



Brattleboro Memorial Hospital, Inc.

FINANCIAL STATEMENTS

September 30, 2020 and 2019

With Independent Auditor's Report



BRATTLEBORO MEMORIAL HOSPITAL, INC.

September 30, 2020 and 2019

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Brattleboro Memorial Hospital, Inc.

We have audited the accompanying financial statements of Brattleboro Memorial Hospital, Inc. (Hospital), a Vermont not-for-profit corporation and wholly-controlled subsidiary of Southern Vermont Health Services Corporation, which comprise the balance sheets as of September 30, 2020 and 2019, 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital's preparation and fair presentation of the 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 Hospital'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 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 financial statements referred to above present fairly, in all material respects, the financial position of Brattleboro Memorial Hospital, Inc. as of September 30, 2020 and 2019, and the results of its operations, changes in its net assets and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matter

Change in Accounting Principles

As discussed in Note 1 to the financial statements, in 2020 the Hospital adopted new accounting guidance, Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* and FASB ASU No. 2016-18, *Restricted Cash*. Our opinion is not modified with respect to these matters.

Berry Dunn McNeil & Parker, LLC

Manchester, New Hampshire
January 11, 2021
Registration No. 92-0000278

BRATTLEBORO MEMORIAL HOSPITAL, INC.

Balance Sheets

September 30, 2020 and 2019

ASSETS

	<u>2020</u>	<u>2019</u>
Current assets		
Cash and cash equivalents	\$ 20,789,148	\$ 1,786,356
Patient and other accounts receivable, net	9,254,257	12,281,904
Supplies inventory	2,601,993	2,441,469
Other current assets	<u>224,838</u>	<u>1,713,323</u>
Total current assets	<u>32,870,236</u>	<u>18,223,052</u>
Assets limited as to use		
Internally designated	31,448,042	32,903,923
Under bond agreement for capital acquisition	10,311,792	2,036,923
Other investments with donor restrictions	<u>52,154</u>	<u>55,376</u>
Total assets limited as to use	<u>41,811,988</u>	<u>34,996,222</u>
Interest in net assets of Southern Vermont Health Services Corporation (SVHSC)	899,193	887,114
Deferred system development costs, net	1,238,100	1,750,417
Property and equipment, net	<u>24,264,714</u>	<u>24,745,558</u>
 Total assets	 <u>\$ 101,084,231</u>	 <u>\$ 80,602,363</u>

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

LIABILITIES AND NET ASSETS

	<u>2020</u>	<u>2019</u>
Current liabilities		
Current portion of long-term debt	\$ 975,403	\$ 1,290,012
Accounts payable	8,939,693	3,809,587
Salaries, wages, and payroll taxes payable	563,814	235,440
Accrued retirement plan contribution	1,289,151	1,261,429
Accrued compensated absences	2,787,721	2,572,428
Other accrued expenses	1,439,637	2,955,234
Deferred revenue	287	1,600
Estimated third-party payor settlements	872,148	1,150,000
Medicare accelerated payments	6,230,193	-
Due to affiliate	<u>105,689</u>	<u>53,809</u>
Total current liabilities	23,203,736	13,329,539
Long-term debt, less current portion	7,133,497	6,417,779
Interest rate swap	<u>191,397</u>	<u>19,590</u>
Total liabilities	<u>30,528,630</u>	<u>19,766,908</u>
Net assets		
Without donor restrictions	69,604,253	59,892,964
With donor restrictions	<u>951,348</u>	<u>942,491</u>
Total net assets	<u>70,555,601</u>	<u>60,835,455</u>
Total liabilities and net assets	<u>\$101,084,231</u>	<u>\$ 80,602,363</u>

BRATTLEBORO MEMORIAL HOSPITAL, INC.

Statements of Operations

Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Revenues, gains, and other support without donor restrictions		
Patient service revenue (net of contractual allowances and discounts)	\$ 63,339,864	\$ 76,495,576
Less provision for bad debts	<u>2,185,137</u>	<u>3,585,192</u>
Net patient service revenue	61,154,727	72,910,384
U.S. Department of Health and Human Services (HHS) stimulus revenue	11,407,618	-
Fixed prospective revenue	15,160,030	10,850,820
Other revenue	<u>5,195,545</u>	<u>3,884,700</u>
Total revenues, gains, and other support without donor restrictions	<u>92,917,920</u>	<u>87,645,904</u>
Expenses		
Salaries, wages, and benefits	52,181,888	48,185,348
Supplies and other	15,123,691	15,423,851
Contracted services	15,733,928	14,283,684
Depreciation and amortization	4,216,370	4,201,707
Health care improvement tax	5,006,382	4,742,584
Interest expense	<u>140,293</u>	<u>138,150</u>
Total expenses	<u>92,402,552</u>	<u>86,975,324</u>
Operating income	<u>515,368</u>	<u>670,580</u>
Nonoperating gains (losses)		
Income from investments	636,724	1,197,035
Other nonoperating income	96,369	93,364
Unrealized loss on interest rate swap	(171,807)	(328,009)
Change in net unrealized gains (losses) on investments	1,629,216	(240,274)
Gifts and donations without donor restrictions	<u>-</u>	<u>27,515</u>
Nonoperating gains, net	<u>2,190,502</u>	<u>749,631</u>
Excess of revenues, gains, other support, and nonoperating gains (losses) over expenses	2,705,870	1,420,211
Net assets transferred from SVHSC for capital expenditures	<u>7,005,419</u>	<u>32,719</u>
Increase in net assets without donor restrictions	<u>\$ 9,711,289</u>	<u>\$ 1,452,930</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, 2020 and 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balances, October 1, 2018	\$ <u>58,440,034</u>	\$ <u>942,711</u>	\$ <u>59,382,745</u>
Excess of revenues, gains, other support, and nonoperating gains (losses) over expenses	1,420,211	-	1,420,211
Investment loss	-	(2,990)	(2,990)
Change in interest in SVHSC	-	2,770	2,770
Net assets transferred from SVHSC for capital acquisitions	<u>32,719</u>	<u>-</u>	<u>32,719</u>
Change in net assets	<u>1,452,930</u>	<u>(220)</u>	<u>1,452,710</u>
Balances, September 30, 2019	<u>59,892,964</u>	<u>942,491</u>	<u>60,835,455</u>
Excess of revenues, gains, other support, and nonoperating gains (losses) over expenses	2,705,870	-	2,705,870
Investment loss	-	(3,222)	(3,222)
Change in interest in SVHSC	-	12,079	12,079
Net assets transferred from SVHSC for capital acquisitions	<u>7,005,419</u>	<u>-</u>	<u>7,005,419</u>
Change in net assets	<u>9,711,289</u>	<u>8,857</u>	<u>9,720,146</u>
Balances, September 30, 2020	<u>\$ 69,604,253</u>	<u>\$ 951,348</u>	<u>\$ 70,555,601</u>

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

BRATTLEBORO MEMORIAL HOSPITAL. INC.

Statements of Cash Flows

Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Change in net assets	\$ 9,720,146	\$ 1,452,710
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation and amortization	4,216,370	4,201,707
Amortization of debt issuance costs, included in interest expense	21,408	15,851
Provision for bad debts	2,185,137	3,585,192
Gain on sale of equipment	-	(757)
Net realized gain on investments	(182,526)	(505,085)
Net unrealized gain (loss) on investments	(1,629,216)	240,274
Unrealized loss on interest rate swap	171,807	328,009
Change in interest in net assets of SVHSC	(12,079)	(2,770)
Net assets transferred from SVHSC for capital acquisition	(7,005,419)	(32,719)
Decrease (increase) in		
Patient and other accounts receivable, net	842,510	(8,314,032)
Supplies inventory	(160,524)	278,747
Other current assets	1,488,485	(1,416,094)
Due from affiliate	-	96,401
Increase (decrease) in		
Accounts payable	4,527,502	(1,109,741)
Accrued salaries, wages and benefits	543,667	(1,417,816)
Due to affiliate	51,880	53,809
Deferred revenue	(1,313)	1,600
Other current liabilities	(1,487,875)	575,205
Medicare accelerated payments	6,230,193	-
Estimated third-party payor settlements	(277,852)	(285,567)
Net cash provided (used) by operating activities	<u>19,242,301</u>	<u>(2,255,076)</u>
Cash flows from investing activities		
Purchase of property and equipment	(2,620,605)	(3,676,392)
Proceeds from sale of equipment	-	21,500
Proceeds from the sale of investments	5,660,113	8,950,358
Purchase of investments	(2,392,490)	(3,828,622)
Net cash provided by investing activities	<u>647,018</u>	<u>1,466,844</u>
Cash flows from financing activities		
Additions to debt issuance costs	(200,000)	-
Net assets transferred from SVHSC for capital acquisition	7,005,419	32,719
Proceeds from issuance of long-term debt	1,869,713	-
Repayments of long-term debt	(1,290,012)	(1,274,005)
Net cash provided (used) by financing activities	<u>7,385,120</u>	<u>(1,241,286)</u>
Net increase (decrease) in cash and cash equivalents and restricted cash	27,274,439	(2,029,518)
Cash and cash equivalents and restricted cash, beginning of year	<u>3,878,655</u>	<u>5,908,173</u>
Cash and cash equivalents and restricted cash, end of year	\$ <u>31,153,094</u>	\$ <u>3,878,655</u>
Breakdown of cash and cash equivalents and restricted cash, end of year:		
Cash and cash equivalents	\$ 20,789,148	\$ 1,786,356
Restricted cash included in assets limited as to use	10,363,946	2,092,299
	\$ <u>31,153,094</u>	\$ <u>3,878,655</u>
Supplementary disclosures of cash flow information:		
Cash paid for interest	\$ <u>191,092</u>	\$ <u>263,165</u>

Non-cash transactions:

At September 30, 2020, there were \$602,604 of construction-in-progress additions included in accounts payable.

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

BRATTLEBORO MEMORIAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2020 and 2019

Nature of Business

Brattleboro Memorial Hospital, Inc. (Hospital) is a Vermont not-for-profit hospital. 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 Topic (ASC) 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 (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.

Cash and Cash Equivalents

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

BRATTLEBORO MEMORIAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2020 and 2019

Patient Accounts Receivable

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.

In evaluating the collectibility of accounts receivable, the Hospital analyzes past results and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary. For receivables associated with self-pay patients (which include both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a provision for bad debts in the period of service based on past experience, which indicates that many patients are unable or unwilling to pay amounts for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or eligible) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged against the allowance for doubtful accounts.

During 2020, the Hospital decreased its estimate from \$5,882,225 to \$4,325,450 in the allowance for doubtful accounts relating to self-pay patients, and during 2019, the Hospital decreased its estimate from \$7,177,617 to \$5,882,225 in the allowance for doubtful accounts relating to self-pay patients. During 2020, self-pay write-offs decreased from \$4,880,584 to \$4,563,974 and during 2019, self-pay write-offs increased from \$3,620,560 to \$4,880,584. The changes resulted from trends experienced in the collection of amounts from self-pay patients with and without insurance. The decrease in the allowance in 2019 was a result of increased write-offs of self-pay balances deemed uncollectible, resulting in an improvement in the aging and balance of self-pay receivables.

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

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 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.

BRATTLEBORO MEMORIAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2020 and 2019

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.

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 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 Disease (COVID-19)

In March 2020 the World Health Organization declared COVID-19 a global pandemic and the United States federal government declared COVID-19 a national emergency. The Hospital implemented an emergency response to ensure the safety of its patients, staff and the community. In an effort to reduce the spread of COVID-19 and in response to the urging of the Centers for Disease Control and Prevention and the U.S. Surgeon General, elective and non-urgent care was postponed beginning in mid-March. Additional factors in this decision were the effort to reduce the use of personal protective equipment which was in critically short supply worldwide.

BRATTLEBORO MEMORIAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2020 and 2019

The Coronavirus Aid, Relief, and Economic Security Act established the Provider Relief Fund (PRF) to support healthcare providers in the battle against the COVID-19 outbreak. The PRF is being administered by HHS. The Hospital received PRF in the amount of \$11,407,618 during the year ended September 30, 2020. These funds are to be used for qualifying expenses and to cover lost revenue due to COVID-19. The PRF are considered contributions and are recognized as income when qualifying expenditures have been incurred. Management believes the Hospital met the conditions necessary to recognize these contributions in the amount of \$11,407,618 as HHS stimulus revenue as of September 30, 2020. Management believes 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 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 will begin recouping payment from claims payments one year from the date the respective advances were made to the Hospital.

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).

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Changes in these estimates resulted in an increase in net patient service revenue of approximately \$1,059,000 and \$351,000 in 2020 and 2019, respectively.

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

BRATTLEBORO MEMORIAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2020 and 2019

Fixed Prospective Revenue

The Hospital is a participant in OneCare Vermont, LLC, a statewide Accountable Care Organization (ACO). Beginning January 1, 2018, the Hospital entered into a risk-bearing arrangement by participating in the Medicare Next Generation Model. Under both the Medicare Next Generation Model program and the Vermont Medicaid program, 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.

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

The statements of operations include 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.

Newly Adopted Accounting Pronouncements

In 2020, the Hospital adopted FASB Accounting Standards Update (ASU) No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which clarifies and improves the accounting guidance for contributions received and contributions made. The amendments in this ASU assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of ASC 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other accounting guidance, and (2) distinguishing between conditional and unconditional contributions. This ASU was adopted by the Hospital for the year ended September 30, 2020. Adoption of the ASU did not have a material impact on the Hospital's financial reporting.

BRATTLEBORO MEMORIAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2020 and 2019

In 2020, the Hospital adopted FASB ASU No. 2016-18, *Restricted Cash*. ASU No. 2016-18 requires an entity to present restricted cash with cash and cash equivalents in the statement of cash flows. The amount of restricted cash reclassified at the beginning of the year ended September 30, 2019 was \$2,080,314.

Reclassification

Certain amounts in the 2019 financial statements have been reclassified to conform to the current year's presentation. These reclassifications had no effect on the 2019 operating 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 11, 2021, the date the financial statements were available to be issued.

2. Community Benefit

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.
- 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>2020</u>	<u>2019</u>
Charges foregone, based on established rates	<u>\$ 2,546,000</u>	<u>\$2,423,000</u>
Estimated costs and expenses incurred to provide charity care ¹	<u>\$ 1,364,000</u>	<u>\$1,159,000</u>
Equivalent percentage of charity care services to all services	<u>1.48 %</u>	<u>1.33 %</u>

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

BRATTLEBORO MEMORIAL HOSPITAL, INC.

Notes to Financial Statements

September 30, 2020 and 2019

In addition, the Hospital incurs a payment shortfall in the treatment of Medicaid patients. This government program reimburses for medical services at less than the costs incurred to provide those services. In 2020 and 2019, the Hospital incurred a shortfall of approximately \$8,235,000 and \$10,138,000, respectively, related to treating Medicaid patients.

The Hospital also provided other community benefits upon which no monetary value has been placed.

3. Patient and Other Accounts Receivable and Net Patient Service Revenue

Patient and Other Accounts Receivable

Patient and other accounts receivable is stated net of contractual allowances and allowance for doubtful accounts and is comprised of the following as of September 30:

	<u>2020</u>	<u>2019</u>
Patient accounts receivable	\$ 26,254,735	\$ 31,533,587
Other accounts receivable	853,975	751,413
Contractual allowances	(13,529,003)	(14,120,871)
Allowance for doubtful accounts	<u>(4,325,450)</u>	<u>(5,882,225)</u>
Patient accounts receivable, net	<u>\$ 9,254,257</u>	<u>\$ 12,281,904</u>

Net Patient Service Revenue

Patient service revenue and contractual and other allowances consisted of the following for the years ended September 30:

	<u>2020</u>	<u>2019</u>
Inpatient services	\$ 36,997,650	\$ 39,377,750
Outpatient services	<u>135,519,648</u>	<u>142,474,280</u>
	<u>172,517,298</u>	<u>181,852,030</u>
Less (plus):		
Medicare and Medicaid allowances	81,284,977	83,455,541
State disproportionate share	(532,030)	(585,323)
Other contractual allowances	25,878,768	20,062,853
Charity care allowances	<u>2,545,719</u>	<u>2,423,383</u>
	<u>109,177,434</u>	<u>105,356,454</u>
Patient service revenue (net of contractual allowances and discounts)	63,339,864	76,495,576
Less provision for bad debts	<u>2,185,137</u>	<u>3,585,192</u>
Net patient service revenue	<u>\$ 61,154,727</u>	<u>\$ 72,910,384</u>

BRATTLEBORO MEMORIAL HOSPITAL, INC.

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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 its established rates. Revenue from the Medicare and Medicaid programs accounted for approximately 52% and 47% of the Hospital's net patient service revenue for the years ended September 30, 2020 and 2019, respectively.

The Hospital recognizes patient service revenue associated with services rendered to patients who have third-party payor coverage on the basis of contractual rates for such services. For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates (or on the basis of discounted rates, if negotiated or provided by policy). Based on historical trends, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services rendered. Thus, the Hospital records a provision for bad debts related to uninsured patients in the period the services are rendered. Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized during the year ended September 30, 2020 totaled \$63,339,864, of which \$58,950,829 was revenue from third-party payors and \$4,389,035 was revenue from self-pay patients, and during the year ended September 30, 2019 totaled \$76,495,576, of which \$72,231,200 was revenue from third-party payors and \$4,264,376 was revenue from self-pay patients.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties and exclusion from the Medicare and Medicaid programs. Differences between amounts previously estimated and amounts subsequently determined to be recoverable or payable are included in net patient service revenues in the year that such amounts become known.

A summary of the payment arrangements with major third-party payors 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, 2017.

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

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4. Availability and Liquidity of Financial Assets

The Hospital has working capital of \$9,666,500 and \$4,893,513 at September 30, 2020 and 2019, respectively, and average days (based on normal expenditures) cash and cash equivalents on hand of 86 and 8 at September 30, 2020 and 2019, respectively.

The Hospital's goal is to maintain financial assets to meet 30 days of operating expenses (\$7,248,179 and \$6,803,311 at September 30, 2020 and 2019, 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>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 20,789,148	\$ 1,786,356
Patient accounts receivable, net	<u>9,254,257</u>	<u>12,281,904</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 30,043,405</u>	<u>\$ 14,068,260</u>

At September 30, 2020, cash and cash equivalents include \$6,230,193 specifically related to Medicare Accelerated Payments. This represents 26 days of cash and cash equivalents on hand.

The Hospital has assets limited as to use of \$31,448,042 and \$32,903,923 at September 30, 2020 and 2019, 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.

5. Supplies Inventory

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

	<u>2020</u>	<u>2019</u>
Central storeroom	\$ 254,414	\$ 211,108
Operating room	1,533,585	1,452,134
Pharmacy	482,491	476,847
340B program retail pharmacy	110,521	90,301
Other	<u>220,982</u>	<u>211,079</u>
	<u>\$ 2,601,993</u>	<u>\$ 2,441,469</u>

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6. Investments

Investments consisted of the following as of September 30:

	<u>2020</u>	<u>2019</u>
Assets limited as to use internally designated		
Cash and cash equivalents	\$ 12,363,198	\$ 15,152,377
Marketable equity securities	10,369,655	8,693,734
Mutual funds	8,213,652	7,552,139
U.S. Treasury securities	<u>501,537</u>	<u>1,505,673</u>
	<u>\$ 31,448,042</u>	<u>\$ 32,903,923</u>
Assets limited as to use under bond agreement for capital acquisition		
Cash and cash equivalents	\$ <u>10,311,792</u>	\$ <u>2,036,923</u>
Other investments with donor restrictions		
Cash and cash equivalents	\$ <u>52,154</u>	\$ <u>55,376</u>

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

	<u>2020</u>	<u>2019</u>
Income (loss)		
Interest and dividend income, net of fees		
Assets limited as to use internally designated	\$ 454,198	\$ 691,950
Other investments with donor restrictions	<u>(3,222)</u>	<u>(2,990)</u>
	450,976	688,960
Net realized gain on investments		
Assets limited as to use internally designated	<u>182,526</u>	<u>505,085</u>
Total investment income	\$ <u>633,502</u>	\$ <u>1,194,045</u>
Change in net unrealized gains (losses) on investments		
Assets limited as to use internally designated	\$ <u>1,629,216</u>	\$ <u>(240,274)</u>

BRATTLEBORO MEMORIAL HOSPITAL, INC.

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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, 2020 and 2019.

7. Property and Equipment

As of September 30, 2020 and 2019, the cost and accumulated depreciation of depreciable assets by major classes of assets were as follows:

	<u>2020</u>	<u>2019</u>
Land	\$ 45,499	\$ 45,499
Land improvements	2,353,172	2,335,937
Building and improvements	43,990,564	41,734,469
Major moveable equipment	27,737,532	26,764,139
Construction-in-progress	<u>3,233,127</u>	<u>3,417,809</u>
	77,359,894	74,297,853
Less accumulated depreciation	<u>53,095,180</u>	<u>49,552,295</u>
	<u>\$ 24,264,714</u>	<u>\$ 24,745,558</u>

Depreciation expense for the years ended September 30, 2020 and 2019 was \$3,704,053 and \$3,689,390, respectively.

8. 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 People's United Muni Finance Corporation. 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.

BRATTLEBORO MEMORIAL HOSPITAL, INC.

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As part of the loan agreement, the Hospital was required to deposit funds into an equity account held by People's United 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 Peoples United 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.

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, 2020.

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

	<u>2020</u>	<u>2019</u>
Series 2019 A bond with variable rate interest (1.32255% at September 30, 2020), payable in monthly installments of interest only through December 1, 2022.	\$ 1,869,551	\$ -
Series 2016 A bonds with variable rate interest (0.75149% at September 30, 2020), payable in monthly installments, including interest, of approximately \$92,205 through February 2027.	6,534,187	7,492,882
Unsecured note payable, due in quarterly installments of \$83,162 through September 2020, including interest calculated at 3.5%. Paid in 2020.	<u>-</u>	<u>331,156</u>
Total long-term debt before unamortized bond issuance costs	8,403,738	7,824,038
Less: unamortized bond issuance costs	<u>294,838</u>	<u>116,247</u>
Total long-term debt	8,108,900	7,707,791
Less current portion	<u>975,403</u>	<u>1,290,012</u>
Total long-term debt, excluding current portion	<u>\$ 7,133,497</u>	<u>\$ 6,417,779</u>

BRATTLEBORO MEMORIAL HOSPITAL, INC.

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

2021 (included in current liabilities)	\$ 975,403
2022	991,900
2023	1,108,877
2024	1,125,794
2025	1,143,284
Thereafter	<u>3,058,480</u>
	<u>\$ 8,403,738</u>

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 liability position of \$191,397 and \$19,590 at September 30, 2020 and 2019, respectively.

Revolving Line of Credit

On April 23, 2020, the Hospital entered into a \$10,000,000 revolving line of credit agreement with People's United Bank with an interest rate equal to the One-Month LIBOR rate plus 1.50%, with a floor of 2.50%. The line of credit is collateralized by the gross receipts of the Hospital. The agreement expires on April 22, 2021. At September 30, 2020, there were no amounts outstanding under this agreement.

BRATTLEBORO MEMORIAL HOSPITAL, INC.

Notes to Financial Statements

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9. Net Assets With Donor Restrictions

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

	<u>2020</u>	<u>2019</u>
Funds with donor restrictions temporary in nature		
Auxiliary programs	\$ 52,154	\$ 55,376
Charity care	82,381	74,850
Other programs	537,771	530,122
Capital acquisition	<u>-</u>	<u>3,101</u>
Total funds maintained with donor restrictions temporary in nature	<u>672,306</u>	<u>663,449</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>\$ 951,348</u>	<u>\$ 942,491</u>

10. 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>2020</u>	<u>Healthcare Services</u>	<u>Administrative Support</u>	<u>Total</u>
Salaries, wages, and benefits	\$ 45,640,287	\$ 6,541,601	\$ 52,181,888
Supplies and other	13,243,740	1,879,951	15,123,691
Contract services	11,639,512	4,094,416	15,733,928
Depreciation and amortization	2,408,232	1,808,138	4,216,370
Health care improvement tax	5,006,382	-	5,006,382
Interest expense	<u>80,130</u>	<u>60,163</u>	<u>140,293</u>
	<u>\$ 78,018,283</u>	<u>\$ 14,384,269</u>	<u>\$ 92,402,552</u>

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<u>2019</u>	<u>Healthcare Services</u>	<u>Administrative Support</u>	<u>Total</u>
Salaries, wages, and benefits	\$ 42,648,354	\$ 5,536,994	\$ 48,185,348
Supplies and other	13,421,826	2,002,025	15,423,851
Contract services	10,680,377	3,603,307	14,283,684
Depreciation and amortization	2,535,231	1,666,476	4,201,707
Health care improvement tax	4,742,584	-	4,742,584
Interest expense	<u>84,607</u>	<u>53,543</u>	<u>138,150</u>
	<u>\$ 74,112,979</u>	<u>\$ 12,862,345</u>	<u>\$ 86,975,324</u>

11. 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, 2020 and 2019 was as follows:

	<u>2020</u>	<u>2019</u>
Medicare	30 %	31 %
Other third-party payors	21	20
Patient	29	21
Blue Cross	9	10
Medicaid	<u>11</u>	<u>18</u>
	<u>100 %</u>	<u>100 %</u>

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.

12. 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>2020</u>	<u>2019</u>
Disproportionate share received	\$ 532,030	\$ 585,323
Medicaid assessment expensed	<u>(5,006,382)</u>	<u>(4,742,584)</u>
	<u>\$ (4,474,352)</u>	<u>\$ (4,157,261)</u>

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13. 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 has also created a tail coverage reserve in the event that insurance providers are changed. This reserve was \$677,618 and \$1,015,977 as of September 30, 2020 and 2019, respectively. 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, 2020 and 2019.

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.

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.

Certificate of Need (CON) Approval - In December 2016, the Hospital filed a 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. The total anticipated cost of the project is approximately \$23 million. In October 2017, the State of Vermont approved the CON application. 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 Hospital has paid or accrued costs of approximately \$3 million for the CON project as of September 30, 2020. The majority of these expenditures are for architect and engineering services. In May 2020, the Hospital completed and placed into service the boiler replacement portion of the CON project in the amount of approximately \$1.6 million.

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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, 2020 and 2019 were \$1,238,100 and \$1,750,417, respectively. Associated amortization expense was \$512,317 in 2020 and 2019. The following is a schedule of future amortization of deferred system development costs as of September 30, 2020:

2021	\$ 512,317
2022	512,317
2023	<u>213,466</u>
	<u>\$ 1,238,100</u>

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, 2020:

2021	\$ 772,336
2022	756,096
2023	<u>121,331</u>
	<u>\$ 1,649,763</u>

14. Related Party Transactions

The Hospital contracts with SVHSC for management services. The Hospital recorded \$1,319,999 and \$1,023,000 in management service expenses in September 30, 2020 and 2019, respectively. As of September 30, 2020 and 2019, the Hospital had a payable due to SVHSC of \$105,689 and \$53,809, respectively, for amounts owed to SVHSC.

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.

15. 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, 2020 and 2019 was \$1,398,419 and \$1,414,657, respectively.

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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, 2020 and 2019 was \$178,572 and \$243,678, respectively.

16. 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.

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

	<u>Fair Value Measurements at September 30, 2020</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	\$ 22,727,144	\$ 22,727,144	\$ -
U.S. Treasury securities	501,537	501,537	-
Marketable equity securities	10,369,655	10,369,655	-
Mutual funds	<u>8,213,652</u>	<u>8,213,652</u>	<u>-</u>
Total assets	<u>\$ 41,811,988</u>	<u>\$ 41,811,988</u>	<u>\$ -</u>
Liabilities:			
Interest rate swap	<u>\$ 191,397</u>	<u>\$ -</u>	<u>\$ 191,397</u>

BRATTLEBORO MEMORIAL HOSPITAL, INC.

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	<u>Fair Value Measurements at September 30, 2019</u>		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
	<u>Total</u>		
Assets:			
Investments			
Cash and short-term investments	\$ 17,244,676	\$ 17,244,676	\$ -
U.S. Treasury obligations and government securities	1,505,673	1,505,673	-
Marketable equity securities	8,693,734	8,693,734	-
Mutual funds	<u>7,552,139</u>	<u>7,552,139</u>	<u>-</u>
Total assets	<u>\$ 34,996,222</u>	<u>\$ 34,996,222</u>	<u>\$ -</u>
Liabilities:			
Interest rate swap	<u>\$ 19,590</u>	<u>\$ -</u>	<u>\$ 19,590</u>

The fair value of Level 2 assets is 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.