



Brattleboro Memorial Hospital, Inc.

FINANCIAL STATEMENTS

September 30, 2022 and 2021

With Independent Auditor's Report



BRATTLEBORO MEMORIAL HOSPITAL, INC.

September 30, 2022 and 2021

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Brattleboro Memorial Hospital, Inc.

Opinion

We have audited the accompanying financial statements of Brattleboro Memorial Hospital, Inc. (Hospital), a Vermont not-for-profit corporation and wholly owned subsidiary of Southern Vermont Health Services Corporation (SVHSC), which comprise the balance sheets as of September 30, 2022 and 2021, and the related statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of September 30, 2022 and 2021, and the results of its operations, changes in its net assets, and its cash flows for the years ended, in accordance with U.S. generally accepted accounting principles (U.S. GAAP).

Basis for Opinion

We conducted our audits in accordance with U.S. generally accepted auditing standards (U.S. GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Hospital and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hospital's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with U.S. GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement

Board of Directors
Brattleboro Memorial Hospital, Inc.

resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with U.S. GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Hospital's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hospital's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Berry Dunn McNeil & Parker, LLC

Portland, Maine
January 20, 2023
Registration No. 92-0000278

BRATTLEBORO MEMORIAL HOSPITAL, INC.

Balance Sheets

September 30, 2022 and 2021

ASSETS

	<u>2022</u>	<u>2021</u>
Current assets		
Cash and cash equivalents	\$ 2,329,328	\$ 5,505,198
Patient and other accounts receivable, net	16,474,251	15,993,509
Supplies inventory	2,525,087	2,323,849
Other current assets	569,532	524,828
Due from affiliate	<u>132,358</u>	<u>95,173</u>
Total current assets	<u>22,030,556</u>	<u>24,442,557</u>
Assets limited as to use		
Internally designated	26,458,508	36,493,220
Under bond agreement for capital acquisition	6,745,017	10,326,766
Other investments with donor restrictions	<u>49,813</u>	<u>54,632</u>
Total assets limited as to use	<u>33,253,338</u>	<u>46,874,618</u>
Interest in net assets of Southern Vermont Health Services Corporation (SVHSC)	807,996	1,009,420
Deferred system development costs, net	213,581	725,841
Interest rate swap	738,064	-
Property and equipment, net	<u>43,013,263</u>	<u>31,058,485</u>
Total assets	<u>\$100,056,798</u>	<u>\$104,110,921</u>

The accompanying notes are an integral part of these financial statements.

LIABILITIES AND NET ASSETS

	<u>2022</u>	<u>2021</u>
Current liabilities		
Current portion of long-term debt	\$ 1,177,124	\$ 997,328
Accounts payable	7,705,536	6,268,824
Salaries, wages, and payroll taxes payable	954,355	681,299
Accrued retirement plan contribution	1,349,655	1,430,546
Accrued compensated absences	3,163,073	3,030,784
Other accrued expenses	1,501,520	3,529,296
Deferred revenue	15,340	-
Estimated third-party payor settlements	2,882,810	1,031,743
Medicare accelerated payments	<u>862,950</u>	<u>5,073,884</u>
Total current liabilities	19,612,363	22,043,704
Long-term debt, less current portion	13,742,304	7,307,728
Interest rate swap	<u>-</u>	<u>90,024</u>
Total liabilities	<u>33,354,667</u>	<u>29,441,456</u>
Net assets		
Without donor restrictions	65,844,321	73,605,412
With donor restrictions	<u>857,810</u>	<u>1,064,053</u>
Total net assets	<u>66,702,131</u>	<u>74,669,465</u>
Total liabilities and net assets	<u>\$100,056,798</u>	<u>\$104,110,921</u>

BRATTLEBORO MEMORIAL HOSPITAL, INC.

Statements of Operations

Years Ended September 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Revenues, gains, and other support without donor restrictions		
Net patient service revenue	\$ 78,942,232	\$ 74,444,010
Provider relief fund revenue	3,929,773	-
Fixed prospective revenue	13,787,328	14,053,786
Other revenue	<u>4,770,267</u>	<u>5,057,608</u>
Total revenues, gains, and other support without donor restrictions	<u>101,429,600</u>	<u>93,555,404</u>
Expenses		
Salaries, wages, and benefits	56,574,130	54,080,165
Supplies and other	18,335,814	16,665,717
Contracted services	20,888,829	15,676,996
Depreciation and amortization	3,970,093	3,904,162
Health care improvement tax	5,396,961	4,680,807
Interest expense	<u>110,385</u>	<u>146,042</u>
Total expenses	<u>105,276,212</u>	<u>95,153,889</u>
Operating loss	<u>(3,846,612)</u>	<u>(1,598,485)</u>
Nonoperating gains (losses)		
Income from investments	612,070	1,256,838
Other nonoperating income	112,164	235,814
Unrealized gain on interest rate swap	828,088	101,373
Net unrealized (losses) gains on investments	<u>(5,650,201)</u>	<u>3,803,188</u>
Nonoperating (losses) gains, net	<u>(4,097,879)</u>	<u>5,397,213</u>
(Deficiency) excess of revenues, gains, other support, and nonoperating gains (losses) over expenses	<u>(7,944,491)</u>	3,798,728
Net assets transferred from SVHSC for capital expenditures	<u>183,400</u>	<u>202,431</u>
Change in net assets without donor restrictions	<u>\$ (7,761,091)</u>	<u>\$ 4,001,159</u>

The accompanying notes are an integral part of these financial statements.

BRATTLEBORO MEMORIAL HOSPITAL, INC.

Statements of Changes in Net Assets

Years Ended September 30, 2022 and 2021

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Balances, October 1, 2020	\$ <u>69,604,253</u>	\$ <u>951,348</u>	\$ <u>70,555,601</u>
Excess of revenues, gains, other support, and nonoperating gains (losses) over expenses	3,798,728	-	3,798,728
Investment gain	-	2,478	2,478
Change in interest in SVHSC	-	110,227	110,227
Net assets transferred from SVHSC for capital acquisitions	<u>202,431</u>	<u>-</u>	<u>202,431</u>
Change in net assets	<u>4,001,159</u>	<u>112,705</u>	<u>4,113,864</u>
Balances, September 30, 2021	<u>73,605,412</u>	<u>1,064,053</u>	<u>74,669,465</u>
Deficiency of revenues, gains, other support, and nonoperating gains (losses) over expenses	(7,944,491)	-	(7,944,491)
Investment loss	-	(4,819)	(4,819)
Change in interest in SVHSC	-	(201,424)	(201,424)
Net assets transferred from SVHSC for capital acquisitions	<u>183,400</u>	<u>-</u>	<u>183,400</u>
Change in net assets	<u>(7,761,091)</u>	<u>(206,243)</u>	<u>(7,967,334)</u>
Balances, September 30, 2022	\$ <u><u>65,844,321</u></u>	\$ <u><u>857,810</u></u>	\$ <u><u>66,702,131</u></u>

The accompanying notes are an integral part of these financial statements.

BRATTLEBORO MEMORIAL HOSPITAL. INC.

Statements of Cash Flows

Years Ended September 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities		
Change in net assets	\$ (7,967,334)	\$ 4,113,864
Adjustments to reconcile change in net assets to net cash used by operating activities		
Depreciation and amortization	3,970,093	3,904,162
Amortization of debt issuance costs, included in interest expense	22,518	22,518
(Gain) loss on sale of equipment	(16,200)	911
Net realized gain on investments	(257,430)	(972,567)
Net unrealized losses (gains) on investments	5,650,201	(3,803,188)
Unrealized gain on interest rate swap	(828,088)	(101,373)
Change in interest in net assets of SVHSC	201,424	(110,227)
Net assets transferred from SVHSC for capital acquisition	(183,400)	(202,431)
Decrease (increase) in		
Patient and other accounts receivable, net	(480,742)	(6,739,252)
Supplies inventory	(201,238)	278,144
Other current assets	(44,704)	(299,990)
Due from affiliate	(37,185)	(95,173)
Increase (decrease) in		
Accounts payable	1,636,178	(3,677,644)
Accrued salaries, wages and benefits	405,345	360,548
Due to affiliate	-	(105,689)
Deferred revenue	15,340	-
Other current liabilities	(2,108,667)	2,230,767
Medicare accelerated payments	(4,210,934)	(1,156,309)
Estimated third-party payor settlements	<u>1,851,067</u>	<u>159,595</u>
Net cash used by operating activities	<u>(2,583,756)</u>	<u>(6,193,334)</u>
Cash flows from investing activities		
Purchase of property and equipment	(15,255,853)	(9,180,710)
Proceeds from sale of equipment	16,200	900
Proceeds from the sale of investments	7,362,452	6,269,096
Purchase of investments	<u>(2,720,511)</u>	<u>(6,538,519)</u>
Net cash used by investing activities	<u>(10,597,712)</u>	<u>(9,449,233)</u>
Cash flows from financing activities		
Net assets transferred from SVHSC for capital acquisition	183,400	202,431
Proceeds from issuance of long-term debt	7,232,947	1,153,724
Repayments of long-term debt	<u>(997,317)</u>	<u>(980,086)</u>
Net cash provided by financing activities	<u>6,419,030</u>	<u>376,069</u>
Net decrease in cash and cash equivalents and restricted cash	<u>(6,762,438)</u>	<u>(15,266,498)</u>
Cash and cash equivalents and restricted cash, beginning of year	<u>15,886,596</u>	<u>31,153,094</u>
Cash and cash equivalents and restricted cash, end of year	<u>\$ 9,124,158</u>	<u>\$ 15,886,596</u>
Breakdown of cash and cash equivalents and restricted cash, end of year:		
Cash and cash equivalents	\$ 2,329,328	\$ 5,505,198
Restricted cash included in assets limited as to use	<u>6,794,830</u>	<u>10,381,398</u>
	<u>\$ 9,124,158</u>	<u>\$ 15,886,596</u>
Supplementary disclosures of cash flow information:		
Cash paid for interest	<u>\$ 182,966</u>	<u>\$ 136,856</u>

Non-cash transactions:

At September 30, 2022 and 2021, there were \$1,409,913 and \$1,609,379 of construction-in-progress additions included in accounts payable, respectively.

During 2022, equipment in the amount of \$356,224 was acquired through a capital lease.

The accompanying notes are an integral part of these financial statements.

BRATTLEBORO MEMORIAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2022 and 2021

Nature of Business

Brattleboro Memorial Hospital, Inc. (Hospital) is a Vermont not-for-profit hospital. Southern Vermont Health Services Corporation (SVHSC), a not-for-profit organization, is the sole corporate member of the Hospital. The Hospital is a provider of healthcare services with facilities in the Brattleboro, Vermont area.

1. Summary of Significant Accounting Policies

Basis of Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958, *Not-For-Profit Entities*. Under FASB ASC 958 and FASB ASC 954, *Health Care Entities*, all not-for-profit healthcare organizations are required to provide a balance sheet, a statement of operations, a statement of changes in net assets, and a statement of cash flows. FASB ASC 954 requires reporting amounts for an organization's total assets, liabilities, and net assets in a balance sheet; reporting the change in an organization's net assets in statements of operations and changes in net assets; and reporting the change in its cash and cash equivalents in a statement of cash flows, according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Hospital. These net assets may be used at the discretion of the Hospital's management and the Board of Directors (Board).

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Hospital or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of operations and changes in net assets.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (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 financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

BRATTLEBORO MEMORIAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2022 and 2021

Cash and Cash Equivalents

Cash and cash equivalents are held in either demand deposit or highly liquid savings deposit accounts.

Revenue Recognition and Accounts Receivable

Patient service revenue is reported at the amount that reflects the consideration to which the Hospital expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Hospital bills the patients and third-party payors several days after the services are performed or the patient is discharged from the hospital. Revenue is recognized as performance obligations are satisfied.

The Hospital has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the Hospital's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, the Hospital does in certain instances enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

Performance obligations are determined based on the nature of the services provided by the Hospital. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Hospital believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in hospitals receiving inpatient acute care services or patients receiving services in outpatient centers. The Hospital measures the performance obligation from admission into the hospital or the commencement of an outpatient service to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services. Revenue from performance obligations satisfied at a point in time is generally recognized when the goods are provided to patients and customers in a retail setting (for example, cafeteria) and the Hospital does not believe it is required to provide additional goods or services related to that sale.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Hospital has elected to apply the optional exemption provided in FASB ASC 606-10-50-14 (a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

BRATTLEBORO MEMORIAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2022 and 2021

The Hospital determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Hospital's policy, and implicit price concessions provided to uninsured patients. The Hospital determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The Hospital determines its estimate of implicit price concessions based on its historical collection experience with this class of patients and records these as a direct reduction to net patient service revenue. Management continually reviews the contractual estimation process to consider and incorporate updates to laws and regulations and changes in commercial contractual terms resulting from contract negotiations and renewals.

Patient accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to operations and a credit to a valuation allowance based on its assessment of individual accounts and historical adjustments. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to patient accounts receivable. Patient accounts receivable at October 1, 2020 was \$9,254,257.

The Hospital has agreements with third-party reimbursing agencies that provide for payments at amounts different from its established rates. A summary of the payment arrangements with major third-party reimbursing entities follows:

Medicare

Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2018.

Medicaid

Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively-determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors and are not subject to retroactive adjustment.

Other Arrangements

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively-determined rates per discharge, discounts from established charges and prospectively-determined daily rates.

BRATTLEBORO MEMORIAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2022 and 2021

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result of investigations by governmental agencies, various healthcare organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Hospital's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Hospital. In addition, the contracts the Hospital has with commercial and other payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive revenue adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Hospital's historical settlement activity, including a determination it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from changes in transaction price in 2022 and 2021 decreased net patient service revenue by approximately \$129,000 and \$956,000, respectively.

Consistent with the Hospital's mission, care is provided to patients regardless of their ability to pay. Therefore, the Hospital has determined it has provided implicit price concessions to uninsured patients and other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represents the difference between amounts billed to patients and the amounts the Hospital expects to collect based on its collection history with those patients.

Patients who meet the Hospital's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue. The Hospital's charity care program is designed to assist those patients who are either uninsured, underinsured or have limited financial resources that impact their ability to fully pay for their hospital care. Before completing an application for charity care, patients are first asked to investigate whether or not they may be eligible for Medicare, Medicaid, Veteran's Benefits or other governmental or public assistance programs.

The Hospital's qualifications for charity care are as follows:

- Charity care is limited to medically necessary services. Patients receiving certain elective services, such as those considered cosmetic, investigational or experimental, are expected to make payment arrangements in advance, as these types of services are not covered by the charity care program.

BRATTLEBORO MEMORIAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2022 and 2021

- The patient's family income must be at or below 300% of the current Federal Poverty Income Guidelines for their applicable family size.

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies and equivalent service statistics. The following information measures the level of the charity care provided during the years ended September 30:

	<u>2022</u>	<u>2021</u>
Charges foregone, based on established rates	\$ <u>922,000</u>	\$ <u>778,000</u>
Estimated costs and expenses incurred to provide charity care ¹	\$ <u>461,000</u>	\$ <u>380,000</u>
Equivalent percentage of charity care services to all services	<u>0.44</u> %	<u>0.40</u> %

¹ The cost estimate is based on an overall cost to charge ratio applied to charges written-off as charity care.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Hospital also provides services to uninsured patients and offers those uninsured patients a discount, either by policy or law, from standard charges. The Hospital estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions based on historical collection experience. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

The Hospital has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors:

- Payors (for example, Medicare, Medicaid, managed care or other insurance, patient) have different reimbursement and payment methodologies;
- Length of the patient's service or episode of care;
- Method of reimbursement (fee for service or fixed prospective payment); and
- Hospital's program that provided the service.

For the years ended September 30, 2022 and 2021, the Hospital determined any revenue recognized from goods and services that transfer to the customer at a point in time is not material to the financial statements.

BRATTLEBORO MEMORIAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2022 and 2021

Supplies Inventory

Supplies inventory is carried at the lower of cost (determined by the first-in, first-out method) or market.

Investments and Investment Income (Loss)

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheets. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in the (deficiency) excess of revenues, gains, other support, and nonoperating gains (losses) over expenses unless the income or loss is restricted by donor or law.

Investments are exposed to various risks, such as interest rate, credit, and overall market volatility. As such, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the balance sheets.

The Hospital has elected the fair value option in FASB ASC 825, *Financial Instruments*, relative to its investments to simplify the presentation of all investment performance activity from investments without donor restrictions within the nonoperating gains (losses) section of the statements of operations.

Assets Limited as to Use

Assets limited as to use primarily consist of assets held by trustees under indenture agreements and designated assets set aside by the Hospital's Board, over which the Board retains control and which it may, at its discretion, subsequently use for other purposes.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received and the conditions are met. The gifts are reported as support with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, the net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restrictions in the accompanying financial statements.

BRATTLEBORO MEMORIAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2022 and 2021

Property and Equipment

Property and equipment acquisitions are recorded at cost, or if contributed, at fair market value determined at the date of donation. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Gifts of long-lived assets such as land, buildings, or equipment are reported as support without donor restrictions, and are excluded from the (deficiency) excess of revenues, gains, other support, and nonoperating gains (losses) over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as support with donor restrictions. Absent explicit donor stipulations about how long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Coronavirus Aid, Relief, and Economic Security Act (CARES Act) Provider Relief Funds

The CARES Act provided funds to eligible healthcare providers to prevent, prepare for and respond to the Coronavirus Disease (COVID-19). The CARES Act provides the U.S. Department of Health and Human Services (HHS) with discretion to operate the program and determine the reporting requirements. During 2020, the Hospital received \$11,407,618 of HHS Provider Relief Funds (PRF) and attested to the receipt of the PRF and agreement with the associated terms and conditions. During 2022, the Hospital received \$3,929,773 of PRF and American Rescue Plan Rural Payments (ARP) to providers who serve rural Medicaid and Medicare beneficiaries. The Hospital has chosen to follow the conditional contribution model for the funds. During the year ended September 30, 2022, the Hospital recognized \$3,929,773 of PRF and ARP for COVID-19 related expenses and lost revenues in the statements of operations. During the year ended September 30, 2021, no PRF funds were received or recognized by the Hospital. Management believes the conditions on which the funds depend were substantially met and that the position taken is a reasonable interpretation of the rules currently available. Due to the complexity of the reporting requirements and the continued issuance of clarifying guidance, there is at least a reasonable possibility the amount of income recognized related to the lost revenues and COVID-19 related expenses may change by a material amount. Any difference between amounts previously estimated and amounts subsequently determined to be recoverable or payable will be included in income in the year that such amounts become known.

In response to the COVID-19 pandemic, the Center for Medicare and Medicaid Services (CMS) made available an accelerated and advance payment program to Medicare providers. The Hospital received \$6,230,193 of accelerated advanced payments during 2020. Under the program, CMS began recouping payment from claims payments one year from the date the respective advances were made for a period of seventeen months. During 2022, the Hospital also made direct payments to CMS for amounts outstanding. As of November 2022, the remaining balance outstanding at September 30, 2022 had been repaid to CMS.

BRATTLEBORO MEMORIAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2022 and 2021

Interest Rate Swap

The Hospital uses an interest rate swap contract to mitigate the cash flow exposure of interest rate movements on variable-rate debt. The Hospital has adopted FASB ASC 815, *Derivatives and Hedging*, to account for its interest rate swap contract. The interest rate swap contract has not been designated as a cash flow hedge and thus changes in fair value are included within nonoperating gains (losses).

Fixed Prospective Revenue

The Hospital is a participant in OneCare Vermont, LLC, a statewide Accountable Care Organization (ACO) and has entered into a risk-bearing arrangement by participating in the Medicare Next Generation Model and Vermont Medicaid programs. Under both programs, the Hospital receives monthly fixed prospective payments for services provided to attributed members. The ACO is responsible for both the cost and quality of care for each attributed member. This is true whether that person uses little or no care or whether they require services consistently throughout the year. The Hospital recognizes its share of annual contract settlements as an increase or decrease in fixed prospective revenue.

Employee Fringe Benefits

The Hospital has an "earned time" plan which provides benefits to employees for paid leave hours. Under this plan, each employee earns paid leave for each period worked. These hours of paid leave may be used for vacations, holidays, or illnesses. Hours earned, but not used, are vested with the employee. The Hospital accrues a liability for such paid leave as it is earned. The earned time plan does not cover any contracted employees.

(Deficiency) Excess of Revenues, Gains, Other Support, and Nonoperating Gains (Losses) Over Expenses

The statements of operations include (deficiency) excess of revenues, gains, other support, and nonoperating gains (losses) over expenses. Changes in net assets without donor restrictions which are excluded from this measure, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

Income Taxes

The Hospital is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income.

Subsequent Events

For purposes of the preparation of these financial statements in conformity with GAAP, management has considered transactions or events occurring through January 20, 2023, the date the financial statements were available to be issued

BRATTLEBORO MEMORIAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2022 and 2021

2. Net Patient Service Revenue

Net patient service revenue consisted of the following for the years ended September 30:

	<u>2022</u>	<u>2021</u>
Gross patient service revenue	\$ 210,390,452	\$ 195,054,886
Less contractual allowances	130,526,475	119,833,061
Less charity care	<u>921,745</u>	<u>777,815</u>
	<u>131,448,220</u>	<u>120,610,876</u>
Net patient service revenue	\$ <u>78,942,232</u>	\$ <u>74,444,010</u>

The Hospital has agreements with CMS (Medicare) and the State of Vermont Department of Health and Human Services (Medicaid) that provide for payments at amounts different from their established rates. Revenue from the Medicare and Medicaid programs accounted for approximately 33% and 35% of the Hospital's net patient service revenue for the years ended September 30, 2022 and 2021, respectively.

Each performance obligation is separately identifiable from other promises in the customer contract. As the performance obligations are met (i.e., room, board, ancillary services, level of care), revenue is recognized based upon the allocated transaction price. The transaction price is allocated to separate performance obligations based upon the relative standalone selling price. In instances where management determines there are multiple performance obligations across multiple months, the transaction price is allocated by applying an estimated implicit and explicit rate to gross charges based on the separate performance obligations.

In assessing collectibility, the Hospital has elected the portfolio approach. This portfolio approach is being used as the Hospital has a large volume of similar contracts with similar classes of customers. The Hospital reasonably expects that the effect of applying a portfolio approach to a group of contracts would not differ materially from considering each contract separately. Management's judgment to group the contracts by portfolio is based on the payment behavior expected in each portfolio category. As a result, aggregating all of the contracts (which are at the patient level) by the particular payor or group of payors, will result in the recognition of the same amount of revenue as applying the analysis at the individual patient level.

Net patient service revenue recognized for the years ended September 30, 2022 and 2021 from these major payors is as follows:

	<u>2022</u>	<u>2021</u>
Medicare and Medicaid	\$ 26,013,239	\$ 26,161,744
Commercial and other	50,086,968	45,766,806
Self-pay	<u>2,842,025</u>	<u>2,515,460</u>
Total	\$ <u>78,942,232</u>	\$ <u>74,444,010</u>

BRATTLEBORO MEMORIAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2022 and 2021

3. Availability and Liquidity of Financial Assets

The Hospital has working capital of \$2,418,193 and \$2,398,853 at September 30, 2022 and 2021, respectively, and average days (based on normal expenditures) cash and cash equivalents on hand of 8 and 22 at September 30, 2022 and 2021, respectively.

The Hospital's goal is to maintain financial assets to meet 30 days of operating expenses (\$8,326,530 and \$7,499,978 at September 30, 2022 and 2021, respectively) and to provide for a reasonable amount of liquidity to meet unexpected needs of the Hospital. The annual operating budget is determined with the goal of generating sufficient net patient service revenue and cash flows to allow the Hospital to be sustainable to support its mission and vision while also adhering to the annual budget parameters mandated by State of Vermont's Green Mountain Care Board.

Financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, scheduled principal payments on debt, and capital construction costs not financed with debt, were as follows as of September 30:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 2,329,328	\$ 5,505,198
Patient and other accounts receivable, net	<u>15,974,251</u>	<u>13,762,509</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 18,303,579</u>	<u>\$ 19,267,707</u>

At September 30, 2022 and 2021, cash and cash equivalents included \$862,950 and \$5,073,884, respectively, specifically related to the receipt of Medicare Accelerated Payments. This represented 3 and 20 respectively, days of cash and cash equivalents on hand.

The Hospital has assets limited as to use of \$26,458,508 and \$36,493,220 at September 30, 2022 and 2021, respectively, that are designated assets set aside by the Board primarily for future capital improvements. These assets limited as to use are not available for general expenditure within the next year; however, the internally designated amounts could be made available, if necessary.

4. Supplies Inventory

The major classes of supplies inventory consisted of the following as of September 30:

	<u>2022</u>	<u>2021</u>
Central storeroom	\$ 374,489	\$ 372,979
Operating room	1,218,287	1,248,589
Pharmacy	524,489	396,710
340B program retail pharmacy	105,842	94,523
Other	<u>301,980</u>	<u>211,048</u>
	<u>\$ 2,525,087</u>	<u>\$ 2,323,849</u>

BRATTLEBORO MEMORIAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2022 and 2021

5. Investments

Investments consisted of the following as of September 30:

	<u>2022</u>	<u>2021</u>
Assets limited as to use internally designated		
Cash and cash equivalents	\$ 659,287	\$ 9,499,570
Marketable equity securities	17,656,687	16,894,485
Mutual funds	<u>8,142,534</u>	<u>10,099,165</u>
	<u>\$ 26,458,508</u>	<u>\$ 36,493,220</u>
Assets limited as to use under bond agreement for capital acquisition		
Cash and cash equivalents	<u>\$ 6,745,017</u>	<u>\$ 10,326,766</u>
Other investments with donor restrictions		
Cash and cash equivalents	<u>\$ 49,813</u>	<u>\$ 54,632</u>

Investment income (loss) and gains (losses) on assets limited as to use are comprised of the following:

	<u>2022</u>	<u>2021</u>
Income (loss)		
Interest and dividend income, net of fees		
Assets limited as to use internally designated	\$ 364,655	\$ 284,271
Other investments with donor restrictions	<u>(4,819)</u>	<u>2,478</u>
	359,836	286,749
Net realized gain on investments		
Assets limited as to use internally designated	<u>247,415</u>	<u>972,567</u>
Total investment income	<u>\$ 607,251</u>	<u>\$ 1,259,316</u>
Net unrealized (losses) gains on investments		
Assets limited as to use internally designated	<u>\$ (5,650,201)</u>	<u>\$ 3,803,188</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level of the donors' original gift(s) or what the Uniform Prudent Management of Institutional Funds Act may require the Hospital to retain as a fund of perpetual duration (underwater). The Hospital's policy prohibits appropriating amounts from underwater endowment funds. There were no deficiencies of this nature that are reported in net assets with donor restrictions as of September 30, 2022 and 2021.

BRATTLEBORO MEMORIAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2022 and 2021

6. Property and Equipment

As of September 30, the cost and accumulated depreciation of depreciable assets by major classes of assets were as follows:

	<u>2022</u>	<u>2021</u>
Land	\$ 45,499	\$ 45,499
Land improvements	2,353,172	2,353,172
Building and improvements	47,247,974	44,090,690
Major moveable equipment	31,253,829	29,149,444
Construction-in-progress	<u>21,670,945</u>	<u>11,838,112</u>
	102,571,419	87,476,917
Less accumulated depreciation	<u>59,558,156</u>	<u>56,418,432</u>
	<u>\$ 43,013,263</u>	<u>\$ 31,058,485</u>

Depreciation expense for the years ended September 30, 2022 and 2021 was \$3,457,834 and \$3,391,903, respectively. At September 30, 2022, capitalized interest of \$123,114 is included in construction-in-progress.

7. Borrowings

On December 1, 2019, the Hospital entered into a loan agreement with Vermont Educational and Health Buildings Finance Agency issuing a draw down bond not to exceed \$12,500,000 (Brattleboro Memorial Hospital Project 2019 Series A). The draw down bond is held by M&T Bank. The proceeds are being used to finance the Hospital's capital improvement project. Interest on the bond is based on monthly rates as determined by the loan and trust agreement. Monthly interest payments began February 1, 2020 on the outstanding principal drawn. Semi-annual principal payments due June and December 1st commence on December 1, 2022 and end on December 1, 2049. The draw down bond is collateralized by the assets of the Hospital.

As part of the loan agreement, the Hospital was required to deposit funds into an equity account held by M&T Bank for the payment of the Hospital's share of the capital improvement project costs in an amount not less than \$10,000,000. Any balance remaining in the equity account at the completion of the capital improvement project will be returned to the Hospital.

On June 1, 2016, the Hospital entered into a loan agreement with Vermont Educational and Health Buildings Finance Agency issuing \$10,500,000 in direct placement bonds (Brattleboro Memorial Hospital Project 2016 Series A). The bonds are held by M&T Bank. The proceeds were used to advance refund the previously issued Series 2008 A bonds, terminate the associated swap agreement, and finance the Hospital's capital expenditures. Interest on the bonds is based on monthly rates as determined by the loan and trust agreement. The Hospital may prepay certain of the bonds according to the terms of the loan and trust agreement. The bonds are collateralized by the assets of the Hospital.

BRATTLEBORO MEMORIAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2022 and 2021

There are various restrictive covenants, which include compliance with certain financial ratios and a detail of events constituting defaults. The Hospital is in compliance with these requirements at September 30, 2022.

Long-term debt consisted of the following as of September 30:

	<u>2022</u>	<u>2021</u>
Series 2019 A bond with variable rate interest (3.2255% at September 30, 2022), payable in monthly installments of interest only through December 1, 2022.	\$ 10,227,115	\$ 2,989,378
Series 2016 A bonds with variable rate interest (2.3895% at September 30, 2022), payable in monthly installments, including interest, of approximately \$92,205 through February 2027.	4,567,322	5,558,962
Equipment note payable in 72 monthly installments of \$507 including interest (fixed rate of 2.49%), through November 2026. Collateralized by the equipment.	24,070	29,036
Capital lease, payable in 48 monthly installments of \$6,967 including interest (fixed rate of 3.26%), through October 2027. Collateralized by the associated asset.	<u>350,722</u>	<u>-</u>
Total long-term debt before unamortized bond issuance costs	15,169,229	8,577,376
Less: unamortized bond issuance costs	<u>249,801</u>	<u>272,320</u>
Total long-term debt	14,919,428	8,305,056
Less current portion	<u>1,177,124</u>	<u>997,328</u>
Total long-term debt, excluding current portion	<u>\$ 13,742,304</u>	<u>\$ 7,307,728</u>

Maturities for long-term debt in subsequent fiscal years ending September 30 are as follows:

2023 (included in current liabilities)	\$ 1,177,124
2024	1,197,992
2025	1,220,068
2026	1,242,594
2027	610,134
Thereafter	<u>9,721,317</u>
	<u>\$ 15,169,229</u>

BRATTLEBORO MEMORIAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2022 and 2021

Interest Rate Swap

In connection with the issuance of the Series 2016 A Bonds, the Hospital entered into an interest rate swap agreement for ten years for \$10,500,000, or 100% of the original bond issue, to hedge the interest rate risk associated with the Series 2016 A Bonds. The notional amount of the swap will amortize such that it is equal to 100% of the outstanding bond balance. The interest rate swap agreement requires the Hospital to pay a bank, the swap counterparty, a fixed rate of 1.0375% in exchange for the counterparty's payment to the Hospital of a variable rate based on 68% of the one-month USD-LIBOR-BBA rate.

The Hospital is required to include the fair value of the swap in the balance sheet, and annual changes, if any, in the fair value of the swap in the statements of operations. For example, during the term of the swap, the annually calculated value of the swap will be reported as an asset if interest rates increase above those expected on the date the swap was entered into (as an unrealized gain in the statements of operations), which will generally be indicative that the net fixed rate the Hospital is paying is below market expectations of rates during the remaining term of the swap. The swap will be reported as a liability (as an unrealized loss in the statements of operations) if interest rates decrease below those expected on the date the swap was entered into, which will generally be indicative that the net fixed rate the Hospital is paying on the swap is above market expectations of rates during the remaining term of the swap. These annual accounting adjustments of value changes in the swap transaction are non-cash recognition requirements, the net effect of which will be zero at the end of the swap's term. The Hospital retains the right to terminate the swap agreement should the need arise. The Hospital recorded the swap at its asset position of \$738,064 and liability position of \$90,024 at September 30, 2022 and 2021, respectively.

8. Net Assets With Donor Restrictions

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

	<u>2022</u>	<u>2021</u>
Funds with donor restrictions temporary in nature		
Auxiliary programs	\$ 49,813	\$ 54,632
Charity care	86,246	106,086
Other programs	<u>442,709</u>	<u>624,293</u>
Total funds maintained with donor restrictions temporary in nature	<u>578,768</u>	<u>785,011</u>
Funds maintained in perpetuity, the income from which is expendable for:		
Medical library	1,202	1,202
Capital	20,000	20,000
Unrestricted purposes	<u>257,840</u>	<u>257,840</u>
Total funds maintained with donor restrictions held in perpetuity	<u>279,042</u>	<u>279,042</u>
Total net assets with donor restrictions	<u>\$ 857,810</u>	<u>\$ 1,064,053</u>

BRATTLEBORO MEMORIAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2022 and 2021

9. Functional Expenses

The statements of operations report certain expense categories that are attributable to both healthcare services and administrative support. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Fringe benefits are allocated based on wages, postage and freight are allocated on the basis of supply costs, and depreciation, interest, utilities and general repairs are allocated based on square footage. Expenses related to healthcare services and administrative support were as follows for the years ended September 30:

<u>2022</u>	<u>Healthcare Services</u>	<u>Administrative Support</u>	<u>Total</u>
Salaries, wages, and benefits	\$ 49,479,734	\$ 7,094,396	\$ 56,574,130
Supplies and other	16,056,489	2,279,325	18,335,814
Contract services	15,452,929	5,435,900	20,888,829
Depreciation and amortization	2,735,593	1,234,500	3,970,093
Health care improvement tax	5,396,961	-	5,396,961
Interest expense	<u>63,047</u>	<u>47,338</u>	<u>110,385</u>
	<u>\$ 89,184,753</u>	<u>\$ 16,091,459</u>	<u>\$ 105,276,212</u>
<u>2021</u>	<u>Healthcare Services</u>	<u>Administrative Support</u>	<u>Total</u>
Salaries, wages, and benefits	\$ 47,298,512	\$ 6,781,653	\$ 54,080,165
Supplies and other	14,594,002	2,071,715	16,665,717
Contract services	11,597,371	4,079,625	15,676,996
Depreciation and amortization	2,690,163	1,213,999	3,904,162
Health care improvement tax	4,680,807	-	4,680,807
Interest expense	<u>83,413</u>	<u>62,629</u>	<u>146,042</u>
	<u>\$ 80,944,268</u>	<u>\$ 14,209,621</u>	<u>\$ 95,153,889</u>

10. Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at September 30, 2022 and 2021 was as follows:

	<u>2022</u>	<u>2021</u>
Medicare	35 %	33 %
Other third-party payors	22	22
Patient	24	27
Blue Cross	8	8
Medicaid	<u>11</u>	<u>10</u>
	<u>100 %</u>	<u>100 %</u>

BRATTLEBORO MEMORIAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2022 and 2021

The Hospital maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes it is not exposed to any significant risk on cash and cash equivalents.

11. Health Care Improvement Tax

Effective July 1, 1991, a health care improvement tax was imposed on hospitals, nursing homes, and home health agencies as part of a program to upgrade services in Vermont. The State of Vermont pays the Hospital with funds received from the health care improvement trust fund and federal matching funds. Hospitals in Vermont are assessed a certain percentage of net patient service revenue which is determined annually by the General Assembly. The following tax was paid and disproportionate share funds received for the years ended September 30:

	<u>2022</u>	<u>2021</u>
Disproportionate share received	\$ 1,008,435	\$ 631,732
Medicaid assessment expensed	<u>(5,396,961)</u>	<u>(4,680,807)</u>
	<u>\$ (4,388,526)</u>	<u>\$ (4,049,075)</u>

12. Commitments and Contingencies

Self-Funded Insurance Plans - The Hospital is self-insured with respect to healthcare coverage. This coverage is used to provide medical health benefits to its eligible employees and their eligible dependents. An accrual for management's estimate of healthcare claims incurred, but not reported, is included in other accrued expenses in the balance sheets.

Professional Liability Insurance - The Hospital is insured against malpractice loss contingencies under a claims-made insurance policy. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrence during its term, but reported subsequently, will be uninsured. The Hospital is subject to complaints, claims and litigation due to potential claims which arise in the normal course of business. FASB ASC 954-450, *Health Care Entities - Contingencies*, provides clarification to companies in the healthcare industry on the accounting for professional liability and similar insurance. ASC 954-450 states that insurance liabilities should not be presented net of insurance recoveries and that an insurance receivable should be recognized on the same basis as the liabilities, subject to the need for a valuation allowance for uncollectible accounts. The Hospital has evaluated its exposure to losses arising from identifiable potential claims and has properly accounted for them in the balance sheets for the years ended September 30, 2022 and 2021.

Litigation - In the normal course of business, the Hospital may be involved in litigation and annual third-party audits. Management, as part of its ongoing risk management, consults with its legal counsel to assess the impact of these matters on the Hospital.

BRATTLEBORO MEMORIAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2022 and 2021

Emergency Department Physician Staffing - The Hospital has an agreement with Dartmouth-Hitchcock Clinic to provide twenty-four hour per day physician staffing for its emergency department. Contract rates are reviewed annually and adjusted, if required, by the mutual consent of both parties. The agreement can be terminated at any time by mutual consent of both parties or by either party with 60-day prior written notification. The agreement renews on an annual basis.

Construction and Renovation Project - In December 2016, the Hospital filed a Certificate of Need (CON) application with the State of Vermont to build a new four story medical office building to be known as the Ron Reed building, renovate the existing operating room suite and perioperative area, and replace the Hospital's three boilers. In October 2017, the State of Vermont approved the CON application and in October 2021, an amended CON was approved to increase the total anticipated cost of the project from approximately \$23 million to approximately \$27 million. The Hospital is funding the project using internally designated investments and new tax-exempt borrowings. The Hospital has a construction contract commitment of approximately \$17 million related to the project. The project is expected to be completed in October 2023.

The Hospital has paid or accrued costs of approximately \$21.5 million and \$10.6 million for the CON project as of September 30, 2022 and 2021, respectively.

Deferred System Development Costs - During 2016, the Hospital entered into an agreement with Cerner Corporation (Cerner) to implement a hospital-wide electronic health record (EHR) system. The Cerner agreement has an initial term of seven years with successive 12-month terms. The costs incurred by the Hospital related to the implementation of the EHR system through June 1, 2017, the date the EHR system was placed in service, have been deferred and are being amortized over the remaining term of the Cerner agreement. Net deferred system development costs as of September 30, 2022 and 2021 were \$213,581 and \$725,841, respectively. Associated amortization expense was \$512,260 in 2022 and 2021. The following is a schedule of future amortization of deferred system development costs as of September 30, 2022:

2023	\$ <u>213,581</u>
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The following schedule reflects the Hospital's minimum payments to Cerner under the agreement for future subscription, transaction, and maintenance services as of September 30, 2022:

2023	\$ <u>121,331</u>
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13. Related Party Transactions

The Hospital contracts with SVHSC for management services. The Hospital recorded \$1,050,741 and \$1,320,000 in management service expenses in September 30, 2022 and 2021, respectively. As of September 30, 2022 and 2021, the Hospital had a receivable due from SVHSC of \$132,358 and \$95,173, respectively.

BRATTLEBORO MEMORIAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2022 and 2021

In accordance with FASB ASC 958, the Hospital has recognized an interest in the net assets of SVHSC for assets donated to SVHSC with the Hospital designated as the beneficiary.

14. Retirement Plans

The Hospital has a defined contribution plan for active employees to which the Hospital contributes 5% of the annual salary of the participating employee. Plan expense for the years ended September 30, 2022 and 2021 was \$1,413,579 and \$1,482,632, respectively.

The Hospital also has a defined contribution plan for active employees to which the Hospital contributes a matching contribution. In order to receive the match, employees must meet certain eligibility requirements. The Hospital matches 100% of elective deferrals to a limit based on years of service. Participants must be employed on the last day of the calendar year in order to receive the match. Plan expense for the years ended September 30, 2022 and 2021 was \$186,109 and \$203,662, respectively.

15. Fair Value Measurement

FASB ASC 820, *Fair Value Measurement*, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1:** Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2:** Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.
- Level 3:** Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

BRATTLEBORO MEMORIAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2022 and 2021

Assets and liabilities measured at fair value on a recurring basis are summarized below.

	<u>Fair Value Measurements at September 30, 2022</u>		
	<u>Total</u>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Assets:			
Investments			
Cash and short-term investments	\$ 7,454,117	\$ 7,454,117	\$ -
Marketable equity securities	17,656,687	17,656,687	-
Mutual funds	8,142,534	8,142,534	-
Interest rate swap	<u>738,064</u>	-	<u>738,064</u>
Total assets	<u>\$ 33,991,402</u>	<u>\$ 33,253,338</u>	<u>\$ 738,064</u>

	<u>Fair Value Measurements at September 30, 2021</u>		
	<u>Total</u>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Assets:			
Investments			
Cash and short-term investments	\$ 19,880,968	\$ 19,880,968	\$ -
Marketable equity securities	16,894,485	16,894,485	-
Mutual funds	<u>10,099,165</u>	<u>10,099,165</u>	-
Total assets	<u>\$ 46,874,618</u>	<u>\$ 46,874,618</u>	<u>\$ -</u>
Liabilities:			
Interest rate swap	<u>\$ 90,024</u>	<u>\$ -</u>	<u>\$ 90,024</u>

The fair value of Level 2 assets and liabilities are primarily based on quoted market prices of the underlying or similar instruments, interest rates, and credit risk. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.