

Baystate Health, Inc. and Subsidiaries

Consolidated Financial Statements as of and for
the Years Ended September 30, 2022 and 2021,
and Independent Auditor's Report

BAYSTATE HEALTH, INC. AND SUBSIDIARIES

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Baystate Health, Inc.
Springfield, Massachusetts

Opinion

We have audited the consolidated financial statements of Baystate Health, Inc. and subsidiaries ("Baystate Health"), which comprise the consolidated statements of financial position as of September 30, 2022 and 2021, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Baystate Health as of September 30, 2022 and 2021, and the results of its operations and changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (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 Baystate Health 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 accounting principles generally accepted in the United States of America, 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 Baystate Health's ability to continue as a going concern for 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 GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement

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 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 Baystate Health'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 Baystate Health'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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the disclosure of short-duration contracts included in Note 14 to the consolidated financial statements be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Financial Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Deloitte + Touche LLP

December 21, 2022

BAYSTATE HEALTH, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF SEPTEMBER 30, 2022 AND 2021 (In thousands)

	2022	2021		2022	2021
ASSETS			LIABILITIES AND NET ASSETS		
CURRENT ASSETS:			CURRENT LIABILITIES:		
Cash and cash equivalents	\$ 218,525	\$ 446,007	Accounts payable	\$ 257,670	\$ 220,865
Investments	353,235	585,878	Medical claims payable	82,832	82,599
Accounts receivable, patients	185,810	170,728	Accrued salaries and wages	125,258	115,545
Accounts receivable, other	51,970	62,734	Accrued interest payable	2,522	2,472
Estimated final settlements receivable	23,578	20,065	Estimated final settlements payable	24,002	28,121
Inventories	43,599	40,616	Deferred revenue	30,968	17,920
Prepaid expenses and other current assets	27,371	21,499	Contract liabilities	-	172,467
			Current portion of long-term debt	19,059	39,813
			Current portion of operating lease obligations	9,063	11,458
Total current assets	904,088	1,347,527	Total current liabilities	551,374	691,260
LONG-TERM ASSETS:			LONG-TERM DEBT	580,441	515,868
Investments	68,606	86,094			
Equity investment in unconsolidated affiliates	12,728	6,936	OPERATING LEASE OBLIGATIONS	26,217	54,329
Pension asset	-	28,765			
Deferred expenses and other long-term assets	23,907	21,023	PENSION LIABILITY	38,830	2,407
Goodwill	5,877	5,877			
Land, buildings, and equipment—net	820,191	726,760	INSURANCE LIABILITY LOSS RESERVES	144,998	153,634
Operating lease right-of-use assets	35,298	65,445			
			OTHER LIABILITIES	78,232	113,165
Total long-term assets	966,607	940,900	Total liabilities	1,420,092	1,530,663
ASSETS WHOSE USE IS LIMITED:			NET ASSETS:		
Board-designated funds:			Net assets without donor restrictions:		
Cash and investments	308,530	361,909	Operating	1,250,219	1,575,775
Investments of captive insurance company	142,203	165,860	Pension adjustment	(360,830)	(298,534)
Investments held by trustee under debt agreements	46	117			
Beneficial interest in perpetual trusts	37,394	48,346	Total net assets without donor restrictions	889,389	1,277,241
Deferred compensation investments	72,310	88,591	Net assets with donor restrictions	121,697	145,346
Total assets whose use is limited	560,483	664,823	Total net assets	1,011,086	1,422,587
			TOTAL LIABILITIES AND NET ASSETS	\$ 2,431,178	\$ 2,953,250
TOTAL ASSETS	\$ 2,431,178	\$ 2,953,250			

See notes to consolidated financial statements.

BAYSTATE HEALTH, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021 (In thousands)

	2022	2021
OPERATING REVENUES:		
Net patient service revenue	\$1,678,943	\$1,650,541
Premiums	922,900	837,017
Other revenue	242,014	284,857
Net assets released from donor restrictions for operations	<u>6,690</u>	<u>4,368</u>
Total operating revenues	<u>2,850,547</u>	<u>2,776,783</u>
OPERATING EXPENSES:		
Salaries and wages	1,117,688	1,012,705
Supplies and expense	1,259,969	1,117,920
Medical claims and capitation	556,625	523,786
Depreciation and amortization	78,469	75,296
Interest expense	<u>9,055</u>	<u>10,200</u>
Total operating expenses	<u>3,021,806</u>	<u>2,739,907</u>
(LOSS) INCOME FROM OPERATIONS BEFORE OTHER EXPENSE	(171,259)	36,876
OTHER EXPENSE	<u>6,393</u>	<u>9,615</u>
(LOSS) INCOME FROM OPERATIONS	<u>(177,652)</u>	<u>27,261</u>
NONOPERATING (LOSS) INCOME:		
Investment income	9,515	5,013
Net realized gain on investments	132,041	7,050
Net unrealized (loss) gain on investments	(298,672)	112,579
Equity gain (loss) in unconsolidated affiliates	580	(253)
Net interest cost on swap agreements	(484)	(650)
Change in fair value of swap agreements	1,282	797
Other components of net periodic pension (cost) benefit—net	(3,011)	2,217
Other	<u>9,001</u>	<u>(20,868)</u>
Total nonoperating (loss) income—net	<u>(149,748)</u>	<u>105,885</u>
(DEFICIENCY) EXCESS OF REVENUES OVER EXPENSES	(327,400)	133,146
OTHER CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:		
Net assets released from restrictions for capital	1,844	1,477
Funds utilized for property and equipment	-	105
Pension adjustment	(62,296)	132,078
Other	<u>-</u>	<u>9</u>
(DECREASE) INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>\$ (387,852)</u>	<u>\$ 266,815</u>

See notes to consolidated financial statements.

BAYSTATE HEALTH, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021 (In thousands)

	2022	2021
NET ASSETS WITHOUT DONOR RESTRICTIONS:		
(Deficiency) excess of revenues over expenses	\$ (327,400)	\$ 133,146
Net assets released from restrictions for capital	1,844	1,477
Funds utilized for property and equipment	-	105
Pension adjustment	(62,296)	132,078
Other	<u>-</u>	<u>9</u>
(Decrease) increase in net assets without donor restrictions	<u>(387,852)</u>	<u>266,815</u>
NET ASSETS WITH DONOR RESTRICTIONS:		
Restricted investment income	447	375
Net realized and unrealized (loss) gain on investments	(13,669)	14,227
Change in fair value of perpetual trusts	(10,952)	6,833
Contributions	11,503	7,843
Net assets released from donor restrictions:		
For operations	(6,690)	(4,368)
For capital	(1,844)	(1,477)
Other	<u>(2,444)</u>	<u>317</u>
(Decrease) increase in net assets with donor restrictions	<u>(23,649)</u>	<u>23,750</u>
(DECREASE) INCREASE IN NET ASSETS	(411,501)	290,565
NET ASSETS—Beginning of year	<u>1,422,587</u>	<u>1,132,022</u>
NET ASSETS—End of year	<u>\$ 1,011,086</u>	<u>\$ 1,422,587</u>

See notes to consolidated financial statements.

BAYSTATE HEALTH, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021 (In thousands)

	2022	2021
OPERATING ACTIVITIES:		
(Decrease) increase in net assets	\$ (411,501)	\$ 290,565
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	78,469	75,296
Asset impairment		3,074
Amortization of right-of-use operating leases	1,285	8,551
Pension adjustment	62,296	(132,078)
Net realized and unrealized loss (gain) on investments	182,143	(157,964)
Change in fair value of perpetual trusts	10,952	(6,833)
Donor-restricted contributions	(11,503)	(7,843)
Changes in equity investments in affiliates	(687)	(2,824)
Changes in operating assets and liabilities:		
Accounts receivable, patients	(15,082)	(21,785)
Net estimated final settlements	(7,632)	(23,294)
Accounts payable and accrued expenses	38,907	54,780
Pension asset/liability	2,892	(6,783)
Medical claims payable	233	10,423
Insurance liability loss reserves	(8,636)	9,726
Contract liabilities	(172,467)	(57,975)
Deferred revenue	13,048	(66,080)
Operating lease obligations	(1,645)	(8,627)
Other	(36,013)	22,592
Net cash used in operating activities	<u>(274,941)</u>	<u>(17,079)</u>
INVESTING ACTIVITIES:		
Proceeds from sale and maturities of investments	1,373,914	391,947
Purchase of investments	(1,212,538)	(532,080)
Purchase of joint venture interest	(5,105)	-
Purchase of land, buildings, and equipment	<u>(134,239)</u>	<u>(109,946)</u>
Net cash provided by (used in) investing activities	<u>22,032</u>	<u>(250,079)</u>
FINANCING ACTIVITIES:		
Proceeds from donor-restricted contributions	11,503	7,843
Proceeds from debt issuance	28,743	-
Finance lease principal payments	(3,580)	(2,442)
Repayments of debt and capital lease obligations	<u>(11,239)</u>	<u>(9,793)</u>
Net cash provided by (used in) financing activities	<u>25,427</u>	<u>(4,392)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(227,482)	(271,550)
CASH AND CASH EQUIVALENTS—Beginning of year	<u>446,007</u>	<u>717,557</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 218,525</u>	<u>\$ 446,007</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION—Cash paid for interest	<u>\$ 9,005</u>	<u>\$ 10,104</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES— Land, buildings, and equipment purchases included in accounts payable	<u>\$ 8,002</u>	<u>\$ 1,201</u>

See notes to consolidated financial statements.

BAYSTATE HEALTH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021

1. ORGANIZATION

Baystate Health, Inc. (BH), based in Springfield, Massachusetts, is the parent corporation of a not-for-profit, multi-institutional integrated health care organization with the mission “to improve the health of the people in our communities every day, with quality and compassion.”

BH and its consolidated subsidiaries (collectively, “Baystate Health”) currently include the following:

- Baystate Medical Center, Inc. (BMC), located in Springfield, Massachusetts, is the largest of the four hospitals in the BH system. BMC, the leading health facility in western Massachusetts, is the only tertiary-care referral medical center and Level 1 trauma center in the region. It is also home to western New England’s only neonatal and pediatric intensive care units. BMC is a 780-bed, tax-exempt, not-for-profit, academic teaching hospital.
- Baystate Total Home Care, Inc. (BTHC) is a tax-exempt, not-for-profit corporation, wholly owned by BMC.
- Baystate Franklin Medical Center, Inc. (BFMC), located in Greenfield, Massachusetts, is an 89-bed, tax-exempt, not-for-profit, acute-care community hospital. BFMC serves the northern tier of northwestern Massachusetts and southern Vermont.
- Baystate Wing Hospital Corporation (BWH), located in Palmer, Massachusetts, is a 68-bed, tax-exempt, not-for-profit, acute-care community hospital.
- Baystate Noble Hospital, Inc. (BNH), located in Westfield, Massachusetts, is an 85-bed, tax-exempt, not-for-profit, acute-care community hospital. BNH provides inpatient, outpatient, and emergency care services for residents in the greater Westfield community.
- Baystate Medical Practices, Inc. (BMP) is a tax-exempt, not-for-profit organization. BMP includes a multispecialty academic group practice established to support the educational and research programs of Baystate Health, as well as numerous primary care and outreach services. BMP also includes community-based primary care (internists and pediatricians), medical and surgical practices, obstetrical and gynecological, and hospitalist physicians dedicated to the care and management of patients hospitalized at BH-affiliated hospitals. BMP also provides preventative, diagnostic, and therapeutic health services enhancing the cardiovascular clinical, educational, community, and research activities for BH and its service area.
- Baystate Visiting Nurse Association & Hospice (BVNAH) is a tax-exempt, not-for-profit organization that provides comprehensive home health care committed to providing the highest quality care to patients and families, primarily in the home setting. BVNAH meets individual needs by bringing experienced nurses, rehabilitation therapists, social workers, and home care aides to patients’ homes.

- Health New England, Inc. (HNE) is a tax-exempt, not-for-profit health maintenance organization located in Springfield, Massachusetts. HNE’s service area in Massachusetts includes Franklin, Berkshire, Hampden, and Hampshire counties and parts of Worcester County. HNE also serves Hartford, Litchfield, and Tolland counties in Connecticut. HNE includes the following subsidiaries:
 - HNE Holding Company is the parent company of HNE Advisory Services, Inc. (HAS); Health New England Insurance Services, Inc. (HIS); and HNE Insurance Company, Inc. (HIC), three for-profit subsidiaries. Through HAS, HNE provides administrative services for self-insured employee health benefit plans sponsored by employer groups. HIS provides insurance brokerage services. Through HIC, an insurance subsidiary, HNE provides the Medicare Supplement line of business.
 - HNE of Connecticut, Inc. (HOC) is a not-for-profit insurance subsidiary that services the health insurance needs of the Connecticut population. Beginning January 1, 2018, HOC no longer offered health coverage, but remains in existence, and continues to manage and pay unresolved claims that were outstanding as of December 31, 2017. As of September 30, 2022, there are no outstanding claims.
- Ingraham Corporation (IC) is a for-profit, taxable corporation.
- Baystate Administrative Services, Inc. (BAS) is a tax-exempt, not-for-profit corporation that provides management support for the BH subsidiaries, including human resources, marketing, strategic planning, information and technology services, and financial services.
- Baystate Health Foundation, Inc. (BHF) is a tax-exempt, charitable organization established for the purpose of fund-raising for health care-related activities, in support, and for the benefit of BH and those subsidiaries of BH that are tax-exempt, not-for-profit corporations and to hold endowment, charitable donations, and other funds for their benefit.
- Baystate Health Insurance Company, Ltd. (BHIC) is a captive insurance company organized and licensed in the Cayman Islands, British West Indies. BHIC provides professional liability and other insurance coverage to the corporate members of BH and its employees. BHIC offers malpractice insurance to members of BH’s medical staff and certain nonemployed physicians who meet criteria for participation.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation—The accompanying consolidated financial statements include the accounts of BH and the consolidated subsidiaries noted above. All intercompany and subsidiary accounts and transactions have been eliminated in consolidation.

Use of Estimates—The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include recognition of net patient service revenue, which includes explicit and implicit price concessions; recognition of revenue related to COVID-related funding, investment valuation; estimated final settlements receivable and payable, including risk-sharing contracts; medical claims payable; insurance liability loss reserves; and the pension (liability) asset.

Net Assets—Baystate Health reports net assets and revenues, expenses, gains, and losses based upon the existence or absence of donor-imposed restrictions. In the accompanying consolidated financial statements, net assets that have similar characteristics have been combined into the following categories:

Net Assets without Donor Restrictions—Net assets without donor restrictions are those that are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by action of the Baystate Health Board of Trustees (the “Board”) or may otherwise be limited by contractual agreements with outside parties.

Net Assets with Donor Restrictions—Net assets with donor restrictions are those whose use by Baystate Health are subject to donor-imposed stipulations that can be fulfilled by actions of Baystate Health, that expire by the passage of time, or that must be maintained permanently by Baystate Health. At September 30, 2022 and 2021, net assets with donor restrictions consist of amounts restricted as to spending for various purposes—such as education, research, clinical, and health care programs, and cumulative net appreciation of permanently restricted funds that are available for Board appropriation. Net assets with donor restrictions also consist of the original cost of endowment gifts to be held in perpetuity and beneficial interests in perpetual trusts.

Revenues from sources other than donor-restricted contributions are reported as increases in net assets without donor restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments are reported as increases or decreases in net assets without donor restrictions, unless their use is restricted by explicit donor stipulations or by law. Expirations of donor restrictions recognized on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as releases from net assets with donor restrictions to net assets without donor restrictions. Donor restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are acquired or placed in service.

Contributions, including unconditional promises to give and grant awards, are recognized as revenue in the period received. Contributions received with donor-imposed restrictions are reported as increases to net assets with donor restrictions. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair values at the date of the gift. Contributions to be received after one year are discounted at a risk-free rate commensurate with the expected payment term. Amortization of the discount is recorded as contribution revenue in the appropriate net asset category. An allowance is recorded for uncollectible contributions based upon management’s judgment and analysis of the creditworthiness of the donors, past collection experience, and other relevant information.

Cash and Cash Equivalents—Cash and cash equivalents include all highly liquid investments with a maturity of three months or less when purchased.

Investments—Investments include cash equivalents, mutual funds, fixed-income securities, and equity securities, as well as interests in limited partnerships, hedge funds, and commingled funds. All investments are recorded at estimated fair value in the consolidated statements of financial position.

Interest and dividends on investments are included in other revenue or nonoperating income (loss) in the consolidated statements of operations, unless the income or loss is restricted by donor or law. Realized and unrealized gains and losses on investments are included in other revenue, nonoperating income (loss), or net assets with donor restrictions, as applicable. Investment-related expenses, such as custodial fees and investment fees, are netted against investment income and are immaterial for the years ended September 30, 2022 and 2021.

Baystate Health has elected the fair value option for its investments and reflects changes in the fair value of its investments, including both increases and decreases, whether realized or unrealized, in its excess of revenue over expenses. Within excess revenues over expenses, Baystate Health recognized net unrealized (losses) gains on investments totaling \$(298,672,000) and \$112,579,000 for the years ended September 30, 2022 and 2021, respectively.

Certain investments are included in pooled investment funds. Current market value is used to determine the percentage of each fund in the pool. Income from investments of a pool, including gains or losses, is allocated to participating funds based on the respective fund's percentage of the pool.

Accounts Receivable, Patients—Accounts receivable, including billed accounts and unbilled accounts for which Baystate Health has the unconditional right to payment and estimated amounts due from third-party payers for retroactive adjustments, are receivables if right to consideration is unconditional and only the passage of time is required before payment of that consideration is due. Any estimated uncollectable amounts are generally considered implicit price concessions that are a direct reduction to patient accounts receivable and revenue rather than an allowance for doubtful accounts.

Contract Assets—Amounts related to services provided to patients for which they have not been billed and that do not meet the conditions of unconditional right to payment at the end of the reporting period are contract assets. For health care operations, contract assets consist primarily of services that have been provided to patients who are still receiving inpatient care in hospital facilities at the end of the reporting period. Contract assets related to health care operations are included in accounts receivable, patients in the accompanying consolidated statements of financial position. The opening and closing balances of contract assets for health care operations are as follows:

Contract assets at October 1, 2020	\$ 14,841,000
Increase	<u>3,244,000</u>
Contract assets at September 30, 2021	18,085,000
Decrease	<u>(3,637,689)</u>
Contract assets at September 30, 2022	<u>\$ 14,447,311</u>

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

Equity Investment in Unconsolidated Affiliates—Baystate Health participates in joint ventures without operational control and accounts for the investment in those unconsolidated affiliates as equity investments.

Costs of Borrowing—Deferred financing costs are amortized over the weighted-average term of the bonds. At September 30, 2022 and 2021, deferred financing costs totaled \$3,063,000 and \$3,194,000, respectively, and are classified as long-term debt in the accompanying consolidated statements of financial position.

Goodwill—Baystate Health tests its goodwill for impairment annually or whenever events or changes in circumstances indicate an impairment may have occurred. Baystate Health tested its goodwill for impairment as of July 1. There was no impairment of goodwill for the years ended September 30, 2022 and 2021.

Assets Whose Use Is Limited—Assets whose use is limited include assets held by the trustee under debt agreements and designated assets set aside by the Board for future capital improvements and

other strategic initiatives, which are in furtherance of Baystate Health's exempt and charitable purposes. Also included are investments of the captive insurance company, deferred compensation investments, and beneficial interests in perpetual trusts.

Land, Buildings, and Equipment—Net—Land, buildings, and equipment are stated at cost, less depreciation and amortization determined on the straight-line basis. Useful life is assigned using the American Hospital Association's guide, *Estimated Useful Lives of Depreciable Hospital Assets*.

Maintenance and repairs are charged to expense as incurred. Betterments and major renewals are capitalized. Cost of assets sold or retired, and the related amounts of accumulated depreciation are eliminated from the accounts in the year of disposal and the resulting gain or loss is included in other revenue. Buildings and equipment under finance lease obligations are amortized using the straight-line method over the shorter period of the lease term or the estimated useful life. Such amortization is included in depreciation and amortization in the consolidated statements of operations. 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.

Right-of-Use Lease Assets and Lease Liabilities—Baystate Health determines if an arrangement is a lease at inception of the contract. The right-of-use assets represent the right to use the underlying assets for the lease term and the lease liabilities represent the obligation to make lease payments arising from the leases. Right-of-use assets are recognized at commencement date based on the present value of lease payments over the lease term, adjusted for any initial direct costs incurred and lease incentives received. For operating leases, the liability is initially measured as the present value of the unpaid lease payments. For finance leases, the lease liability is initially measured as the present value of unpaid lease payments and is subsequently measured at amortized cost using the effective interest method. Baystate Health uses the implicit rate noted within the contract, when available. Otherwise, Baystate Health uses its incremental borrowing rate estimated using existing debt issuances. Baystate Health does not recognize leases, for operating or finance type, with an initial term of 12 months or less ("short-term leases") in the consolidated statements of financial position, and the lease expense for these short-term leases is recognized on a straight-line basis over the lease term within supplies and expense in the consolidated statements of operations. Finance lease right-of-use assets are included in property and equipment with the related liabilities included in current and long-term debt in the consolidated statements of financial position. Operating lease right-of-use assets and related current and long-term liabilities are separately presented in the consolidated statements of financial position. Expenses for operating leases are recognized within supplies and expense in the consolidated statements of operations and amortization of assets held under finance leases are included in depreciation and amortization expense in the consolidated statements of operations.

Baystate Health's finance leases are primarily for real estate and operating leases are primarily for real estate, vehicles, and medical and office equipment. Real estate leases include outpatient, medical office, ground, and corporate administrative office space. Real estate lease agreements typically have an initial term of two to 10 years and equipment lease agreements typically have an initial term of two to four years. Real estate leases may include one or more options to renew, with renewals that can extend the lease term from two to 10 years. The exercise of lease renewal options is at Baystate Health's sole discretion. For accounting purposes, options to extend or terminate a lease are included in the lease term when it is reasonably certain that the option will be exercised.

Certain of Baystate Health's lease agreements for real estate include payments based on actual common area maintenance expenses and others include rental payments adjusted periodically for

inflation. These variable lease payments are recognized in supplies and expense but are not included in the right-of-use asset or liability balances. Lease agreements do not contain any material residual value guarantees, restrictions, or covenants.

Medicare Cash Advances—Accelerated Medicare payments requested by Baystate Health for its acute care hospitals were received in April 2020 and were provided through the CARES Act. On October 1, 2020, the Continuing Appropriations Act, 2021 and Other Extensions Act (the “Act”) was passed, which revised the Medicare Accelerated and Advance Payment (AAP) Program repayment terms and interest rate for amounts received between the passage of the CARES Act and the end of the COVID-19 public health emergency. The Act delays the beginning of the recoupment of the advance payments to 12 months after the receipt of AAP funds and extends the full repayment term to 29 months. In addition, the Act caps recoupments at 25% for the first 11 months of repayment and 50% for the following six months. The interest rate is capped at 4% for amounts that remain outstanding at the end of the revised recoupment period. The amounts yet to be recouped are recorded as contract liabilities and other liabilities in the consolidated statement of financial position as of September 30, 2021. As of September 30, 2022, approximately \$370,000 was not yet recouped and is included in deferred revenue in the consolidated statement of financial position.

Consolidated Statements of Operations—All activities of Baystate Health deemed by management to be ongoing and central to the provision of health care and insurance services are reported as operating revenues and expenses.

Other expense in the consolidated statement of operations for the year ended September 30, 2022, consisted of severance costs of approximately \$4,809,000 and demolition costs of approximately \$1,584,000 in connection with the anticipated closure of a patient care facility. Other expense in the consolidated statement of operations for the year ended September 30, 2021, consisted of severance costs of approximately \$2,125,000 and impairment and demolition costs of approximately \$3,074,000 and \$4,416,000, respectively, in connection with the anticipated closure of a patient care facility.

Other activities which are considered nonoperating include investment income and realized gains and losses on investments for the noninsurance entities, unrealized gains and losses on investments, investment return on deferred compensation plan investments and related compensation expense, equity gains and losses in unconsolidated affiliates, interest on swap agreements, changes in fair value of swap agreements, and income taxes.

The consolidated statements of operations include excess of revenues over expenses as the performance indicator. Changes in net assets without donor restrictions, which are excluded from excess of revenues over expenses, include net assets released from restrictions for capital, funds utilized for property and equipment, and the pension adjustment.

Other Revenue—Other revenue includes nonpatient pharmacy contracts, physician service agreements, other nonpatient-related point of service revenues, amounts received under research grants and contracts, and CARES Act funding and other grant revenue related to the COVID-19 pandemic. For other revenue related to contracts with customers, Baystate Health recognizes revenue in the period in which performance obligations under contracts are satisfied by transferring goods or services to customers, in the amounts to which Baystate Health expects to be entitled, which are the transaction prices allocated to the distinct services.

The CARES Act authorized \$100 billion in funding to hospitals and other health care providers to be distributed through the Public Health and Social Services Emergency Fund (“Provider Relief Fund”).

Furthermore, the Paycheck Protection Program and Health Care Enhancement Act (“PPHCE Act,” collectively the “Acts”) enacted on April 24, 2020, provided an additional \$75 billion in emergency appropriations to the Provider Relief Fund. During fiscal year 2022, BH applied for and received Phase 4 Provider Relief Fund grants and Rural payments under the American Rescue Plan Act (“ARP Act”) of 2021. Payments from the Provider Relief Fund and the ARP Act are intended to compensate health care providers for lost revenues and qualified expenses incurred in response to the COVID-19 pandemic and are not required to be repaid, provided that the recipients attest to and comply with certain terms and conditions, including limitations on balance billing and not using the funding to reimburse expenses or losses that other sources are obligated to reimburse. Baystate Health received \$47,990,000 and \$0 in payments under the Provider Relief Fund grant, the ARP Act, and other grants during 2022 and 2021, respectively, and recognized \$46,145,000 and \$66,635,000, as other revenue in the consolidated statements of operations for 2022 and 2021, respectively. No balances remained unrecognized as of September 30, 2022 and 2021, respectively.

Net Patient Service Revenue—Baystate Health reports net patient service revenue at the amounts that reflect the consideration to which Baystate Health expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payers (including managed care payers and government programs), and others, and they include explicit and implicit price concessions, as well as variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, Baystate Health bills patients and third-party payers several days after the services are performed or shortly after discharge. Revenues are recognized as performance obligations are satisfied.

Baystate Health determines performance obligations based on the nature of the services provided. Baystate Health recognizes revenues for performance obligations satisfied over time based on actual charges incurred in relation to total expected charges. Baystate Health believes that this method provides a faithful depiction of the transfer of services over the term of performance obligations based on the inputs needed to satisfy the obligations. Generally, performance obligations satisfied over time relate to patients in Baystate Health’s hospitals receiving inpatient services. Baystate Health measures performance obligations from admission to the point when there are no further services required for the patient, which is generally the time of discharge. Baystate Health recognizes revenues for performance obligations satisfied at a point in time, which generally relate to patients receiving outpatient services, when (1) services are provided and (2) Baystate Health does not believe the patient requires additional services.

Because patient service performance obligations relate to contracts with a duration of less than one year, Baystate Health has elected to apply the optional exemption provided in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 606-10-50-14 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 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.

Baystate Health has elected the practical expedient allowed under ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payers for the effects of a significant financing component due to Baystate Health’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 payer pays for that

service will generally be one year or less. However, Baystate Health 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.

Baystate Health has elected the practical expedient provided by ASC 340-40-25-4 and all incremental customer contract acquisition costs are expensed as they are incurred, as the amortization period of the asset that Baystate Health otherwise would have recognized is one year or less in duration.

Baystate Health determines the transaction price based on gross charges for services provided, reduced by contractual adjustments provided to third-party payers, discounts provided to uninsured patients in accordance with the credit collection policy, and implicit price concessions provided primarily to uninsured patients. Baystate Health determines the estimates of contractual adjustments and discounts based on contractual agreements, discount policies, and historical experience. Baystate Health determines an estimate of implicit price concessions based on historical collection experience with these classes of patients using a portfolio approach as a practical expedient to account for patient contracts as collective groups rather than individually. The consolidated financial statements' effects of using this practical expedient are not materially different from an individual contract approach.

Gross charges are retail charges. They are not the same as actual pricing and they generally do not reflect what a health care provider is ultimately paid and, therefore, are not displayed in Baystate Health's consolidated statements of operations. Health care providers are typically paid amounts that are negotiated with insurance companies or are set by the government. Gross charges are used to calculate Medicare outlier payments and to determine certain elements of payment under managed care contracts (such as stop-loss payments). Because Medicare requires that a hospital's gross charges be the same for all patients (regardless of payer category), gross charges are what hospitals charge all patients prior to the application of discounts and allowances.

Medicaid payment rates are negotiated between the Division of Medical Assistance and individual hospitals. Medicare Prospective Payment System (PPS) regulations determine payments due to acute care hospitals for inpatient services provided to Medicare beneficiaries. Medicare payments for outpatient services are a blend of PPS and fee schedules.

Revenues under the traditional fee-for-service Medicare and Medicaid programs are based primarily on PPS regulations. Retrospectively determined cost-based revenues under these programs, which were more prevalent in earlier periods, and certain other payments, such as Indirect Medical Education, Direct Graduate Medical Education, disproportionate share hospital payments, and bad debt expense reimbursement, which are based on filed cost reports, are estimated using historical trends and current factors. Cost report settlements under these programs are subject to audit by Medicare and Medicaid auditors and administrative and judicial review and it can take several years until final settlement of such matters is determined and completely resolved. Because the laws, regulations, instructions, and rule interpretations governing Medicare, Medicaid, and Health Safety Net (HSN) reimbursement are complex and change frequently, the recorded estimates could change by material amounts.

Settlements with third-party payers 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 using the most likely outcome method. These settlements are estimated based on the terms of the payment agreement with the payer, correspondence from the payer, and historical settlement activity, including an assessment to ensure that 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.

During 2022 and 2021, Baystate Health recorded adjustments to amounts accrued for settlements related to prior fiscal years. The net effect of such adjustments was an increase in net patient service revenue of approximately \$18,969,000 and \$13,788,000 in 2022 and 2021, respectively.

Revenues under managed care plans are based primarily on payment terms involving predetermined rates per diagnosis, per-diem rates, discounted fee-for-service rates, and/or other similar contractual arrangements. These revenues are also subject to review and possible audit by the payers, which can take several years before they are completely resolved. The payers are billed for patient services on an individual patient basis. An individual patient's bill is subject to adjustment on a patient-by-patient basis in the ordinary course of business by the payers following their review and adjudication of each particular patient account. Baystate Health estimates the discounts for contractual allowances at the individual hospital level utilizing billing data on an individual patient basis or by payer class. At the end of each month, on an individual hospital basis, Baystate Health estimates the expected reimbursement for patients of managed care plans based on the applicable contract terms. Contractual allowance estimates are periodically reviewed for accuracy by taking into consideration known contract terms, as well as payment history. Baystate Health does not believe there were any adjustments to estimates of patient bills that were material to revenues. Managed care accounts, net of contractual allowances recorded, are further reduced to their net realizable value through implicit price concessions based on historical collection trends for these payers and other factors that affect the estimation process.

Baystate Health knows of no claims, disputes, or unsettled matters with any payer that would materially affect revenues that has not been adequately provided in the accompanying consolidated financial statements.

Generally, patients who are covered by third-party payers are responsible for related copays, coinsurance, and deductibles, which vary in amount. Baystate Health also provides services to uninsured patients and offers uninsured patients a discount from standard charges. Baystate Health estimates the transaction price for patients with copays, coinsurance, and deductibles and for those who are uninsured based on historical collection experience and current market conditions. Under the credit and collection policy, the discount offered to certain uninsured patients is recognized as a contractual allowance, which reduces net operating revenues at the time the self-pay accounts are recorded. The uninsured patient accounts, net of contractual allowances recorded, are further reduced to their net realizable value at the time they are recorded through implicit price concessions based on historical collection trends for self-pay accounts and other factors that affect the estimation process. There are various factors that can impact collection trends, such as changes in the economy, which, in turn, have an impact on unemployment rates and the number of uninsured and underinsured patients; the volume of patients through our emergency departments; the increased burden of copays, coinsurance amounts, and deductibles to be made by patients with insurance; and business practices related to collection efforts. These factors continuously change and can have an impact on collection trends and the estimation process. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to net patient service revenue in the period of the change.

Baystate Health has provided implicit price concessions, primarily to uninsured patients and patients with copays, coinsurance, and deductibles. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts

Baystate Health expects to collect based on Baystate Health’s collection history with similar patients. Although outcomes vary, Baystate Health’s policy is to attempt to collect amounts due from patients, including copays, coinsurance, and deductibles due from patients with insurance, at the time of service while complying with all federal and state statutes and regulations, including, but not limited to, the Emergency Medical Treatment and Active Labor Act (EMTALA). Generally, as required by EMTALA, patients may not be denied emergency treatment due to inability to pay. Therefore, services, including the legally required medical screening examination and stabilization of the patient, are performed without delay to obtain insurance information. In nonemergency circumstances or for elective procedures and services, it is Baystate Health’s policy to verify insurance prior to a patient being treated; however, there are various exceptions that can occur. Such exceptions can include, for example, instances where (1) Baystate Health is unable to obtain verification because the patient’s insurance company was unable to be reached or contacted; (2) a determination is made that a patient may be eligible for benefits under various government programs, such as Medicaid or Victims of Crime, and it takes several days or weeks before qualification for such benefits is confirmed or denied; and (3) under physician orders, Baystate Health provides services to patients that require immediate treatment.

HSN—In April 2006, the Commonwealth of Massachusetts passed Chapter 58 of the Acts of 2006, “An Act Providing Access to Affordable, Quality, Accountable Health Care;” the goal of which is to provide near-universal health insurance coverage to Massachusetts residents through a combination of Medicaid expansions, subsidized private insurance programs, insurance market reforms, and the HSN.

The HSN reimburses hospitals for uncompensated care based on actual services provided at rates approximating the PPS, subject to available funds. Like its predecessor, the uncompensated care pool, the HSN is partially funded by acute hospitals through an assessment on gross charges billed to nongovernmental payers.

Charity Care and Community Support—It is the policy of Baystate Health to provide care to any patient in need of medical care, regardless of the patient’s ability to pay for such care. Based upon the patient’s financial capability to pay, such care is provided free of charge or at amounts below normal charges. Because amounts determined to qualify as charity care are not pursued, they are not reported as revenue. The net cost of charity care includes the direct and indirect cost of providing charity care services, offset by revenues received from indigent care pools (primarily the HSN). The cost is estimated by utilizing a ratio of cost to gross charges applied to the gross uncompensated care charges associated with providing charity care.

The costs of charity care provided during the years ended September 30, 2022 and 2021, are as follows (in thousands):

	2022	2021
HSN assessment	\$ 7,649	\$ 7,100
HSN receipts	(2,679)	(4,519)
Free care (at cost)	<u>4,905</u>	<u>6,488</u>
 Total	 <u>\$ 9,875</u>	 <u>\$ 9,069</u>

In addition to the charity care provided to patients, Baystate Health has ongoing community outreach initiatives in the areas of health services access, education, safety, and community reinvestment. The initiatives include freestanding health centers; improving school-based health services; implementing

an immunization tracking system to link preschool-aged children to primary care providers; youth development programs; increasing minority employment; improving the community's health status; wellness, health, and safety programs for senior citizens; and health screenings and forums.

Premium Revenue— Premium revenue is generated from both insurance membership contracts and government-subsidized programs. Premiums are due monthly and are recognized as revenue during the period in which HNE is obligated to provide services to members. The insurance membership contracts generally cover a 12-month period and are subject to cancellation by the employer group or HNE upon 30 day written notice. Additionally, HNE administers insurance coverage for Medicaid ACO and Medicare programs. The government-subsidized programs represented approximately 50% and 49% of the total premium revenue in 2022 and 2021, respectively.

HNE enters risk-sharing arrangements with certain providers and payers, whereby a settlement amount is calculated based on actual medical claims experience as compared to budgeted amounts or a predetermined risk corridor, based upon contractual arrangements. These settlements are estimated and accrued during the period the related services were rendered and adjusted in future periods as final settlements are determined. During 2022 and 2021, HNE recorded adjustments to amounts accrued for risk-sharing settlements related to the prior fiscal year as a change in estimate. The net effect of the adjustments was an increase in premium revenue of approximately \$9,071,000 and \$2,796,000 in 2022 and 2021, respectively.

Risk Adjustment—The Affordable Care Act established a permanent risk adjustment program to transfer funds from qualified individual and small group insurance plans with below-average risk scores to plans with above-average risk scores. Based on the risk score of HNE's qualified plan members relative to the average risk score of members of other qualified plans throughout the Commonwealth of Massachusetts, HNE estimates the ultimate risk adjustment receivables or payables and reflects the impact as an adjustment to premium revenue. At September 30, 2022 and 2021, HNE recorded a net payable of approximately \$7,576,000 and \$3,857,000, respectively, under the risk adjustment program, recorded in accounts payable in the accompanying consolidated statements of financial position.

Medical Claims and Capitation—The cost of medical claims and capitation, including claims related to self-insurance, is accrued for in the period in which services are provided and includes certain estimated amounts. The estimates for claims expense may be more or less than the amounts ultimately paid when the claims are settled. Such changes in estimates are reflected in the consolidated statements of operations in the year the change occurs.

Impairment of Long-Lived Assets—Long-lived assets to be held and used are reviewed for impairment whenever circumstances indicate that the carrying amount of an asset may not be recoverable. Long-lived assets to be disposed of are reported at the lower of the carrying amount or fair value, less cost to sell. For the year ended September 30, 2022, no impairment charges were recorded. For the year ended September 30, 2021, approximately \$3,074,000 were recorded as impairment charges included in other expense in the consolidated statements of operations.

Research Grants and Contracts—Revenue related to research grants and contracts is recognized as the related costs are incurred. Indirect costs relating to certain government grants and contracts are reimbursed at fixed rates negotiated with government agencies. Research grants and contracts have been accounted for as exchange transactions to the extent that the grantor is receiving commensurate value in return for the grants provided and are accounted for as contributions where commensurate value is not provided to the grantor. Amounts received in advance of incurring the related expenditures are recorded as unexpended research grants and are included with deferred revenue in the accompanying consolidated statements of financial position.

Defined Benefit Pension Plan—Baystate Health recognizes the overfunded or underfunded status of its defined benefit pension plan as an asset or liability in its consolidated statements of financial position. Changes in the funded status of the plan is reported as a change in net assets without donor restrictions presented below the excess of revenues over expenses in the consolidated statements of operations and changes in net assets without donor restrictions in the year in which the changes occur.

Income Taxes—All of Baystate Health’s consolidated entities are recognized by the Internal Revenue Service (IRS) as tax-exempt, not-for-profit organizations under Section 501(c)(3) of the Internal Revenue Code (IRC), except for BHIC, IC, HAS, HIS, and HIC, which are taxable entities, and HNE, which is exempt under IRC 501(c)(4).

3. NET PATIENT SERVICE REVENUE

Net patient service revenue recognized during the years ended September 30, 2022 and 2021, from Baystate Health’s major payer sources is as follows (in thousands):

	2022	2021
Medicare	\$ 708,002	\$ 689,078
Medicaid	339,605	302,875
Commercial and other	621,053	647,474
Self-pay	<u>10,283</u>	<u>11,114</u>
Total net patient service revenue	<u>\$ 1,678,943</u>	<u>\$ 1,650,541</u>

Self-pay revenue is primarily composed of patient responsibility payments from insured customers with copayment and deductible obligations.

The composition of net patient service revenue based on business lines for the years ended September 30, 2022 and 2021, is as follows (in thousands):

	2022	2021
Hospital	\$ 1,490,359	\$ 1,460,568
Physician services	167,096	167,213
Home health care	<u>21,488</u>	<u>22,760</u>
Total net patient service revenue	<u>\$ 1,678,943</u>	<u>\$ 1,650,541</u>

4. CASH, INVESTMENTS, AND ASSETS WHOSE USE IS LIMITED

The composition of cash, investments, and assets whose use is limited at September 30, 2022 and 2021, is as follows (in thousands):

	2022	2021
Cash and cash equivalents	\$ 235,160	\$ 456,967
Mutual funds	279,758	405,947
Exchange traded funds	343,564	-
Commingled equity index funds	-	223,103
Fixed-income securities	133,255	280,979
Domestic equity securities	-	27,600
Beneficial interests in perpetual trusts	37,394	48,346
Commingled international equity funds	-	110,014
Commingled-other funds	47	103,525
Hedge fund of funds	69,373	30,404
Private market funds	99,947	71,582
Commingled emerging markets funds	-	14,279
Redemption receivable from alternative investments	2,351	10,056
	<u>\$ 1,200,849</u>	<u>\$ 1,782,802</u>

Cash, investments, and assets whose use is limited at September 30, 2022 and 2021, are included in the consolidated statements of financial position as follows (in thousands):

	2022	2021
Cash and cash equivalents	\$ 218,525	\$ 446,007
Investments	353,235	585,878
Long-term investments	68,606	86,094
Board-designated cash and investments	308,530	361,909
Investments of captive insurance company	142,203	165,860
Investments held by trustee under debt agreements	46	117
Beneficial interests in perpetual trusts	37,394	48,346
Deferred compensation investments	72,310	88,591
	<u>\$ 1,200,849</u>	<u>\$ 1,782,802</u>
Investment income and realized gains (losses) included in other revenue	<u>\$ 6,954</u>	<u>\$ 31,853</u>

BHIC and HNE investment income is included in other revenue at September 30, 2022 and 2021. BHIC and HNE realized gains of \$22,128,000 are included in other revenue at September 30, 2021. In 2022, management re-evaluated their operating activities and determined it would be more appropriate to include BHIC and HNE realized gains as nonoperating at September 30, 2022. As a result, \$12,924,000 of BHIC and HNE realized gains have been reported as nonoperating for the year ended September 30, 2022.

5. LIQUIDITY AND FAIR VALUE MEASUREMENTS

Liquidity and Availability—The following financial assets are not subject to donor or other contractual restrictions and are available for expenditure generally within one year of the consolidated statements of financial position date. Board-designated funds have been established whereby the Board has the objective of setting funds aside that can be drawn upon for current needs. Also, as more fully described in Note 11, Baystate Health has a general purpose line of credit of which approximately \$18,000,000 as of September 30, 2022, is available to be drawn upon in the event of an unanticipated liquidity need.

During April 2020, Baystate Health requested and received approximately \$221,639,000 and \$8,803,000 of cash advances from accelerated Medicare and Medicaid Safety Net payment requests, respectively, under the CARES Act, which are recorded as contract liabilities in the consolidated statement of financial position as of September 30, 2020. During fiscal year 2021, approximately \$59,000,000 was recouped by CMS, with the remaining current balance of approximately \$171,442,000 recorded as contract liabilities as of September 30, 2021, in the consolidated statement of financial position. During fiscal year 2022, approximately \$171,072,000 was recouped by CMS, with the remaining current balance of approximately \$370,000 recorded as deferred revenue as of September 30, 2022, in the consolidated statement of financial position.

The CARES Act provides for deferred payment of the employer portion of social security taxes between March 27, 2020, and December 31, 2020, with 50% of the deferred amount due no later than December 31, 2021, and the remaining 50% due no later than December 31, 2022. Baystate Health began deferring the employer portion of social security taxes in mid-April 2020, with approximately \$17,500,000 and \$17,500,000 recorded in current accounts payable, and \$0 and \$17,500,000 recorded in long-term other liabilities in the consolidated statements of financial position as of September 30, 2022 and 2021, respectively.

Baystate Health monitors liquidity position through the days cash on hand metric, which is defined as total unrestricted cash and investments without donor or contractual restrictions, divided by total operating expenses minus depreciation and amortization, divided by the number of days in the period.

The following table depicts the liquidity position of Baystate Health at September 30, 2022 and 2021 (in thousands):

	2022	2021
Cash and cash equivalents	\$ 218,525	\$ 446,007
Investment securities classified as current assets	353,235	585,878
Board-designated funds	308,530	361,909
Investments of captive insurance company	<u>142,203</u>	<u>165,860</u>
Total unrestricted cash and investments	<u>\$ 1,022,493</u>	<u>\$ 1,559,654</u>
Days cash on hand	<u>127</u>	<u>235</u>

The decrease in days cash on hand in fiscal year 2022 is mainly attributed to the recouping of Medicare cash advances and increased operating expenses.

Baystate Health has other assets limited or restricted as to use for donor-restricted purposes, debt service, and future capital improvements. Additionally, certain other Board-designated assets are designated for future capital expenditures and operating reserves. These assets whose use is limited, which are more fully described in Note 2, are not available for general expenditure within the next year. However, the Board-designated amounts could be made available, if necessary, and are thus reflected in the amounts above.

Fair Value Measurements—Baystate Health calculates fair value, as described in ASC 820, to value its financial assets and liabilities, when applicable. Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, ASC 820 establishes a three-level valuation hierarchy that prioritizes observable and unobservable inputs used to measure fair value. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1—Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2—Observable inputs that are based on inputs not quoted in active markets but corroborated by market data.

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

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, Baystate Health utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible, as well as consider counterparty credit risk in its assessment of fair value.

Investments for which the fair value is measured using the net asset value (NAV) per share calculated by the underlying entity as a practical expedient are not categorized within the fair value hierarchy.

Financial assets and liabilities carried at fair value at September 30, 2022 and 2021, are classified in the table below in one of the three categories described above (in thousands):

	Assets at Fair Value at September 30, 2022			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	<u>\$235,160</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 235,160</u>
Mutual funds:				
Mutual funds	207,449	-	-	207,449
Deferred compensation investments:				
Corporate bond funds	1,544	-	-	1,544
Equity index funds	<u>70,765</u>	<u>-</u>	<u>-</u>	<u>70,765</u>
Total mutual funds	<u>279,758</u>		<u>-</u>	<u>279,758</u>
Exchanged traded funds	<u>343,564</u>	<u>-</u>	<u>-</u>	<u>343,564</u>
Fixed-income securities—corporate bonds and US government securities	<u>-</u>	<u>133,255</u>	<u>-</u>	<u>133,255</u>
Beneficial interests in perpetual trusts	<u>-</u>	<u>-</u>	<u>37,394</u>	<u>37,394</u>
Total assets at fair value	<u>\$858,482</u>	<u>\$133,255</u>	<u>\$37,394</u>	<u>\$1,029,131</u>
Investments measured at NAV:				
Commingled—other funds				47
Hedge fund of funds				69,373
Private market funds				<u>99,947</u>
Total investments measured at NAV				<u>169,367</u>
Redemption receivable from alternative investments				<u>2,351</u>
Total assets				<u>\$1,200,849</u>
Liabilities—interest rate swap agreement	<u>\$ -</u>	<u>\$ 146</u>	<u>\$ -</u>	<u>\$ 146</u>

	Assets at Fair Value at September 30, 2021			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	\$ 456,967	\$ -	\$ -	\$ 456,967
Mutual funds:				
Corporate bond funds	147,723	-	-	147,723
Deferred compensation investments:				
Corporate bond funds	27,843	-	-	27,843
Equity index funds	60,748	-	-	60,748
Equity index funds	<u>169,633</u>	<u>-</u>	<u>-</u>	<u>169,633</u>
Total mutual funds	<u>405,947</u>	<u>-</u>	<u>-</u>	<u>405,947</u>
Commingled equity index funds	<u>223,103</u>	<u>-</u>	<u>-</u>	<u>223,103</u>
Fixed-income securities—corporate bonds and US government securities	<u>-</u>	<u>280,979</u>	<u>-</u>	<u>280,979</u>
Domestic equity securities	<u>27,600</u>	<u>-</u>	<u>-</u>	<u>27,600</u>
Beneficial interests in perpetual trusts	<u>-</u>	<u>-</u>	<u>48,346</u>	<u>48,346</u>
Total assets at fair value	<u>\$1,113,617</u>	<u>\$280,979</u>	<u>\$48,346</u>	<u>\$1,442,942</u>
Investments measured at NAV:				
Commingled international equity funds				110,014
Commingled emerging markets funds				14,279
Commingled—other funds				103,525
Hedge fund of funds				30,404
Private market funds				<u>71,582</u>
Total investments measured at NAV				<u>329,804</u>
Redemption receivable from alternative investments				<u>10,056</u>
Total assets				<u>\$1,782,802</u>
Liabilities—interest rate swap agreement	<u>\$ -</u>	<u>\$ 1,428</u>	<u>\$ -</u>	<u>\$ 1,428</u>

The amounts classified in the tables above exclude assets invested in Baystate Health's defined benefit plan (see Note 18).

There were no transfers of Level 3 assets during the years ended September 30, 2022 and 2021.

A summary of investments (by major class) that use NAV or a NAV equivalent as a practical expedient to estimate fair value, that have restrictions on Baystate Health's ability to redeem its investment at the measurement date as of September 30, 2022 and 2021, is as follows (in thousands):

Description of Investment	September 30, 2022		
	Fair Value	Redemption Frequency	Redemption Notice Period
Commingled—other funds	47	Monthly	30 days
Hedge fund of funds	69,373	Quarterly	95 days
Private market funds	99,947	*	*
Total	<u>\$ 169,367</u>		

* Liquidity data not available, funds are considered highly illiquid.

Description of Investment	September 30, 2021		
	Fair Value	Redemption Frequency	Redemption Notice Period
Commingled international equity funds	\$ 110,014	Monthly	5–30 days
Commingled emerging markets funds	14,279	Monthly	30 days
Commingled—other funds	103,525	Daily/monthly	1–30 days
Hedge fund of funds	30,404	Quarterly	95 days
Private market funds	71,582	*	*
Total	<u>\$ 329,804</u>		

* Liquidity data not available, funds are considered highly illiquid.

Valuation Techniques—Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis. There have been no changes in the methodologies used at September 30, 2022 and 2021.

The fair value of investments is determined as described below.

Cash Equivalents—The carrying value of cash equivalents approximates fair value as maturities are less than three months and/or include money market funds that are based on quoted prices and are actively traded.

Money Market Funds—The funds are valued at the closing price reported by the fund sponsor from an actively traded exchange.

Mutual Funds—The fair values of mutual funds are based on quoted market prices or net assets values. These funds are required to publish their NAV and to transact at that price and are actively traded.

Exchange Traded Funds—Exchange Traded Funds (ETFs) are marketable securities that track specific indices, sectors, commodities, or other assets. The fair value of ETF's are based on quoted market prices that are traded in active regulated exchanges.

Commingled Funds and Collective Investment Trusts—The fair value of commingled funds and collective investment trusts is based on the NAV of the fund, representing the fair value of the underlying investments, which is generally securities traded on an active market. Commingled funds and collective investment trusts with NAVs that are published daily and have no liquidity restrictions are classified as Level 1. Commingled funds and collective investment trusts not valued daily that have liquidity restrictions use the NAV as a practical expedient to estimate fair value.

Hedge Fund of Funds—The estimated fair values of the hedge fund of funds, for which no quoted market prices are readily available, are determined based upon the information provided by the fund managers. Such information is generally based on NAV or NAV equivalent of the fund, which is used as a practical expedient to estimate fair value. Certain funds are subject to a minimum holding period or lockup, cannot be redeemed at the measurement date or within 90 days thereof, are subject to redemption notice periods in excess of 90 days, or have the ability to limit the aggregate amount of shareholder redemptions. As of September 30, 2021, an alternative investment fund was placed into liquidation mode. As of September 30, 2022, an amount of \$2,351,000 remains outstanding related to this fund, which will be received over a twelve-month period. As of September 30, 2021, \$10,056,000 related to the redemption of a commingled real asset fund remained outstanding and was received in 2022. The hedge fund of funds allocate gains, losses, and expenses to the partners based on the ownership percentage as described in the respective partnership or hedge fund agreements.

Private Market Funds—Baystate Health has entered into partnership agreements with limited partnerships, which are in private markets. Baystate Health records these partnerships at NAV or NAV equivalent, as a practical expedient to estimate fair value. As of September 30, 2022 and 2021, approximately \$70,128,000 and \$43,223,000, respectively, of total capital commitments, including those held within the pension plan assets discussed in Note 18, remain outstanding. Certain of the limited partnerships may hold some securities without readily determinable fair values and, consequently, the general partner may estimate fair value for such securities. These estimates may differ significantly from the values that would have been used had a ready market existed and may also differ significantly from the values at which such investments may be sold, and the differences could be material.

Fixed-Income Securities—Bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, the bond is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks.

Domestic Equity Securities—The fair value of domestic equity securities is based on quoted market prices that are traded in an active market.

Beneficial Interest in Perpetual Trusts—The estimated fair values of Baystate Health's beneficial interests in perpetual trusts are determined based upon information provided by the trustees. Such information is generally based on the pro rata interest in the net assets of the underlying investments. The assets held in trust consist primarily of cash equivalents and marketable securities. The fair values of the perpetual trusts are measured using the fair value of the assets contributed to the trusts. The measurement for a beneficial interest in a perpetual trust is categorized as a Level 3 fair value measurement because Baystate Health will never receive the trusts' assets.

Interest Rate Swaps—Baystate Health uses inputs other than quoted prices that are observable to value the interest rate swaps. Baystate Health considers these inputs to be Level 2 inputs in the context

of the fair value hierarchy. The fair values represent the estimated amounts Baystate Health would receive or pay to terminate agreements, taking into consideration current interest rates and the current creditworthiness of the counterparty.

The following methods and assumptions were used by Baystate Health in estimating the fair value of its financial instruments that are not measured at fair value on a recurring basis for disclosures in the consolidated financial statements:

Receivables and Payables—The carrying value of Baystate Health’s receivables and payables approximates fair value, as maturities are short term.

6. PLEDGES RECEIVABLE

Pledges receivable at September 30, 2022 and 2021, are as follows (in thousands):

	2022	2021
Receivable in less than one year	\$ 2,347	\$ 950
Receivable in one to five years	5,575	963
Receivable in more than five years	<u>143</u>	<u>-</u>
Total pledges receivable	8,065	1,913
Less allowance for uncollectible pledges	<u>(1,232)</u>	<u>(207)</u>
Net pledges receivable	<u>\$ 6,833</u>	<u>\$ 1,706</u>

The current portion of net pledges receivable is included in accounts receivable, other in the consolidated statements of financial position. The long-term portion of net pledges receivable is recorded in deferred expenses and other long-term assets in the consolidated statements of financial position.

7. LAND, BUILDINGS, AND EQUIPMENT

Details of land, buildings, and equipment at September 30, 2022 and 2021, are as follows (in thousands):

	2022	2021
Land, land improvements, and leasehold improvements	\$ 62,088	\$ 58,994
Buildings	1,042,114	999,954
Fixed equipment	105,422	105,615
Moveable equipment	824,394	882,368
Assets under financing leases	34,929	38,267
Construction in progress	<u>149,046</u>	<u>54,340</u>
	2,217,993	2,139,538
Less accumulated depreciation and amortization	<u>(1,397,802)</u>	<u>(1,412,778)</u>
Total land, buildings, and equipment—net	<u>\$ 820,191</u>	<u>\$ 726,760</u>

Depreciation and amortization expense for the years ended September 30, 2022 and 2021, was approximately \$78,469,000 and \$75,296,000, respectively. The accumulated amortization on assets under financing leases for the years ended September 30, 2022 and 2021, was approximately \$31,825,000 and \$33,874,000, respectively.

8. RELATED-PARTY TRANSACTIONS

Baystate Health has a 50% ownership in Baycare Health Partners, Inc. (“Baycare”), a physician hospital organization and accountable care organization (ACO). An ACO is a group of providers willing and capable of accepting accountability for the cost and quality of care for a defined population. BMC has provided an unconditional guarantee for a line of credit Baycare has obtained from a financial institution for \$3,000,000 and \$10,000,000 as of September 30, 2022 and 2021, respectively. There were no amounts outstanding under the line of credit at September 30, 2022 or 2021. This line of credit expires on July 28, 2023.

In 2015, Baycare formed the Pioneer Valley Accountable Care LLC (PVAC), an ACO serving Medicare members in western Massachusetts. Since January 1, 2016, through PVAC, certain Baystate Health providers have participated in the Medicare Next Generation and Medicare Shared Savings ACO programs. Under these arrangements, PVAC contracts with certain employed providers as well as unrelated entities to provide health care services and care coordination to Medicare members. Through its agreements with PVAC, Baystate Health is subject to certain risk-sharing provisions that are calculated annually. As of September 30, 2022 and 2021, Baystate Health has accrued \$700,000 and \$560,000, respectively, in accounts receivable, other in the accompanying consolidated statements of financial position. During 2022 and 2021, Baystate Health recorded an adjustment to amounts accrued for settlements related to prior fiscal years. The net effect of such adjustment to net patient service revenue was an increase of \$158,000 and a decrease of \$195,000 during 2022 and 2021, respectively.

In 2017, Baycare formed the Baystate Health Care Alliance LLC (BHCA), who partnered with HNE to create the BeHealthy Partnership Plan (BHPP), an ACO serving Medicaid members in western Massachusetts. In August 2017, HNE and BHCA executed agreements to participate in a major restructuring of the MassHealth Medicaid program through BHPP. Under this arrangement, BHCA contracts with the four BMC community health centers as well as an unrelated entity to provide health care services and care coordination for enrolled members effective March 1, 2018, through March 31, 2023. Both HNE and BMC (through its contract with BHCA) are subject to certain risk-sharing provisions under this agreement that will be calculated annually. At September 30, 2022 and 2021, Baystate Health has accrued \$0 and \$3,000,000, respectively, in accounts payable in the accompanying consolidated statements of financial position related to the contract.

BHPP also receives delivery system reform incentive payments (DSRIP) from the Commonwealth of Massachusetts to support infrastructure creation. HNE oversees disbursement of DSRIP funds to BHCA, as appropriate, as ACO infrastructure initiatives and transformation activities are incurred. HNE records the DSRIP funds that have not been disbursed as a liability. During 2022 and 2021, HNE received approximately \$3,776,000 and \$4,312,000, respectively, in DSRIP funds. At September 30, 2022 and 2021, the DSRIP fund liability amounted to approximately \$431,000 and \$1,057,000, respectively, and is included in accounts payable in the accompanying consolidated statements of financial position. During 2022 and 2021, Baystate Health has recognized approximately \$2,100,000 and \$2,300,000, respectively, of DSRIP funding in other revenue in the accompanying consolidated statements of operations. Under certain termination provisions, Baystate Health may be required to repay some or all of the DSRIP funding received.

9. COMMITMENTS AND CONTINGENCIES

COVID-19 Pandemic—Beginning in March 2020, the global COVID-19 pandemic began to significantly affect Baystate Health’s patients, communities, employees, and business operations. Patient volumes and the related revenue for most of Baystate Health’s health care services were materially impacted from mid-March 2020 and continued to be significantly impacted in fiscal year 2022. Various policies were implemented by federal, state, and local governments in response to the COVID-19 pandemic that caused restrictions on nonessential medical services, travel bans, physical distancing, and shelter-in-place orders. These policies materially impacted Baystate Health’s patient volumes and related revenue for the majority of health care services. Patient volumes and related revenue continue to fluctuate with COVID-19 pandemic surge and recovery waves as compared to pre-COVID-19 periods. Additionally, Baystate Health’s service mix, revenue mix, and patient volumes still endure negative impacts from broad economic factors, such as on-going nationwide shortage of nursing staff, reduced consumer spending and rising inflation rate. Baystate Health’s response to the COVID-19 pandemic continues to require additional contract labor staff and increased premium labor rates. Both labor and supply chain disruptions, including shortages; delays; and significant price increases in medical supplies, pharmaceuticals, and personal protective equipment, have impacted and are expected to continue to impact Baystate Health’s operations.

Baystate Health has taken and continues to take various actions to increase its liquidity and mitigate the impact on operations from the COVID-19 pandemic. To increase liquidity, Baystate Health has temporarily restricted new capital projects. Furthermore, Baystate Health has taken steps to control spending and reallocate resources to support its hospitals and clinicians. These steps included implementing executive pay reductions, redeploying staff to different roles and locations across the system, implementing furloughs and schedule reductions, and negotiating supplier concessions, all of which began in April 2020. As discussed in Note 2, Baystate Health received significant grants during the years ended September 30, 2022 and 2021, which helped to mitigate some of the negative financial impacts of the COVID-19 pandemic. Known and unknown risks and uncertainties caused by the COVID-19 pandemic, including those described above, are having, and will likely continue to have, a material impact on Baystate Health’s business, financial condition, results of operations, and cash flows.

Baystate Health believes the actions it has taken, as supplemented by the various forms of government aid received, position Baystate Health to have liquidity adequate to fund essential services, and make timely debt service payments during the COVID-19 pandemic. Baystate Health received federal grants under the Provider Relief Fund, PPPHCE ACT, and ARP Act, which partially offset revenue shortfalls and operating expenses incurred as a direct result of the COVID-19 pandemic. Compliance with the requirements of the funding received is complex and subject to audit by the Department of Health and Human Services (HHS). There can be no assurance that HHS will not challenge Baystate Health’s compliance with these reporting requirements.

Health Care Regulatory Environment—The health care industry is subject to numerous and complex laws and regulations of federal, state, and local governments. These laws and regulations include, but are not limited to, matters, such as licensure, accreditation, privacy, government health care program participation requirements and government reimbursement for patient services, fraud and abuse requirements, and requirements for tax-exempt organizations. Both the CARES Act and the PPPHCE Act terms and conditions require attestation to accept related funding. In addition, requirements to earn the funds are numerous and guidance as to the requirements have been continually updated, and continue to be updated, by the HHS. Laws and regulations concerning government programs, including Medicare, Medicaid, CARES Act, and PPPHCE Act, are subject to varying interpretation. Compliance with

such laws and regulations is complex and can be subject to future government review and interpretation as well as significant regulatory enforcement actions, including fines, penalties, and potential exclusion from government health care programs, such as Medicare and Medicaid. As a result of investigations by governmental agencies, Baystate Health periodically receives requests for information and notices regarding alleged noncompliance with those laws and regulations, billing, payment or other reimbursement matters initiating investigations, or indicating the existence of whistleblower litigation which, in some instances, have resulted in Baystate Health entering into significant settlement agreements. There can be no assurance that regulatory authorities will not challenge Baystate Health's compliance with these laws and regulations. In addition, the contracts Baystate Health has with commercial payers also provide for retroactive audit and review of claims. The health care industry, in general, is experiencing an increase in these activities as federal and state governments increase their enforcement activities and institute new programs designed to identify potential irregularities in reimbursement or quality of patient care. Based on the information received to date, management does not believe the ultimate resolution of these matters will have a material adverse effect on Baystate Health's future consolidated financial position or results of operations.

10. LEASES

Baystate Health leases certain real property and equipment under noncancelable leases expiring at various dates through 2034 with varying renewal options. Rentals generally include insurance and maintenance costs.

Future maturities of lease liabilities at September 30, 2022, are as follows (in thousands):

Years Ending September 30	Finance Leases	Operating Leases
2023	\$ 7,268	\$ 9,845
2024	6,621	7,180
2025	5,778	5,377
2026	5,689	3,814
2027	4,412	2,967
Thereafter	<u>8,811</u>	<u>8,959</u>
Total minimum lease payments	38,579	38,142
Less amount representing interest	<u>(234)</u>	<u>(2,862)</u>
Total lease obligations	38,345	35,280
Less current portion	<u>(7,144)</u>	<u>(9,063)</u>
Long-term portion	<u>\$ 31,201</u>	<u>\$ 26,217</u>

Supplemental lease activity for the year ended September 30, 2022, is as follows (in thousands):

Components of Lease Expense	Classification in Statement of Operations	2022	2021
Operating lease expense	Supplies and expense	<u>\$ 6,194</u>	<u>\$ 10,235</u>
Finance lease expense:			
Amortization of right-of-use assets— finance leases	Depreciation and amortization	3,497	1,402
Interest on lease liabilities— finance leases	Interest expense	<u>346</u>	<u>249</u>
		<u>3,843</u>	<u>1,651</u>
Short-term and variable lease expense	Supplies and expense	<u>10,085</u>	<u>9,356</u>
Total lease cost		<u>\$ 20,122</u>	<u>\$ 21,242</u>

The weighted-average remaining lease term and weighted-average discount rate at September 30, 2022, were as follows:

	Weighted-Average Remaining Lease Term (Years)		Weighted-Average Discount Rate	
	2022	2021	2022	2021
Operating leases	6.21	8.59	2.6 %	3.0 %
Finance leases	3.23	4.12	1.9	2.0

Supplemental cash flow information related to leases for the year ended September 30, 2022, was as follows (in thousands):

	2022	2021
Land, buildings, and equipment acquired through financing leases	<u>\$ 30,000</u>	<u>\$ 1,170</u>
Right-of-use assets acquired in exchange for operating lease liabilities	<u>\$ 480</u>	<u>\$ 3,167</u>
	2022	2021
Cash paid for amounts included in the measurement of lease liabilities (in thousands):		
Operating cash outflows from finance leases	\$ 346	\$ 249
Operating cash outflows from operating leases	11,010	14,588
Financing cash outflows from finance leases	3,580	2,442

11. LONG-TERM DEBT

BMC, BFMC, and BWH have loan agreements with the Massachusetts Development Finance Agency (MDFA) (effective October 1, 2010, Massachusetts Health and Educational Facilities Authority (MHEFA) merged into MDFA), the MHEFA, and private placements for construction projects and equipment. Long-term obligations outstanding at September 30, 2022 and 2021, consist of the following (in thousands):

	<u>Amount Outstanding</u>	
	<u>2022</u>	<u>2021</u>
Bond issuances:		
BMC Series Q	\$ 167,800	\$ 167,800
BMC Series P-1	32,092	33,963
BMC Series P-2	21,366	22,510
BWH Series A	13,040	13,542
BMC Series O	14,531	15,440
BMC Series N	53,905	54,565
BFMC Series A	18,615	19,185
BMC Series M	26,572	28,292
BMC Series L	18,388	19,100
BMC Series J-1	33,000	33,000
BMC Series J-2	45,000	45,000
BMC Series K-1	20,045	20,045
BMC Series K-2	26,365	26,365
BFMC Series M-4A	<u>1,499</u>	<u>2,170</u>
Subtotal	492,218	500,977
Finance lease obligations	38,345	11,927
BH note payable—line of credit	22,000	20,000
BH note payable—BWH acquisition	10,028	10,768
BWH note payable	10,639	11,082
BMC note payable	25,553	-
BNH financing arrangements	82	140
Original issue premium	3,698	3,981
Issuance costs	<u>(3,063)</u>	<u>(3,194)</u>
Total long-term debt	599,500	555,681
Less current portion	<u>(19,059)</u>	<u>(39,813)</u>
Long-term debt, excluding current portion	<u>\$ 580,441</u>	<u>\$ 515,868</u>

Summary information for each issue is as follows:

BMC Series Q—BMC entered into a taxable private placement pursuant to a Note Purchase Agreement dated September 25, 2019 (the “Agreement”), for the sale of its \$167,800,000 3.4% Senior Secured Notes, Series Q 2019. A portion of the proceeds from the notes has been used to redeem \$12,000,000 of the outstanding BMC Series J-1 MHEFA Revenue Bonds; and a portion of the proceeds was used on December 23, 2019, to fully redeem \$29,200,000 of the outstanding BMC Series G MHEFA Revenue bonds. The balance of the proceeds is for general corporate purposes, including capital investments associated with completion of the “Hospital of the Future” project under the BMC Master Facility Plan. The notes have a 30-year term, a 3.4% fixed interest rate, and a final maturity on July 1, 2049.

BMC Series P-1—On December 21, 2017, BMC issued Series P-1 MDFA Revenue Bonds in the aggregate principal amount of \$40,595,000. Proceeds from the bonds were used to advance refund a portion of the outstanding BMC Series I MHEFA Revenue Bonds. The Bonds are subject to a mandatory tender on December 21, 2027. Interest on the bonds is fixed at 2.84% with a final maturity on December 21, 2036. An annual average balance of \$15,000,000 must be maintained on deposit with a financial institution or the interest rate on such bonds may be adjusted upward, not to exceed 2.94%.

BMC Series P-2—On December 21, 2017, BMC issued Series P-2 MDFA Revenue Bonds in the aggregate principal amount of \$26,465,000. Proceeds from the bonds were used to advance refund a portion of the outstanding BMC Series I MHEFA Revenue Bonds. The Bonds are subject to a mandatory tender on December 21, 2027. Interest on the bonds is fixed at 3.38% with a final maturity on December 21, 2036. An annual average balance of \$15,000,000 must be maintained on deposit with a financial institution or the interest rate on such bonds may be adjusted upward, not to exceed 3.98%.

BWH Series A—On April 13, 2017, BWH issued Series A MDFA Revenue Bonds in the aggregate principal amount of \$14,700,000. Proceeds from the bonds financed the construction of a new emergency department at BWH. The bonds are subject to a mandatory tender on September 30, 2024. Interest on the bonds is fixed at 2.61%. BH and BMC have entered into a guaranty agreement on behalf of BWH in connection with these bonds.

BMC Series O—On May 12, 2016, BMC issued Series O MDFA Revenue Bonds in the aggregate principal amount of \$20,000,000. Proceeds from the bonds were used to redeem 100% of a loan from a financial institution. The bonds are subject to a mandatory tender on May 12, 2026. Interest on the bonds is fixed at 1.98% through May 12, 2026, with final maturity on May 12, 2036.

BMC Series N—On November 6, 2014, BMC issued Series N MDFA Revenue Bonds in the aggregate principal amount of \$55,115,000. The proceeds from the bonds financed the build-out of inpatient rooms, operating rooms, inpatient pharmacy, medical equipment, information technology equipment, and other capital projects. The bonds are 30-year bonds with final maturity on July 1, 2044, and carry a fixed 5% interest rate.

BFMC Series A—On December 4, 2014, BFMC issued Series A MDFA Revenue Bonds in the aggregate principal amount of \$22,000,000. The proceeds from the bonds financed the construction of a new surgical unit at BFMC. The bonds are 30-year bonds with final maturity on December 4, 2044, carry a fixed 2.9% interest rate, and are subject to a mandatory tender on December 4, 2024. BMC has entered into a guaranty agreement on behalf of BFMC in connection with these bonds.

BMC Series M Bonds—On August 9, 2012, BMC issued Series M MDFA Revenue Bonds in the aggregate principal amount of \$40,137,000. BMC used the proceeds from the bonds to redeem 100% of Series F MHEFA Revenue Bonds, exercising an early redemption option related to the Series F obligation. The bonds were subjected to mandatory tender on August 8, 2022. Interest on the bonds was initially fixed at 2.37%. As of September 30, 2022, the fixed rate was reset to 3.162% and shall remain in effect through final maturity on July 1, 2033. An annual average balance of \$15,000,000 must be maintained on deposit with a financial institution or the interest rate on such bonds may be adjusted upward, not to exceed 3.762%.

BMC Series L Bonds—On November 2, 2011, BMC issued Series L MDFA Revenue Bonds in the aggregate principal amount of \$25,000,000. Proceeds from the bonds were used to fund the construction of a new emergency department in conjunction with a BMC expansion project. Interest on the bonds was initially fixed at 3.59%, with final maturity on July 1, 2041. As of September 30, 2021, the fixed rate was reset to 2% and shall remain in effect through and including August 31, 2033.

BMC Hospital Expansion MHEFA Bond Issuances—On June 25, 2009, BMC issued Series I, Series J-1, Series J-2, Series K-1, and Series K-2 MHEFA Revenue Bonds in a combined aggregate principal amount of \$199,790,000. Proceeds from the bonds were used to pay off the Banc of America, N.A. loan of \$65,000,000 (borrowed in October 2008) and fund the construction, improvement, equipment, and other related capital expenditures of a seven-story building located at 759 Chestnut Street in Springfield, Massachusetts (“BMC Expansion Project”). Details of the related MHEFA bond issuances are as follows:

BMC Series J-1 Bonds—BMC issued Series J-1 MHEFA Revenue Bonds in the original aggregate amount of \$45,000,000. As part of the Series Q issuance, \$12,000,000 of this bond was repaid. Interest on the bonds is variable and is 2.52% and 0.04% at September 30, 2022 and 2021, respectively. Final maturity on the bonds is July 1, 2044. The bonds are secured by an irrevocable letter of credit issued by a financial institution that terminates December 18, 2024.

BMC Series J-2 Bonds—BMC issued Series J-2 MHEFA Revenue Bonds in the aggregate amount of \$45,000,000. Interest on the bonds is variable and is 2.90% and 0.07% at September 30, 2022 and 2021, respectively. Final maturity on the bonds is July 1, 2044. The bonds are secured by an irrevocable letter of credit issued by a financial institution that terminates December 18, 2024.

BMC Series K-1 Bonds—BMC issued Series K-1 MHEFA Revenue Bonds in the aggregate amount of \$20,045,000. The bonds were subject to mandatory tender on July 1, 2013. The initial interest on the bonds was fixed at 5% through June 30, 2013, with final maturity on July 1, 2039.

On July 1, 2013, the Series K-1 MHEFA Revenue Bonds were purchased pursuant to a mandatory tender and remarketed on such date. The reoffering of the bonds contained a conversion of the interest rate from the long-term fixed rate to a daily rate of 2.8% and 0.08% at September 30, 2022 and 2021, respectively, along with a provision of a letter of credit from a financial institution. The daily interest rate is determined by the remarketing agent and the letter of credit will expire on September 15, 2025.

BMC Series K-2 Bonds—BMC issued Series K-2 MHEFA Revenue Bonds in the aggregate amount of \$26,365,000. The bonds were subject to mandatory tender on July 1, 2015. The initial interest on the bonds was fixed at 5% through June 30, 2015, with final maturity on July 1, 2039.

On July 1, 2015, the Series K-2 MHEFA Revenue Bonds were purchased pursuant to the mandatory tender and remarketed on such date. The reoffering of the bonds contained a conversion of the

interest rate from the long-term fixed rate to a weekly rate of 2.52% and 0.04% at September 30, 2022 and 2021, respectively, along with a provision of a letter of credit from a financial institution. The weekly rate is determined by the remarketing agent and the letter of credit will expire on July 1, 2025.

BMC Series M-4A Bonds—On February 1, 2005, BFMC entered into a loan commitment under a capital asset program financed by MHEFA through the issuance of variable-rate demand revenue bonds, Series M-4A. Proceeds of \$9,100,000 were used to fund certain capital additions, renovations, and equipment expenditures related to the emergency department, radiology department, and in-patient facilities. Interest on the bonds is variable and resets weekly to reflect current market rates and is 2.60% and 0.07% at September 30, 2022 and 2021, respectively. Final maturity of the bonds is June 15, 2024. These bonds are supported by a pooled letter of credit, which expires on October 31, 2023.

Significant Debt Covenants—The bond agreements include various financial covenants, the most restrictive of which are a pledge of revenues and the maintenance of a ratio of net revenue available to meet debt service to total principal and interest requirements of at least 1.1 (as defined by the agreement).

A debt service fund has been established in accordance with these debt agreements. Debt services fund balances amounted to approximately \$46,000 and \$117,000 at September 30, 2022 and 2021, respectively, and are included in investments held by trustee under debt agreements in the accompanying consolidated statements of financial position.

BH Notes Payable—On December 28, 2015, BH entered into a three-year \$40,000,000 line of credit with a financial institution with an original maturity date of December 28, 2018. The term was extended to mature on December 28, 2025. The interest rate on the borrowing is variable per the Bloomberg Short Term Bank Yield Index (BSBY), plus 0.70% per annum. The interest rate on this loan was 3.82% and 0.56% at September 30, 2022 and 2021, respectively. BMC has entered into a guaranty agreement on behalf of BH in connection with this note.

On August 29, 2014, BH entered into a variable rate, 10-year term loan through a financial institution in the amount of \$18,500,000. The interest rate on this term loan is variable per BSBY, plus 0.475%. The interest rate on this loan was 3.60% and 0.78% on September 30, 2022 and 2021, respectively. Proceeds from the term loan were used in the financing of BH's September 1, 2014, purchase of BWH. Cash and short-term investments have been pledged as collateral for this borrowing.

BWH Notes Payable—On September 30, 2014, BWH entered into a 10-year loan through a financial institution in the amount of \$13,745,000 at a fixed rate of 3.54%. Proceeds from the loan were used to repay debt held by BWH in the same amount at a rate of 5.15%.

BMC Term Loan—On November 29, 2021, BMC entered a 15-year loan through a financial institution in the amount of \$26,792,981 at a fixed rate of 2.47%. Proceeds of the loan were used to finance a lease buy-out of a medical outpatient office building located in Springfield, Massachusetts.

BNH Long-Term Debt—BNH has various current and long-term debt outstanding totaling approximately \$82,000 as of September 30, 2022, of which approximately \$58,000 is classified as current. The agreement with the longest duration extends through 2024. BNH has a combination of fixed-rate debt, with interest rates ranging from 0% to 5.05% as of September 30, 2022 and 2021.

The combined aggregate future principal payments of all long-term debt as of September 31, 2022, are as follows (in thousands):

Years Ending September 30	Long-Term Debt	Finance Lease Obligations	Total
2023	\$ 11,915	\$ 7,144	\$ 19,059
2024	43,590	6,554	50,144
2025	49,991	5,745	55,736
2026	21,214	5,679	26,893
2027	10,260	4,412	14,672
Thereafter	<u>423,550</u>	<u>8,811</u>	<u>432,361</u>
	<u>\$ 560,520</u>	<u>\$ 38,345</u>	<u>\$ 598,865</u>

BMC has entered into guaranty agreements on behalf of BFMC and BWH in connection with outstanding MDFA bonds and the BWH note payable, respectively.

Interest Rate Swap Agreements—BMC periodically enters into interest rate swap agreements to moderate its exposure to interest rate changes and to lower the overall cost of borrowings. Gains and losses realized on termination of contracts are deferred and amortized over the remaining life of the associated contract.

In September 2005, BMC, in anticipation of the issuance of the Series G bonds, entered into an interest rate swap agreement with a financial institution with an original notional amount of \$71,740,000. The notional amount outstanding at September 30, 2022 and 2021, was \$17,425,000 and \$21,465,000, respectively. The agreement provides for the financial institution to pay variable-rate payments to BMC equal to 56.9% of one-month London InterBank Offered Rate (LIBOR), plus 0.32%, and for BMC to pay the financial institution a fixed rate of 3.021%. The LIBOR was 3.14% and 0.08% at September 30, 2022 and 2021, respectively. There are termination provisions to this contract for each party.

The fair value of this agreement resulted in a swap liability of approximately \$146,000 and \$1,428,000 at September 30, 2022 and 2021, respectively, and is included in other long-term liabilities in the consolidated statements of financial position.

The net interest cost and the change in the fair value of the associated interest rate swaps are included in nonoperating income (loss) in the consolidated statements of operations.

12. INTEREST EXPENSE

Baystate Health capitalizes interest cost as part of the historical cost of acquiring certain significant qualifying assets. During the years ended September 30, 2022 and 2021, interest cost was as follows (in thousands):

	2022	2021
Total interest cost	\$ 10,675	\$ 10,525
Net interest cost capitalized	<u>(1,620)</u>	<u>(325)</u>
Net interest cost expensed	<u>\$ 9,055</u>	<u>\$ 10,200</u>

13. INSURANCE LIABILITY LOSS RESERVES

Baystate Health, with the exception of HNE, addresses its professional and general liability expense, in part, through insurance coverage provided by BHIC, and, in part, by purchasing commercial excess liability insurance. The commercial insurance generally provides coverage on a “claims-made” basis. Under the claims-made policies, claims based on occurrences during their term, but reported subsequently, will be uninsured should the policy not be renewed or replaced with other coverage. Management has the intention of renewing its insurance policies in the future and believes it will have the ability to obtain such policy renewals. BH and certain of its subsidiaries have also purchased excess professional and general coverage from other insurers. In addition, BHIC insures the workers’ compensation, employer’s liability, excess workers’ compensation, and long-term disability of certain of BH’s subsidiaries.

BHIC reinsures a portion of its risks in order to limit its exposure to losses. Reinsurance contracts do not relieve BH from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to Baystate Health. Consequently, Baystate Health evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

Reinsurance recoverables were based on actuarial reports prepared by independent consulting actuaries. At September 30, 2022 and 2021, reinsurance recoverables of \$18,059,000 and \$19,113,000, respectively, were recorded as deferred expenses and other long-term assets in the consolidated statements of financial position. There were no specifically identified claims subject to reinsurance recoverables at September 30, 2022 and 2021, or deducted from losses incurred and paid during the years then ended.

Reserves have been provided with the assistance of an independent consulting actuary for asserted claims and for unasserted claims probable of assertion arising from both reported and unreported incidents, which are based on historical experience and existing reported incidents.

Activity in the BHIC liability for losses and loss adjustment expenses for the years ended September 30, 2022 and 2021, is summarized as follows (in thousands):

	2022	2021
Balance at beginning of year	<u>\$ 115,021</u>	<u>\$ 103,934</u>
Incurred (recovered) related to:		
Current year	29,007	26,871
Prior years	<u>(13,897)</u>	<u>(3,136)</u>
Total incurred	<u>15,110</u>	<u>23,735</u>
Paid related to:		
Current year	(3,571)	(3,028)
Prior years	<u>(18,914)</u>	<u>(9,620)</u>
Total paid	<u>(22,485)</u>	<u>(12,648)</u>
Balance at end of year	<u><u>\$ 107,646</u></u>	<u><u>\$ 115,021</u></u>

14. MEDICAL CLAIMS PAYABLE

Activity in medical claims payable for the years ended September 30, 2022 and 2021, is as follows (in thousands):

	2022	2021
Medical claims payable	<u>82,599</u>	<u>72,176</u>
Claims incurred:		
Current year	663,098	538,710
Prior years	<u>(4,361)</u>	<u>2,540</u>
	<u>658,737</u>	<u>541,250</u>
Claims paid:		
Current year	(574,597)	(466,016)
Prior years	<u>(83,907)</u>	<u>(64,811)</u>
	<u>(658,504)</u>	<u>(530,827)</u>
 Total medical claims payable	 <u>\$ 82,832</u>	 <u>\$ 82,599</u>

Amounts incurred related to prior years vary from previously estimated liabilities as the claims are ultimately settled.

The following is information about the development of paid and incurred health claims, including claims incurred but not reported (IBNR) as of September 30, 2022 and 2021, for HNE, which is presented net of reinsurance. The tables present claims development and cumulative claim payments by incurred year. The information about paid and incurred claims development prior to 2021 is presented as unaudited supplementary information (in thousands):

Commercial	Cumulative Incurred Claims and Allocated Claims Adjustment Expenses, Net of Reinsurance for the Years Ended September 30, (Unaudited)			Total of IBNR Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
	2020	2021	2022		
	Incurring Year				
2020	\$249,415	\$244,832	\$243,505	\$ 17	745,032
2021	-	315,922	309,627	270	953,778
2022	-	-	<u>333,601</u>	<u>39,259</u>	932,712
			<u>886,733</u>	<u>\$39,546</u>	
Cumulative incurred claims for the periods presented			<u>\$886,733</u>		
Claims adjustment expenses	<u>\$ 736</u>	<u>\$ 829</u>	<u>\$ 908</u>		
Incurring Year	2020	2021	2022		
2020	\$219,294	\$243,933	\$243,488		
2021	-	279,430	309,357		
2022	-	-	<u>294,342</u>		
Cumulative paid claims for the periods presented			847,187		
All outstanding liabilities prior to 2019—net of reinsurance			<u>-</u>		
Liability for commercial medical claims payable—net of reinsurance			<u>\$ 40,454</u>		

Medicare and Medicare Supplement	Cumulative Incurred Claims and Allocated Claims Adjustment Expenses, Net of Reinsurance for the Years Ended September 30,			Total of IBNR Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
	(Unaudited)				
	2020	2021	2022		
Incurred Year					
2020	\$73,757	\$ 72,412	\$ 72,381	\$ 1	269,421
2021	-	85,031	83,353	50	340,637
2022	-	-	93,229	10,358	407,097
			<u>248,963</u>	<u>10,409</u>	
Cumulative incurred claims for the periods presented			<u>\$248,963</u>	<u>\$10,409</u>	
Claims adjustment expenses	<u>\$ 206</u>	<u>\$ 219</u>	<u>\$ 241</u>		
Incurred Year	2020	2021	2022		
2020	\$65,458	\$ 72,384	\$ 72,380		
2021	-	75,600	83,303		
2022	-	-	82,871		
Cumulative paid claims for the periods presented			238,554		
All outstanding liabilities prior to 2019—net of reinsurance			<u>-</u>		
Liability for Medicare and Medicare supplemental medical claims payable—net of reinsurance			<u>\$ 10,650</u>		

Medicaid	Cumulative Incurred Claims and Allocated Claims Adjustment Expenses, Net of Reinsurance for the Years Ended September 30, (Unaudited)			Total of IBNR Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
	2020	2021	2022		
	Incurring Year				
2020	\$185,615	\$185,617	\$184,763	\$ 15	1,002,646
2021	-	196,016	194,810	75	1,198,691
2022	-	-	214,031	22,471	1,351,752
			<u>593,604</u>	<u>22,561</u>	
Cumulative incurred claims for the periods presented			<u>\$593,604</u>	<u>\$22,561</u>	
Claims adjustment expenses	<u>\$ 443</u>	<u>\$ 451</u>	<u>\$ 525</u>		
Incurring Year	2020	2021	2022		
2020	\$167,626	\$185,507	\$184,748		
2021	-	176,743	194,735		
2022	-	-	191,560		
Cumulative paid claims for the periods presented			571,043		
All outstanding liabilities prior to 2019—net of reinsurance			<u>-</u>		
Liability for Medicaid medical claims payable—net of reinsurance			<u>\$ 23,086</u>		

Reconciliation of the Disclosure of Paid and Incurred Claims Development to the Liability for Unpaid Claims and Claim Adjustment Expenses—The reconciliation of the net paid and incurred claims development tables for HNE to the liability for medical claims expense in the consolidated statement of financial position as of September 30, 2022, is as follows (in thousands):

Net outstanding liabilities:	
Commercial	\$ 40,454
Medicare	10,650
Medicaid	<u>23,086</u>
Total gross liability for medical claims payable	<u>\$ 74,190</u>

15. STATUTORY SURPLUS/CAPITAL

Minimum Surplus Requirements under Commonwealth of Massachusetts Law—In accordance with insurance laws and regulations established by the Commonwealth of Massachusetts, HNE is required to maintain a minimum surplus of the largest of the following four tests:

- \$1,000,000

- b) The total of 2% of the first \$150,000,000 of premium and 1% of the premium in excess of \$150,000,000
- c) Three months of uncovered health care expenditures
- d) 4% of annual hospital expenditures, plus 8% of all other medical expenditures, excluding capitated arrangements

Based on calendar 2021 activity, the minimum capital amount as determined by each of the above tests is as follows: a) \$1,000,000, b) \$10,024,906, c) \$11,671,369, and d) \$50,418,503. At December 31, 2021, HNE's surplus exceeded the Commonwealth of Massachusetts' laws and regulations regarding minimum surplus.

National Association of Insurance Commissioners' (NAICs) Model Regulation—The Managed Care Organization Risk-Based Capital (RBC) Model Regulation (the "Model Regulation") was adopted by the NAIC in December 1997 to establish benchmarks for minimum levels of statutory RBC. The Model Regulation prescribes specific actions that insurance departments should take (i.e., action levels) when certain RBC thresholds are not met. Calculation of RBC in accordance with the Model Regulation RBC formula is required in connection with the annual statutory filing. HNE's statutory capital at December 31, 2021, exceeded the Company Action Level.

Surplus Notes—On December 28, 2015, HNE entered into a surplus note agreement, borrowing \$20,000,000 from Baystate Health in order to maintain minimum levels of surplus and RBC. The surplus notes accrue interest payable to Baystate Health at a rate per annum equal to the three-year US Treasury rate until the principal is paid in full.

16. INCOME TAXES

As of September 30, 2022, pre-tax reform operating loss carryforwards for federal income tax purposes were approximately \$19,632,000, which expire in various years ranging from 2030 to 2038 and post-tax reform operating loss carryforwards that do not expire were approximately \$6,503,000. This results in a deferred tax asset; however, because utilization of these net operating losses is not reasonably assured, Baystate Health has recorded a full valuation allowance offsetting this deferred tax asset.

17. FUNDS HELD IN TRUST BY OTHERS

BH and its consolidated subsidiaries are beneficiaries of certain perpetual trusts (the "Trusts") from which they receive unrestricted income. Appreciation or depreciation in the value of the Trusts is recorded as an increase or decrease in net assets with donor restrictions. During fiscal years 2022 and 2021, distributions from the Trusts were approximately \$1,973,000 and \$1,765,000, respectively, and are included in other revenue.

18. BENEFIT PLANS

BH and certain of its consolidated subsidiaries and other ownership interests participate in a noncontributory, defined benefit cash balance retirement plan (the "DB plan") covering substantially all of their eligible employees.

Baystate Health's policy is to fund amounts as necessary on an actuarial basis to provide for benefits in accordance with the Employee Retirement Income Security Act of 1974, using the accrued benefit (net credit) actuarial cost method.

Plan Freeze—Effective December 31, 2015, participants in the DB plan ceased to accrue benefits. On January 1, 2016, the participants in the DB plan became participants in the redesigned Baystate Health

defined contribution plan (the “DC plan”). In connection with the DB plan freeze, the period for amortizing actuarial gains and losses was changed from the average expected future service of active participants to the average expected future lifetime as a DB plan participant for all participants.

Plan Termination—On June 14, 2022, the Board approved a motion to terminate the DB plan with an effective date of December 31, 2022, subject to regulatory approval. Upon receipt of approval from the IRS and the Pension Benefit Guarantee Corporation (PBGC), all current participants will receive detailed benefit disclosures and information to make a decision to elect to receive their retirement benefit in the form of a lump-sum payment or an annuity. Once all elections have been confirmed, the DB plan will distribute lump sums and Baystate Health will purchase annuities for participants electing this alternative method of distribution. At this time, the final settlement cost or surplus will be calculated. Based on the anticipated settlement of the DB plan’s liabilities, the projected benefit obligation (PBO) was valued on a plan termination basis. Given the inherent uncertainty in lump-sum acceptance rates and insurer pricing, in order to estimate the cost to terminate the DB plan, an analysis was completed whereby, for each segment of the population, aggressive and conservative assumptions were developed for the lump-sum acceptance rate and the level of the additional cost to be incurred to settle annuities via a group annuity contract. The PBO that is reported was developed based on using the midpoint within the range for each assumption listed. As a result, the final Plan termination liability may be different from the amounts reported as of September 30, 2022.

Settlement Charge— During the year ended September 30, 2022, lump-sum payments from the DB plan did not exceed the settlement threshold, therefore no settlement charges were recorded. During the year ended September 30, 2021, lump-sum payments from the DB plan exceeded the settlement threshold; therefore, a settlement charge (exclusive of other ownership interests) of \$9,122,000 was recorded in other components of net periodic pension (cost) benefit, net in the accompanying September 30, 2021, consolidated statement of operations.

At September 30, 2022 and 2021, the following table presents the change in the DB plan's projected benefit obligation, change in DB plan assets, and funded status of the DB plan (in thousands):

Change in Pension Obligation	2022	2021
Pension obligation—beginning of year	\$ 939,681	\$ 986,839
Interest cost	25,881	25,813
Actuarial gain	(157,704)	(13,495)
Benefits paid	(54,557)	(30,515)
Settlements	-	(28,961)
	<u>\$ 753,301</u>	<u>\$ 939,681</u>
Change in Plan Assets		
Fair value of plan assets—beginning of year	\$ 969,142	\$ 876,256
Actual return on plan assets	(197,368)	147,362
Employer contributions	-	5,000
Benefits paid	(54,557)	(30,515)
Settlements	-	(28,961)
	<u>\$ 717,217</u>	<u>\$ 969,142</u>
Funded Status		
Funded status of the plan	<u>\$ (36,084)</u>	<u>\$ 29,461</u>
Pension (liability) asset	<u>\$ (36,084)</u>	<u>\$ 29,461</u>
Amounts Recognized in Unrestricted Net Assets Consist of		
Net actuarial loss	<u>\$ 362,460</u>	<u>\$ 299,937</u>
Accumulated pension adjustment	<u>\$ 362,460</u>	<u>\$ 299,937</u>

Exclusive of other ownership interest, the underfunded status of the DB plan at September 30, 2022, is approximately \$36,546,000, the change in the pension adjustment is \$62,296,000, and the accumulated pension adjustment in net assets without donor restrictions is \$360,830,000.

Exclusive of other ownership interest, the overfunded status of the DB plan at September 30, 2021, is approximately \$28,765,000, the change in the pension adjustment is \$132,078,000, and the accumulated pension adjustment in net assets without donor restrictions is \$298,534,000.

The net actuarial loss and prior service credit expected to be recognized in benefit cost in 2023 is approximately \$133,000 and \$133,000 respectively.

The assumptions used to develop the projected benefit obligation at September 30, 2022 and 2021, are as follows:

	2022	2021
Discount rate	4.58 %	2.85 %
Rate of compensation increase	N/A	N/A

The mortality assumption at September 30, 2022 and 2021, was the Pri-2012 table with generational projection using Mortality Improvement Scale MP 2021, and MP 2021, respectively.

Net Periodic Pension Benefit—Net pension benefit for the DB plan for the years ended September 30, 2022 and 2021, includes the following components (in thousands):

	2022	2021
Interest cost	\$ 25,881	\$ 25,813
Expected return on plan assets	(36,829)	(51,766)
Recognized net actuarial loss	13,837	14,390
Settlements	-	9,171
Prior service cost	<u>133</u>	<u>133</u>
Net pension cost (benefit)	<u>\$ 3,022</u>	<u>\$ (2,259)</u>

The assumptions used to determine net pension benefit for the years ended September 30, 2022 and 2021, are as follows:

	2022	2021
Discount rate	2.85 %	2.70 %
Expected return on plan assets	4.40	6.00

DB Plan Assets—The DB plan’s investment objectives are to achieve long-term growth in excess of inflation and to provide a rate of return that meets or exceeds the actuarial expected long-term rate of return on plan assets. In order to minimize risk, the DB plan attempts to minimize the variability in yearly returns. The DB plan diversifies its holdings among sectors, industries, and companies. The target allocations of assets at September 30, 2022, were equities 10% and fixed income 90%.

To develop the expected long-term rate of return on DB plan assets assumption, Baystate Health considered the historical return and the future expectations for returns for each asset class, as well as the target asset allocation of the pension investment portfolio.

Baystate Health’s DB plan asset allocation, by asset category based on the nature of the underlying investments, at September 30, 2022 and 2021, is as follows:

	2022	2021
Common and preferred equity securities	1 %	31 %
US government and domestic fixed-income securities	83	59
Other investments	<u>16</u>	<u>10</u>
	<u>100 %</u>	<u>100 %</u>

Financial assets invested in the DB plan, in one of the categories described previously in Note 5, at September 30, 2022 and 2021, are classified as follows (in thousands):

	Assets at Fair Value as of September 30, 2022			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 27,273	\$ -	\$ -	\$ 27,273
Total assets—at fair value	<u>\$ 27,273</u>	<u>\$ -</u>	<u>\$ -</u>	<u>27,273</u>
DB plan assets—at contract value				<u>-</u>
Investments measured at NAV:				
Collective investment trusts - fixed income				592,772
Collective investment trusts - international equity				10,436
Hedge fund of funds				140
Private market funds				<u>86,596</u>
Total investments measured at NAV				<u>689,944</u>
Total DB plan assets				<u>\$ 717,217</u>
	Assets at Fair Value as of September 30, 2021			
	Level 1	Level 2	Level 3	Total
Money market	\$ 9,631	\$ 2,634	\$ -	\$ 12,265
Mutual funds—equity index funds	61,572	-	-	61,572
Commingled equity index funds	115,388	-	-	115,388
Fixed-income securities	-	544,868	-	544,868
Domestic equity securities	<u>26,430</u>	<u>-</u>	<u>-</u>	<u>26,430</u>
Total assets—at fair value	<u>\$ 213,021</u>	<u>\$ 547,502</u>	<u>\$ -</u>	<u>760,523</u>
Plan assets—at contract value				<u>16,930</u>
Investments measured at NAV:				
Commingled international equity funds				78,452
Commingled emerging markets funds				15,140
Hedge fund of funds				108
Private market funds				<u>97,797</u>
Total investments measured at NAV				<u>191,497</u>
Redemption receivable from alternative investments				<u>192</u>
Total plan assets				<u>\$ 969,142</u>

A summary of investments (by major class) that use NAV or an NAV equivalent as a practical expedient to estimate fair value that have restrictions on the DB plan's ability to redeem its investment at the measurement date at September 30, 2022 and 2021, is as follows (in thousands):

Description of Investment	September 30, 2022		
	Fair Value	Redemption Frequency	Redemption Notice Period
Collective investment trusts - fixed income	\$ 592,772	Daily	1-3 days
Collective investment trusts - international equity	10,436	Daily	1- 3 days
Hedge fund of funds	140	Quarterly	95 days
Private market investments	<u>86,596</u>	*	*
Total	<u>\$ 689,944</u>		

* Liquidity data not available, funds are considered to be highly illiquid.

Description of Investment	September 30, 2021		
	Fair Value	Redemption Frequency	Redemption Notice Period
Commingled international equity funds	\$ 78,452	Monthly	5–30 days
Commingled emerging markets funds	15,140	Monthly	30 days
Hedge fund of funds	108	Quarterly	95 days
Private market investments	<u>97,797</u>	*	*
Total	<u>\$ 191,497</u>		

* Liquidity data not available, funds are considered to be highly illiquid.

Contributions—Baystate Health will make contributions to the DB plan in 2023 as necessary, as per the DB plan termination.

Estimated Future Benefit Payments—The following approximate benefit payments, which reflect expected future service, as appropriate, are expected to be paid over the next 10 calendar years (in thousands):

Calendar Years	Pension Benefits
2023	\$ 57,686
2024	<u>730,000</u>
	<u>\$ 787,686</u>

Defined Contribution Plans—BH and certain of its consolidated subsidiaries and other ownership interest participate in the DC plan, which covers all employees hired after December 31, 2004. Effective January 1, 2016, the DC plan also covers all employees previously participating in the DB plan. Under the DC plan, Baystate Health contributes up to 5% of the employee's compensation based on years of service. Excluding the deferred compensation plan discussed below, total expense under the DC plan was approximately \$47,534,000 in 2022 and \$45,583,000 in 2021 and is included in supplies and expense in the consolidated statements of operations. The DC plan offers an employee contribution

matching feature where the employer will contribute equal to 50% of the employee's contribution, subject to a maximum match of 2% of the employee's compensation. For those defined benefit participants aged 55 or older as of January 1, 2016, Baystate Health contributed an additional 4% transition benefit through December 31, 2020.

HNE provides a 401(k) retirement plan (the "HNE Plan") to its employees. Each year, employees may contribute up to 75% of pretax annual compensation, as defined in the HNE Plan document. HNE matches 100% of the first 6% of employee contributions to the HNE Plan. Additional contributions may be made by HNE at its discretion. Contributions and compensation levels are subject to certain limitations under the IRC. The HNE Plan expense amounted to approximately \$2,218,000 and \$1,793,000 in 2022 and 2021, respectively, and is included in supplies and expense in the consolidated statements of operations.

Deferred Compensation Plan—As a component of its defined contribution retirement plan, Baystate Health established a nonqualified deferred compensation plan (the "Plan"), effective January 1, 2002, which allows certain highly compensated employees the option to defer specified amounts of their annual compensation on a pretax basis and also allows Baystate Health, at its discretion, the option to provide deferred compensation to key employees. A participant in the Plan is notified if a voluntary contribution is made by Baystate Health to that participant's account. In addition, the participant's account is credited to reflect investment returns based on measuring investments selected by either the participant or the Plan administrator in accordance with the Plan document. The participant has the option to take a distribution of his/her account in its entirety, upon severance from employment with Baystate Health. Baystate Health has recorded \$72,310,000 and \$88,591,000 within other liabilities in the consolidated statements of financial position as of September 30, 2022 and 2021, respectively, which represent its obligation for benefits payable under the Plan. All amounts of compensation deferred under the Plan remain the assets of Baystate Health, until paid out to a participant or his/her beneficiary. Baystate Health is not required to segregate or set aside any assets to meet its obligation under the Plan. Baystate Health's contributions amounted to approximately \$1,754,000 and \$1,963,000 in 2022 and 2021, respectively, and is included in supplies and expense in the consolidated statements of operations.

Baystate Noble Retirement Plans:

Retirement Plan—Through March 2005, BNH maintained a noncontributory defined benefit pension plan (the "Noble Plan") covering certain eligible employees of BNH and its subsidiaries, who have completed one year of service. The benefits were based on years of service and final average earnings. BNH's policy was to make annual cash contributions to the Noble Plan in amounts at least equal to the minimum contribution as determined by the Noble Plan's actuary.

Effective April 1, 2006, BNH amended the Noble Plan to freeze all accrued benefits for certain participants in the Noble Plan whose benefits are not subject to collective bargaining agreements. The accrued benefit for these participants is equal to the accrued benefit determined as of April 1, 2006. The amendment prohibits new or rehired employees, not subject to a collective bargaining agreement, from becoming participants in the Noble Plan. This curtailment resulted in a reduction in the Noble Plan's projected benefit obligation and unrecognized prior service cost, which was recorded in 2006.

Pursuant to BNH's application for a distressed termination, the PBGC became the trustee of the Noble Plan on May 1, 2013. As part of the settlement, BNH has agreed to enter into a note payable to the PBGC totaling \$4,200,000. The amount is payable over 15 years. The balance due at September 30, 2022, is approximately \$2,407,000, of which \$2,284,000 is classified as long-term and included as a

pension liability in the consolidated statement of financial position. The balance due at September 30, 2021, was approximately \$2,525,000, of which \$2,407,000 is classified as long-term and included as a pension liability in the consolidated statement of financial position.

BNH’s contributions amounted to approximately \$210,000 for 2022 and 2021, and is included in supplies and expense in the consolidated statements of operations.

Defined Contribution Plan—The Noble 403(b) Savings Plan became effective on April 1, 2006. All eligible employees may elect to make contributions and BNH matches certain contributions up to the defined limits. In addition, BNH contributes between 2% and 10% of certain employee’s eligible compensation based upon the employee’s age and years of vesting service. Employees are fully vested in BNH’s contributions after four years of employment.

Noble 403(b) Savings Plan Merger—Effective May 27, 2022, the Noble 403(b) Savings Plan was terminated, and all participants of the Noble 403(b) Savings Plan were transferred to the DC plan. Effective May 27, 2022, the Noble 403(b) Savings Plan transferred net assets of approximately \$34,000,000 to the DC plan.

19. CONCENTRATIONS OF CREDIT RISK

Baystate Health grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers at September 30, 2022 and 2021, is as follows:

	2022	2021
Medicare	18 %	19 %
Medicaid	13	12
Commercial and other	65	64
Self-pay patients	<u>4</u>	<u>5</u>
	<u>100 %</u>	<u>100 %</u>

20. FUNCTIONAL EXPENSES

Baystate Health provides general health care services to residents within their geographic location. Expenses related to providing these services for the years ended September 30, 2022 and 2021, are as follows (in thousands):

	2022				
	Program Activities			Supporting Activities General and Administrative	Total Operating Expenses
	Hospitals	Health Plan	Physician		
Salaries and wages	\$ 649,429	\$ 38,366	\$ 286,218	\$ 143,675	\$ 1,117,688
Supplies and expense	1,013,529	62,977	176,506	6,957	1,259,969
Medical claims and capitation	-	556,625	-	-	556,625
Depreciation and amortization	62,957	2,487	1,587	11,438	78,469
Interest expense	8,586	-	-	469	9,055
Other expense	1,971	-	-	4,422	6,393
	<u>\$1,736,472</u>	<u>\$660,455</u>	<u>\$ 464,311</u>	<u>\$ 166,961</u>	<u>\$ 3,028,199</u>
	2021				
	Program Activities			Supporting Activities General and Administrative	Total Operating Expenses
	Hospitals	Health Plan	Physician		
Salaries and wages	\$ 563,372	\$ 41,907	\$ 266,005	\$ 141,421	\$ 1,012,705
Supplies and expense	950,752	-	160,154	7,014	1,117,920
Medical claims and capitation	-	523,786	-	-	523,786
Depreciation and amortization	62,123	2,437	1,644	9,092	75,296
Interest expense	9,921	-	-	279	10,200
Other expense	3,090	-	-	6,525	9,615
	<u>\$ 1,589,258</u>	<u>\$ 568,130</u>	<u>\$ 427,803</u>	<u>\$ 164,331</u>	<u>\$ 2,749,522</u>

Certain costs have been allocated to program activities and general and administrative activities. Such allocations are determined by management on an equitable basis, based on time and effort, or purpose of use, as applicable.

21. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at September 30, 2022 and 2021, are restricted for the following purposes (in thousands):

	2022	2021
Research and education	\$ 6,627	\$ 9,085
Patient care services	57,147	67,931
Endowment funds with donor restrictions	20,529	19,984
Beneficial interest in perpetual trusts	37,394	48,346
	<u>\$ 121,697</u>	<u>\$ 145,346</u>

The income on endowment funds with donor restrictions and distributions from perpetual trusts is generally expendable to support the delivery of health care services.

ASC 958-205, *Presentation of Financial Statements*, provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA).

Massachusetts enacted UPMIFA on July 2, 2009. Baystate Health is subject to ASC 958-205 disclosure requirements regarding its endowment funds.

Baystate Health's endowments consist of numerous individual funds established for a variety of purposes. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Baystate Health requires the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Baystate Health classifies as net assets with donor restrictions (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment funds is classified as donor restricted net assets until those amounts are appropriated for expenditure. Baystate Health considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (a) the duration and preservation of the fund, (b) the purpose of Baystate Health and the donor-restricted endowment fund, (c) general economic conditions, (d) the possible effect of inflation and deflation, (e) the expected total return from income and the appreciation of investments, and (f) the investment policies of Baystate Health.

Endowment net asset composition, by type of fund, as of September 30, 2022 and 2021, consisted of the following (in thousands):

As of September 30, 2022	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment funds	\$ -	\$ 60,400	\$ 60,400
Board-designated endowment funds	<u>32,942</u>	<u>-</u>	<u>32,942</u>
Total endowment net assets	<u>\$ 32,942</u>	<u>\$ 60,400</u>	<u>\$ 93,342</u>
As of September 30, 2021	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment funds	\$ -	\$ 76,213	\$ 76,213
Board-designated endowment funds	<u>39,136</u>	<u>-</u>	<u>39,136</u>
Total endowment net assets	<u>\$ 39,136</u>	<u>\$ 76,213</u>	<u>\$ 115,349</u>

For the year ended September 30, 2022, Baystate Health had the following endowment-related activities (in thousands):

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets—October 1, 2021	<u>\$ 39,136</u>	<u>\$ 76,213</u>	<u>\$ 115,349</u>
Investment return:			
Investment income	850	515	1,365
Net depreciation	<u>(5,069)</u>	<u>(15,932)</u>	<u>(21,001)</u>
Total investment return	(4,219)	(15,417)	(19,636)
Contributions	5	1,210	1,215
Amounts appropriated for expenditures	<u>(1,980)</u>	<u>(1,606)</u>	<u>(3,586)</u>
Total change in endowment funds	<u>(6,194)</u>	<u>(15,813)</u>	<u>(22,007)</u>
Endowment net assets—September 30, 2022	<u>\$ 32,942</u>	<u>\$ 60,400</u>	<u>\$ 93,342</u>

For the year ended September 30, 2021, Baystate Health had the following endowment-related activities (in thousands):

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets—October 1, 2020	<u>\$ 31,779</u>	<u>\$ 62,924</u>	<u>\$ 94,703</u>
Investment return:			
Investment income	291	468	759
Net appreciation	<u>6,957</u>	<u>13,600</u>	<u>20,557</u>
Total investment return	7,248	14,068	21,316
Contributions	1,396	1,601	2,997
Other	-	(9)	(9)
Amounts appropriated for expenditures	<u>(1,287)</u>	<u>(2,371)</u>	<u>(3,658)</u>
Total change in endowment funds	<u>7,357</u>	<u>13,289</u>	<u>20,646</u>
Endowment net assets—September 30, 2021	<u>\$ 39,136</u>	<u>\$ 76,213</u>	<u>\$ 115,349</u>

Baystate Health's investment and spending policies for endowment assets are intended to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that Baystate Health must hold in perpetuity or for a donor-specified term. Under this policy, as approved by the Board, the endowment assets are invested in a manner that will generate an 8.4% return over the long term. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, Baystate Health relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Baystate Health targets a diversified asset allocation that consists of equities, fixed income, and alternative investments.

Baystate Health has a policy of appropriating for distribution each year, no more than 4% of its endowment funds' average fair market value measured over a rolling sixteen quarters. In establishing this policy, Baystate Health considered the long-term expected return on its endowments.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires Baystate Health to retain as a fund of perpetual duration. There was no deficiency of this nature at September 30, 2022 or 2021.

22. STATE SURPLUS REVENUE RETENTION

Through September 30, 2022, BMC had a surplus in excess of the Commonwealth of Massachusetts' rules and regulations governing the excess of state revenues over expenses for not-for-profit organizations. The total surplus attributable to state contracting for BMC was approximately \$39,000 as of September 30, 2022. Through September 30, 2021, BMC had no surplus in excess of the Commonwealth of Massachusetts' rules and regulations governing the excess of state revenues over expenses for not-for-profit organizations. The total deficit attributable to state contracting for BMC was approximately \$5,000 as of September 30, 2021. As of September 30, 2022 and 2021, the cumulative deficit attributable to state contracting of approximately \$6,911,000 and \$6,950,000, respectively, is included in the net assets without donor restrictions of BMC.

23. SUBSEQUENT EVENTS

ARP Act—On November 29, 2022, Baystate Health received \$34,264,000 in connection with the ARP Act.

CARES Act—On December 13, 2022, Baystate Health received \$13,244,000 in additional CARES Act funding in connection with Federal Emergency Management Agency (FEMA) applications 3 & 4.

Subsequent events have been evaluated for potential recognition in the consolidated financial statements through December 21, 2022, which is the date the consolidated financial statements were available to be issued.

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