



Berkshire Health Systems, Inc. and Affiliates

**Audited Consolidated Financial Statements
and Supplementary Information**

Years ended September 30, 2019 and 2018

Berkshire Health Systems, Inc. and Affiliates

Audited Consolidated Financial Statements
and Supplementary Information

Years ended September 30, 2019 and 2018

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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, 2019 and 2018, 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, 2019 and 2018, 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.

Emphasis of matters

As discussed in Note 2 to the consolidated financial statements, during the year ended September 30, 2019, the Health System adopted the following Accounting Standards Updates: 2014-09, *Revenue from Contracts with Customers*; 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*; and 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to these matters.

A handwritten signature in black ink that reads "Brent Thornton LLP". The signature is written in a cursive, flowing style.

New York, New York
January 13, 2020

Berkshire Health Systems, Inc. and Affiliates

Consolidated Balance Sheets

Assets	September 30		Liabilities and net assets	September 30	
	2019	2018		2019	2018
	Current assets:				
Cash and cash equivalents	\$ 42,623,169	\$ 49,390,097	Accounts payable	\$ 14,113,738	\$ 15,735,587
Patient accounts receivable	65,617,185	61,543,638	Accrued salaries and related withholdings	30,650,511	29,769,402
Note and other receivables	9,642,907	7,241,675	Accrued expenses	10,987,194	13,380,525
Inventories	13,756,723	12,958,951	Deferred revenue	902,644	1,058,102
Funds held by trustees	8,080,005	7,818,829	Due to third-party payors	21,607,589	21,883,759
Due from managed entities	1,413,232	1,398,567	Current portion of long-term obligations	6,330,000	6,080,000
Prepaid expenses and other current assets	4,920,073	5,900,931	Total current liabilities	84,591,676	87,907,375
Total current assets	146,053,294	146,252,688	Deferred compensation	16,452,639	14,800,885
Assets whose use is limited:			Other liabilities	14,399,005	15,213,479
Funds designated by Boards	268,155,793	254,168,223	Long-term obligations, less current portion	67,684,661	74,497,448
Funds held as endowments	8,141,444	8,141,444	Total liabilities	183,127,981	192,419,187
Funds held for donor-restricted purposes	23,695,064	22,868,092	Net assets:		
Deferred compensation	16,452,639	14,800,885	Without donor restriction	471,349,488	446,991,629
Total assets whose use is limited	316,444,940	299,978,644	With donor restriction	37,456,259	36,048,516
Property and equipment, net	221,152,977	220,549,823	Total net assets	508,805,747	483,040,145
Other assets	8,282,517	8,678,177	Total liabilities and net assets	\$ 691,933,728	\$ 675,459,332
Total assets	\$ 691,933,728	\$ 675,459,332			

See accompanying notes.

Berkshire Health Systems, Inc. and Affiliates

Consolidated Statements of Operations and Changes in Net Assets

	Years ended September 30	
	2019	2018
Revenues:		
Patient service revenue	\$ 573,628,050	\$ 563,480,461
Other revenue	78,826,245	60,130,052
Total revenues	652,454,295	623,610,513
Expenses:		
Salaries and wages	322,713,904	313,550,086
Fringe benefits	81,813,278	77,282,527
Supplies and other	192,458,711	179,233,727
Health Safety Net assessment	5,726,475	5,747,589
Depreciation and amortization	36,918,500	35,670,043
Interest	2,775,555	2,936,821
Total expenses	642,406,423	614,420,793
Income from operations	10,047,872	9,189,720
Nonoperating gains:		
Investment gains, net	13,609,209	21,055,387
Net unrealized gains on investments	470,146	577,366
Other, net	50,596	121,977
Total nonoperating gains	14,129,951	21,754,730
Excess of revenues over expenses	\$ 24,177,823	\$ 30,944,450

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Berkshire Health Systems, Inc. and Affiliates

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

	Years ended September 30	
	2019	2018
Net assets without donor restrictions:		
Excess of revenues over expenses	\$ 24,177,823	\$ 30,944,450
Grant funds used for property and equipment	-	406,672
Net assets released from restrictions used for purchase of property and equipment	180,036	1,215,243
Increase in net assets without donor restrictions	24,357,859	32,566,365
Net assets with donor restrictions:		
Restricted contributions	1,099,383	2,929,676
Net realized gains on investments	1,011,014	1,632,655
Net unrealized (losses) gains on investments	(132,610)	41,125
Net assets released from restrictions for operating purposes	(390,008)	(392,844)
Net assets released from restrictions for purchase of property and equipment	(180,036)	(1,215,243)
Increase in net assets with donor restrictions	1,407,743	2,995,369
Increase in net assets	25,765,602	35,561,734
Net assets, beginning of year	483,040,145	447,478,411
Net assets, end of year	\$508,805,747	\$483,040,145

See accompanying notes.

Berkshire Health Systems, Inc. and Affiliates

Consolidated Statements of Cash Flows

	Years ended September 30	
	2019	2018
Operating activities and net gains		
Increase in net assets	\$25,765,602	\$35,561,734
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Net unrealized gains on unrestricted investments	(470,146)	(577,366)
Realized and unrealized gains on restricted investments	(878,404)	(1,673,780)
Amortization of debt discount/premium	(598,956)	(624,432)
Depreciation and amortization	36,918,500	35,670,043
Equity income in Yankee Alliance, LLC	(55,990)	(1,359,787)
Restricted contributions	(1,099,383)	(2,929,676)
Effects of changes in operating assets and liabilities:		
Patient accounts receivable	(4,073,547)	(3,468,673)
Note and other receivables, inventories, prepaid expenses and other current assets	(2,218,146)	(2,399,268)
Accounts payable	(1,621,849)	(4,109,050)
Accrued salaries and related withholdings, accrued expenses, and deferred revenue	(1,667,680)	(305,064)
Due to third-party payors, net	(276,170)	3,953,540
Other liabilities	(814,474)	1,310,503
Net cash provided by operating activities	48,909,357	59,048,724
Investing activities		
Additions to property and equipment, net	(37,405,485)	(26,684,017)
Increase in funds held by trustees	(261,176)	(74,316)
Increase in funds designated by Boards	(13,517,424)	(18,921,529)
Decrease (increase) in funds held for donor-restricted purposes	51,432	(2,247,071)
Decrease in amounts due from managed entities	246,162	189,456
Decrease (increase) in other assets	190,823	(405,508)
Net cash used in investing activities	(50,695,668)	(48,142,985)

Continued on next page

Berkshire Health Systems, Inc. and Affiliates

Consolidated Statements of Cash Flows
(continued)

	Years ended September 30	
	2019	2018
Financing activities		
Repayment of long-term obligations	\$ (6,080,000)	\$ (5,935,000)
Restricted contributions	1,099,383	2,929,676
Net cash used in financing activities	(4,980,617)	(3,005,324)
Net (decrease) increase in cash and cash equivalents	(6,766,928)	7,900,415
Cash and cash equivalents at beginning of year	49,390,097	41,489,682
Cash and cash equivalents at end of year	\$42,623,169	\$49,390,097
Supplemental disclosure of cash flow information for interest paid	\$ 2,849,826	\$ 3,008,957

See accompanying notes.

Berkshire Health Systems, Inc. and Affiliates

Notes to Consolidated Financial Statements

Years Ended September 30, 2019 and 2018

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).
Physician Practices (the Practices) 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.
Other controlled entities Berkshire Orthopaedic Associates, Inc. Berkshire Family Practice Associates, PC	A single shareholder corporation that provides orthopedic physician services. A professional corporation that provides primary care physician services.
Others Tri-State Medical Management Corp. Berkshire Indemnity Company SPC, LTD. - BHS Segregated Portfolio (BIC)	A corporation that manages a physician office location for the benefit of the Hospital A 100% owned segregated portfolio organized in 2003, within Berkshire Indemnity Company SPC, LTD., a Cayman Islands Insurance Captive.

Berkshire Health Systems, Inc. and Affiliates
Notes to Consolidated Financial Statements (Continued)
Years Ended September 30, 2019 and 2018

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

Recently Adopted Accounting Pronouncements

Effective October 1, 2018, the Health System adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606) (ASU 2014-09), using the retrospective method of application to all contracts existing on October 1, 2017. The core principle of the standard 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 those goods or services. The adoption of the standard had no impact on the Health System's current or historical financial position, results of operations or cash flows. Additionally, management does not anticipate that the standard will have an impact on the amount or timing of when the Health System recognizes revenue prospectively. However, in accordance with the standard, the Health System now recognizes its previously reported provision for bad debts, primarily related to its self-pay patient population, as a direct reduction to revenues as an implicit pricing concession, instead of separately as a discrete deduction to arrive at patient service revenue. The Health System's revenue recognition and accounts receivable policies are more fully described below.

For 2019, the Health System adopted FASB ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. This standard makes certain improvements to the previous 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 previously required three classes, as well as the annual change in each of the two classes; (2) information about liquidity and the availability of resources; and (3) addresses the lack of consistency with expenses and investment return. The Health System's consolidated financial statements have been adjusted to reflect the new requirements. ASU 2016-14 has been applied retrospectively to all years presented.

For 2019, the Health System adopted 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 adoption of ASU 2016-01 has been applied retrospectively to all years presented and resulted in the reclassification of unrealized gains and losses of \$470,146 and \$577,366 for 2019 and 2018, respectively, from other changes in net assets without donor restriction to nonoperating gains.

Berkshire Health Systems, Inc. and Affiliates
Notes to Consolidated Financial Statements (Continued)
Years Ended September 30, 2019 and 2018

2. Summary of Significant Accounting Policies (continued)

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.

Net Assets with Donor Restriction

Certain net assets are temporarily restricted and whose use by the Health System has been limited by donors to a specific time period or purpose. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restriction are reclassified for operations as a component of other revenue or as net assets without donor restriction 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.

Certain net assets have been permanently restricted by donors to be maintained by the Health System in perpetuity.

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 recording patient accounts receivable and patient service revenue, 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.

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 \$13,026,069 and \$13,442,057 as of September 30, 2019 and 2018, 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.

Berkshire Health Systems, Inc. and Affiliates
Notes to Consolidated Financial Statements (Continued)
Years Ended September 30, 2019 and 2018

2. Summary of Significant Accounting Policies (continued)

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 and unrealized gains and losses on investments, and interest and dividends) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law. Unrestricted income of endowment funds are reported as other revenue. Investment income from all other general fund investments is reported as non-operating 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, 2019 and 2018. The Medical Center's interest in the earnings of Yankee Alliance, LLC was \$55,990 and \$1,359,787 for the years ended September 30, 2019 and 2018, 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.

Costs of Borrowing

Deferred financing costs and original issue premiums, components of long-term obligations, are amortized over the period that the related obligation is outstanding using the effective interest method.

Patient Service Revenue

In accordance with ASU 2014-09, patient service revenue is reported at the amounts that reflect the consideration to which the Health System is expected to be entitled to in exchange for providing patient care for the Medical Center, the Hospital, the Practices, and any employed physicians. These amounts are due from patients, third-party payors (including insurance companies, managed care organizations and government programs, i.e., Medicare and Medicaid) and others, and they include variable consideration for retroactive adjustments due to settlement of future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits,

Berkshire Health Systems, Inc. and Affiliates
Notes to Consolidated Financial Statements (Continued)
Years Ended September 30, 2019 and 2018

2. Summary of Significant Accounting Policies (continued)

Patient Service Revenue (continued)

reviews, and investigations. Generally, patients and third-party payors are billed several days after the services are performed or shortly after discharge. Patient service revenue is recognized in the period in which the performance obligations are satisfied under contracts by transferring services to customers.

Performance obligations are determined based on the nature of the services provided. The Health System recognizes revenues for performance obligations satisfied over time based on actual charges incurred in relation to total expected charges. The Health System believes that this method provides an appropriate depiction of the transfer of services over the term of performance obligations based on the inputs needed to satisfy the obligations. Generally, performance obligations are satisfied over time related to patients receiving inpatient acute care services. The Health System measures performance obligations from admission to the point when there are no further services required for the patient, which is generally the time of discharge. The Health System recognizes revenues for performance obligations satisfied at a point in time, which generally relate to patients receiving outpatient services, when: (1) services are provided; and (2) when it is believed the patient does not require additional services.

Patient Accounts Receivable

Patient accounts receivable for which the Health System receives payment under cost reimbursement, prospective payment formulas, or negotiated rates, which cover the majority of patient services, are stated at the estimated net amounts receivable from payers, which are generally less than the established billing rates of the Health System.

Under the provisions of ASU 2014-09, when there is an unconditional right to payment, subject only to the passage of time, the right is treated as a receivable. Patient accounts receivable, including billed accounts and unbilled accounts, which have the unconditional right to payment, and estimated amounts due from third-party payers for retroactive adjustments, are recorded as receivables since the right to consideration is unconditional and only the passage of time is required before payment of that consideration is due. The estimated uncollectible amounts are generally considered implicit price concessions that are recorded as a direct reduction to patient accounts receivable.

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 net assets with donor restriction.

Berkshire Health Systems, Inc. and Affiliates
Notes to Consolidated Financial Statements (Continued)
Years Ended September 30, 2019 and 2018

2. Summary of Significant Accounting Policies (continued)

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 total \$10,614,000 and \$11,091,000 at September 30, 2019 and 2018, 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), Berkshire Orthopaedics Associates (BOA) and Berkshire Family Practice Associates, PC (FPA) are for-profit corporations. An immaterial provision for income taxes incurred for each corporation has been recorded in these consolidated financial statements.

BIC is a segregated portfolio company 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.

Asset Retirement Obligation

Conditional asset retirement obligations for certain buildings and land improvements amounted to \$3,139,000 and \$3,684,000 as of September 30, 2019 and 2018, respectively. The change in amounts resulted from \$61,000 and \$556,000 of accretion expense, less \$606,000 and \$59,000 of abatement work for 2019 and 2018, respectively. The obligations are recorded within other liabilities in the accompanying consolidated balance sheets.

Berkshire Health Systems, Inc. and Affiliates
Notes to Consolidated Financial Statements (Continued)
Years Ended September 30, 2019 and 2018

2. Summary of Significant Accounting Policies (continued)

Pending Accounting Pronouncement

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. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018. 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. The Health System has not determined the impact of this standard at this time.

Reclassification

Certain amounts for the year ended September 30, 2018 have been reclassified to be consistent with the presentation of the amounts for the year ended September 30, 2019, primarily due to the recently adopted accounting pronouncements. 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.

3. Liquidity and Availability of Resources

As of September 30, 2019 and 2018, the adjusted working capital was \$329,617,411 and \$312,513,536, respectively. The adjusted average days of cash on hand was 187 and 191 for 2019 and 2018, respectively, both of which include internally designated assets limited as to use by Boards.

Financial assets available for general expenditure within one year consist of the following at September 30:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 42,623,169	\$ 49,390,097
Patient accounts receivable	65,617,185	61,543,638
Assets limited as to use - internally designated by Boards	268,155,793	254,168,223
Line of credit - unused	5,000,000	5,000,000
	<u>\$ 381,396,147</u>	<u>\$ 370,101,958</u>

Berkshire Health Systems, Inc. and Affiliates
Notes to Consolidated Financial Statements (Continued)
Years Ended September 30, 2019 and 2018

4. Third-Party Payment Arrangements

The Medical Center, the Hospital and the Practices 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 the Practices 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 regionally-adjusted 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 is designated as a Critical Access Hospital (CAH) by Medicare. CAHs are reimbursed on a reasonable-cost basis for inpatient and outpatient services.

The Practices receive payments on standard fee schedules.

Medicaid

The Commonwealth's 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. The Practices are 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.

BHS participates in an Accountable Care Organization (ACO) that insures the majority of Medicaid patients in the Medical Center and the Hospital service area. BHS has recorded an estimate of its liability related to the risk agreement between the ACO and the Commonwealth's Executive Office of Health & Human Service.

Berkshire Health Systems, Inc. and Affiliates
Notes to Consolidated Financial Statements (Continued)
Years Ended September 30, 2019 and 2018

4. 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 patient service revenue. During 2019 and 2018, the Medical Center and the Hospital received \$4,403,084 and \$3,765,249, respectively, for the incentive payments. During 2019 and 2018, the Medical Center and the Hospital received \$618,148 and \$1,285,547, respectively, from the HSN program for reimbursement of charity care. During 2019 and 2018, the Medical Center and the Hospital paid an assessment into the HSN program of \$5,726,475 and \$5,747,589, respectively.

Non-Governmental Payors and Qualified Health Plans (QHP)

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 47% and 14%, and 45% and 9%, respectively, of the Health System's net patient service revenue for the years ended September 30, 2019 and 2018. 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 fines 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 2016 for the Medical Center and through 2017 for the Hospital. Provisions have been made in the consolidated financial statements for prior and current year estimated final settlements.

Berkshire Health Systems, Inc. and Affiliates
Notes to Consolidated Financial Statements (Continued)
Years Ended September 30, 2019 and 2018

4. Third-Party Payment Arrangements (continued)

Adjustments to estimates of prior-year settlements with third-party payors are reflected in current year patient service revenue and increased (decreased) patient service revenue by approximately \$2,170,000 and \$(847,000) in 2019 and 2018, respectively.

5. 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 less any implicit price concession. Any unpaid account receivable balance is written off to implicit price concessions after a reasonable collection effort has been made.

During 2019 and 2018, the Health System provided \$5,360,678 and \$5,185,153 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, 2019 and 2018, was \$2,135,662 and \$2,206,290, respectively. Donations received to offset charity services provided totaled \$110,425 and \$196,984 for the years ended September 30, 2019 and 2018, respectively.

6. Related-Party Transactions

As of September 30, 2019 and 2018, \$1,413,232 and \$1,398,567, respectively, was due from the Managed Entities for ongoing management fees and purchased services. The management fee revenue recorded by BMS related to these services was \$16,180,909 and \$14,857,010 for 2019 and 2018, 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, 2019 and 2018, the note had a balance of \$1,417,222 and \$1,678,049, respectively, of which \$268,091 and \$260,827 is included in note and other receivables, and \$1,149,131 and \$1,417,222 is included in other assets in 2019 and 2018, respectively.

Berkshire Health Systems, Inc. and Affiliates
Notes to Consolidated Financial Statements (Continued)
Years Ended September 30, 2019 and 2018

7. Investments

Assets Limited as to Use

The composition and classification of investments at September 30, 2019 and 2018, is set forth in the following table. Investments are stated at fair value.

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 42,623,169	\$ 49,390,097
Funds held by trustees - current	8,080,005	7,818,829
Assets whose use is limited:		
Funds designated by Boards	268,155,793	254,168,223
Funds held as endowments	8,141,444	8,141,444
Funds held for donor-restricted purposes	23,695,064	22,868,092
Deferred compensation	16,452,639	14,800,885
	<u>\$ 367,148,114</u>	<u>\$ 357,187,570</u>

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

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 52,988,236	\$ 57,319,835
Equity securities:		
Consumer discretionary and staples	28,878,781	27,466,735
Energy and utilities	11,234,054	11,038,168
Financials	24,699,343	23,716,129
Health care	23,090,906	22,578,649
Industrials and materials	24,134,172	23,008,098
Information technologies	35,367,570	33,672,764
Telecommunication services	5,860,994	5,385,551
Total U.S. equities	153,265,820	146,866,094
Non-U.S. equities	17,967,617	18,475,317
U.S. Treasury and U.S. Government Agency debt	21,070,928	18,954,010
Other government debt issues	40,789,350	39,289,724
Corporate debt securities	27,298,080	26,327,163
REITs and mortgage-backed securities	33,250,365	30,550,261
Mutual funds	20,517,718	19,405,166
	<u>\$ 367,148,114</u>	<u>\$ 357,187,570</u>

Berkshire Health Systems, Inc. and Affiliates
Notes to Consolidated Financial Statements (Continued)
Years Ended September 30, 2019 and 2018

7. Investments (continued)

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

	<u>2019</u>	<u>2018</u>
Income:		
Other revenue - interest income	\$ 598,295	\$ 566,536
Nonoperating gains:		
Interest income, net	\$ 5,525,712	\$ 6,267,828
Realized gains on sale of investments	8,083,497	14,787,559
Total investment gains	13,609,209	21,055,387
Unrealized gains on investments	470,146	577,366
Other changes in net assets with donor restrictions		
Net realized gains	\$ 1,011,014	\$ 1,632,655
Net unrealized gains	\$ (132,610)	\$ 41,125

Investment management fees were \$104,393 and \$107,829 for the years ended September 30, 2019 and 2018, respectively.

Fair Value of Financial Instruments

As of September 30, 2019, 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.

Berkshire Health Systems, Inc. and Affiliates
Notes to Consolidated Financial Statements (Continued)
Years Ended September 30, 2019 and 2018

7. Investments (continued)

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.

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

2019	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 52,359,294	\$ 628,942	\$ -	\$ 52,988,236
Equity securities:				
Consumer discretionary and staples	22,655,117	6,223,664	-	28,878,781
Energy and utilities	8,385,140	2,848,914	-	11,234,054
Financials	20,156,247	4,543,096	-	24,699,343
Health care	18,297,711	4,793,195	-	23,090,906
Industrials and materials	19,894,124	4,240,048	-	24,134,172
Information technologies	27,662,595	7,704,975	-	35,367,570
Telecommunication services	2,220,514	3,640,480	-	5,860,994
Non-U.S. equities	17,967,617	-	-	17,967,617
U.S. Treasury and U.S. Government				
Agency debt	13,751,496	7,319,432	-	21,070,928
Other government debt issues	40,789,350	-	-	40,789,350
Corporate debt securities	24,510,847	2,787,233	-	27,298,080
REITs and mortgage-backed securities	32,117,225	1,133,140	-	33,250,365
Mutual funds	20,517,718	-	-	20,517,718
	\$ 321,284,995	\$ 45,863,119	\$ -	\$ 367,148,114

Berkshire Health Systems, Inc. and Affiliates
Notes to Consolidated Financial Statements (Continued)
Years Ended September 30, 2019 and 2018

7. Investments (continued)

2018	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 57,139,948	\$ 179,887	\$ -	\$ 57,319,835
Equity securities:				
Consumer discretionary and staples	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>

Fair value for Level 1 assets 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.

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, 2019</u>		<u>September 30, 2018</u>	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Long-term debt	\$ 91,180,200	\$ 74,014,661	\$ 97,736,200	\$ 80,577,448

Berkshire Health Systems, Inc. and Affiliates
Notes to Consolidated Financial Statements (Continued)
Years Ended September 30, 2019 and 2018

8. Property and Equipment

Property and equipment consisted of the following at September 30:

	<u>2019</u>	<u>2018</u>
Land and improvements	\$ 17,779,761	\$ 17,504,446
Buildings and building improvements	294,077,770	286,090,781
Fixed equipment	110,627,944	106,846,970
Major movable equipment	231,247,414	217,779,632
	<u>653,732,889</u>	<u>628,221,829</u>
Less accumulated depreciation and amortization	<u>(455,585,621)</u>	<u>(418,834,080)</u>
	198,147,268	209,387,749
Projects in progress	23,005,709	11,162,074
	<u>\$ 221,152,977</u>	<u>\$ 220,549,823</u>

Depreciation and amortization expense related to property and equipment for the years ended September 30, 2019 and 2018 was \$36,802,330 and \$35,521,039, respectively.

The estimated cost to complete projects in progress at September 30, 2019 and 2018, was approximately \$13,750,000 and \$2,698,000, respectively.

Berkshire Health Systems, Inc. and Affiliates
Notes to Consolidated Financial Statements (Continued)
Years Ended September 30, 2019 and 2018

9. Long-Term Obligations

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

	2019	2018
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 \$7,513 in 2019 and \$45,478 in 2018	\$ 4,122,487	\$ 7,294,522
2012 Series G, net of unamortized premium and debt issuance costs of \$3,557,174 in 2019 and \$4,077,926 in 2018	<u>69,892,174</u>	<u>73,282,926</u>
	74,014,661	80,577,448
Less portion classified as current	<u>(6,330,000)</u>	<u>(6,080,000)</u>
Total long-term obligations	<u>\$ 67,684,661</u>	<u>\$ 74,497,448</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 3.5% 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, 2019 and 2018

9. Long-Term Obligations (continued)

Maturities

Aggregate maturities of the Health System subsequent to September 30, 2019, are as follows:

Year ending September 30,	
2020	\$ 6,330,000
2021	3,225,000
2022	4,260,000
2023	4,475,000
2024	4,705,000
2025 and thereafter	<u>47,470,000</u>
Total face maturities	70,465,000
Unamortized bond premiums and debt issuance costs	<u>3,549,661</u>
	<u>\$ 74,014,661</u>

10. 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>2019</u>	<u>2018</u>
Escrow for long-term obligations:		
Debt service fund	<u>\$ 8,080,005</u>	<u>\$ 7,818,829</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, 2019 and 2018

11. Lease Commitments

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

Year ending September 30,	<u>Operating Leases</u>
2020	\$ 721,073
2021	495,687
2022	266,209
2023	<u>192,213</u>
	<u>\$ 1,675,182</u>

Rent expense under noncancelable operating leases approximated \$717,623 and \$830,097 for years ending September 30, 2019 and 2018, respectively, and is included within supplies and other on the accompanying consolidated statements of operations and changes in net assets.

12. Net Assets With Donor Restrictions

Net assets with donor restrictions are available for the following purposes at September 30:

	<u>2019</u>	<u>2018</u>
Subject for expenditure for specific purpose:		
Patient care	\$ 1,071,672	\$ 2,432,341
Education	2,535,405	2,528,977
Property and equipment	3,606,383	3,121,951
Scholarship	628,510	633,169
Undistributed appreciation on permanently restricted funds primarily for patient care	21,472,845	19,190,634
Investment to be held in perpetuity, the income from which is restricted as to use primarily for patient care	5,504,205	5,504,205
Investment to be held in perpetuity, the income from which is unrestricted	2,637,239	2,637,239
	<u>\$ 37,456,259</u>	<u>\$ 36,048,516</u>

During 2019 and 2018, net assets of \$570,044 and \$1,608,087, respectively, were released from donor restrictions by incurring expenses satisfying the restricted purposes as noted above.

Berkshire Health Systems, Inc. and Affiliates
Notes to Consolidated Financial Statements (Continued)
Years Ended September 30, 2019 and 2018

12. Net Assets With Donor Restrictions (continued)

Interpretation of Relevant Law

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 net assets with donor restrictions: (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 net assets with donor restrictions is classified as net assets with donor restrictions 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.

The following represents the classifications of the Health System endowment funds, as well as the changes in endowments, for the year ended September 30, 2019:

	Restricted by Purpose	Restricted in Perpetuity	Total
Endowment net assets at			
October 1, 2018	\$ 21,225,136	\$ 8,141,444	\$ 29,366,580
Investment income	123,760	-	123,760
Net realized gains on investments	887,255	-	887,255
Net unrealized losses on investments	(132,610)	-	(132,610)
Endowment net assets at			
September 30, 2019	\$ 22,103,541	\$ 8,141,444	\$ 30,244,985

Berkshire Health Systems, Inc. and Affiliates
Notes to Consolidated Financial Statements (Continued)
Years Ended September 30, 2019 and 2018

12. Net Assets With Donor Restrictions (continued)

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

	Restricted by Purpose	Restricted in Perpetuity	Total
Endowment net assets at			
October 1, 2017	\$ 19,541,357	\$ 8,141,444	\$ 27,682,801
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	<u>\$ 21,225,136</u>	<u>\$ 8,141,444</u>	<u>\$ 29,366,580</u>

13. 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, 2019 and 2018 were \$12,154,189 and \$12,158,759, respectively.

The 457(b) Plan is a non-qualified supplemental retirement plan available to certain executives of BHS. The contribution limit for employees in 2019 was \$19,000. Contributions made by the Health System to the 457(b) Plan in years ended September 30, 2019 and 2018 were \$278,083 and \$310,058, respectively.

Berkshire Health Systems, Inc. and Affiliates
Notes to Consolidated Financial Statements (Continued)
Years Ended September 30, 2019 and 2018

14. 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, 2019, 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 3.53% at September 30, 2019. The line of credit expires on May 31, 2020.

15. 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:

	Year ended September 30, 2019		
	Healthcare Services	General and Administrative	Total
Salaries and wages	\$ 313,203,710	\$ 9,510,194	\$ 322,713,904
Fringe benefits	77,964,860	3,848,418	81,813,278
Supplies and other	135,550,967	56,907,744	192,458,711
Health Safety Net assessment	5,726,475	-	5,726,475
Depreciation and amortization	33,898,917	3,019,583	36,918,500
Interest	2,609,124	166,431	2,775,555
Total	\$ 568,954,053	\$ 73,452,370	\$ 642,406,423

Berkshire Health Systems, Inc. and Affiliates
Notes to Consolidated Financial Statements (Continued)
Years Ended September 30, 2019 and 2018

15. Functional Expenses (continued)

	Year ended September 30, 2018		
	Healthcare Services	General and Administrative	Total
Salaries and wages	\$ 301,791,818	\$ 11,758,268	\$ 313,550,086
Fringe benefits	74,338,518	2,944,009	77,282,527
Supplies and other	123,818,232	55,415,495	179,233,727
Health Safety Net assessment	5,747,589	-	5,747,589
Depreciation and amortization	33,074,484	2,595,559	35,670,043
Interest	2,797,054	139,767	2,936,821
Total	\$ 541,567,695	\$ 72,853,098	\$ 614,420,793

The consolidated financial statements report certain expense categories that are attributable to more than one health care service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation and amortization, interest, and other occupancy costs, are allocated to a function based on a square footage basis.

16. 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:

	2019	2018
Medicare	48 %	52 %
Medicaid and connector products	19	9
Commercial insurances	24	30
Patients	9	9
	100 %	100 %

Berkshire Health Systems, Inc. and Affiliates
Notes to Consolidated Financial Statements (Continued)
Years Ended September 30, 2019 and 2018

16. Concentration of Credit Risk (continued)

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

	<u>2019</u>	<u>2018</u>
Medicare	47 %	45 %
Medicaid and connector products	14	9
Commercial insurances	37	44
Patients	2	2
Patient service revenues	100 %	100 %

17. Other Operating Revenues

Other operating revenues consisted of the following:

	<u>2019</u>	<u>2018</u>
Retail Pharmacy	\$ 48,657,913	\$ 32,579,358
Management Services	16,180,909	14,857,010
Grants	4,971,633	4,888,211
Psychiatric and other services	3,584,933	3,333,504
Dietary food sales	1,656,718	1,638,185
Meaningful Use & Incentives	1,525,299	284,464
Interest Income	870,945	566,643
Rent	800,621	798,634
Miscellaneous	426,724	1,019,585
Unrestricted donations	150,550	164,458
Total	\$ 78,826,245	\$ 60,130,052

18. Subsequent Events

The Health System evaluated its September 30, 2019 consolidated financial statements for subsequent events through January 13, 2020, 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, 2019

Assets	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.
Current assets:							
Cash and cash equivalents	\$ 42,623,169	\$ -	\$ 20	\$ 254,197	\$ 441,805	\$ -	\$ 13,215,229
Patient accounts receivable	65,617,185	-	-	2,696,960	736,255	-	-
Note and other receivables	9,642,907	-	277,714	121,522	-	-	54,963
Inventories	13,756,723	-	-	-	36,160	-	-
Funds held by trustees	8,080,005	-	-	-	-	-	-
Due from managed entities	1,413,232	-	-	-	-	-	-
Prepaid expenses and other current assets	4,920,073	(1,759,382)	2,611,805	35,154	-	-	-
Due from affiliates	-	(3,112,739)	2,430,971	681,768	-	-	-
Total current assets	146,053,294	(4,872,121)	5,320,510	3,789,601	1,214,220	-	13,270,192
Due from affiliates	-	(13,349)	-	-	-	-	-
Assets whose use is limited:							
Funds designated by Boards	268,155,793	-	-	-	-	-	-
Funds held as endowments	8,141,444	-	-	-	-	-	-
Funds held for donor-restricted purposes	23,695,064	-	-	-	-	-	-
Deferred compensation	16,452,639	-	4,964,747	4,165,531	-	-	-
Total assets whose use is limited	316,444,940	-	4,964,747	4,165,531	-	-	-
Property and equipment, net	221,152,977	-	8,759	-	-	22,787	-
Other assets	8,282,517	-	-	-	-	-	-
Investments in subsidiaries	-	(100)	-	-	-	-	-
Total assets	\$ 691,933,728	\$ (4,885,570)	\$ 10,294,016	\$ 7,955,132	\$ 1,214,220	\$ 22,787	\$ 13,270,192

Berkshire Health Systems, Inc. and Affiliates

Consolidating Balance Sheet

September 30, 2019

Assets	Obligated Group	Eliminations and Reclassifications	Berkshire Medical Center, Inc.	Fairview Hospital	Berkshire Health Systems, Inc.
Current assets:					
Cash and cash equivalents	\$ 28,711,918	\$ -	\$ 28,631,056	\$ 74,723	\$ 6,139
Patient accounts receivable	62,183,970	-	56,030,047	6,153,923	-
Note and other receivables	9,188,708	-	8,805,071	88,884	294,753
Inventories	13,720,563	-	12,797,510	923,053	-
Funds held by trustees	8,080,005	-	7,685,411	394,594	-
Due from managed entities	1,413,232	-	-	-	1,413,232
Prepaid expenses and other current assets	4,032,496	-	4,012,072	20,424	-
Due from affiliates	-	(15,522,682)	-	5,293,031	10,229,651
Total current assets	127,330,892	(15,522,682)	117,961,167	12,948,632	11,943,775
Due from affiliates	13,349	(7,053,575)	7,053,575	13,349	-
Assets whose use is limited:					
Funds designated by Boards	268,155,793	-	242,063,461	26,092,332	-
Funds held as endowments	8,141,444	-	7,883,202	258,242	-
Funds held for donor-restricted purposes	23,695,064	-	22,252,167	1,442,897	-
Deferred compensation	7,322,361	-	6,819,391	502,970	-
Total assets whose use is limited	307,314,662	-	279,018,221	28,296,441	-
Property and equipment, net	221,121,431	-	208,629,979	12,491,452	-
Other assets	8,282,517	-	7,059,900	13,485	1,209,132
Investments in subsidiaries	100	-	-	-	100
Total assets	\$ 664,062,951	\$ (22,576,257)	\$ 619,722,842	\$ 53,763,359	\$ 13,153,007

Berkshire Health Systems, Inc. and Affiliates

Consolidating Balance Sheet

September 30, 2019

	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.
Current liabilities:							
Accounts payable	\$ 1,411,738	\$ (1,759,382)	\$ 917,869	\$ 375,343	\$ 121,674	\$ 673	\$ 1,783,332
Accrued salaries and related withholdings	30,650,511	-	3,763,718	3,197,475	1,253,140	-	-
Accrued expenses	10,987,194	-	600,917	216,783	-	8,765	-
Deferred revenue	902,644	-	46,765	-	-	-	-
Due to third-party payors	21,607,589	-	-	-	-	-	-
Current portion of long-term obligations	6,330,000	-	-	-	-	-	-
Due to affiliates	-	(3,112,739)	-	-	-	-	-
Total current liabilities	84,591,676	(4,872,121)	5,329,269	3,789,601	1,374,814	9,438	1,783,332
Due to affiliates	-	(13,349)	-	-	-	13,349	-
Deferred compensation	16,452,639	-	4,964,747	4,165,531	-	-	-
Other liabilities	14,399,005	-	-	-	-	-	10,624,270
Long-term obligations, less current portion	67,684,661	-	-	-	-	-	-
Total liabilities	183,127,981	(4,885,470)	10,294,016	7,955,132	1,374,814	22,787	12,407,602
Net assets:							
Without donor restriction	471,349,488	(100)	-	-	(160,594)	-	862,590
With donor restriction	37,456,259	-	-	-	-	-	-
Total net assets	508,805,747	(100)	-	-	(160,594)	-	862,590
Total liabilities and net assets	\$ 691,933,728	\$ (4,885,570)	\$ 10,294,016	\$ 7,955,132	\$ 1,214,220	\$ 22,787	\$ 13,270,192

Berkshire Health Systems, Inc. and Affiliates
Consolidating Balance Sheet

September 30, 2019

Liabilities and Net Assets	Obligated Group	Eliminations and Reclassifications	Berkshire Medical Center, Inc.	Fairview Hospital	Berkshire Health Systems, Inc.
Current liabilities:					
Accounts payable	\$ 12,674,229	\$ -	\$ 12,141,813	\$ 531,716	\$ 700
Accrued salaries and related withholdings	22,436,178	-	20,150,465	2,285,713	-
Accrued expenses	10,160,729	-	9,501,860	658,744	125
Deferred revenue	855,879	-	836,766	19,113	-
Due to third-party payors	21,607,589	-	17,252,644	4,354,945	-
Current portion of long-term obligations	6,330,000	-	6,019,530	310,470	-
Due to affiliates	3,112,739	(15,522,682)	18,635,421	-	-
Total current liabilities	77,177,343	(15,522,682)	84,538,499	8,160,701	825
Due to affiliates	-	(7,053,575)	-	-	7,053,575
Deferred compensation	7,322,361	-	6,819,391	502,970	-
Other liabilities	3,774,735	-	2,844,809	929,926	-
Long-term obligations, less current portion	67,684,661	-	64,432,834	3,251,827	-
Total liabilities	155,959,100	(22,576,257)	158,635,533	12,845,424	7,054,400
Net assets:					
Without donor restriction	470,647,592	-	427,634,488	36,914,497	6,098,607
With donor restriction	37,456,259	-	33,452,821	4,003,438	-
Total net assets	508,103,851	-	461,087,309	40,917,935	6,098,607
Total liabilities and net assets	\$ 664,062,951	\$ (22,576,257)	\$ 619,722,842	\$ 53,763,359	\$ 13,153,007

Berkshire Health Systems, Inc. and Affiliates

Consolidating Statement of Operations and Changes in Net Assets

Year ended September 30, 2019

	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:							
Patient service revenue	\$ 573,628,050	\$ -	\$ -	\$ 42,156,961	\$ 9,038,443	\$ -	\$ -
Other revenue	78,826,245	(52,914,112)	65,846,068	3,693,253	254,445	95,318	865,432
Total revenues	<u>652,454,295</u>	<u>(52,914,112)</u>	<u>65,846,068</u>	<u>45,850,214</u>	<u>9,292,888</u>	<u>95,318</u>	<u>865,432</u>
Expenses:							
Salaries and wages	322,713,904	-	29,954,990	42,778,600	8,542,927	-	-
Fringe benefits	81,813,278	-	8,971,810	6,344,047	1,461,873	-	-
Supplies and other	192,458,711	(52,914,112)	26,916,178	15,052,973	2,642,812	59,083	865,432
Health Safety Net assessment	5,726,475	-	-	-	-	-	-
Interest	36,918,500	-	3,090	-	-	14,716	-
	2,775,555	-	-	-	469	-	-
Total expenses	<u>642,406,423</u>	<u>(52,914,112)</u>	<u>65,846,068</u>	<u>64,175,620</u>	<u>12,648,081</u>	<u>73,799</u>	<u>865,432</u>
Income (loss) from operations	10,047,872	-	-	(18,325,406)	(3,355,193)	21,519	-
Nonoperating gains:							
Investment gains, net	13,609,209	-	-	-	-	-	-
Net unrealized gains on investments	470,146	-	-	-	-	-	532,184
Other, net	50,596	-	-	-	-	-	-
Loss on investments in subsidiary	-	(21,519)	-	-	-	-	-
Total nonoperating gains	<u>14,129,951</u>	<u>(21,519)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>532,184</u>
Excess of (deficiency in) revenues over expenses	<u>\$ 24,177,823</u>	<u>\$ (21,519)</u>	<u>\$ -</u>	<u>\$ (18,325,406)</u>	<u>\$ (3,355,193)</u>	<u>\$ 21,519</u>	<u>\$ 532,184</u>

Berkshire Health Systems, Inc. and Affiliates

Consolidating Statement of Operations and Changes in Net Assets

Year ended September 30, 2019

	Eliminations and Reclassifications	BHS Management Services, Inc	Berkshire Faculty Services, Inc.	Other Controlled Entities	Tri-State Medical Management Corp.	Berkshire Indemnity Company SPC, LTD.
Net assets without donor restrictions:						
Excess of (deficiency in) revenues over expenses	\$24,177,823	\$ (21,519)	\$ -	\$ (18,325,406)	\$ (3,355,193)	\$ 21,519
Grant funds used for property and equipment	-	-	-	-	-	-
Net assets released from restrictions used for purchase of property and equipment	180,036	-	-	-	-	-
Equity transfer	-	-	18,325,406	3,273,415	-	-
Investment from Parent	-	21,519	-	-	-	(21,519)
Increase (decrease) in net assets without donor restrictions:	<u>24,357,859</u>	<u>-</u>	<u>-</u>	<u>(81,778)</u>	<u>-</u>	<u>532,184</u>
Net assets with donor restrictions:						
Restricted contributions	1,099,383	-	-	-	-	-
Realized gains on investments	1,011,014	-	-	-	-	-
Net unrealized (losses) gains on investments	(132,610)	-	-	-	-	-
Net assets released from restrictions for operating purposes	(390,008)	-	-	-	-	-
Net assets released from restrictions for purchase of property and equipment	(180,036)	-	-	-	-	-
Increase in net assets with donor restrictions	<u>1,407,743</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	25,765,602	-	-	-	(81,778)	532,184
Net assets, beginning of year	483,040,145	(100)	-	-	(78,816)	330,406
Net assets, end of year	<u>\$508,805,747</u>	<u>(\$100)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(\$160,594)</u>	<u>\$862,590</u>

Berkshire Health Systems, Inc. and Affiliates

Consolidating Statement of Operations and Changes in Net Assets

Year ended September 30, 2019

	Obligated Group	Eliminations and Reclassifications	Berkshire Medical Center, Inc.	Fairview Hospital	Berkshire Health Systems, Inc.
Revenues:					
Patient service revenue	\$ 522,432,646	\$ -	\$465,432,309	\$ 57,000,337	\$ -
Other revenue	60,985,841	(2,035,189)	61,546,780	1,474,140	110
Total revenues	583,418,487	(2,035,189)	526,979,089	58,474,477	110
Expenses:					
Salaries and wages	241,437,387	-	214,560,613	26,876,774	-
Fringe benefits	65,035,548	-	58,524,286	6,511,262	-
Supplies and other	199,836,345	(2,035,189)	183,510,929	18,360,552	53
Health Safety Net assessment	5,726,475	-	5,228,420	498,055	-
Depreciation and amortization	36,900,694	-	34,619,645	2,281,049	-
Interest	2,775,086	-	2,641,764	133,322	-
Total expenses	551,711,535	(2,035,189)	499,085,657	54,661,014	53
Income from operations	31,706,952	-	27,893,432	3,813,463	57
Nonoperating gains:					
Investment gains, net	13,609,209	-	12,251,602	1,357,607	-
Net unrealized loss on investments	(62,038)	-	(20,576)	(41,462)	-
Other, net	50,596	-	6,800	921	42,875
Gain on investments in subsidiary	21,519	-	-	21,519	-
Total nonoperating gains	13,619,286	-	12,237,826	1,338,585	42,875
Excess of revenues over expenses	\$ 45,326,238	\$ -	\$ 40,131,258	\$ 5,152,048	\$ 42,932

Berkshire Health Systems, Inc. and Affiliates

Consolidating Statement of Operations and Changes in Net Assets

Year ended September 30, 2019

	Obligated Group	Eliminations and Reclassifications	Berkshire Medical Center, Inc.	Fairview Hospital	Berkshire Health Systems, Inc.
Net assets without donor restrictions:					
Excess of (deficiency in) revenues over expenses	\$45,326,238	\$ -	\$ 40,131,258	\$ 5,152,048	\$ 42,932
Grant funds used for property and equipment	-	-	-	-	-
Net assets released from restrictions used for purchase of property and equipment	180,036	-	-	180,036	-
Equity transfer	(21,598,821)	-	(20,166,375)	(1,432,446)	-
Investment from Parent	-	-	-	-	-
Increase (decrease) in net assets without donor restrictions:	<u>23,907,453</u>	<u>-</u>	<u>19,964,883</u>	<u>3,899,638</u>	<u>42,932</u>
Net assets with donor restrictions:					
Restricted contributions	1,099,383	-	483,125	616,258	-
Realized gains on investments	1,011,014	-	973,004	38,010	-
Net unrealized (losses) gains on investments	(132,610)	-	(154,540)	21,930	-
Net assets released from restrictions for operating purposes	(390,008)	-	(217,674)	(172,334)	-
Net assets released from restrictions for purchase of property and equipment	(180,036)	-	-	(180,036)	-
Increase in net assets with donor restrictions	<u>1,407,743</u>	<u>-</u>	<u>1,083,915</u>	<u>323,828</u>	<u>-</u>
Increase in net assets	25,315,196	-	21,048,798	4,223,466	42,932
Net assets, beginning of year	482,788,655	-	440,038,511	36,694,469	6,055,675
Net assets, end of year	<u>\$508,103,851</u>	<u>\$ -</u>	<u>\$461,087,309</u>	<u>\$40,917,935</u>	<u>\$6,098,607</u>



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