

This response is based on the State of Massachusetts D403 form

Categories of Expenses that have grown 5% or more between 2010 and 2012

	<u>FY10</u>	<u>FY12</u>	<u>Change</u>
Physician Compensation	\$ 23,287,319	\$ 25,537,246	9.7%

The apparent change in physician compensation between FY2010 and FY2012 is not primarily a change in amounts paid but rather in the identity of the Berkshire Health System entity that made the payment. This exhibit includes Berkshire Medical Center only data. Some BHS physicians are employed by BMC and some by a faculty practice organization, Berkshire Faculty Services. Certain physicians employed by Berkshire Faculty Services in FY2010 were moved to BMC by FY2012. The increase in expense at BMC is offset by a decrease at Berkshire Faculty Services.

	<u>FY10</u>	<u>FY12</u>	<u>Change</u>
Purchased Services	\$ 41,712,156	\$ 44,740,096	7.3%

Three reasons can be cited as the drivers of this increase in expense:

Interest expense - During 2010, Berkshire Medical Center began a project to construct a garage and an ambulatory surgery center. These projects were completed during this period resulting in an increase in interest expense on debt used to fund these projects.

IT support fees have increased dramatically as the need for electronic medical records and more complex software has risen over the past few years. These fees are necessary to provide software maintenance and vendor support and are assessed annually in addition to the initial capital purchase. In some cases, these annual fees can be 25% of the cost of capital.

In FY2011, BMC began the development of ambulatory clinics to replace the office practices of many of the providers employed by Berkshire Faculty Services. This strategy allowed the ambulatory work to be more integrated with the Medical Center, sustain the physician enterprise and support the recruitment of needed primary and specialty care physicians and mid-level providers to Berkshire County. Staff and operating costs of the office clinics were reorganized in this effort from Berkshire Faculty Services to Berkshire Medical Center. There was no increase to the overall cost of providing care. This represents a reclass of expenses between Berkshire Faculty Services and Berkshire Medical Center.

	<u>FY10</u>	<u>FY12</u>	<u>Change</u>
Supplies and Expenses	\$ 100,799,788	\$ 108,141,273	7.3%

Three areas were responsible for this increase in expense:

Routine supplies increased over this period as a result of changes in census, an increase in the intensity of services provided to patients and inflation in the cost of supplies.

The ambulatory provider clinics as noted above contributed to the increase in costs which were transferred from Berkshire Faculty Services to Berkshire Medical Center with the adoption of the ambulatory clinic structure.

Bad Debt expense increased considerably during this two year period. This increase reflects a deterioration in the overall socio-economic state of Berkshire County and trends in insurance product structure and policies that result in uncollected revenue. During this period the Health SafetyNet experienced significant system issues which resulted in an aging of accounts receivable and resulting concerns over collectibility; HSN processing of ER bad debts was suspended, resulting in a reduction in recoveries; community businesses, mostly small employers, migrated to insurance products with higher patient responsibility to stem the growth in health insurance costs resulting in an increase in bad debts. Denials increased from third party payors related to increasingly complex referral and pre-authorization rules and credentialing delays for new providers.

Categories of Expenses that have grown 10% or more between 2010 and 2012

Based on the D403 categories of expense, Berkshire Medical Center had no categories of expense that grew by more than 10%.