>	<u>\$ 44,017,809</u>	<u>\$ -</u>	<u>\$357,187,570</u>

Berkshire Health Systems, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

Years Ended September 30, 2018 and 2017

6. Investments (continued)

<u>2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 45,474,743	\$ 179,880	\$ -	\$ 45,654,623
Equity securities:				
Consumer discretionary	20,331,972	5,986,563	722,500	27,041,035
Energy and utilities	7,494,788	2,745,358	-	10,240,146
Financials	17,924,841	4,351,539	-	22,276,380
Health care	16,902,159	4,323,068	-	21,225,227
Industrials and materials	17,642,345	3,934,393	-	21,576,738
Information technologies	25,643,755	6,921,973	-	32,565,728
Telecommunication services	1,765,833	646,906	-	2,412,739
Non-U.S. equities	22,402,507	-	-	22,402,507
U.S. Treasury and U.S.				
Government Agency debt	10,749,177	6,728,210	-	17,477,387
Other government debt issues	32,745,576	279,879	-	33,025,455
Corporate debt securities	19,309,289	3,448,662	-	22,757,951
REITs and mortgage-backed securities	26,844,865	889,508	-	27,734,373
Mutual funds	17,190,965	-	-	17,190,965
	<u>\$282,422,815</u>	<u>\$ 40,435,939</u>	<u>\$ 722,500</u>	<u>\$323,581,254</u>

The following table is a rollforward of the consolidated statements of operations and changes in net assets amounts for financial instruments classified by the Health System in Level 3 of the valuation hierarchy defined above:

	Years ended September 30	
	2018	2017
Balance, beginning of year	\$ 722,500	\$ 667,500
Net change in fair value	1,574,283	55,000
Redemption of asset	(2,296,783)	-
Balance, end of year	<u>\$ -</u>	<u>\$ 722,500</u>

Berkshire Health Systems, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

Years Ended September 30, 2018 and 2017

6. Investments (continued)

The fair value and carrying values of the Health System's financial instruments that are not required to be carried at fair value are as follows as of:

	<u>September 30, 2018</u>		<u>September 30, 2017</u>	
	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>
Long-term debt	\$ 97,736,200	\$ 80,577,448	\$103,671,200	\$ 86,987,876

Fair value for Level 1 is based upon quoted market prices. Fair value for Level 2 assets is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers, and brokers. The methods described above may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Health System believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Level 3 assets consisted of donated stock in a closely held corporation. The corporation annually provides an independently compiled analysis of the corporate stock value which utilizes the income approach and market approach. This value is applied to the total quantity of the corporate stock held.

Berkshire Health Systems, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

Years Ended September 30, 2018 and 2017

7. Property and Equipment

Property and equipment consisted of the following at September 30:

	<u>2018</u>	<u>2017</u>
Land and improvements	\$ 17,504,446	\$ 17,462,633
Buildings and building improvements	286,090,781	277,082,723
Fixed equipment	106,846,970	101,962,449
Major movable equipment	<u>217,779,632</u>	<u>201,058,718</u>
	628,221,829	597,566,523
Less accumulated depreciation and amortization	<u>(418,834,080)</u>	<u>(383,689,101)</u>
	209,387,749	213,877,422
Construction in progress	<u>11,162,074</u>	<u>15,509,423</u>
	<u>\$ 220,549,823</u>	<u>\$ 229,386,845</u>

Depreciation and amortization expense related to property and equipment for the years ended September 30, 2018 and 2017 was \$35,521,039 and \$35,198,666, respectively.

The estimated cost to complete construction in progress at September 30, 2018 and 2017, was approximately \$2,698,000 and \$1,350,000, respectively.

Berkshire Health Systems, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

Years Ended September 30, 2018 and 2017

8. Long-Term Obligations

Long-term obligations consisted of the following at September 30:

	<u>2018</u>	<u>2017</u>
Obligated Group:		
Massachusetts Development Finance Agency (MDFA), formerly MHEFA, Revenue Bonds, Berkshire Health Systems, Inc. Issues:		
2016 Series H, net of unamortized debt issuance costs of \$45,478 in 2018 and \$112,952 in 2017	\$ 7,294,522	\$ 10,427,048
2012 Series G, net of unamortized premium and debt issuance costs of \$4,077,926 in 2018 and \$4,620,828 in 2017	<u>73,282,926</u>	<u>76,560,828</u>
	80,577,448	86,987,876
Less portion classified as current	<u>(6,080,000)</u>	<u>(5,935,000)</u>
Total long-term obligations	<u>\$ 74,497,448</u>	<u>\$ 81,052,876</u>

Obligated Group

On November 18, 2016, MDFA issued Revenue Bonds, Series H, with a face value of \$10,540,000, which were used to refund the outstanding Series F bonds. The Series H bonds are fixed rate bonds and bear interest at 1.41% per annum with principal payment ranging from \$815,000 to \$3,315,000 maturing in 2020. The Series H bonds were privately placed with a bank.

On May 23, 2012, MDFA issued Revenue Bonds, Series G, with a face value of \$84,490,000, which were used to refund debt and finance additions to property and equipment. The Series G bonds are fixed rate bonds and bear interest at rates ranging from 3.0% to 5.0% per annum and with principal payment ranging from \$2,410,000 to \$7,020,000 maturing in 2031. The Series G bonds are redeemable prior to maturity without premiums after October 1, 2021.

Under a Master Trust Indenture (MTI), Berkshire Medical Center, Fairview Hospital and Berkshire Health Systems (the Obligated Group) granted MDFA a lien on its revenues, excluding revenues related to endowment funds whose principal and income are restricted and not available to be pledged.

Berkshire Health Systems, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

Years Ended September 30, 2018 and 2017

8. Long-Term Obligations (continued)

The MTI provides for, among other requirements, the maintenance by the Obligated Group of a minimum debt service ratio and restrictions on incurring additional debt and the sale or disposition of assets, and requires the Obligated Group to comply with various financial and other reporting requirements. The Obligated Group is in compliance with those requirements at September 30, 2018 and 2017.

Maturities

Aggregate maturities of the Health System subsequent to September 30, 2018, are as follows:

Year ending September 30,	
2019	\$ 6,080,000
2020	6,330,000
2021	3,225,000
2022	4,260,000
2023	4,475,000
2024 and thereafter	<u>52,175,000</u>
Total face maturities	76,545,000
Unamortized bond premiums and debt issuance costs	<u>4,032,448</u>
	<u><u>\$ 80,577,448</u></u>

9. Funds Held by Trustees

Under the terms of the agreements with MDFA, certain funds, which are classified as current assets, are required to be maintained as follows at September 30:

	<u>2018</u>	<u>2017</u>
Escrow for long-term obligations:		
Debt service fund	<u>\$ 7,818,829</u>	<u>\$ 7,744,513</u>

These funds are primarily invested in money market funds and United States Government securities and are carried at fair value.

Berkshire Health Systems, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

Years Ended September 30, 2018 and 2017

10. Lease Commitments

Minimum rental commitments under noncancelable operating leases for buildings and equipment are as follows:

Year ending September 30,	Operating Leases
2019	\$ 169,328
2020	6,040
Total minimum lease payments	<u>\$ 175,368</u>

Rent expense under noncancelable operating leases approximated \$830,097 for both years ending September 20, 2018 and 2017, and is included within supplies and other on the accompanying consolidated statements of operations and changes in net assets.

11. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at September 30:

	2018	2017
Health care services:		
Patient care	\$ 2,432,341	\$ 2,222,883
Education	2,528,977	1,230,505
Property and equipment	3,121,951	3,276,393
Scholarship	633,169	533,199
Undistributed appreciation on permanently restricted funds	<u>19,190,634</u>	<u>17,648,723</u>
	<u>\$ 27,907,072</u>	<u>\$ 24,911,703</u>

Berkshire Health Systems, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

Years Ended September 30, 2018 and 2017

11. Temporarily and Permanently Restricted Net Assets (continued)

Permanently restricted net assets at September 30, are restricted to:

	<u>2018</u>	<u>2017</u>
Investments to be held in perpetuity, the income from which is restricted as to use	\$ 5,504,205	\$ 5,504,205
Investments to be held in perpetuity, the income from which is unrestricted	<u>2,637,239</u>	<u>2,637,239</u>
	<u>\$ 8,141,444</u>	<u>\$ 8,141,444</u>

During 2018 and 2017, net assets of \$1,608,087 and \$707,761, respectively, were released from donor restrictions by incurring expenses satisfying the restricted purposes as noted above.

Interpretation of Relevant Law

The Commonwealth of Massachusetts (the Commonwealth) requires the preservation of the fair value of the original gift as of the date of the donor-restricted endowment, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Medical Center and the Hospital classify as permanently restricted net assets: (a) the original value of the 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 the donor-restricted endowment funds that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure. The Medical Center and the Hospital consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purpose of the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, and (6) the investment policies of the Health System.

Berkshire Health Systems, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

Years Ended September 30, 2018 and 2017

11. Temporarily and Permanently Restricted Net Assets (continued)

The following represents the net asset classifications of the Health System endowment funds, as well as the changes in endowments, for the year ended September 30, 2018:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at October 1, 2017	\$ 19,541,357	\$ 8,141,444	\$ 27,682,801
Contributions	-	-	-
Investment income	124,268	-	124,268
Net realized gains on investments	1,518,386	-	1,518,386
Net unrealized gains on investments	41,125	-	41,125
Endowment net assets at September 30, 2018	\$ 21,225,136	\$ 8,141,444	\$ 29,366,580

The following represents the net asset classifications of the Health System endowment funds, as well as the changes in endowments, for the year ended September 30, 2017:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at October 1, 2016	\$ 16,953,650	\$ 7,006,159	\$ 23,959,809
Contributions	-	1,135,285	1,135,285
Investment income	104,850	-	104,850
Net realized gains on investments	502,579	-	502,579
Net unrealized gains on investments	1,980,278	-	1,980,278
Endowment net assets at September 30, 2017	\$ 19,541,357	\$ 8,141,444	\$ 27,682,801

Berkshire Health Systems, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

Years Ended September 30, 2018 and 2017

12. Pension Plans

Pension benefits are available to eligible employees of the Health System through the defined contribution Berkshire Health Systems Partnership Tax Deferred Annuity Retirement Plan (the Plan) and the Berkshire Health Systems 457(b) Deferred Compensation Plan (the 457(b) Plan).

The Plan allows employees of the Health System, age 21 or older, who are regularly scheduled to work at least 20 hours per week, to participate in the Plan upon the completion of one year of service. Employees may contribute up to 21.5% of their base pay.

Each week, the Health System makes a minimum fixed contribution to the Plan from 2.5% to 3.5% of each participant's salary, and a matching contribution of 50% of employee voluntary contributions on the first 4% of a participant's salary for those employees who elect to contribute. Contributions made by the Health System to the Plan in years ended September 30, 2018 and 2017 were \$12,158,759 and \$11,317,408, respectively.

The 457(b) Plan is a non-qualified supplemental retirement plan available to certain executives of BHS. The contribution limit for employees in 2018 was \$18,000. Contributions made by the Health System to the 457(b) Plan in years ended September 30, 2018 and 2017 were \$310,058 and \$314,521, respectively.

13. Commitments and Contingencies

The Health System, several affiliates and employees of those affiliates are defendants in various civil actions for alleged medical malpractice and other matters. The Health System maintains liability coverage for these actions either through commercial insurance carriers, the Health System's own self-insurance program or both. The Health System defendants are represented in those matters by experienced defense counsel selected by the Health System. Those defense counsel and Health System management are of the opinion that the available coverage for those claims is adequate and that an adverse result in those pending actions will not materially adversely affect the financial position of the Health System.

The Health System has obtained a \$4,430,000 surety bond from an insurance company as security for potential workers' compensation obligations as required by the Commonwealth.

At September 30, 2018, there was no amount outstanding under the Health System's \$5,000,000 secured demand line of credit from TD Bank. Interest is equal to LIBOR plus 1.5%, resulting in an interest rate of 3.67% at September 30, 2018. The line of credit expires on May 31, 2019.

Berkshire Health Systems, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

Years Ended September 30, 2018 and 2017

14. Functional Expenses

The Health System provides general health care services to residents within its geographic region. Expenses related to providing these services at September 30, are as follows:

	<u>2018</u>	<u>2017</u>
Health care services	\$540,097,385	\$516,634,366
General and administrative	74,323,408	70,747,336
	<u>\$614,420,793</u>	<u>\$587,381,702</u>

15. Concentration of Credit Risk

The Health System grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at September 30, was as follows:

	<u>2018</u>	<u>2017</u>
Medicare	52%	41%
Medicaid and connector products	9	14
Commercial insurances	30	35
Patients	9	10
	<u>100%</u>	<u>100%</u>

Revenues from third party payors, the uninsured, and other revenues, net of contractual allowances and discounts at September 30, was as follows:

	<u>2018</u>	<u>%</u>	<u>2017</u>	<u>%</u>
Medicare	\$259,786,365	45%	\$245,486,846	45%
Medicaid and connector products	53,986,085	9	37,960,259	7
Commercial insurances	252,031,097	44	257,636,751	46
Patients	9,442,773	2	9,552,456	2
	<u>\$575,246,320</u>	<u>100%</u>	<u>\$550,636,312</u>	<u>100%</u>

Berkshire Health Systems, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

Years Ended September 30, 2018 and 2017

16. Other Operating Revenues

Other operating revenues consisted of the following:

	<u>2018</u>	<u>2017</u>
Meaningful use incentives	\$ 284,464	\$ 266,893
Retail pharmacy	32,579,358	25,921,519
Unrestricted donations	164,458	139,356
Rent	798,634	1,130,070
Grants	4,888,211	4,768,290
Management services	14,857,010	15,755,844
Psychiatric and other services	3,333,504	3,933,708
Dietary food sales	1,638,185	1,650,493
Interest income	566,643	1,611,646
Miscellaneous	1,019,585	1,148,644
	<u>1,019,585</u>	<u>1,148,644</u>
Total	<u>\$ 60,130,052</u>	<u>\$ 56,326,463</u>

17. Subsequent Event

The Health System evaluated its September 30, 2018 consolidated financial statements for subsequent events through January 22, 2019, the date the financial statements were available to be issued. The Health System is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

SUPPLEMENTARY INFORMATION

Berkshire Health Systems, Inc. and Affiliates

Consolidating Balance Sheet

September 30, 2018

	Consolidated	Eliminations and Reclassifications	BHS Management Services, Inc.	Berkshire Faculty Services, Inc.	Other Controlled Entities	Tri-State Medical Management Corp.	Berkshire Indemnity Company SPC, L.T.D.
Assets							
Current assets:	\$ 49,390,097	\$ -	\$ -	\$ 10,948	\$ 243,056	\$ -	\$ 13,594,599
Cash and cash equivalents	61,543,638	-	-	2,609,347	634,105	-	-
Patient accounts receivable, less allowance for uncollectable amounts of \$21,730,000	7,241,675	-	11,828	106,449	202	-	67,789
Note and other receivables	12,958,951	-	-	-	29,350	-	-
Inventories	7,818,829	-	-	-	-	-	-
Funds held by trustees	1,398,567	-	-	-	-	-	-
Due from managed entities	5,900,931	(2,173,292)	3,032,893	22,701	-	-	-
Prepaid expenses and other current assets	-	(4,606,257)	2,895,435	1,710,822	-	-	-
Due from affiliates	146,252,688	(6,779,549)	5,940,156	4,460,267	906,713	-	13,662,388
Total current assets	-	(24,324)	-	-	-	-	-
Due from affiliates							
Assets whose use is limited:							
Funds designated by Boards	254,168,223	-	-	-	-	-	-
Funds held as endowments	8,141,444	-	-	-	-	-	-
Funds held for donor-restricted purposes	22,868,092	-	-	-	-	-	-
Deferred compensation	14,800,885	-	4,416,911	3,799,785	-	-	-
Total assets whose use is limited	299,978,644	-	4,416,911	3,799,785	-	-	-
Property and equipment, net	220,549,823	-	11,849	-	-	37,503	-
Other assets	8,678,177	-	-	-	-	-	-
Investments in subsidiaries	-	(100)	-	-	-	-	-
Total assets	\$ 675,459,332	\$ (6,803,973)	\$ 10,368,916	\$ 8,260,052	\$ 906,713	\$ 37,503	\$ 13,662,388

Berkshire Health Systems, Inc. and Affiliates

Consolidating Balance Sheet (continued)

September 30, 2018

	Obligated Group	Eliminations and Reclassifications	Berkshire Medical Center, Inc.	Fairview Hospital, Inc.	Berkshire Health Systems, Inc.
Assets					
Current assets:					
Cash and cash equivalents	\$ 35,541,494	\$ -	\$ 35,498,756	\$ 36,709	\$ 6,029
Patient accounts receivable, less allowance for uncollectable amounts of \$20,334,000	58,300,186	-	51,776,927	6,523,259	-
Note and other receivables	7,055,407	-	6,707,103	82,665	265,639
Inventories	12,929,601	-	12,134,116	795,485	-
Funds held by trustees	7,818,829	-	7,437,084	381,745	-
Due from managed entities	1,398,567	-	-	-	1,398,567
Prepaid expenses and other current assets	5,018,629	-	4,842,301	176,328	-
Due from affiliates	-	(12,364,170)	-	2,401,652	9,962,518
Total current assets	128,062,713	(12,364,170)	118,396,287	10,397,843	11,632,753
Due from affiliates	24,324	(7,053,575)	7,053,575	24,324	-
Assets whose use is limited:					
Funds designated by Boards	254,168,223	-	229,386,185	24,782,038	-
Funds held as endowments	8,141,444	-	7,883,202	258,242	-
Funds held for donor-restricted purposes	22,868,092	-	21,485,136	1,382,956	-
Deferred compensation	6,584,189	-	6,238,968	345,221	-
Total assets whose use is limited	291,761,948	-	264,993,491	26,768,457	-
Property and equipment, net	220,500,471	-	208,067,341	12,433,130	-
Other assets	8,678,177	-	7,188,037	12,918	1,477,222
Investments in subsidiaries	100	-	-	-	100
Total assets	\$ 649,027,733	\$ (19,417,745)	\$ 605,698,731	\$ 49,636,672	\$ 13,110,075

Berkshire Health Systems, Inc. and Affiliates

Consolidating Balance Sheet (continued)

September 30, 2018

	Consolidated	Eliminations and Reclassifications	BHS Management Services, Inc.	Berkshire Faculty Services, Inc.	Other Controlled Entities	Tri-State Medical Management Corp.	Berkshire Indemnity Company SPC, L.T.D.
Liabilities and Net Assets							
Current liabilities:							
Accounts payable	\$ 15,735,587	\$ (2,173,292)	\$ 1,504,698	\$ 338,338	\$ 63,365	\$ 6,694	\$ 2,230,563
Accrued salaries and related withholdings	29,769,402	-	3,353,251	3,866,649	922,164	-	-
Accrued expenses	13,380,525	-	1,034,394	255,280	-	6,485	-
Deferred revenue	1,058,102	-	59,662	-	-	-	-
Due to third-party payors	21,883,759	-	-	-	-	-	-
Current portion of long-term obligations	6,080,000	-	-	-	-	-	-
Due to affiliates	-	(4,606,257)	-	-	-	-	-
Total current liabilities	87,907,375	(6,779,549)	5,952,005	4,460,267	985,529	13,179	2,230,563
Due to affiliates	-	(24,324)	-	-	-	24,324	-
Deferred compensation	14,800,885	-	4,416,911	3,799,785	-	-	-
Other liabilities	15,213,479	-	-	-	-	-	-
Long-term obligations, less current portion	74,497,448	-	-	-	-	-	11,101,419
Total liabilities	192,419,187	(6,803,873)	10,368,916	8,260,052	985,529	37,503	13,331,982
Net assets:							
Unrestricted	446,991,629	(100)	-	-	(78,816)	-	330,406
Temporarily restricted	27,907,072	-	-	-	-	-	-
Permanently restricted	8,141,444	-	-	-	-	-	-
Total net assets	483,040,145	(100)	-	-	(78,816)	-	330,406
Total liabilities and net assets	\$ 675,459,332	\$ (6,803,973)	\$ 10,368,916	\$ 8,260,052	\$ 906,713	\$ 37,503	\$ 13,662,388

Berkshire Health Systems, Inc. and Affiliates

Consolidating Balance Sheet (continued)

September 30, 2018

	Obligated Group	Eliminations and Reclassifications	Berkshire Medical Center, Inc.	Fairview Hospital, Inc.	Berkshire Health Systems, Inc.
Liabilities and Net Assets					
Current liabilities:					
Accounts payable	\$ 13,765,221	\$ -	\$ 13,028,294	\$ 736,227	\$ 700
Accrued salaries and related withholdings	21,627,338	-	19,588,608	2,038,730	-
Accrued expenses	12,084,366	-	11,302,371	781,870	125
Deferred revenue	998,440	-	976,879	21,561	-
Due to third-party payors	21,883,759	-	17,617,702	4,266,057	-
Current portion of long-term obligations	6,080,000	-	5,781,740	298,260	-
Due to affiliates	4,606,257	(12,364,170)	16,970,427	-	-
Total current liabilities	81,045,381	(12,364,170)	85,266,021	8,142,705	825
Due to affiliates	-	(7,053,575)	-	-	7,053,575
Deferred compensation	6,584,189	-	6,238,968	345,221	-
Other liabilities	4,112,060	-	3,243,376	868,684	-
Long-term obligations, less current portion	74,497,448	-	70,911,855	3,585,593	-
Total liabilities	166,239,078	(19,417,745)	165,660,220	12,942,203	7,054,400
Net assets:					
Unrestricted	446,740,139	-	407,669,605	33,014,859	6,055,675
Temporarily restricted	27,907,072	-	24,485,704	3,421,368	-
Permanently restricted	8,141,444	-	7,883,202	258,242	-
Total net assets	482,788,655	-	440,038,511	36,694,469	6,055,675
Total liabilities and net assets	\$ 649,027,733	\$ (19,417,745)	\$ 605,698,731	\$ 49,636,672	\$ 13,110,075

Berkshire Health Systems, Inc. and Affiliates

Consolidating Statement of Operations and Changes in Net Assets

Year ended September 30, 2018

	Consolidated	Eliminations and Reclassifications	BHS Management Services, Inc.	Berkshire Faculty Services, Inc.	Other Controlled Entities	Tri-State Medical Management Corp.	Berkshire Indemnity Company SPC, LTD.
Revenues:							
Net patient service revenue	\$ 575,246,320	-	-	\$ 40,132,222	\$ 7,423,640	\$ -	-
Less: provision for bad debts	11,765,859	-	-	1,120,113	25,292	-	-
Patient service revenue, net	563,480,461	-	-	39,012,109	7,398,348	-	-
Other revenue	60,130,052	(48,478,494)	59,848,932	3,125,462	122,106	95,318	1,215,661
Total revenues	623,610,513	(48,478,494)	59,848,932	42,137,571	7,520,454	95,318	1,215,661
Expenses:							
Salaries and wages	313,550,086	-	28,813,448	42,172,034	6,878,320	-	-
Fringe benefits	77,282,527	-	8,656,596	6,433,877	1,123,779	-	-
Supplies and other	179,233,727	(48,478,494)	22,375,332	13,376,744	2,397,125	56,753	1,215,661
Health Safety Net assessment	5,747,589	-	-	-	-	-	-
Depreciation and amortization	35,670,043	-	3,556	-	-	37,501	-
Interest	2,936,821	-	-	-	321	-	-
Total expenses	614,420,793	(48,478,494)	59,848,932	61,982,655	10,399,545	94,254	1,215,661
Income (loss) from operations	9,189,720	-	-	(19,845,084)	(2,879,091)	1,064	-
Nonoperating gains:							
Investment gains, net	21,055,387	-	-	-	-	-	-
Other, net	121,977	-	-	-	-	-	-
Loss on investments in subsidiary	-	(1,064)	-	-	-	-	-
Total nonoperating gains	21,177,364	(1,064)	-	-	-	-	-
Excess of (deficiency in) revenues over expenses	30,367,084	(1,064)	-	(19,845,084)	(2,879,091)	1,064	-

Berkshire Health Systems, Inc. and Affiliates

Consolidating Statement of Operations and Changes in Net Assets (continued)

Year ended September 30, 2018

	Consolidated	Eliminations and Reclassifications	BHS Management Services, Inc.	Berkshire Faculty Services, Inc.	Other Controlled Entities	Tri-State Medical Management Corp.	Berkshire Indemnity Company SPC, LTD.
Unrestricted net assets:							
Excess of (deficiency in) revenues over expenses	\$ 30,367,084	\$ (1,064)	\$ -	\$ (19,845,084)	\$ (2,879,091)	\$ 1,064	\$ -
Net unrealized gains (losses) on investments	577,366	-	-	-	-	-	138,000
Grant funds used for property and equipment	406,672	-	-	-	-	-	-
Net assets released from restrictions used for purchase of property and equipment	1,215,243	-	-	19,845,084	3,959,013	-	-
Equity transfer	-	1,064	-	-	-	(1,064)	-
Investment from Parent	-	-	-	-	-	-	-
Increase (decrease) in unrestricted net assets	32,566,365	-	-	-	1,079,922	-	138,000
Temporarily restricted net assets:							
Restricted contributions	2,929,676	-	-	-	-	-	-
Net realized gains on investments	1,632,655	-	-	-	-	-	-
Net unrealized gains on investments	41,125	-	-	-	-	-	-
Net assets released from restrictions for operating purposes	(392,844)	-	-	-	-	-	-
Net assets released from restrictions for purchase of property and equipment	(1,215,243)	-	-	-	-	-	-
Increase in temporarily restricted net assets	2,995,369	-	-	-	-	-	-
Permanently restricted net assets	-	-	-	-	-	-	-
Increase (decrease) in net assets	35,561,734	-	-	-	1,079,922	-	138,000
Net assets, beginning of year	447,478,411	(100)	-	-	(1,158,738)	-	192,406
Net assets, end of year	\$ 483,040,145	\$ (100)	\$ -	\$ -	\$ (78,816)	\$ -	\$ 330,406

Berkshire Health Systems, Inc. and Affiliates

Consolidating Statement of Operations and Changes in Net Assets (continued)

Year ended September 30, 2018

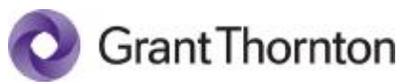
	Obligated Group	Eliminations and Reclassifications	Berkshire Medical Center, Inc.	Fairview Hospital, Inc.	Berkshire Health Systems, Inc.
Revenues:					
Net patient service revenue	\$ 527,690,458	\$ -	\$ 473,051,534	\$ 54,638,924	\$ -
Less: provision for bad debts	10,620,454	-	8,879,738	1,740,716	-
Patient service revenue, net	517,070,004	-	464,171,796	52,898,208	-
Other revenue	44,201,067	(2,000,890)	44,901,392	1,300,458	107
Total revenues	561,271,071	(2,000,890)	509,073,188	54,198,666	107
Expenses:					
Salaries and wages	235,686,284	-	210,157,738	25,528,546	-
Fringe benefits	61,068,275	-	55,018,920	6,049,355	-
Supplies and other	188,290,606	(2,000,890)	172,071,341	18,220,136	19
Health Safety Net assessment	5,747,589	-	5,258,631	488,958	-
Depreciation and amortization	35,628,986	-	33,452,474	2,176,512	-
Interest	2,936,500	-	2,795,338	141,162	-
Total expenses	529,358,240	(2,000,890)	478,754,442	52,604,669	19
Income from operations	31,912,831	-	30,318,746	1,593,997	88
Nonoperating gains (losses):					
Investment gains, net	21,055,387	-	19,095,148	1,960,239	-
Other, net	121,977	-	15,535	56,500	49,942
Loss on investments in subsidiary	1,064	-	-	1,064	-
Total nonoperating gains	21,178,428	-	19,110,683	2,017,803	49,942
Excess (deficiency) of revenues over expenses	53,091,259	-	49,429,429	3,611,800	50,030

Berkshire Health Systems, Inc. and Affiliates

Consolidating Statement of Operations and Changes in Net Assets (continued)

Year ended September 30, 2018

	Obligated Group	Eliminations and Reclassifications	Berkshire Medical Center, Inc.	Fairview Hospital, Inc.	Berkshire Health Systems, Inc.
Unrestricted net assets:					
Excess of revenues over expenses	\$ 53,091,259	\$ -	\$ 49,429,429	\$ 3,611,800	\$ 50,030
Net unrealized gains on investments	439,366	-	445,487	(6,121)	-
Grant funds used for property and equipment	406,672	-	306,751	99,921	-
Net assets released from restrictions used for purchase of property and equipment	1,215,243	-	-	1,215,243	-
Equity transfer	(23,804,097)	-	(22,120,508)	(1,683,589)	-
Increase in unrestricted net assets	31,348,443	-	28,061,159	3,237,254	50,030
Temporarily restricted net assets:					
Restricted contributions	2,929,676	-	2,102,822	826,854	-
Net realized gains on investments	1,632,655	-	1,551,449	81,206	-
Net unrealized gains on investments	41,125	-	39,517	1,608	-
Net assets released from restrictions for operating purposes	(392,844)	-	(222,278)	(170,566)	-
Net assets released from restrictions for purchase of property and equipment	(1,215,243)	-	-	(1,215,243)	-
Increase in temporarily restricted net assets	2,995,369	-	3,471,510	(476,141)	-
Permanently restricted net assets	-	-	-	-	-
Increase in net assets	34,343,812	-	31,532,669	2,761,113	50,030
Net assets, beginning of year	448,444,843	-	408,505,842	33,933,356	6,005,645
Net assets, end of year	\$ 482,788,655	\$ -	\$ 440,038,511	\$ 36,694,469	\$ 6,055,675



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UTILIZATION: The following tables summarize utilization at BMC

12 MONTHS END

DESCRIPTION	2014	2015	2016	2017	Sep-18 FY 18
Available Beds					
Medical/Surgical *	139	139	139	139	146
ICU/CCU	20	20	20	20	20
RCU/ICU STEPDOWN	12	12	12	12	12
Obstetrics	15	15	15	15	15
Pediatrics	7	7	7	7	7
Psychiatry	39	40	39	40	40
Rehabilitation	21	21	21	21	14
Substance Abuse	21	21	21	21	21
Total	274	275	274	275	275
Patient Days					
Medical/Surgical *	31159	35221	34751	37265	40487
ICU/CCU	4034	4177	3815	3809	3485
RCU/ICU STEPDOWN	4077	4361	4182	4131	4621
Obstetrics	1978	2226	2027	2000	2051
Pediatrics	249	399	323	613	577
Psychiatry	8201	7836	8920	8493	8731
Rehabilitation	3978	3938	3610	2818	2802
Substance Abuse	5723	5757	6379	6621	6744
Total	59,399	63,915	64,007	65,750	69,498
OBSERVATION BED DAYS					
Medical/Surgical	3733	4729	5458	6708	6719
Obstetrics	68	102	102	133	115
NA SEC			9	6	0
	3,801	4,831	5,569	6,847	6,834
Admissions					
Medical/Surgical *	7408	8275	8220	8374	8628
ICU/CCU	803	741	843	814	727
RCU/ICU STEPDOWN	798	942	937	894	1017
Obstetrics	770	839	779	760	753
Pediatrics	122	168	119	213	222
Psychiatry	1289	1285	1404	1423	1425
Rehabilitation	289	250	225	193	214
Substance Abuse	1724	1807	1689	1601	1573
Total	13,203	14,307	14,216	14,272	14,559
Newborn Admissions		774	788	766	753

UTILIZATION: The following tables summarize utilization at BMC

12 MONTHS END

DESCRIPTION	2014	2015	2016	2017	Sep-18 FY 18
Average Length of Stay (days)					
Medical/Surgical *	4.21	4.26	4.23	4.45	4.69
ICU/CCU	2.89	5.64	4.53	2.76	2.65
RCU/ICU STEPDOWN	3.92	4.63	4.46	3.05	2.96
Obstetrics	2.57	2.65	2.60	2.63	2.72
Pediatrics	2.04	2.38	2.71	2.88	2.60
Psychiatry	6.36	6.10	6.35	5.97	6.13
Rehabilitation	13.76	15.75	16.04	14.60	13.09
Substance Abuse	3.32	3.19	3.78	4.14	4.29
Total	4.50	4.47	4.50	4.61	4.77
Percent Occupancy/Available					
Medical/Surgical *	61.4%	69.4%	68.5%	73.5%	76.0%
ICU/CCU	55.3%	57.2%	52.3%	52.2%	47.7%
RCU/ICU STEPDOWN	93.1%	99.6%	95.5%	94.3%	105.5%
Obstetrics	36.1%	40.7%	37.0%	36.5%	37.5%
Pediatrics	9.7%	15.6%	12.6%	24.0%	22.6%
Psychiatry	57.6%	53.7%	62.7%	58.2%	59.8%
Rehabilitation	51.9%	51.4%	47.1%	36.8%	54.8%
Substance Abuse	74.7%	75.1%	83.2%	86.4%	88.0%
Total	59.4%	63.7%	64.0%	65.5%	69.2%

* Excludes Newborn

UTILIZATION: The following tables summarize utilization at BMC

12 MONTHS END

DESCRIPTION	2014	2015	2016	2017	Sep-18 FY 18
OTHER STATISTICAL DATA					
Births	763	828	772	763	742
TOTAL DIAG RADIOLOGY	65,731	72,747	68,149	68,647	67,448
TOTAL IN-PAT SPEC PROC	1,212	1,346	1,193	1,101	1,387
TOTAL OUT-PAT SPEC PROC	1,469	1,558	1,256	1,274	1,436
TOTAL IN-PAT CT SCAN	7,861	9,750	8,523	9,298	10,133
TOTAL OUT-PAT CT SCAN	22,835	31,262	27,087	29,586	30,697
TOTAL IN-PAT NUCLEAR MED	377	395	369	365	364
TOTAL OUT-PAT NUCLEAR MED	1,142	2,282	2,531	2,635	2,374
TOTAL ULTRASOUND	19,874	22,485	23,189	23,325	23,084
TOTAL MAMMOGRAPHY	152,46	186,63	183,47	180,76	176,78
TOTAL IN-PAT RAD ONCOLOGY	648	501	373	261	233
TOTAL OUT-PAT RAD ONCOLOGY	206,44	190,63	190,93	191,87	184,60
TOTAL IN-PAT MRI	1,309	1,417	1,402	1,399	1,522
TOTAL OUT-PAT MRI	100,30	118,89	1,1910	11,256	10,854
Lab Tests	292,028 1,232,221	282,249 1,361,299	316,265 1,403,642	357,394 1,390,621	373,945 1,378,774
Surgical Operations	(inpatient) (outpatient)	(inpatient) (outpatient)	(inpatient) (outpatient)	(inpatient) (outpatient)	(inpatient) (outpatient)
Clinic Visits	23,512	22,666	22,604	13,268	13,210
Emergency Room Visits	63,998	71,975	72,393	67,323	67,474
Home Care Visits	56,388	65,761	65,027	64,849	71,574

FAIRVIEW
FISCAL YEAR ENDING
Sep-18

DESCRIPTION	2014	FY 15	FY 16	FY 17	Sep-18 FY 18
Available Beds					
Medical/Surgical*	14	14	14	14	14
ICU/CCU	4	4	4	4	4
Obstetric	4	4	4	4	4
Pediatric	2	2	2	2	2
Total	24	24	24	24	24
Patient Days					
Medical/Surgical*	2,281	2,303	2,381	2,029	2,465
ICU/CCU	448	496	452	439	421
Obstetric	368	323	376	306	331
Total	3,097	3,122	3,209	2,774	3,217
OBSERVATION BED DAYS					
Medical/Surgical	344	352	333	400	396
Obstetrics	3	3	5	3	9
Total	347	355	338	403	405
Admissions					
Medical/Surgical*	453	512	542	559	633
ICU/CCU	165	185	172	180	141
Obstetric	143	123	145	117	128
Total	761	820	859	856	902
Newborn Admissions	140	128	143	113	128

FAIRVIEW
FISCAL YEAR ENDING
Sep-18

DESCRIPTION	2014	FY 15	FY 16	FY 17	Sep-18 FY 18
Average Length of Stay (days)					
Medical/Surgical*	5.0	4.5	4.4	3.6	3.9
ICU/CCU	2.4	2.3	2.3	1.9	2.4
Obstetric	2.6	2.6	2.6	2.6	2.6
Total	4.1	3.8	3.7	3.2	3.6
Percent Occupancy/Available					
Medical/Surgical*	44.6%	45.1%	46.6%	39.7%	48.2%
ICU/CCU	30.7%	34.0%	31.0%	30.1%	28.8%
Obstetric	25.2%	22.1%	25.8%	21.0%	22.7%
Total	35.4%	35.6%	36.6%	31.7%	36.7%
Other Statistical Data					
Births	140	128	143	113	128
RADIOLOGY PROCEDURES					
DIAGNOSTIC X-RAY*	573 (Inpatient) 13,438 (Outpatient)	854 13,580	777 13,427	752 13,091	758 13,518
ULTRASOUND	159 (Inpatient) 3,378 (Outpatient)	167 3,321	184 3,095	125 3,056	129 2,953
CAT SCAN	287 (Inpatient) 3,438 (Outpatient) 140,859	431 3,536 146,285	473 3,931 145,396	543 4,230 144,847	553 4,487 150,782
Laboratory Tests	110	109	140	129	153
Surgical Operations	925	910	894	1003	1503
Emergency Room Visits	12,272	12,175	11,706	11,766	11,911

* DIAGNOSTIC RADIOLOGY INCLUDES NUCLEAR MEDICINE, MAMMOGRAPHY, & BONE DENSITY

Berkshire Health Systems

Bed Complement

Bed Type	<u>Berkshire</u>		<u>Fairview</u>	
	<u>Licensed</u>	<u>Available</u>	<u>Licensed</u>	<u>Available</u>
Medical/Surgical	139	139	14	14
ICU/CCU	32	32	5	4
Pediatrics	16	7	2	2
Obstetrics	15	15	4	4
Psychiatric	40	40	0	0
Rehabilitation	35	21	0	0
Substance Abuse	21	21	0	0
Total Acute Beds	<u>298</u>	<u>275</u>	<u>25</u>	<u>24</u>

Berkshire-Fairview Obligated Group
Sources of Gross Patient Service Revenue
Fiscal Year Ended September 30

	2018	2017	2016	2015	2014
Medicare	51.93 %	51.41 %	48.88 %	48.69 %	48.15 %
Blue Cross	5.73	5.66	5.68	5.06	5.07
HMO Blue	7.54	8.15	8.64	8.11	8.14
Commercial/Other	9.02	10.09	9.92	8.70	9.53
HNE	3.81	3.62	3.75	4.63	4.61
HCHP	0.36	0.78	1.25	0.81	0.39
Self Pay/Free Care	1.28	1.37	1.55	1.62	1.55
Medicaid & Gov't	18.74	17.39	18.41	20.46	20.65
Workers Comp	0.74	0.75	0.84	1.04	1.02
Legal	0.83	0.78	1.08	0.86	0.89
Total	100.00 %				

Medical Staff Tables

Medical Staff Specialties	Berkshire			Fairview		
	Number of Physicians	Board-Certified	%	Number of Physicians	Board-Certified	%
Allergy & Immunology	1	1	100	0	0	
Anatomic Pathology & Clinical Pathology	6	6	100	12	12	100
Anesthesiology	18	17	94	7	7	100
Cardiovascular Disease	12	12	100	9	9	100
Dermatology	1	1	100	1	1	100
Designated Forensic Professional	1	1	100	0	0	
Diagnostic Radiology	37	37	100	24	21	88
Emergency Medicine	39	35	90	20	15	75
Endocrinology, Diabetes, & Metabolism	2	2	100	1	1	100
Family Medicine, General	25	24	96	10	7	70
Gastroenterology	5	5	100	3	2	67
Hematology	3	3	100	3	3	100
Infectious Disease	2	2	100	0	0	
Internal Medicine	88	81	92	12	12	100
Nephrology	7	7	100	5	3	60
Neurological Surgery	2	2	100	0	0	
Neurology	13	13	100	10	10	100
Obstetrics & Gynecology	17	15	88	6	6	100
Occupational Medicine	2	2	100	0	0	
Ophthalmology	8	8	100	4	4	100
Oral & Maxillofacial Surgery	4	4	100	0	0	
Orofacial Pain	1	1	100	0	0	
Orthopaedic Surgery	16	16	100	7	5	71
Otolaryngology	3	3	100	2	2	100
Pain Medicine	3	3	100	0	0	
Pediatrics	26	25	96	8	8	100
Physical Medicine & Rehabilitation	4	3	75	0	0	
Plastic Surgery	1	1	100	2	2	100
Podiatric Surgery	1	1	100	1	1	100
Psychiatry	21	20	95	0	0	
Psychology	2	0	0	0	0	
Pulmonary Disease	3	3	100	5	3	60
Radiation Oncology	2	2	100	0	0	
Rheumatology	4	4	100	1	1	100
Surgery, General	12	12	100	5	4	80
Surgical Critical Care	2	2	100	0	0	
Urology	6	5	83	3	3	100
sub-total	400	379	95%	161	142	88%
General Dentistry	14	3	21%	0	0	0%
Total	414	382		161	142	

Average Age

52.9 years

52.1 years

Medical Staff Status

Active	223	47
Associate	59	2
Courtesy	0	108
Provisional	89	0
Retired	0	0
Telemedicine	33	0
Temporary Privileges	1	0
Visiting	17	0
	422	157

**Berkshire Health System
Obligated Group
Debt Service Coverage Ratio**

	Fiscal Year Ended September 30				
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Aggregate income available for debt service:					
Excess of revenues and gains over expenses and losses	53,091,259	39,555,415	50,475,226	51,672,310	42,828,345
Depreciation and amortization expense	35,628,986	35,305,370	31,912,853	29,742,490	26,560,370
Interest expense on long term indebtedness	2,936,500	3,224,447	3,874,963	4,124,391	4,320,223
Income from irrevocable deposits	0	(662,887)	(253,996)	(253,076)	(253,076)
Aggregate income available for debt service (A)	<u>91,656,745</u>	<u>77,422,345</u>	<u>86,009,046</u>	<u>85,286,115</u>	<u>73,455,862</u>
Maximum annual debt service requirements (B)	10,892,213	10,892,213	11,258,019	11,258,019	11,258,019
Debt service coverage ratio (A/B)	8.41	7.11	7.64	7.58	6.52

**Berkshire Health System
Obligated Group
Days Cash on Hand**

Fiscal Year Ended September 30

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	35,541,494	27,787,753	30,501,865	37,659,010	27,784,201
Investments	0	0	0	0	0
Funds Designated by Boards	254,168,223	234,669,328	206,197,849	188,518,294	188,856,915
Sub-total (A)	<u>289,709,717</u>	<u>262,457,081</u>	<u>236,699,714</u>	<u>226,177,304</u>	<u>216,641,116</u>
Operating Expenses	529,358,240	504,751,263	484,870,104	450,547,800	403,712,014
Less: Depreciation and Amortization	35,628,986	35,305,370	31,912,853	29,742,490	26,560,370
Sub-total (B)	<u>493,729,254</u>	<u>469,445,893</u>	<u>452,957,251</u>	<u>420,805,310</u>	<u>377,151,644</u>

Days Cash on Hand	214	204	191	196	210
(A/B x Number of days in year)					

**Berkshire Health System
Obligated Group**

Fiscal Year Ended September 30

	2018	2017	2016	2015	2014
SERIES F	0	0	19,240,000	23,111,000	26,830,000
SERIES G	69,205,000	71,940,000	74,545,000	77,040,000	79,465,000
SERIES H	7,340,000	10,540,000			
Total Long-term Indebtedness	76,545,000	82,480,000	93,785,000	100,151,000	106,295,000
Unrestricted Net Assets	446,740,139	415,391,696	375,663,168	334,706,984	315,339,051
Total Capitalization	523,285,139	497,871,696	469,448,168	434,857,984	421,634,051
Long-Term Debt as a Percentage of Total Capitalization	15%	17%	20%	23%	25%

**Berkshire Health System
Obligated Group
Cash and Investments**

	(In Thousands)				
	Fiscal Year Ended September 30				
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	48,739	37,224	37,828	42,982	30,605
U.S. Treasury & U.S. Government Agency Debt	12,322	10,749	6,799	6,079	14,893
Other Government debt Issues	39,290	32,746	26,330	17,398	6,387
Corporate debt issues	22,849	19,309	25,775	45,547	23,161
Mortgage backed securities	30,550	27,734	23,398	14,967	17,757
Equity securities	148,494	139,381	113,250	98,186	110,478
Non-U.S. equity securities	18,475	22,403	26,731	22,901	35,768
	<u>320,719</u>	<u>289,546</u>	<u>260,111</u>	<u>248,060</u>	<u>239,049</u>