



**BMC HEALTH SYSTEM, INC.**

Independent Auditors' Reports as Required by Title 2 U.S. Code of  
Federal Regulations Part 200, *Uniform Administrative Requirements, Cost  
Principles and Audit Requirements for Federal Awards* and  
*Government Auditing Standards* and Related Information

Year Ended September 30, 2018

(With Independent Auditors' Reports Thereon)

**BMC HEALTH SYSTEM, INC.**

Independent Auditors' Reports as Required by Title 2 U.S. Code of  
Federal Regulations Part 200, *Uniform Administrative Requirements, Cost  
Principles and Audit Requirements for Federal Awards and  
Government Auditing Standards* and Related Information

Year ended September 30, 2018

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KPMG LLP  
Two Financial Center  
60 South Street  
Boston, MA 02111

## Exhibit I

### **Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

The Board of Trustees  
BMC Health System, Inc. and its subsidiaries:

#### **Report on Compliance for Each Major Federal Program**

We have audited BMC Health System, Inc. and its subsidiaries (the Health System) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Health System's major federal programs for the year ended September 30, 2018. The Health System's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

#### *Management's Responsibility*

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on compliance for the Health System's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (the Uniform Guidance)*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about The Health System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Health System's compliance.

#### *Opinion on Each Major Federal Program*

In our opinion, the Health System complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2018.



## Exhibit I

### *Other Matters*

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2018-01 and 2018-02. Our opinion on each major federal program is not modified with respect to these matters.

The Health System's responses to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Health System's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

### **Report on Internal Control over Compliance**

Management of the Health System is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Health System's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Health System's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2018-01 that we consider to be a significant deficiency.

The Health System's response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of current year findings and questioned costs. The Health System's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.



## Exhibit I

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

### **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the consolidated financial statements of the Health System as of and for the year ended September 30, 2018, and have issued our report thereon dated February 7, 2019, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*KPMG LLP*

June 25, 2019



KPMG LLP  
Two Financial Center  
60 South Street  
Boston, MA 02111

**Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Consolidated Financial Statements Performed  
in Accordance With Government Auditing Standards**

The Board of Trustees  
BMC Health System, Inc.:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of BMC Health System, Inc. and its subsidiaries (the Health System), which comprise the statement of financial position as of September 30, 2018, and the related statements of operations and changes in unrestricted net assets, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated February 7, 2019.

**Internal Control over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered the Health System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Health System's internal control. Accordingly, we do not express an opinion on the effectiveness of the Health System's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Health System's consolidated financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Health System's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Health System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Health System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Boston, Massachusetts  
February 7, 2019

**BMC HEALTH SYSTEM, INC.**  
Schedule of Findings and Questioned Costs  
Year ended September 30, 2018

**(1) Summary of Auditors' Results***Financial Statements*

Type of auditors' report issued on whether  
financial statements were prepared in  
accordance with GAAP:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes   X   No
- Significant deficiency(ies) identified that are  
not considered to be material weakness(es)? \_\_\_\_\_ Yes   X   None reported

Noncompliance material to the financial  
statements noted?

\_\_\_\_\_ Yes   X   No

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified? \_\_\_\_\_ Yes   X   No
- Significant deficiency(ies) identified that are  
not considered to be material weakness(es)?   X   Yes \_\_\_\_\_ No

Type of auditors' report issued on compliance  
for major programs:

Unmodified

Any audit findings disclosed that are required to be  
reported in accordance with Section 200.516(a)  
of The Uniform Guidance?

  X   Yes \_\_\_\_\_ No

Identification of major programs:

Program Title	CFDA
Research and Development Cluster	Various
HIV Prevention Activities	93.40

Dollar threshold used to distinguish between  
Type A and Type B programs:

\$ 1,608,403

Auditee qualified as low-risk auditee:

  X   Yes \_\_\_\_\_ No



**BMC HEALTH SYSTEM, INC.**

Schedule of Findings and Questioned Costs

Year ended September 30, 2018

**(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards***

None.

**(3) Findings and Questioned Costs Relating to Federal Awards**

**BMC HEALTH SYSTEM, INC.**

Schedule of Findings and Questioned Costs

Year ended September 30, 2018

**United States Department of Health and Human Services (HHS)**

**R&D Cluster**

**Federal Award Numbers:** Various

**Award Year:** 2018

**Department of Public Health**

**93.940 HIV Prevention Activities Health Department Based**

**Federal Award Numbers:** unknown

**Award Year:** 2018

**Finding Reference:** 2018-01

**Activities Allowed or Unallowed and Allowable Costs/Cost Principles**

**Type of finding – Significant Deficiency**

**Prior year finding – No**

**Statistically valid sample: No**

*Requirement*

Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.

In accordance with 2 CFR section 200.303(a), Non-Federal entities must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States or the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

*Finding*

Boston Medical Center (BMC) is responsible for maintaining accurate records of personnel time and effort to substantiate salary and wage costs associated with its federal and other sponsored projects. BMC has implemented various control activities to ensure compliance with the above requirements, which include: supervisory approval of timesheets; semi-annual employee effort certifications (which are reviewed by the respective Department Research Administrator); and that changes to an employee's time charged to a grant be reviewed by Research Finance prior to further grant accounting.

**BMC HEALTH SYSTEM, INC.**

Schedule of Findings and Questioned Costs

Year ended September 30, 2018

During our testwork we noted the following:

- An instance in which an HIV program employee's timesheet was not approved by supervisor prior to being charged to the grant.
- An instance for both the R&D and HIV program in which a time certification was approved over a year after the employee's period of effort.
- An instance in which a payroll adjustment was processed nine months after the employee's period of effort but was not approved by the Research Finance Department prior to posting the adjustment to the grant accounting ledger.
- The allocation of an employee's salary is reviewed by programmatic personnel, however, it is not designed to be reviewed and approved by Research Finance prior to charging such costs to a grant.

*Cause*

Not all payroll and related activities (and associated support) require review by the Research Finance Department prior to being processed and charged to a grant.

*Effect*

The effect of the above findings can lead to unallowable payroll cost being charged to a grant or that otherwise allowable costs are charged to a grant outside of the period of allowability.

*Recommendation*

We recommend BMC develop policies and procedures that involve Research Finance approval on distribution of salaries allocated to federal programs.

We also recommend BMC enhance its policies to ensure timesheets are approved and certifications are completed timely and that any required adjustments to payroll distributions are done timely and approved by Research Finance. In addition, we also recommend that control activities related to payroll changes be designed such that Research Finance is required to review all grant related adjustments prior to posting to a grant.

*Questioned Costs*

None

*View of Responsible Officials and Corrective Actions*

Research Management begun discussions with the Human Resources Information Systems team, making them aware of the need to reconfigure the cost allocation approval process in the Workday payroll system in a way that will include research finance in the approval process for all research HR allocation approvals. Once inserted into the approval role it will allow BMC to enforce the timeliness required of allocation and transfers noted in the policies that are already in place.

Additionally we have engaged with our internal audit team (EY) to have them explore the overall exposure of late cost transfers and areas of improvement in our policies.

**BMC HEALTH SYSTEM, INC.**  
Schedule of Findings and Questioned Costs  
Year ended September 30, 2018

*Responsible Official(s)*

- Senior Director of Research Administration
- Director of Human Resources Information Systems

*Implementation Date*

Target: September 30, 2019

**BMC HEALTH SYSTEM, INC.**  
Schedule of Findings and Questioned Costs  
Year ended September 30, 2018

**United States Department of Health and Human Services (HHS)**

**Department of Public Health**

**93.940 HIV Prevention Activities Health Department Based**

**Federal Award Numbers: Unknown**

**Award Year: 2018**

**U.S. Department of Health and Human Services**

**Finding Reference: 2018-02**

**Activities Allowed or Unallowed and Allowable Costs/Cost Principles**

**Type of finding – Noncompliance**

**Prior year finding – No**

**Statistically valid sample: No**

*Requirement*

Indirect cost rate proposals (ICRPs) are used to either establish predetermined rates, fixed rates with carry-forward provision, provisional, or final rates (2 CFR part 200, Appendix IV, paragraph C.1).

An indirect cost rate agreement exists for the HIV program between Boston Medical Center and grantor Department of Public Health. The agreement includes a 12% rate.

*Finding*

The indirect cost base used to determine the allowable indirect cost charged to the HIV program improperly included lease expenditures, however lease expenses are not allowable costs.

*Cause*

The accounting code used for these lease transactions did not specify that lease expense must be excluded for the grant's overhead determination. This was not detected through secondary review.

*Effect*

Indirect was overcharged to the program.

*Recommendation*

We recommend BMC implement policies and procedures in place to ensure the indirect costs are calculated in accordance with federal requirements.

*Questioned Costs*

\$2,400

**BMC HEALTH SYSTEM, INC.**

Schedule of Findings and Questioned Costs

Year ended September 30, 2018

*View of Responsible Officials and Corrective Actions*

Management is currently in the process of reviewing all indirect cost codes and updating the current general ledger account codes and the exclusion process in order to correctly configure a new financial and general ledger system, with a target go live of November 2019. The new process will not be as manual as the current state and the new processes are designed to prevent.

As part of the testing and system set up, management is verifying that the calculations of indirect cost are accurate and making sure the appropriate exclusions are and have been applied to current grants.

*Responsible Official(s)*

Sr. Director Research Administration

*Implementation Date*

- Testing and clean-up of current manual process and existing account codes: September 30, 2019
- Go live with Automated Infor Grants Module: November 11, 2019



**BMC HEALTH SYSTEM, INC.**

Consolidated Financial Statements

September 30, 2018

(With Independent Auditors' Report Thereon)



KPMG LLP  
Two Financial Center  
60 South Street  
Boston, MA 02111

## Independent Auditors' Report

The Board of Trustees  
BMC Health System, Inc.:

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of BMC Health System, Inc. and its subsidiaries (the Health System), which comprise the statement of financial position as of September 30, 2018 and the related consolidated statements of operations and changes in unrestricted net assets, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

#### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Health System as of September 30, 2018, and the results of their operations, their changes in net assets, and their cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.





*Other Matter – Prior Period Consolidated Financial Statements*

The accompanying consolidated financial statements and supplemental consolidating information of BMC Health System, Inc. and its subsidiaries as of and for the year then ended September 30, 2017 were audited by other auditors, whose report thereon dated January 24, 2018, expressed an unmodified opinion and also reported, in an *other matter* paragraph, the 2017 supplementary information was fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Other Matter – Supplemental Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying 2018 supplementary information on pages 49, 51, 53, and 55, is presented for purposes of additional analysis and is not a required part of the 2018 consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated February 7, 2019 on our consideration of the Health System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Health System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Health System's internal control over financial reporting and compliance.

*KPMG LLP*

Boston, Massachusetts  
February 7, 2019

**BMC HEALTH SYSTEM, INC.**

## Consolidated Balance Sheets

September 30, 2018 and 2017

(In thousands)

<b>Assets</b>	<b>2018</b>	<b>2017</b>
Current assets:		
Cash and cash equivalents	\$ 559,643	251,360
Short-term investments	—	39,732
Patient accounts receivable, less allowance of \$52,624 and \$38,475 in 2018 and 2017, respectively	85,764	96,420
Other accounts receivable, less allowance of \$3,350 and \$3,188 in 2018 and 2017, respectively	195,441	209,129
Current portion of grants receivable, less allowance of \$0 and \$734 in 2018 and 2017, respectively	15,962	16,671
Current portion of estimated receivable for final settlements with third-party payors	3,941	3,941
Inventories	13,568	8,751
Prepaid expenses and other current assets	40,965	23,146
Current portion of funds held by trustees	23,161	3,189
Total current assets	938,445	652,339
Assets limited as to use:		
Board-designated investments	376,419	367,108
Funds held by trustees	38,765	35,666
Donor-restricted investments	332,656	332,883
Reserve funds	107,863	123,641
Total assets limited as to use	855,703	859,298
Other assets:		
Long-term investments	255,870	298,870
Property, plant and equipment, net	1,028,583	963,851
Other noncurrent assets	41,011	57,075
Total assets	\$ 3,119,612	2,831,433
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 368,872	259,597
Claims payable	131,893	122,600
Deferred revenue	28,297	31,385
Current portion of long-term debt and capital leases	86,996	5,902
Other current liabilities	9,546	6,057
Total current liabilities	625,604	425,541
Long-term liabilities:		
Estimated third party settlements	49,738	51,626
Obligations under capital leases	45,035	46,700
Long-term debt	631,847	571,746
Other long-term liabilities	134,228	155,963
Total liabilities	1,486,452	1,251,576
Commitments and contingencies		
Net assets:		
Unrestricted	1,291,016	1,241,038
Temporarily restricted	305,054	300,939
Permanently restricted	37,090	37,880
Total net assets	1,633,160	1,579,857
Total liabilities and net assets	\$ 3,119,612	2,831,433

See accompanying notes to consolidated financial statements.

**BMC HEALTH SYSTEM, INC.**

## Consolidated Statements of Operations and Changes in Unrestricted Net Assets

Years ended September 30, 2018 and 2017

(In thousands)

	<u>2018</u>	<u>2017</u>
Operating revenue:		
Net patient service revenue	\$ 1,123,787	1,063,417
Provision for bad debt	<u>81,144</u>	<u>75,929</u>
Net patient service revenue net of provision for bad debt	1,042,643	987,488
Capitation revenue	2,059,944	1,637,223
Grants and contract revenue	108,635	91,283
Other revenue	201,271	252,145
Net assets released from restrictions for operations	<u>18,351</u>	<u>18,623</u>
Total operating revenue	<u>3,430,844</u>	<u>2,986,762</u>
Operating expenses:		
Salaries, wages and fringe benefits	1,008,427	982,916
Medical costs, supplies and other expenses	2,223,835	1,833,901
Depreciation and amortization	98,207	88,274
Interest expense	25,113	18,274
Research, sponsored programs and community health services	<u>74,709</u>	<u>75,511</u>
Total operating expenses	<u>3,430,291</u>	<u>2,998,876</u>
Income (loss) from operations	<u>553</u>	<u>(12,114)</u>
Nonoperating gains (losses), net:		
Investment income (including other-than-temporary impairment losses of \$978 and \$841 in 2018 and 2017, respectively)	34,969	32,900
Fundraising costs and other	<u>(9,856)</u>	<u>(5,154)</u>
Total nonoperating gains, net	<u>25,113</u>	<u>27,746</u>
Excess of revenue over expenses	25,666	15,632
Other changes in unrestricted net assets:		
Change in unrealized (depreciation) appreciation on investments	(12,990)	14,381
Other changes	(12)	—
Net assets released from restrictions for property, plant and equipment	29,194	41,342
Pension related changes other than net periodic pension costs	<u>8,120</u>	<u>16,751</u>
Change in unrestricted net assets	49,978	88,106
Unrestricted net assets:		
Beginning of year	<u>1,241,038</u>	<u>1,152,932</u>
End of year	<u>\$ 1,291,016</u>	<u>1,241,038</u>

See accompanying notes to consolidated financial statements.

**BMC HEALTH SYSTEM, INC.**

## Consolidated Statements of Changes in Net Assets

Years ended September 30, 2018 and 2017

(In thousands)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net assets at September 30, 2016	\$ 1,152,932	296,218	16,250	1,465,400
Increases (decreases) in net assets:				
Excess of revenues over expenses	15,632	—	—	15,632
Investment income	—	29,191	—	29,191
Change in net unrealized appreciation on investments	14,381	15,644	—	30,025
Contribution revenue	—	19,851	21,630	41,481
Net assets released from restrictions for operations	—	(18,623)	—	(18,623)
Net assets released from restrictions for property, plant and equipment	41,342	(41,342)	—	—
Pension related changes other than net periodic pension costs	16,751	—	—	16,751
Total increase in net assets	88,106	4,721	21,630	114,457
Net assets at September 30, 2017	1,241,038	300,939	37,880	1,579,857
Increases (decreases) in net assets:				
Excess of revenues over expenses	25,666	—	—	25,666
Investment income	—	20,235	—	20,235
Change in net unrealized (depreciation) appreciation on investments	(12,990)	5,576	—	(7,414)
Other changes	(12)	—	—	(12)
Contribution revenue	—	24,849	210	25,059
Net assets released from restrictions for operations	—	(17,351)	(1,000)	(18,351)
Net assets released from restrictions for property, plant and equipment	29,194	(29,194)	—	—
Pension related changes other than net periodic pension costs	8,120	—	—	8,120
Total increase (decrease) in net assets	49,978	4,115	(790)	53,303
Net assets at September 30, 2018	\$ 1,291,016	305,054	37,090	1,633,160

See accompanying notes to consolidated financial statements.

## BMC HEALTH SYSTEM, INC.

## Consolidated Statements of Cash Flows

Years ended September 30, 2018 and 2017

(In thousands)

	2018	2017
Operating activities:		
Change in net assets	\$ 53,303	114,457
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	98,207	88,274
Restricted contributions	(16,251)	(14,002)
Donated securities received	(1,230)	(1,233)
Return on investment of joint venture	(1,318)	12
Bond premium/discount	708	—
Amortization of bond discount/premium and issuance costs	(1,700)	(1,801)
Discount and provision for bad debt on contributions receivable	6,776	7,518
Net realized gains and change in unrealized (appreciation) on investments	(17,992)	(72,286)
Increase in asset retirement obligation	86	103
Provision for bad debts	81,144	75,929
Pension related changes other than net periodic pension costs	(8,120)	(16,751)
Changes in operating assets and liabilities:		
Grants receivable	709	(2,284)
Patient accounts receivable	(70,488)	(84,126)
Other current assets and liabilities	(15,323)	(36,887)
Other noncurrent assets and liabilities	7,787	(10,461)
Estimated final settlements with third-party payors	(1,888)	3,986
Claims payable	9,293	1,534
Decrease in premium deficiency reserve	—	(28,000)
Accounts payable and accrued expenses	93,821	(36,000)
Net cash provided by (used in) operating activities	217,524	(12,018)
Investing activities:		
Proceeds from sale of investments	237,325	361,856
Proceeds from sale of funds held by Trustees	79,514	87,668
Purchases of investments	(145,439)	(355,828)
Purchases of funds held by Trustees	(84,323)	(47,959)
Refund of East Newton building deposit	(8,388)	—
Purchase of property, plant and equipment	(147,485)	(156,250)
Net cash used in investing activities	(68,796)	(110,513)
Financing activities:		
Proceeds from borrowings	148,500	—
Debt issuance costs	(524)	—
Proceeds from restricted contributions	16,251	14,002
Proceeds from sale of donated securities	1,230	1,233
Repayment of long-term debt and capital leases	(5,902)	(5,975)
Net cash provided by financing activities	159,555	9,260
Increase (decrease) in cash and cash equivalents	308,283	(113,271)
Cash and cash equivalents:		
Beginning of year	251,360	364,631
End of year	\$ 559,643	251,360
Supplemental disclosure of cash flow activities:		
Cash paid for interest	\$ 28,021	22,373
Property, plant and equipment included in accounts payable	22,989	7,531
Conditional asset retirement obligations	86	103
Net fixed assets recognized related to conditional asset retirement obligations	(258)	(257)
Contributed securities	1,230	1,233
Gift in-kind	500	500
New capital leases	—	100

See accompanying notes to consolidated financial statements.

**BMC HEALTH SYSTEM, INC.**

## Notes to Consolidated Financial Statements

September 30, 2018 and 2017

**(1) Organization**

BMC Health System, Inc. (the Health System Corporation) is a tax-exempt, nonprofit Massachusetts corporation that oversees the operation of Boston Medical Center Corporation (the Medical Center or BMC), Boston Medical Center Health Plan, Inc. (BMCHP), and various affiliates and associated services. The Health System Corporation was organized effective July 1, 2013.

The consolidated financial statements of the Health System Corporation and its affiliates (the Health System) include the Medical Center, the combined accounts of Faculty Practice Foundation, Inc. (Faculty), doing business as Boston University Medical Group (BUMG) and its 22 affiliated faculty practice plan corporations (the Plans, and collectively with Faculty known as BUMG), BMCHP, Univer Development Foundation, Inc. (UDF), East Concord Medical Foundation, Inc. (ECMF), Boston Medical Center Insurance Company, Ltd. (BMCIC), Boston Medical Center Insurance Company, Ltd. of Vermont (BMCIC of Vermont), Boston University Affiliated Physicians, Inc. (BUAP), BMC Integrated Care Services, Inc. (BMCICS), BMC NAB Business Trust (NAB), and Boston Accountable Care Organization, Inc. (BACO). The Medical Center and each of the affiliated organizations have fiscal years ending September 30, except Faculty and ECMF, which have fiscal years ending June 30.

The Medical Center was incorporated on July 1, 1996 when all of the assets and liabilities of the former University Hospital, Inc. (a.k.a. Boston University Medical Center Hospital or BUMCH) and its subsidiaries were merged with and into the Medical Center. In addition, specific assets and liabilities of the former Boston City Hospital (BCH), Boston Specialty and Rehabilitation Hospital (BSRH) and Trustees of Health and Hospitals, Inc. (THH), as indicated in the Consolidation Agreement, were transferred by the City of Boston (the City) to the Medical Center. The accompanying consolidated balance sheet includes all the assets, liabilities and net assets of the former BUMCH and only certain assets, liabilities and net assets of the former BCH, BSRH and THH. The Medical Center is a tax-exempt, nonprofit Massachusetts corporation, and its sole corporate member is the Health System Corporation.

BMCHP is a tax-exempt, nonprofit Massachusetts corporation established on July 1, 1997. BMCHP was established to administer the BMC Health Plan, a capitated provider-sponsored program of the Commonwealth of Massachusetts' (the Commonwealth) Division of Medical Assistance (DMA) (Office of Medicaid or MassHealth) designed to provide medical coverage to people who are eligible for Medicaid. The Health System Corporation is BMCHP's sole corporate member. The BMCHP President reports to the President of the Health System Corporation.

Upon the enactment of legislation in 2006 providing subsidized coverage to individuals with incomes between 100% and 300% of the Federal Poverty Level (FPL), BMCHP became one of the original managed care organizations supporting the Commonwealth Care program administered by the Massachusetts Health Connector (Connector). As a later condition of serving as a Commonwealth Care carrier, BMCHP became licensed by the Massachusetts Division of Insurance as a health maintenance organization (HMO) in 2008.

BMCHP is also a licensed HMO insurer by the New Hampshire Insurance Department and operates under the name Well Sense Health Plan (Well Sense) in New Hampshire. BMCHP also offers Qualified Health Plans (QHP) primarily through the Massachusetts Health Connector as well as a fully integrated geriatric model of care under the Massachusetts Senior Care Options (SCO) program. SCO is a Medicare

**BMC HEALTH SYSTEM, INC.**

## Notes to Consolidated Financial Statements

September 30, 2018 and 2017

Advantage Dual Eligible Special Needs Plan (D-SNP) that is jointly administered by MassHealth and CMS, and eligible individuals, age 65 and older, receive both Medicaid and Medicare benefits.

In June 2017, MassHealth selected four accountable care organization (ACO) partnerships affiliated with the Health System to participate in the Commonwealth's reform of MassHealth. In August 2017, BMCHP entered into contracts with the Massachusetts Executive Office of Health and Human Services (EOHHS) to serve as an Accountable Care Partnership Plan for its affiliate BACO and the Southcoast Health Network, LLC, Signature Healthcare Corp., and Mercy Health Accountable Care Organization, LLC ACOs. The Health System Corporation and each of the four ACO partners have entered into an agreement defining the roles and responsibilities of their ACO partnership.

In October, 2017, EOHHS selected BMCHP as one of two managed care organizations (MCO) to serve the Massachusetts MCO program.

Faculty, incorporated on October 18, 1994, is a tax-exempt, nonprofit Massachusetts corporation operating exclusively for clinical, charitable, scientific and educational purposes. The Plans, also tax-exempt, nonprofit Massachusetts corporations, were established to operate exclusively for the benefit of BMC and Boston University School of Medicine (BUSM) (collectively, the Institutions). Faculty is granted the power to approve the Plans' annual operating budgets, physician compensation plans, and managed care contracts. The Plans' purpose is to provide, coordinate and facilitate the delivery of patient care services and to promote the development of an integrated system of delivery to more efficiently and effectively meet the health care needs of the communities served by the Institutions. BUMG's combined financial statements are consolidated into the Health System.

Effective June 29, 2017, Faculty entered an operating agreement with Steward Medical Group, Inc. (SMG), to form Boston Neurosurgical Associates, LLC (BNA) to efficiently provide neurosurgical services at the Medical Center and St. Elizabeth's Medical Center of Boston, Inc. BNA is a virtual physician group practice in which Faculty and SMG each bear the compensation expense for the providers in accordance with their respective pro rata use of the services.

BMCIC provides professional and general liability insurance to the Medical Center and BUMG and their physicians and employees. BMCIC was incorporated under the laws of the Cayman Islands and has a Cayman Islands Unrestricted Class B insurer's license. BMCIC is owned 70% by the Medical Center and 30% by Faculty.

BMCIC of Vermont is a nonprofit, tax-exempt captive insurance company licensed by the State of Vermont. BMCIC is owned 100% by the Health System Corporation and provided medical stop-loss coverage for the BMC employee health benefit program and BMCHP Medicaid program until September 14, 2018, when it became a dormant captive insurance company.

BACO, incorporated on February 26, 2015, is a tax-exempt, nonprofit Massachusetts corporation formed to improve the healthcare of the populations that the Medical Center, BUMG physicians, and the community health centers serve. BACO is designed to better manage all aspects of healthcare, integrating the resources of the Medical Center, the community health centers, and their affiliated physicians to provide more effective, higher quality and less expensive care for BACO's patients. The Medical Center, Faculty, and the group of community health centers participating in BACO each appoint six of the nineteen BACO

**BMC HEALTH SYSTEM, INC.**

## Notes to Consolidated Financial Statements

September 30, 2018 and 2017

directors. In addition, there is a consumer representative appointed to the board by its patient advisory committee.

BMCICS is a tax-exempt, nonprofit Massachusetts corporation organized to negotiate and enter into third-party payor (private and government health insurers) contracts. It contracts primarily on behalf of Faculty physicians, BUAP (for some payor arrangements), and on behalf of some community health centers. The Medical Center is BMCICS' sole corporate member.

BUAP is a tax-exempt, nonprofit Massachusetts corporation that employs physicians in Boston and Norwood, Massachusetts, to provide health care services, perform medical and clinical research, and provide health and medical education programs. The Medical Center is BUAP's sole corporate member.

ECMF is a tax-exempt, nonprofit Massachusetts corporation involved in real estate development activities. The Medical Center and the Trustees of Boston University each appoint one-half of ECMF's directors. The Medical Center guarantees 100% of the debt of ECMF and thus has significant economic interest in the company.

NAB is a Massachusetts business trust organized in May 2008. The Medical Center is a 90% shareholder of the trust, as well as trustee, and Genesys Research Institute, Inc., a tax-exempt, nonprofit corporation is a 10% shareholder. NAB was established to finance the Shapiro Ambulatory Care Center using the New Market Tax Credit (NMTC), a program that incentivizes private sector investors to provide capital to entities that create economic growth in distressed areas. In fiscal year 2015, all loans associated with the NMTC agreements were paid and the NMTC structure was terminated. The 10% shareholder, Genesys Research Institute, Inc., filed for Chapter 7 bankruptcy. The Medical Center is unable to unwind NAB until the bankruptcy case is resolved.

UDF is a tax-exempt, nonprofit Massachusetts corporation involved in real estate development activities. UDF's sole corporate member is BMC and UDF consolidates into the Medical Center.

The financial data for BMCICS, BUAP, ECMF, NAB and UDF is represented in the "All Other Entities" column of the consolidating statements.

**(2) Summary of Significant Accounting Policies****(a) Basis of Accounting and Principles of Consolidation**

The consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The consolidated financial statements of the Health System Corporation include the accounts of the Medical Center, the Foundation, BMCHP, ECMF, UDF, NAB, BMCIC, BMCIC of Vermont, BUAP, BMCICS and BACO. All significant intercompany accounts and transactions have been eliminated in consolidation.

**(b) Cash and Cash Equivalents**

Cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less at date of purchase. The Health System maintains its cash and cash equivalents accounts at five institutions at September 30, 2018 and 2017. The Health System monitors the credit worthiness of the institutions and has not experienced any losses associated with deposits at these institutions.



**BMC HEALTH SYSTEM, INC.**

## Notes to Consolidated Financial Statements

September 30, 2018 and 2017

**(c) Short-Term Investments**

Short-term investments include certain investments in private investment funds and money market mutual funds, which the Health System intends on using for operations within a year.

**(d) Investments**

Investments in equity securities with readily determinable fair values and all investments in debt securities (marketable investments) are measured at fair value in the balance sheets primarily based on quoted market prices. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the excess (deficiency) of revenues over expenses unless the income or loss is restricted by donor or law. The change in unrealized appreciation (depreciation) on available-for-sale investments is recorded as other changes in unrestricted net assets in the consolidated statement of operations and changes in net assets, unless their use is restricted by explicit donor-imposed stipulations or law, in which case they are reported in the appropriate restricted class of net assets.

**(e) Assets Limited as to Use**

Assets limited as to use primarily include assets held by trustees under bond indenture agreements, BMCHP reserve funds required to be maintained by its contract with MassHealth as well as deposits with regulatory bodies, self-insured reserve funds, and designated assets set aside by the Board of Trustees for future capital improvements over which the Board retains control and may, at its discretion, subsequently use for other purposes. Also included are donor-restricted investments representing permanently and temporarily restricted net assets.

**(f) Property, Plant and Equipment**

Property, plant and equipment acquisitions are recorded at cost. Donated items are recorded at fair value at the date of contribution. Depreciation, which includes the amortization of assets recorded under capital leases, is provided using the straight-line method over the estimated useful lives of the respective assets in accordance with guidance published by the American Hospital Association. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized and amortized over the lesser of their useful life or the term of the lease. Costs and the related allowance for depreciation are eliminated from the accounts when items are sold, retired or abandoned and any related gain or loss is recognized as a nonoperating gain or loss in the statement of operations. The carrying value of property, plant and equipment is reviewed if the facts and circumstances indicate that it may be impaired.

**(g) Assessment of Long-Lived Assets**

The Health System periodically reviews the carrying value of its long-lived assets (primarily property, plant and equipment) to assess the recoverability of these assets; any impairments would be recognized in operating results if the reduction in value is considered to be other-than-temporary. There were no impairments recorded as of September 30, 2018 and 2017.

**(h) Inventories**

Inventories are stated at the lower of cost (first-in, first-out method) or net realizable value.

**BMC HEALTH SYSTEM, INC.**

## Notes to Consolidated Financial Statements

September 30, 2018 and 2017

**(i) Third-Party Settlements for Patient Services**

Under the terms of contractual agreements, certain elements of third-party reimbursement are subject to negotiation, audit and/or final determination by third-party payors. The accompanying consolidated financial statements include certain estimates of final settlements. Variances between estimated and final settlements are included in net patient service revenue on the statement of operations in the year in which the settlement or change in estimate occurs.

The Health System has classified a portion of the accrual for settlements with third-party payors as short-term receivables because such amounts are expected to be received or paid in the next twelve months. The Health System has also classified a portion of the accrual for settlements with third-party payors as long-term liabilities because such amounts, by their nature, or by virtue of regulation or legislation, will not be paid within one year.

During fiscal year 2018, the Medical Center recognized net favorable settlements from Medicare, Medicaid, BMCHP, Blue Cross and other payors related to prior years, which resulted in the recognition of an approximate \$9,000,000 gain.

During fiscal year 2017, the Medical Center recognized net unfavorable settlements from Medicare, Medicaid, BMCHP, Blue Cross and other payors related to prior years, which resulted in the recognition of an approximate \$2,400,000 loss.

**(j) Deferred Revenue**

Deferred revenue consists primarily of amounts received in advance of the contract period. Certain advances are received from the Commonwealth related to grants. Advances received related to grants were \$24,809,000 and \$25,288,000 as of September 30, 2018 and 2017, respectively. Also included in deferred revenue is the BMCHP's QHP and SCO premiums received in advance of \$0 and \$5,792,000 for the years ended September 30, 2018 and 2017, respectively.

In addition, in conjunction with the MassHealth ACO contract commencing in 2018, the Health System was a participant in the Massachusetts Delivery System Reform Incentive Payment (DSRIP) program. The goal of the program funding is to incentivize ACOs to create infrastructure that would prepare them to manage both the costs of care and outcomes of their members in a way that results in integrated and coordinated care while moderating the state's cost trends. The state provided start-up funding for program expenses based on an approved budget by the Health Plan on behalf of the ACO of which it is a member. The Health System recognizes the revenue under this program as expenses are incurred. As of September 2018, the Health System recognized revenue of \$18,074,000, which is included in grants and contract revenue in the accompanying consolidated statement of operations and changes in unrestricted net assets, and recorded deferred revenue of \$3,424,000 related to the DSRIP program.

**(k) Health Care Cost Recognition**

The delivery network for BMCHP consists of the Medical Center and other acute care hospitals, physician practices and community health centers throughout the Commonwealth and New Hampshire. BMCHP places emphasis on the Primary Care Provider (PCP) as the primary care manager. BMCHP compensates these providers on a fee for service basis and it supports several alternative payment models.

**BMC HEALTH SYSTEM, INC.**

## Notes to Consolidated Financial Statements

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The cost of contracted health care services is accrued in the period in which services are provided to a member based in part on estimates. The estimated liability for medical and hospital claims payable is actuarially determined based on an analysis of historical claims experience, modified for changes in enrollment, inflation and benefit coverage. The liability for accrued claims expense represents the anticipated cost of claims incurred but unpaid at the balance sheet date. The estimates for accrued claims expense may be more or less than the amounts ultimately paid when claims are settled. Such changes in estimates are reflected in the current period consolidated statement of operations and changes in unrestricted net assets. BMCHP also records an accrual for loss adjustment expenses, which relates to the estimated costs to process claims, which have been incurred but not reported.

BMCHP self-insures for a significant portion of its claims. However, from October 2016 through September 2018, BMCHP obtained reinsurance coverage for its MassHealth business through its affiliate BMCIC of Vermont. Premium payments to this affiliate amounted to \$351,224 and \$3,252,000 for the years ending September 30, 2018 and 2017, respectively. Effective September 14, 2018, BMCHP terminated its reinsurance coverage with BMCIC of Vermont. BMCHP no longer maintains reinsurance coverage for its MassHealth business.

**(l) Premium Deficiency**

BMCHP recognizes a premium deficiency based upon expected premium revenue, medical and administrative expense levels, and remaining contractual obligations under BMCHP's historical experience. As of September 30, 2018 and 2017, BMCHP had no premium deficiency reserves on its consolidated balance sheet. During fiscal years ending September 30, 2018 and 2017, BMCHP recovered \$0 and \$28,000,000, respectively, of premium deficiency reserve through its consolidated statement of operations and change in net assets and reflected that activity in the medical costs, supplies and other expenses financial statement line item.

**(m) Affordable Care Act Reserves**

In 2014, the ACA introduced the provisions of the risk adjustment program. This program assesses the actuarial risk of the insurance pool within each health plan as compared to the average of all health plans in the state. During calendar year 2017, the administration of the risk adjustment program transitioned to the Centers for Medicare and Medicaid Services (CMS), while in prior years, the program was administered by the Massachusetts Health Connector (Connector). Under the federal provisions of the ACA, BMCHP recorded a payable of \$48,092,000 and \$22,463,000 as of September 30, 2018 and 2017, respectively.

The ACA established a temporary three-year risk sharing program for qualified individual and small group insurance plans for the years 2014-2016 known as the risk corridor program. Under this program, BMCHP made or received payments to or from HHS based on the ratio of allowable costs to target costs as defined by the ACA. The Federal government subsequently announced it would fund 12.6% of the final settlement for the first year of the program, which was 2014. BMCHP did not record any receivable associated with the risk corridor program as it relates to 2016 and 2015, due to concerns over federal funding of the program. To the extent any future funds are received, BMCHP will recognize the receipt as an increase in net premiums at that time. The estimated amount due to BMCHP from CMS as of September 30, 2017 is \$0. During 2018, BMCHP received approximately \$13,000 from CMS.

**BMC HEALTH SYSTEM, INC.**

## Notes to Consolidated Financial Statements

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BMCHP recorded a receivable for Cost Sharing Reduction reconciliations. The estimated amount due from both CMS and the Massachusetts Health Connector for Cost Sharing Reduction reconciliations as of September 30, 2018 and 2017 is \$4,126,000 and \$3,498,000 respectively.

**(n) Net Assets**

Permanently restricted net assets include only the historical dollar amount of gifts, which are required by donors to be held in perpetuity, unless stipulated by donor. Temporarily restricted net assets include gifts, grants, investment income, including realized gains and losses, and the change in unrealized appreciation on investments, which can be expended but for which restrictions have not yet been met. The restrictions include purpose restrictions, time restrictions and restrictions imposed by law on the use of capital appreciation on donor-restricted funds. Contributions for capital items are released from restriction on the date that the related assets are put into service.

Realized gains and losses are classified as unrestricted net assets unless they are restricted by the donor or the law. Unless permanently restricted by the donor, realized and unrealized net gains on permanently restricted gifts are classified as temporarily restricted until appropriated for spending by the Health System in accordance with policies established by the Health System and the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as enacted by the Commonwealth in July 2009. Unrestricted net assets include all the remaining net assets of the Health System.

**(o) Gifts and Grants**

Gifts of long-lived assets with explicit restrictions that specify the use of assets and gifts of cash or other assets that must be used to acquire long-lived assets are reported as additions to temporarily restricted net assets. Gifts of long-lived assets and gifts specified for the acquisition or construction of long-lived assets are reported as additions to unrestricted net assets when the assets are placed in service and are excluded from the excess (deficiency) of revenues over expenses.

Unconditional promises to give cash and other assets to the Health System are reported at fair value on the date the promise is received. The contributions are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets or as unrestricted contributions if no such conditions exist. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of operations as net assets released from restrictions.

Grants and contracts are recognized as unrestricted revenues as the related expenditures are incurred. The Health System recognizes indirect revenue at provisional rates, which are subject to audit, for U.S. Government grants and contracts and negotiated rates for other grants and contracts.

**(p) Self-Insurance Reserves**

The Health System is self-insured for certain employee health care benefits, workers' compensation and certain other employee benefits. These costs are accounted for on an accrual basis to include estimates of future payments on claims incurred as of the balance sheet date and are included in accounts payable and accrued expense in the consolidated balance sheet.

**BMC HEALTH SYSTEM, INC.**

## Notes to Consolidated Financial Statements

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**(q) Professional Liability Insurance**

The Medical Center and Foundation maintain medical malpractice insurance on a modified claims-made basis for residents, interns and physicians, the Medical Center, the Foundation and their employees, significantly all of which are provided by BMCIC. The deposit liability recorded by BMCIC represents the provision on hand to cover liabilities that may arise under the primary professional liability, commercial general liability and excess professional liability policies issued by BMCIC. Premiums are allocated to the deposit liability account, as well as losses, investment income, operating expenses and unrealized holding gains/losses on investments. The reserve for losses and loss adjustment expenses and corresponding reinsurance recoverable represent management's best estimate, at a 70% confidence level discounted at 4%, of BMCIC's liability under the excess loss coverage based on an actuarial projection of losses. The Medical Center and Foundation have provided for the estimated cost of incurred but not reported malpractice claims and an estimate for amounts payable on the deductibles.

**(r) Statements of Operations**

All activities of the Health System deemed by management to be ongoing or central to the provision of health care services, training and research activities are reported as operating revenues and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses.

The consolidated statements of operations and changes in unrestricted net assets includes the excess of revenues over expenses. Other changes in unrestricted net assets which, consistent with U.S. GAAP, are excluded from the excess of revenues over expenses, include the change in unrealized appreciation on investments, contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets), pension related changes other than net periodic pension costs and other changes.

**(s) Net Patient Service Revenue**

Net patient service revenue is reported at the estimated net realizable amounts, excluding charges related to charity accounts, from patients and third-party payors. It includes estimates of anticipated retroactive adjustments under reimbursement agreements between the Medical Center and certain third-party payors, including Medicare and Medicaid. Such adjustments are accrued in the period the related services are provided and adjusted in subsequent periods, as final settlements are determined.

The Medical Center and the Plans have agreements with third-party payors that provide for payments to the Medical Center and the Plans at amounts different from their established rates. Payment arrangements include discounted charges, capitation arrangements, or fee schedules. Net patient service revenue for the Medical Center and the Plans is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered.

The Health System provides care without charge to patients who meet certain criteria under its charity care policy. Since the Health System does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue. The Health System maintains records to identify and monitor the level of free care it provides.

**BMC HEALTH SYSTEM, INC.**

## Notes to Consolidated Financial Statements

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The Health System provided free care of \$73,166,000 and \$72,278,000 in 2018 and 2017, respectively. Such costs have been estimated based on the ratio of expenses (excluding bad debt expense) to establish patient service charges. Under healthcare reform, all documented Massachusetts citizens who were once eligible for charity care are now required to be enrolled in one of the subsidized Connector Care insurance products. Those patients who are over 300% of the federal poverty guidelines are now required to buy into an affordable insurance product either offered by their employer or the Connector Care or face financial penalties. Many of the Health System's patients that were previously uninsured are now enrolled in various health insurance plans, in an effort to comply with the Commonwealth's healthcare reform mandate.

The Commonwealth's Health Safety Net Program is a program to raise funds for hospitals that provide a disproportionate share of uncompensated care as compared to other providers. The program is mostly funded through an assessment levied against hospitals and insurance companies based on their commercial/managed care business. The Medical Center assessment and contribution into the pool was \$3,400,000 in 2018 and \$3,700,000 in 2017. The total amount paid to Medical Center through the Health Safety Net Pool, net of program shortfall allocations, was \$69,300,000 in 2018 and \$69,900,000 in 2017. These payments cover services of Medical, Professional, Dental and Retail Pharmacy.

**(t) Capitation Revenue**

Membership capitation payments are generally for a period of one month, are due monthly for the current month, with the exception of Well Sense, which is paid three months in arrears and reported as earned during the period of coverage. Capitation payments received prior to the coverage period are recorded as deferred revenue. All BMCHP product lines remit monthly membership payments based on current enrollments, which considers retroactive adjustments to membership.

Also included in capitation revenue are certain risk sharing amounts under BMCHP's contracts with MassHealth, the Connector and the New Hampshire DHHS under which capitation revenue can be increased or decreased based upon actual net income that is above or below the permitted contract range. Gross capitation receivables due from the Commonwealth of Massachusetts amounted to approximately \$59,689,000 and \$68,644,000 at September 30, 2018 and 2017, respectively. Gross capitation receivables due from CMS amounted to approximately \$1,077,000 and \$413,000 at September 30, 2018 and 2017, respectively. Gross capitation receivables due from the State of New Hampshire amounted to approximately \$72,226,000 and \$74,444,000 at September 30, 2018 and 2017, respectively. Capitation receivables are recorded as other accounts receivable in the consolidated balance sheet (see note 16). Additionally, estimated Risk Share payable to New Hampshire amounted to \$16,228,000 and \$42,712,000 at September 30, 2018 and 2017, respectively, and is included in accounts payable and accrued expenses in the consolidated balance sheet.

**(u) Other Revenue**

Other revenue consists primarily of revenue related to the retail pharmacy, including 340B Drug Pricing Program consulting revenue and other less material activities such as parking and food services.

The Plans have agreements and participate in hospital affiliated network agreements with various health maintenance organizations (HMOs), through a master contract established by BACO and BMCICS to provide medical services to subscribing participants. Under certain agreements, the Plans

**BMC HEALTH SYSTEM, INC.**

## Notes to Consolidated Financial Statements

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earn capitation revenue based on the number of each HMO's participants, regardless of services actually performed by the Plans. In addition, the Medical Center and the Plans are responsible for deficits beyond withheld amounts and are entitled to surpluses over withheld amounts.

The Plans are required to fund their share (from risk contracts) of any deficits in excess of the amounts withheld under this master contract. Surplus amounts in excess of amounts withheld have been recorded and retained by BACO and BMCICS. A surplus of \$123,000 and \$1,284,000 was earned for years ended June 30, 2018 and 2017, respectively.

**(v) Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates are made in the area of patient accounts receivable, accruals for settlements with third-party payors, professional liability claims payable, incurred but not medical reported claims, accrued expenses, alternative investment, pension obligations and conditional asset retirement obligations. Actual results could differ from those estimates.

**(w) Income Taxes**

The Health System Corporation, the Medical Center, BMCHP, UDF, ECMF, BUAP, Faculty and the Plans, BACO, BMCICS, and BMCIC of Vermont are all nonprofit corporations that have been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. The shareholders of NAB are nonprofit, tax-exempt corporations. The Health System recognized income tax positions when it is more-likely than-not that the position will be sustainable based on the merits of the position. Management has concluded that there are not material uncertain tax positions that need to be recorded as of September 30, 2018 and 2017. The Health System annually assesses whether it must recognize an unrelated business income tax expense (UBIT). The amounts recognized as UBIT expense were not material to the Health System's consolidated operations or changes in net assets for the years ended September 30, 2018 and 2017.

On December 22, 2017, the U.S. President signed into law H.R. 1, originally known as the Tax Cuts and Jobs Act. The new law (Public Law No. 115-97) includes substantial changes to the taxation of individuals, businesses, multinational enterprises and others. In addition to many generally applicable provisions, the law contains several specific provisions that result in changes to the tax treatment of tax-exempt organizations and their donors. The System has reviewed these provisions and the potential impact and concluded the enactment of H.R. 1 will not have a material effect on the consolidated financial condition and operations of the organization.

No income, capital or premium taxes are levied in the Cayman Islands and BMCIC has been granted an exemption until September 16, 2022 for any such taxes that might be introduced. BMCIC intends to conduct its affairs so as not to be liable for taxes in any other jurisdiction, other than withholding tax on certain investments. Accordingly, no provision for income taxes has been made in the accompanying consolidated financial statements.

**BMC HEALTH SYSTEM, INC.**

## Notes to Consolidated Financial Statements

September 30, 2018 and 2017

**(x) Reclassifications**

Certain amounts reported in the 2018 consolidated financial statements have differing presentation than the 2017 consolidated financial statements due to management's conclusion that such balances were incorrectly presented in the prior period consolidated financial statements. Risk adjustment subsidies totaling approximately \$30.0 million are incorrectly reported as claims expense in the consolidated statement of operations and changes in net assets in 2017, while in 2018 the comparable risk adjustment subsidies of approximately \$45.2 million have been reported as premium revenue. In addition, approximately \$16.4 million of pharmacy rebates are reported as other revenue in the 2017 consolidated statement of operations and changes in unrestricted net assets; however, in 2018 the comparable rebates of \$25.2 million have been reported as medical expenses. Claim assessment expenses totaling \$7.8 million are incorrectly reported as claims expense in the consolidated statement of operations and changes in unrestricted net assets in 2017, while in 2018 the comparable assessments of approximately \$8.8 million have been reported as supply and other expense. Cash of \$39.7 million is incorrectly presented as short term investments in the 2017 consolidated balance sheet, while in 2018 the comparable cash of \$120.2 million is reported as cash and cash equivalents. Finally, certain investments that were categorized as Level 2 or 3 fair value measurements in 2017 are reported as Level 1 investments (\$298.2 million) or investments at NAV (\$95.8 million) in 2018. Management determined the errors in the 2017 consolidated financial statements described above are immaterial.

**(3) Investments and Assets Limited as to Use**

Short-term and long-term investments and assets limited as to use, consist of the following at September 30:

	2018		2017	
	At fair value	Cost	At fair value	Cost
<b>Assets Limited as to Use</b>	(In thousands)			
Cash and cash equivalents	\$ 1,249	1,247	3,458	3,456
Bonds and U.S. Treasury notes	195,962	194,189	196,876	190,249
Private investment funds	425,957	353,402	482,020	401,019
Mutual funds	230,694	212,884	253,026	235,880
Marketable equity securities	185,988	143,694	165,607	129,556
Money market mutual funds	5,450	5,485	44,205	44,191
Asset-backed securities	10,828	11,138	10,742	10,820
Private debt and equity	16,680	17,135	6,300	6,392
Total	1,072,808	939,174	1,162,234	1,021,563
Funds held by trustees	61,926	62,375	38,855	39,034
	<u>\$ 1,134,734</u>	<u>1,001,549</u>	<u>1,201,089</u>	<u>1,060,597</u>

Included in private investment funds are alternative investment vehicles, including commingled funds, with an estimated fair value of approximately \$399,984,000 and \$417,404,000 at September 30, 2018 and 2017, respectively.



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BMCHP is required by its contract with MassHealth to maintain a deposit account with the state for reserve purposes. The cash reserves were \$2,067,000 and \$2,033,000 at September 30, 2018 and 2017, respectively, and are included in assets whose use is limited.

In connection with its licensure with the Massachusetts Division of Insurance, BMCHP has placed on deposit with the Commonwealth a \$1,000,000 U.S. Treasury note with an amortized cost of \$1,000,000. In addition, for licensure in New Hampshire, BMCHP has purchased and placed on deposit a \$500,000 U.S. Treasury note with an amortized cost of \$500,000. Both security deposits are also included in assets limited as to use in 2018 and 2017.

Total return on the Health System's investment portfolio, which includes investment income, net realized gains and the change in net unrealized (depreciation) appreciation on investments, includes the following for the years ended September 30:

	<u>2018</u>	<u>2017</u>
	(In thousands)	
Unrestricted:		
Dividends and interest	\$ 19,666	14,956
Net realized gains on investments	15,303	17,944
Change in net unrealized (depreciation) appreciation on investments	<u>(12,990)</u>	<u>14,381</u>
	<u>34,969</u>	<u>32,900</u>
Temporarily restricted:		
Dividends and interest	4,407	4,874
Net realized gains on investments	15,828	24,317
Change in net unrealized appreciation on investments	<u>5,576</u>	<u>15,644</u>
	<u>25,811</u>	<u>44,835</u>
	<u>\$ 60,780</u>	<u>77,735</u>

Unrealized gains (losses) related to BMCIC of \$106,000 and \$6,775,000 as of September 30, 2018 and 2017, respectively, were used to offset the deposit liability for net unrealized holdings (gains) losses on available for sale securities.

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

**(4) Fair Value Measurements**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. In determining fair value, the use of various valuation approaches, including market, income and cost approaches, is permitted.

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A fair value hierarchy has been established based on whether the inputs to valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entities' own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. U.S. GAAP provides a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the Health System for financial instruments measured at fair value on a recurring basis:

- Level 1 is based upon quoted prices in active markets that the Health System has the ability to access for identical assets and liabilities. Market price data is generally obtained from exchange or dealer markets. The Health System does not adjust the quoted price for such assets and liabilities.
- Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers, and brokers.
- Level 3 is typically based on unobservable inputs that are supported by little or no market activity and rely on assumptions and estimates about pricing derived from available information.

The fair value of the Health System's investments in U.S. Treasuries, mutual funds and marketable equity securities is based on quoted prices in an active market when available (Level 1), while investments in bonds are based on quoted prices for similar instruments.

At September 30, 2018 and 2017, the Health System also held interests in private investment funds. Private investment funds include commingled funds, common collective funds, funds of funds and other alternative investments. Certain private investment funds include vehicles whereby fund managers actively provide investment information such that certain investments are determined to have a readily determinable fair value (RDFV) and are categorized as a Level 1 investments while others have a RDFV though are priced by fund managers less frequently are categorized as level 2 investments. Certain other private investment funds listed under Net Asset Value (NAV) category below qualify as investment companies under U.S. GAAP and follow the accounting and reporting guidance applicable to investment companies. There is no active market for these funds, and therefore, the Health System is permitted, as a practical expedient under U.S. GAAP, to estimate the fair value of the investment based on the NAV based on the Health System's ownership share or units held.

The Health System believes that these valuations are a reasonable estimate of fair value as of September 30, 2018 and 2017, but are subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investment existed. The Health System has the ability to liquidate its investments periodically in accordance with the provisions of the respective fund agreements.

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The following table presents the financial instruments carried at fair value and is intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position as of September 30, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u> (In thousands)	<u>Net asset value</u>	<u>Total</u>
<b>Investments:</b>					
Cash and cash equivalents	\$ 1,249	—	—	—	1,249
Bonds and U.S. Treasury notes	53,395	142,567	—	—	195,962
Private investment funds	320,808	15,006	—	90,143	425,957
Mutual funds	152,827	77,867	—	—	230,694
Marketable equity securities	185,988	—	—	—	185,988
Money market mutual funds	4,464	986	—	—	5,450
Asset-backed securities	—	10,828	—	—	10,828
Private debt and equity	—	—	—	16,680	16,680
	<u>\$ 718,731</u>	<u>247,254</u>	<u>—</u>	<u>106,823</u>	<u>1,072,808</u>
<b>Funds held by trustee:</b>					
U.S. government securities	19,835	—	—	—	19,835
Money market mutual funds	42,091	—	—	—	42,091
	<u>\$ 61,926</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>61,926</u>

The following table summarizes fair value measurements at September 30, 2017 for financial assets measured at fair value on a recurring basis.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u> (In thousands)	<u>Net asset value</u>	<u>Total</u>
<b>Investments:</b>					
Cash and cash equivalents	\$ 3,458	—	—	—	3,458
Bonds and U.S. Treasury notes	52,772	144,104	—	—	196,876
Private investment funds	—	394,910	—	87,110	482,020
Mutual funds	176,459	76,567	—	—	253,026
Marketable equity securities	165,607	—	—	—	165,607
Money market mutual funds	44,205	—	—	—	44,205
Asset-backed securities	—	10,742	—	—	10,742
Private debt and equity	—	—	6,300	—	6,300
	<u>\$ 442,501</u>	<u>626,323</u>	<u>6,300</u>	<u>87,110</u>	<u>1,162,234</u>
<b>Funds held by trustee:</b>					
U.S. government securities	20,505	—	—	—	20,505
Money market mutual funds	18,350	—	—	—	18,350
	<u>\$ 38,855</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>38,855</u>

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There was one private investment fund that was valued at NAV in 2017 but changed its reporting such that it was deemed to be a RDFV investment and therefore transferred from NAV to Level 1 in 2018. There were no other no transfers between Levels 1 through 3 or NAV, as a result of changes in the approach to fair value measurements in during 2018 and 2017.

The Medical Center's endowment and similar funds are invested to maintain the real value of the principal to be capable of supporting annual spending needs and are guided by the asset allocation policies established by the investment committee of the Health System Corporation Board of Trustees and implemented primarily through external investment managers. Investments are managed to balance the short-term needs in order to support current operations, as well as maintain the endowment's purchasing power in the long run. To satisfy the long-term objectives of a diversified, volatility-managed portfolio, the Medical Center targets an asset allocation of fixed income, global and domestic equities, marketable and nonmarketable alternative assets. The portfolio is expected to produce returns that meet or exceed long-term benchmarks.

The following table presents liquidity information for the financial instruments carried at NAV at September 30, 2018.

	Investments asset value		
	Net asset value	Redemption frequency	Notice period
		(In thousands)	
Investment type:			
Private investment funds	\$ 90,143	Bi-Monthly Monthly	3–45 days
Private debt and equity	16,680	illiquid	—
	<u>\$ 106,823</u>		

The following table presents liquidity information for the financial instruments carried at net asset value at September 30, 2017.

	Investments asset value		
	Net asset value	Redemption frequency	Notice period
		(In thousands)	
Investment type:			
Private investment funds	\$ 87,110	Bi-Monthly Monthly	3–45 days
	<u>\$ 87,110</u>		

There were no unfunded commitments as of September 30, 2018 and 2017.

Externally managed marketable investments with fair value below cost are considered to be other-than-temporarily impaired and accordingly, the unrealized depreciation is recognized as realized

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losses through a write-down in the cost basis of these investments. All other investments are periodically reviewed for impairment to determine if such declines are other-than-temporary. Management's review is based upon the percentage and period of time that the investment is below cost as well as other qualitative considerations. A similar write down is recorded when the impairment on these investments has been judged to be other-than-temporary. During 2018 and 2017, the Health System reported recognized losses of approximately \$978,000 and \$841,000, respectively, relating to declines in fair value of investments that were determined by management to be other-than-temporary.

**(5) Contributions Receivable**

Contributions receivable are recorded as part of other accounts receivable and other noncurrent assets on the consolidated balance sheets. Contributions receivable, net, are summarized as follows as of September 30:

Unconditional promises expected to be collected in:

	<u>2018</u>	<u>2017</u>
	(In thousands)	
Less than one year	\$ 15,456	14,480
One year to five years	19,342	27,161
More than five years	<u>1,917</u>	<u>1,329</u>
	36,715	42,970
Less discounts and allowance for uncollectible accounts	<u>(6,776)</u>	<u>(7,518)</u>
Contributions receivable, net	<u>\$ 29,939</u>	<u>35,452</u>

Included in total gross contributions receivable are two contributions from single donors in the amount of \$17,000,000 and \$24,000,000 for the years ended September 30, 2018 and 2017, respectively. The original contribution from one of the donors was in 2008 for \$15,000,000, of which \$13,000,000 was paid. The original contribution from the other donor was in 2017 for \$25,000,000, of which \$10,000,000 was paid through 2018. Discount rates used to calculate the present value of contributions receivable ranged from 2.95%-17.00%, depending upon the anticipated pledge fulfillment valued, at the date of the pledge.

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**(6) Property, Plant and Equipment**

The property, plant and equipment of the Health System consists of the following at September 30:

	<u>Useful life</u>	<u>2018</u>	<u>2017</u>
		(In thousands)	
Land	5–40 years	\$ 6,302	6,302
Land improvements	15–45 years	775	775
Buildings	5–40 years	197,139	197,138
Building and leasehold improvements	5–25 years	1,000,873	895,612
Fixed equipment	3–20 years	44,580	44,702
Major movable equipment	15–20 years	693,652	616,029
Leased buildings and equipment		119,912	119,912
Construction in progress		88,643	108,898
		2,151,876	1,989,368
Accumulated depreciation and amortization		(1,123,293)	(1,025,517)
Property, plant and equipment, net		\$ <u>1,028,583</u>	<u>963,851</u>

Leasehold improvements are amortized over the lesser of the assets' estimated useful lives or the remaining lease term.

Depreciation expense amounted to \$97,900,000 and \$87,966,000 for the years ended September 30, 2018 and 2017, respectively. Amortization expense amounted to \$307,000 and \$308,000 for the years ended September 30, 2018 and 2017, respectively.

Fully depreciated property, plant and equipment with an original cost of \$427,000 and \$7,657,000 was disposed of during the year ended September 30, 2018 and 2017, respectively.

The Master Trust Indenture (note 8) places certain restrictions on property, plant and equipment in terms of the creation of liens and transfers of assets.

As of both September 30, 2018 and 2017, assets under capital lease agreements amounted to approximately \$119,912,000, with accumulated amortization of \$118,362,000 and \$118,054,000, respectively. Amortization expense is included with depreciation and amortization expense in the consolidated statement of operations and changes in unrestricted net assets.

The Health System has capitalized interest in the amount of \$66,170,000 and \$63,827,000 for the years ended September 30, 2018 and 2017, respectively.

On December 18, 2014, the Medical Center sold three properties to an unrelated, for-profit entity for \$80,100,000. The Medical Center contemporaneous to the sales of two of the buildings (Gambro Building and Doctor's Office Building) leased back certain space for varying amounts of time, consistent with clinical and administrative needs, while it completes its campus redesign construction project. The transaction was accounted for as a failed sales-lease-back and therefore the buildings remain on the Medical Centers

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books and the sale proceeds were recognized as a capital lease obligation of \$50,092,000 (note 9). At the end of the lease term, the remaining capital asset and liability will be written down and a gain on the sale of buildings will be recorded. The sale of the third building qualified for a sales-leaseback transaction and resulted in a gain of \$14,793,000 that was recognized in 2015.

Additionally, the Medical Center signed an agreement with the same unrelated, for-profit entity to sell the Medical Center's Newton Pavilion (including the Health Services Building) in 2017. The Medical Center exercised its option outlined in the purchase and sale agreement to delay the closing of the sale to October 1, 2018, to allow more time for the Medical Center to complete its campus redesign. A deposit of \$6,000,000 was received and recorded as an other long-term liability. The Medical Center has accrued interest related to the deposit of \$1,890,000 for the year ended September 30, 2017, also recorded as an other long-term liability.

On March 7, 2018, the Commonwealth of Massachusetts announced in the Central Register that the buyer of the Newton Pavilion (including the Health Services Building) was assigning its rights and obligations of the purchase and sale agreement to the Commonwealth. In conjunction with the assignment, the Medical Center received a one-time option to extend the closing date to March 31, 2019. Upon the assignment, the Medical Center repaid the deposit plus related interest of \$2,388,000. The Medical Center also extended the close date to November 15, 2018. Services in the Newton Pavilion will be relocated to the Menino Pavilion and the Yawkey Ambulatory Care Center during the fall of 2018 (see note 23).

**(7) Other Noncurrent Assets**

Other noncurrent assets primarily consist investments in joint ventures, deferred rent (see note 10) and long term pledges (see footnote 5) as of September 2018. The joint ventures are recorded utilizing the equity method of accounting.

Other noncurrent assets also includes loans to several community health centers. At September 30, 2018 and 2017, the Health System had loaned a total of \$0 and \$10,718,000, respectively, to the community health centers. As of March 1, 2018, BACO entered into a risk contract with the State changing the nature of the relationship between the Health System and local community health centers. As a result, in 2018, the Health System fully reserved against the notes receivable from the health centers, as no payments are anticipated.

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**(8) Long-Term Debt**

Long-term debt consists of the following at September 30:

	<u>Interest rate</u>	<u>2018</u>	<u>2017</u>
		(In thousands)	
Revenue Bonds Series C	3.00–5.25%	\$ 36,265	39,455
Revenue Bonds Series D	4.00–5.00%	158,155	158,155
Revenue Bonds Series E	2.00–5.00%	175,200	175,650
Revenue Bonds Series F	4.00–5.00%	43,500	—
Taxable Bonds Series 2016	0.05 %	75,000	75,000
Taxable Bonds Series 2017	3.91–4.58%	105,000	—
ECMF Series A Bonds	6.00 %	2,900	4,200
Series O – Tax Exempt (Garage)	Varies	7,782	8,421
Series O – Taxable (Garage)	Varies	2,423	2,622
Citizens Bank Non-Revolver Credit Loan	Varies	79,270	79,270
		<u>685,495</u>	<u>542,773</u>
Less current portion of long-term debt		(86,883)	(5,778)
Revenue Bonds Series C premium		4,779	5,223
Revenue Bonds Series D premium		7,188	7,457
Revenue Bonds Series E premium		24,006	25,222
Revenue Bonds Series F premium		1,464	—
Revenue Bonds Series 2016 discount		(392)	(442)
Revenue Bonds Series 2017 discount		(773)	—
Revenue Bonds issuance costs		<u>(3,037)</u>	<u>(2,709)</u>
Total long-term debt		<u>\$ 631,847</u>	<u>571,746</u>

The Medical Center is currently the sole member of the Obligated Group. The column entitled “Medical Center” in the supplemental consolidating information of the consolidated financial statements represents the Obligated Group.

The Amended and Restated Master Trust Indenture covers the obligations of Series C Revenue Bonds, Series D Revenue Bonds, Series 2016 Taxable Bonds, Series E Revenue Bonds, Series 2017 Taxable Bonds, Series F Revenue Bonds and Series O Bonds.

In December 2017, the Medical Center issued through the MassDevelopment \$43,500,000 Series F tax-exempt 2017 Revenue Bonds (Series F Revenue Bonds). The bonds were issued to finance a portion of the Clinical Campus Redesign Project. The interest rate on the Series F Revenue Bonds ranges from 4.00% to 5.00% based on the bonds’ maturities. Principal and sinking fund payments will be made annually between 2019 and 2047 and range from \$1,545,000 to \$5,150,000.

In December 2017, the Medical Center issued \$105,000,000 Taxable Bonds, Series 2017 (Series 2017 Taxable Bonds). The bonds were issued for corporate purposes. The interest rate on the Series 2017



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Taxable bonds is 3.91% for the principal of \$52,500,000 which is due in 2028 and 4.58% for the principal of \$52,500,000 which is due in 2047.

In September 2016, the Medical Center advance refunded a portion of the Massachusetts Health and Education Facilities Authority (Authority) Revenue Bonds, Boston Medical Center Issue, Series B (2008) (Series B Revenue Bonds) and issued a new money portion through the sale of \$176,345,000 Massachusetts Development Finance Agency (MassDevelopment), Series E tax exempt (2016) (Series E Revenue Bonds). As part of this issuance, the Medical Center defeased \$26,570,000 of the Series B Revenue Bonds, which were issued to finance the cost of demolition of 91 East Concord Street, the design, construction and equipping of the Shapiro Ambulatory Care Center, the design and construction of a two-story addition to the Menino Pavilion, and routine capital expenditures. The interest rate on the Series E Revenue Bonds ranges from 2.00% to 5.00% based on the bonds' maturities. Principal and sinking fund payments will be made annually between 2017 and 2038 and range from \$425,000 to \$19,890,000.

In March 2016, the Medical Center issued \$75,000,000 Taxable Bonds, Series 2016 (Series 2016 Taxable Bonds). The bonds were issued for corporate purposes. The interest rate on the Series 2016 Taxable bonds is 4.52% and the entire principal payment is due in 2026.

In April 2015, the Medical Center issued through the MassDevelopment \$158,155,000 Series D tax-exempt 2015 Revenue Bonds (Series D Revenue Bonds). The bonds were issued to finance a portion of the Clinical Campus Redesign Project. The interest rate on the Series D Revenue Bonds ranges from 4.00% to 5.00% based on the bonds' maturities. Principal and sinking fund payments will be made annually between 2039 and 2045 and range from \$15,280,000 to \$27,900,000.

In connection with the sales of the three parcels (note 6), the Medical Center defeased the allocable portion of the outstanding bonds in January 2015, to avoid potential negative tax consequences. Only a portion of the Series C Revenue Bonds remains outstanding at September 30, 2018 and 2017.

In December 2014, the Medical Center closed on a \$95,000,000 secured nonrevolving credit loan with Citizens Bank, N.A. The proceeds of the nonrevolving loan were used solely for the purpose of defeasing the bonds allocable to Newton Pavilion (including the Health Services Building). In January 2015, the Medical Center prepaid \$15,730,000 in principal of the loan. In March 2017, the Medical Center entered into a floating to fixed rate interest rate swap for the purpose of hedging interest rate risk on the nonrevolving loan.

In July 2012, the Medical Center refunded the Authority's tax-exempt Revenue Bonds, Boston Medical Center Issue, Series A (1998) Bonds (Series A Bonds) through the sale of \$108,950,000 MassDevelopment, Series C tax-exempt Revenue 2012 Bonds (Series C Revenue Bonds). The principal amount outstanding of the Series A Bonds was \$119,970,000. The interest rate on the Series C Revenue Bonds ranges from 3.00% to 5.25% based on the bonds' maturities. Principal and sinking fund payments will be made annually between 2017 and 2029 and range from \$2,720,000 and \$4,070,000.

The Medical Center granted a mortgage on the Newton Pavilion and Health Services building and a leasehold mortgage on the restricted property of the Menino Pavilion and the Yawkey Ambulatory Care Center pursuant to the Amended and Restated Master Trust Indenture. The Amended and Restated

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Master Trust maintains the financial covenant requiring the Medical Center to maintain an annual debt service coverage ratio of at least 1.10 to 1.

ECMF issued \$17,200,000 of bonds (the ECMF Series A Bonds) through the Authority on March 7, 2000. The bonds were issued in two separate issuances of which \$5,900,000 matured in 2010 (the 2010 Bonds) and \$11,300,000 of the bonds will mature in 2020 (the 2020 Bonds). Principal payments are made on an annual basis through 2020 and range from \$1,200,000 to \$1,500,000. The interest rate on the 2020 bonds is 6.45%. The bonds are redeemable at any time at the option of ECMF at their principal amounts plus accrued interest. The bonds are collateralized by a grant of a mortgage on the project, a pledge of all revenues to be received by ECMF and the Medical Center's guaranty of payment of total debt service on the bonds.

In October 2012, the Medical Center entered into a Line of Credit for short-term borrowings with Citizen's Bank under which up to \$25,000,000 may be borrowed on such terms as outlined by the Amended and Restated Line of Credit Agreement. In June 2018, The Medical Center amended the Line of Credit agreement to increase up to \$50,000,000, which may be borrowed. This Agreement will be renewed annually but can be withdrawn at the bank's option. The Medical Center has pledged certain board designated accounts to secure the line of credit. The assets of these accounts will collateralize borrowings against the line of credit. The Medical Center has not borrowed against the line of credit as of September 30, 2018 and 2017.

Included in the Medical Center's debt is approximately \$10,205,000 of the Authority's variable rate demand bonds (VRDBs), Capital Asset Program Issue 2009 Series O-1 and O-2 (a refinancing of the Authority's Series M loans issued in 2005). The Medical Center has entered into irrevocable letters of credit (LOCs) with a financial institution to secure bond repayment and interest obligations associated with its VRDBs. RBS Citizens, N.A. provides LOCs totaling \$10,941,000. There are no drawings under the LOCs as of September 30, 2018 and 2017. The LOC supporting the Series O-1 and O-2 will expire on July 1, 2020. RBS Citizens provided a Federal Home Loan Bank wrap (AAA rated) for the two Letters of Credit. The term and payment schedule for the loans did not change. The interest rates at September 30, 2018 were 1.54% and 2.22% for the tax exempt and taxable loan, respectively. The interest rates at September 30, 2017 were 0.904% and 1.461% for the tax exempt and taxable loan, respectively.

If the VRDBs are unable to be remarketed, the trustee for the VRDB will request purchase under the LOC scheduled repayment terms. Based on the existing repayment and maturity terms of the underlying LOCs, the scheduled payments under the VRDB related LOCs will be determined when and if the VRDBs are unable to be remarketed.

The LOC's are unsecured and will continue to decrease in stated amount as the underlying bond debt amortizes.

The Medical Center has escrowed the following funds with bond trustees under the Series C Revenue Bonds, the Series D Revenue Bonds, the Series 2016 Taxable Bonds, the Series E Revenue Bonds, the ECMF Series A Bonds, and Series O Bonds. In addition, these amounts include funds for the self-insured workers' compensation program and funds designated by management for pension and other employee

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benefit purposes. These funds are included in assets limited as to use in the consolidated financial statements.

	<b>September 30</b>	
	<b>2018</b>	<b>2017</b>
	(In thousands)	
Construction fund	\$ 23,228	3,260
Debt service fund	9,049	7,592
Debt service reserve funds	20,426	20,553
Accrued interest receivable	78	77
Workers' compensation reserve fund	8,920	7,160
Other held funds	225	213
	<u>\$ 61,926</u>	<u>38,855</u>

The assets of the funds held by the trustees are invested principally in government securities and money market funds.

Maturities of long-term debt are as follows (in thousands):

Years ending September 30:	
2019	\$ 86,883
2020	7,991
2021	7,118
2022	7,248
2023	7,606
Thereafter	568,649
	<u>\$ 685,495</u>

**(9) Obligations under Capital Leases**

Obligations under capital leases consist of the following at September 30:

	<b>2018</b>	<b>2017</b>
	(In thousands)	
Doctor's office building	\$ 33,271	34,823
Gambro building	11,657	11,657
Other	220	344
Less:		
Current portion	(113)	(124)
	<u>\$ 45,035</u>	<u>46,700</u>

**BMC HEALTH SYSTEM, INC.**

## Notes to Consolidated Financial Statements

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Effective with the merger on July 1, 1996, the Medical Center entered into a 50-year capital lease with the Public Health Commission (PHC), a division of the City of Boston, for all the real property previously owned by BCH. On May 25, 2016, the Medical Center notified the Boston Public Health Commission that it had determined that the rent payments, after adjustments authorized by the Medical Center's lease, would be zero effective July 1, 2016.

Future minimum payments of the Health System's obligations under capital leases are as follows (in thousands):

Years ending September 30:		
2019	\$	118
2020		78
2021		29
2022		<u>2</u>
Total minimum lease payments		227
Less amount representing interest		<u>(7)</u>
Present value of minimum lease payments		220
Less current portion		<u>—</u>
	\$	<u><u>220</u></u>

In conjunction with the sale-lease-back of the Gambro and Doctor's Office Buildings (note 6), the Health System recorded a capital lease liability of \$50,092,000 representing the proceeds from the sale of the building less lease payment made on the lease-back. Accordingly, the payments on the capital lease are not included in the above schedule and are allocated to interest and lease expense and the remaining amount as a reduction in the liability. The remaining capital lease liability at September 30, 2018 and 2017 is \$44,928,000 and \$46,479,000, respectively.

**BMC HEALTH SYSTEM, INC.**

Notes to Consolidated Financial Statements

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**(10) Operating Lease Commitments**

The Health System's estimated future minimum lease obligations are as follows:

	<b>Lease obligations</b>
	(In thousands)
Years ending September 30:	
2019	\$ 19,470
2020	17,658
2021	15,996
2022	13,358
2023	11,293
Thereafter	<u>38,477</u>
	<u>\$ 116,252</u>

The Health System records rent expense on a straight-line basis over the life of the lease and records accrued rent as the difference between rent expense and actual payments made. The Health System recorded rent expense of \$21,920,000 and \$21,761,000 for the years ended September 30, 2018 and 2017, respectively. As of September 30, 2018 and 2017, the accumulated difference between rent expense and amounts paid amounted to \$4,849,000 and \$3,838,000, respectively, and is included in accounts payable and accrued expenses and other long-term liabilities on the consolidated balance sheet.

The Health System amortizes deferred rent on a straight-line basis over the term of the lease. At September 30, 2018 and 2017 approximately \$929,000 and \$1,936,000, respectively, of amortization had been recorded as an offset to rent expense which is included in medical costs, supplies and other expenses in the consolidated statement of operations and changes in unrestricted net assets at September 30, 2018 and 2017.

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## Notes to Consolidated Financial Statements

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**(11) Restricted Net Assets**

Restricted net assets, which are recorded in assets limited to use, grants receivable and other accounts receivable on the balance sheet, are composed of the following at September 30:

	<u>2018</u>	<u>2017</u>
	(In thousands)	
Temporarily restricted net assets:		
Research	\$ 148,720	145,899
Buildings and capital	83,052	86,334
Hospital programs	54,676	46,893
Other restricted purposes	<u>18,606</u>	<u>21,813</u>
Total temporarily restricted net assets	<u>\$ 305,054</u>	<u>300,939</u>
Permanently restricted net assets:		
Total permanently restricted net assets	\$ 37,090	37,880

**(12) Endowments**

The Health System's endowment consists of approximately 234 donor-restricted funds established for a variety of purposes. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported as restricted or unrestricted based on the existence or absence of donor-imposed restrictions.

The Health System has interpreted the UPMIFA as requiring the preservation 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, the Health System classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Health System in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Health System considers certain factors in making a determination to appropriate or accumulate endowment funds. The factors include the duration and preservation of the fund, the purpose of the organization and the donor-restricted endowment fund, general economic conditions, the possible effect of inflation and deflation, the expected total return from income and the appreciation of investments, other resources of the organization and the investment policies of the organization. In fiscal year 2000, the Board approved an endowment policy limiting the annual spend on endowments to 5% of the market value of the endowment fund, calculated on a three year average.

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As of September 30, 2018, the Heath System did not have board-designated funds included in the endowment. The endowment net asset composition by type of fund consisted of the following:

	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
		(In thousands)	
Donor-restricted endowment funds	\$ <u>213,497</u>	<u>37,090</u>	<u>250,587</u>
	\$ <u>213,497</u>	<u>37,090</u>	<u>250,587</u>

Changes in endowment net assets for the year ended September 30, 2018, consisted of the following:

<i>(In thousands)</i>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Endowment net assets at September 30, 2017	\$ <u>204,823</u>	<u>37,880</u>	<u>242,703</u>
Investment return:			
Investment income	<u>12,456</u>	<u>—</u>	<u>12,456</u>
Net unrealized appreciation	<u>7,057</u>	<u>—</u>	<u>7,057</u>
Total investment return	<u>19,513</u>	<u>—</u>	<u>19,513</u>
Contributions	<u>—</u>	<u>210</u>	<u>210</u>
Appropriation of endowment assets for expenditures	<u>(10,839)</u>	<u>(1,000)</u>	<u>(11,839)</u>
	<u>(10,839)</u>	<u>(1,000)</u>	<u>(11,839)</u>
Endowment net assets at September 30, 2018	\$ <u>213,497</u>	<u>37,090</u>	<u>250,587</u>

In 2018, the Medical Center released \$1,000,000 of permanently restricted net assets to temporarily restricted net assets as allowed per a donor agreement.

As of September 30, 2017, the Medical Center did not have board-designated funds included in the endowment. The endowment net asset composition by type of fund consisted of the following:

	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
		(In thousands)	
Donor-restricted endowment funds	\$ <u>204,823</u>	<u>37,880</u>	<u>242,703</u>
	\$ <u>204,823</u>	<u>37,880</u>	<u>242,703</u>

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Changes in endowment net assets for the year ended September 30, 2017, consisted of the following:

	<b>Temporarily restricted</b>	<b>Permanently restricted</b> (In thousands)	<b>Total</b>
Endowment net assets at September 30, 2016 \$	184,014	16,250	200,264
Investment return:			
Investment income	21,681	—	21,681
Net unrealized appreciation	9,563	—	9,563
Total investment return	31,244	—	31,244
Contributions	—	21,630	21,630
Appropriation of endowment assets for expenditures	(10,435)	—	(10,435)
	(10,435)	21,630	11,195
Endowment net assets at September 30, 2017 \$	204,823	37,880	242,703

**(13) Third-Party Reimbursement**

The Health System maintains agreements with Blue Cross of Massachusetts, Inc., the Social Security Administration under the Medicare Program, the Commonwealth under the Medicaid Program and certain managed care entities that govern payment to the Health System for services rendered to patients covered by these programs.

**(a) Medicare**

Reimbursement for services provided to inpatients and outpatients covered by the federal government's Medicare program who have elected not to enter a Medicare health maintenance organization for services varies according to patient classification systems that are based on clinical, diagnostic, and other factors.

**(b) Medicaid**

The Commonwealth's MassHealth (Office of Medicaid) utilizes a prospective payment system for acute hospital services provided to Medicaid beneficiaries. The Office of Medicaid pays the Health System an adjudicated amount per discharge for inpatient services, effective December 30, 2016 MassHealth moved toward a new outpatient methodology of payment based on Enhanced Ambulatory Patient Groupings (EAPG's). This methodology takes into account the services rendered to the patient and the diagnosis of the patient.

**(c) Uncompensated Care**

The Health System is partially reimbursed for uncompensated care services, defined as charity care and bad debt associated with emergency services, through the statewide HSNO, administered by the Commonwealth. Following the merger of BUMCH and BCH on July 1, 1996, the Health System has continued the historical mission and commitment of BCH to the public health needs of all residents of



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the City of Boston to provide accessible health care services to all in need of care, regardless of status or ability to pay.

**(14) Benefit Plans Available to Employees**

The Medical Center has three defined contribution retirement plans under Section 403(b) of the Internal Revenue code. The plans are also offered to Medical Center employees who hold administrative positions at the Foundation. Participation in the Plans is voluntary. The Medical Center offers contributions in two of the plans, one based on years of service and one a flat percentage. The contributions under these plans amounted to \$20,101,000 and \$18,742,000 for the years ended September 30, 2018 and 2017, respectively.

Boston University sponsors a defined contribution retirement plan, which covers all Faculty paid under the common paymaster agreements. Costs related to Faculty are included in the fringe benefit rates described above. This retirement plan is available to Faculty who have completed two years of service at Boston University and who work at least 50% of full-time schedule and who have an assignment duration of at least nine months. Boston University contributes a core contribution between 4% and 9% of salary to this retirement plan, depending on age, base salary, and an integration level amount adjusted each year by Boston University. This core contribution is automatic and is provided even if the faculty member chooses not to contribute to the Plan. In addition, Boston University provides a matching contribution which matches the faculty member's contributions dollar for dollar up to an additional 3%.

University Hospital provided postretirement medical and life insurance benefits to retirees. These benefits were grandfathered to employees who terminated employment prior to January 1, 1994. Employees who terminated on or before December 31, 1993 were offered a life insurance benefit, employees who terminated on or before July 31, 1993 and had 20 years of services were granted medical benefits. The cost of medical benefits was capped at \$185.00 per month per participant. The accrued benefit cost under this plan are not material to the Health System as of September 30, 2018 and 2017.

BMCHP has a defined contribution retirement plan (DC Plan) under Section 401(k) of the Internal Revenue Code established effective August 1, 2001. The DC Plan covers all eligible employees at BMCHP who do not opt out of participation, and requires BMCHP to match employees' contributions up to specified limitations. Participants are 100% vested in their deferred contributions, and rollover contribution accounts immediately plus actual earnings thereon. The matching employer contribution is based on a discretionary formula and vests over a four year period. BMCHP contributions under this DC Plan were \$2,205,240 and \$2,278,000 in 2018 and 2017, respectively.

BMCHP also offers a nonqualified supplemental executive retirement plan to certain key executives. BMCHP's contribution is 8% of each eligible executive's base salary. The Plans have a three year vesting schedule. Contributions made in a particular plan year are 100% vested three years later. BMCHP's contribution for these plans was \$110,400 and \$150,000 in the years ended September 30, 2018 and 2017, respectively.

The Medical Center maintains a defined benefit pension plan (the Pension Plan), effective July 1, 1996, for certain former employees of BCH with a measurement date of September 30. The covered group consists of employees who either had a nonforfeitable right to a retirement benefit under the former BCH defined benefit pension plan or would have earned one with service through September 30, 1997. The Pension Plan provides benefits based on an employee's average compensation and years of service reduced by a

**BMC HEALTH SYSTEM, INC.**

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percentage of their Social Security benefit. The Pension Plan's provisions have been set based on a collective bargaining agreement effective July 1, 1996, and a formal document was signed on June 30, 1997. Contributions to the Plan are made in amounts sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974. The City is responsible for the past service cost of former BCH employees.

	<u>2018</u>	<u>2017</u>
	(In thousands)	
Accumulated benefit obligation	\$ 166,661	170,959
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 170,959	174,619
Service cost	4,227	4,695
Interest cost	6,210	5,960
Actuarial gain	(9,088)	(9,676)
Benefits paid	<u>(5,647)</u>	<u>(4,639)</u>
Projected benefit obligation at end of year	<u>166,661</u>	<u>170,959</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	145,742	130,262
Actual return on plan assets	8,649	13,319
Employer contributions	6,800	6,800
Benefits paid	<u>(5,647)</u>	<u>(4,639)</u>
Fair value of plan assets at end of year	<u>\$ 155,544</u>	<u>145,742</u>
Reconciliation of funded status:		
Projected benefit obligation	\$ 166,661	170,959
Fair value of plan assets	<u>155,544</u>	<u>145,742</u>
Funded status	<u>(11,117)</u>	<u>(25,217)</u>
Amounts recognized in the consolidated balance sheet included within other long-term liabilities	<u>\$ (11,117)</u>	<u>(25,217)</u>

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The components of net periodic benefit cost for the years ended September 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
	(In thousands)	
Service cost	\$ 4,228	4,695
Interest cost	6,210	5,960
Expected return on plan assets	(10,292)	(9,231)
Amortization of net loss	<u>674</u>	<u>3,001</u>
Net periodic benefit cost	<u>\$ 820</u>	<u>4,425</u>
Weighted average assumptions used to determine the net periodic cost for the period just ended:		
Discount rate	3.69 %	3.46 %
Long-term rate of return	7.00	7.00
Rate of compensation increase	3.00	3.00
Weighted average assumptions used to determine the benefit obligations:		
Discount rate	4.17 %	3.69 %
Rate of compensation increase	3.00	3.00
Other changes in plan assets and benefit obligations recognized in unrestricted net assets:		
New net actuarial loss	\$ (7,446)	(13,764)
Amortization of net loss	<u>(674)</u>	<u>(3,001)</u>
	<u>\$ (8,120)</u>	<u>(16,765)</u>
Amounts recognized in unrestricted net assets:		
Net actuarial loss	<u>\$ 13,374</u>	<u>21,494</u>
	<u>\$ 13,374</u>	<u>21,494</u>

No amounts are expected to be recognized as amortization of prior net service cost and amortization of net loss, respectively, and as components of net periodic cost in the upcoming year.

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*Pension Plan Assets*

The Pension Plan weighted average asset allocation as of the measurement dates September 30, 2018 and 2017, respectively, is as follows:

	Target allocation fiscal year ending September 30, 2018	Percentage of plan assets at September 30	
		2018	2017
Asset category:			
Equity securities	60 %	64 %	60 %
Debt securities	38	32	30
Other	2	4	10
	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

The fair value of pension plan assets as of September 30, 2018 is disclosed in the table below.

	Level 1	Level 2	Level 3	Net asset value	Total
			(In thousands)		
Investments:					
Cash and cash equivalents	\$ 6,191	—	—	—	6,191
Fixed income	49,485	—	—	—	49,485
Equities	99,868	—	—	—	99,868
	<u>\$ 155,544</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>155,544</u>

The fair value of pension plan assets as of September 30, 2017 is disclosed in the table below.

	Level 1	Level 2	Level 3	Net asset value	Total
			(In thousands)		
Investments:					
Cash and cash equivalents	\$ 3,317	—	—	—	3,317
Fixed income	4,216	39,676	—	—	43,892
Equities	86,957	—	—	—	86,957
Commodities	11,576	—	—	—	11,576
	<u>\$ 106,066</u>	<u>39,676</u>	<u>—</u>	<u>—</u>	<u>145,742</u>

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The Medical Center contracts with a consulting firm for financial consulting services for the Pension Plan. The consultants provide the Medical Center's Investment Committee and management with financial analysis and recommendations on target allocations and investment managers. The Medical Center's investment objective is to achieve the highest reasonable total return after considering (i) plan liabilities, (ii) funding status and projected cash flows, (iii) projected market returns, valuations and correlations for various asset classes, and (iv) the Medical Center's ability and willingness to incur market risk. The Health System Corporation's Investment Committee has oversight responsibility for the pension plan assets but has delegated responsibility to management the authority to review and select investment managers and investments. Management is required to notify the Health System Corporation Investment Committee at its meetings of any actions that have been taken.

The expected long-term rate of return assumption represents the expected average rate of earnings on the funds invested or to be invested to provide for the benefits included in the benefit obligations. The long-term rate of return assumption is determined based on a number of factors, including historical market index, returns, the anticipated long-term asset allocation of the plans, historical plan return data, plan expenses, and the potential to outperform market index returns.

An experience study was completed reviewing actual plan experience from 2007-2014. The study was the basis for the retirement and termination rates. The pension mortality table used in the analysis was RP-2014 with MP-2017.

*Cash Flows*

Information about the expected cash flows for the Pension Plan is as follows:

Expected contributions for fiscal year ending September 30, 2019:

Expected employer contributions	\$ 6,800,000
---------------------------------	--------------

Estimated future benefit payments reflecting expected future service for the fiscal year(s) ending September 30:

2019	\$ 6,663,000
2020	7,367,000
2021	8,016,000
2022	8,801,000
2023	9,565,000
2024–2027	56,332,000

The Medical Center contributed \$6,800,000 to the Pension Plan for each of the years ended September 30, 2018 and 2017. The Medical Center plans to make any necessary contributions during the upcoming fiscal year 2018 to ensure the Pension Plan continues to be adequately funded during the current market conditions.

**BMC HEALTH SYSTEM, INC.**

## Notes to Consolidated Financial Statements

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**(15) Net Patient Service Revenue and Allowance for Doubtful Accounts**

Net patient service revenue before the provision for bad debts for the year ended September 30, 2018 and 2017 is summarized as follows:

	<u>2018</u>	<u>2017</u>
	(In thousands)	
Patient and HSNO	\$ 52,390	46,728
Third-party payors, net of contractals	915,092	862,710
State supplemental funds	156,305	153,979
Less provision for bad debt	<u>(81,144)</u>	<u>(75,929)</u>
Net patient service revenue	<u>\$ 1,042,643</u>	<u>987,488</u>

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Health System analyzes past collection history and identifies trends to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews the data and models in evaluating the sufficiency of the allowance for doubtful accounts. Throughout the year, the Health System, after all reasonable collection efforts have been exhausted, will write off the difference between the standard rates (or discounted rates if negotiated) and the amounts actually collected against the allowance for doubtful accounts. In addition, management monitors the write-offs against established allowances as of a point in time to determine the appropriateness of the underlying assumptions used in estimating the allowance for doubtful accounts.

Accounts receivable, prior to adjustments for doubtful accounts, is summarized as follows at September 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
	(In thousands)	
Patient	\$ 55,183	28,419
Third-party payors	<u>502,563</u>	<u>401,260</u>
Total	557,746	429,679
Reserve for contractual allowance	(419,358)	(294,784)
Allowance for doubtful accounts	<u>(52,624)</u>	<u>(38,475)</u>
Patient accounts receivable, net	<u>\$ 85,764</u>	<u>96,420</u>

The increase in reserve for contractual allowances as a percentage of total patient accounts receivable is a result of effect of Medical Center standard price increases that cannot be recouped through existing payor contracts or regulations. The increase in the allowance for doubtful accounts is a result of changes in payor mix and to reserve for potential uncollectable accounts as a result of a recent technology upgrade. During 2018 and 2017, the Medical Center recognized recoveries on previously reserved accounts receivable due from the Commonwealth and other payors totaling approximately \$9.4 million and \$4.7 million, respectively.

**BMC HEALTH SYSTEM, INC.**

## Notes to Consolidated Financial Statements

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**(16) Concentration of Credit Risk**

The Health System provides health care services to residents within its geographic location. The Health System grants credit without collateral to its patients, most of whom are local residents and are either insured under third-party payer agreements or covered by the Health Safety Net Care Pool.

The mix of receivables from patients and third-party payers at September 30, 2018 and 2017 was as follows (BMCHP has been grouped under Medicaid and makes up approximately 50% of the Medicaid receivable):

	<u>2018</u>	<u>2017</u>
Medicare	25 %	20 %
Medicaid	40	22
HMOs	10	35
Self-Pay	6	7
Commercial	10	9
Blue Cross	5	3
Commonwealth Care	1	1
Other	3	3
	<u>100 %</u>	<u>100 %</u>

All of BMCHP's capitation revenue is generated from enrollment in the prepaid health plans established by MassHealth, the Connector and the New Hampshire DHHS.

Other Health System accounts receivable and respective allowances for doubtful accounts (credit losses) are comprised of the following at September 30, 2018:

	<u>Receivable balance</u>	<u>Discount</u> (In thousands)	<u>Allowance for doubtful accounts</u>
Other hospitals and health centers	\$ 3,184	—	1,356
Outside contracts	6,206	—	1,071
Contributions receivable	15,456	1,700	651
Capitation receivable	146,072	—	—
HSN supplemental receivable	2,882	—	—
Pharmacy and other	26,691	—	272
	<u>\$ 200,491</u>	<u>1,700</u>	<u>3,350</u>

As of March 1, 2018, BACO entered into a risk contract with the State changing the nature of the relationship between the Health System and local community health centers. As a result, in 2018, the Health System fully reserved against the notes receivable from the health centers, as no payments are anticipated.

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Other Health System accounts receivable and respective allowances for doubtful accounts (credit losses) are comprised of the following at September 30, 2017:

	<b>Receivable balance</b>	<b>Discount</b>	<b>Allowance for doubtful accounts</b>
		(In thousands)	
Other hospitals and health centers	\$ 5,637	—	1,329
Outside contracts	9,959	—	1,119
Contributions receivable	14,480	845	379
Capitation receivable	143,501	—	—
HSN supplemental receivable	20,000	—	—
Pharmacy and other	19,585	—	361
	<u>\$ 213,162</u>	<u>845</u>	<u>3,188</u>

These receivables represent current amounts from the other accounts receivable balance. Management regularly assesses the adequacy of the allowance for doubtful accounts by performing ongoing evaluation of the balances, including such factors as the economic environment, risks associated with each receivable, the financial condition of specific borrowers and, where applicable, the existence of any guarantees or indemnifications.

Factors also considered by management when performing its assessment, in addition to general economic conditions and the other factors described above, include, but were not limited to, a detailed review of the aging of receivables and review of cash receipts in current year compared against prior year allowance for doubtful accounts. The level of the allowance is adjusted based upon the results of management's analysis.

**(17) Related Party Transactions**

The Foundation and the Medical Center have significant transactions with each other for operating purposes. During the years ended September 30, 2018 and 2017, the Medical Center provided approximately \$95,973,000 and \$108,378,000, respectively, to the Foundation for professional and support services. The Foundation is comprised of physician groups which provide teaching and other services to the Medical Center. In addition, the Medical Center and the Foundation have certain board members in common. The Medical Center has various notes receivable and other receivables from the Foundation, which totaled approximately \$26,598,000 and \$35,680,000 at September 30, 2018 and 2017, respectively. In addition, the Medical Center owed the Foundation \$4,358,000 and \$4,785,000 at September 30, 2018 and 2017, respectively, and the amounts due are included in the current portion of due to related parties.

BMCHP and the Medical Center have significant transactions with each other for operating purposes. Total revenue earned by the Medical Center from BMCHP related to medical services and pharmacy services provided by the Medical Center to BMCHP members was \$298,613,000 and \$167,573,000 for the years ended September 30, 2018 and 2017, respectively, and is included in net patient service revenue. In addition, BMCHP owed the Medical Center \$23,053,000 and \$17,421,000 at September 30, 2018 and 2017, respectively, and the amounts due are included in patient accounts receivable. In addition, effective



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## Notes to Consolidated Financial Statements

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November 2016, BMCHP and the Medical Center entered into a ten-year sublease agreement to lease space in Charlestown, MA. The base annual rent under the agreement was \$4,090,000 for the entire sublease period. Rent payments commenced on January 1, 2017.

The Health System Corporation and the Medical Center have significant transactions with each other for system-wide purposes. At September 30, 2018 and 2017, the Health System Corporation owed the Medical Center \$9,166,000 and \$22,924,000, respectively for operating related activities. At September 30, 2018 and 2017, the Medical Center owed the Health System Corporation \$296,000 and \$25,278,000, respectively, for Health System Corporation's operating related activities.

The Medical Center and BMCIC have significant transactions with each other for the purpose of providing professional and general liability insurance. Total expenses incurred by the Medical Center related to the insurance provided by BMCIC were \$4,118,000 and \$4,249,000 for the years ending September 30, 2018 and 2017, respectively. The Medical Center has \$29,995,000 and \$31,779,000 of prepaid premiums and retrospective premium credits that were prepaid by the Medical Center to BMCIC at September 30, 2018 and 2017, respectively. The Medical Center and the Foundation recorded a combined insurance recovery receivable and a professional liability claims payable of \$86,562,000 and \$87,103,000 for the years ended September 30, 2018 and 2017, respectively.

BUAP and the Medical Center have transactions with each other for operating purposes. During the years ended September 30, 2018 and 2017, respectively, the Medical Center provided funding of approximately \$1,791,000 and \$2,013,000, respectively, to BUAP for professional and support services. The Medical Center has various accounts receivable from BUAP which totaled approximately \$3,967,000 and \$3,347,000 at September 30, 2018 and 2017, respectively.

BMCHP and the Foundation have transactions with each other for operating purposes. The total revenue earned by the Foundation from BMCHP related to medical services provided by the Foundation to BMCHP members was \$32,840,000 and \$22,579,000 for the years ended September 30, 2018 and 2017, respectively, and is included in net patient service revenue and supplies and other expenses. Also as of September 30, 2018 and 2017, BMCHP owed the Foundation \$1,764,000 and \$629,000, respectively.

The Health System Corporation and the Foundation have transactions with each other for operating purposes. At September 30, 2018, the Foundation owed the Health System Corporation \$97,000 respectively, for operating expenses. At September 30, 2017, the Health System Corporation owed the Foundation \$417,000, respectively, for operating expenses.

The Health System Corporation provided institutional support to BACO to fund contract losses. For the years ending September 30, 2018 and 2017, the Health System Corporation provided support of \$1,220,000 and \$1,523,000, respectively. Also, the Health System Corporation owed BACO \$0 and \$3,867,000 for the years ending September 30, 2018 and 2017, respectively.

The Medical Center and the BMC NAB Business Trust had significant transactions with each other relating to the construction of the Shapiro Ambulatory Care Center. In December 2015, in conjunction with the unwind of the final NMTC, the transactions between NAB and the Medical Center were limited to lease transactions for the land and building.

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September 30, 2018 and 2017

*Shared Services Agreement*

Faculty physicians and practitioners (Faculty Members) are employed by the individual Plans. Faculty members serve the benefit of the Medical Center (by providing clinical services) and BUSM (by serving as faculty members of BUSM). The Plans have each entered into a common paymaster agreement with the Medical Center and the Trustees of Boston University (BU). For 2018, each Plan, with respect to each Faculty Member that the Plan employs, pays BU 26.0% of each Faculty Member's salary up to the applicable FICA limit. If a particular Faculty Member's salary exceeds the FICA limit, the Plans further pay BU 12.3% on the excess up to an amount equal to the applicable Retirement cap for that year and then 1.45% on any amount in excess of the Retirement cap. The rate for 2017 were 28.8% up to the FICA limit, 13.9% on the excess amount up to the Retirement cap and the 1.45% on any amount in excess of the Retirement cap. Additionally, the Plans pay the Medical Center for medical malpractice insurance premiums for each Faculty Member. The Medical Center insures the Faculty Members under agreement with BMCIC. The Plans also pay for a portion of administrative salaries and fringe benefits for nonphysician employees of the Medical Center who provide services to them. These expenses are included in salaries and wages and fringe benefits in the consolidated statements of operations and changes in unrestricted net assets.

The Medical Center, the Health System Corporation and BUSM pay a portion of salaries of several physicians of the Foundation, and the Foundation is not responsible for reimbursing either institution. The Foundation also receives from the Medical Center reimbursement for a portion of free care services provided by the Foundation, as well as for teaching and other administrative duties. The Foundation received a total of \$33,551,000 and \$32,665,000 for institutional support from BUSM, all of which was recorded in reimbursement of operating expenses for the years ended June 30, 2018 and 2017, respectively. The Foundation received a total of \$550,000 and \$467,000 in research support from BUSM for the years ended June 30, 2018 and 2017. The Foundation received a total of \$99,150,000 and \$106,434,000 for institutional support from the Medical Center for the years ended June 30, 2018 and 2017, respectively. The Foundation also received \$33,212,000 and \$34,110,000 from the Medical Center which was recorded as reimbursement of operating expenses for the years ended June 30, 2018 and 2017, respectively. The Foundation received \$4,072,000 and \$5,926,000 from the Health System Corporation, which was recorded as reimbursement of operating expenses for the years ended June 30, 2018 and 2017, respectively.

The Plans use space in buildings owned by BUSM at no charge. Rent expense of \$500,000, based upon estimated market rates, has been recorded as an in-kind donation for each of the years ended June 30, 2018 and 2017, respectively.

**(18) Claims Payable**

In conjunction with the BMCHP health plan programs, the Health System establishes a claims payable account for insured events, which include estimates of future payments of loss and related loss adjustment

**BMC HEALTH SYSTEM, INC.**

## Notes to Consolidated Financial Statements

September 30, 2018 and 2017

expenses. The table below shows the changes in the claims payable account for the years ended September 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
	(In thousands)	
Accrued at beginning of year	\$ 122,600	121,066
Incurring services:		
Current year	1,945,548	1,535,392
Prior years	<u>(41,923)</u>	<u>(4,710)</u>
Total incurred	<u>1,903,625</u>	<u>1,530,682</u>
Paid claims:		
Current year	1,795,631	1,400,275
Prior years	<u>98,701</u>	<u>128,873</u>
Total paid	<u>1,894,332</u>	<u>1,529,148</u>
Accrued at end of year	\$ <u>131,893</u>	<u>122,600</u>

Claims expense of \$1,903,625,000 and \$1,530,682,000 for 2018 and 2017, respectively is included in the medical cost, supplies and other expenses line item on the consolidated statement of operations and changes in unrestricted net assets. Health claims paid by BMCHP to BMC are eliminated in the Health System's accompanying consolidated financial statements.

The estimated cost of losses and loss adjustment expenses attributable to insured events of the prior year decreased by approximately \$6,246,000 and \$4,710,000 during 2018 and 2017, respectively. Increases or decreases occur as a result of claim settlements during the year and receipt of additional information regarding individual claims. Recent loss development trends are also considered in evaluating the adequacy of the claims payable account. The remaining decrease of \$25,217,000 is the result of pharmacy rebates recognized as a component of claims expense in 2018 whereas such rebates were recognized as other revenue in the 2017 consolidated financial statements.

**BMC HEALTH SYSTEM, INC.**

## Notes to Consolidated Financial Statements

September 30, 2018 and 2017

**(19) Functional Expenses**

The total operating expenses of the Health System by function are as follows for the years ended September 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
	(In thousands)	
Patient care	\$ 2,269,855	2,354,261
Medical education	35,637	70,614
Research, sponsored programs and community health services	81,529	75,511
Retail Pharmacy and other	201,943	102,091
General and administrative	<u>841,327</u>	<u>396,399</u>
	<u>\$ 3,430,291</u>	<u>2,998,876</u>

**(20) Governmental Subsidies**

On October 30, 2014, Centers for Medicare and Medicaid Services (CMS) approved a Massachusetts Medicaid Waiver extension for the period of July 1, 2014 through June 30, 2019 that included Delivery System Transformation Initiative (DSTI) potential funding of \$113,909,000 annually for the Medical Center for three years through June 30, 2017. These initiatives are designed as incentive payments to support investments in health care delivery systems that will support payment reform, and transition away from fee-for-service payments toward alternative payment arrangements that reward high-quality, efficient, and integrated systems of care. Participating hospitals must select a minimum number of projects from each category as outlined in the Master DSTI Plan. The prior DSTI sunset at the end of FY 2017 and a new 5 year plan was approved by the Centers for Medicare and Medicaid (CMS) and Massachusetts Medicaid Waiver effective October 1, 2017. In recognition of the role that safety net hospitals play in serving a large proportion of Medicaid and uninsured individuals in the Commonwealth, EOHHS has secured authority in its new 1115 demonstration to make \$882,000,000 in safety net provider supplemental payments to eligible hospitals between SFY 2018 and 2022. There are a total of 14 hospitals that were eligible for these funds, of which the Medical Center's portion for fiscal year 2018 payments was \$97,910,000 as compared to the prior year DSTI payment \$101,979,383.

The Medical Center received additional payments for both Delivery System Reform Incentive Payments (DSRIP) and a DSTI Glide path. The Glide Path dollars assist the Medical Center in the transition from the old system to the new system, and the DSRIP payments assist as we move into the new ACO models that have been set forth by the State. The State recognizes that the hospital must make necessary investments in order to achieve downstream cost savings. The sum of these payments were \$24,900,000 in 2018.

**BMC HEALTH SYSTEM, INC.**

## Notes to Consolidated Financial Statements

September 30, 2018 and 2017

**(21) Commitments and Contingencies**

The Health System is, in the normal course of business, subject to complaints, claims and litigation as well as periodic reviews, investigations, audits and administrative proceedings. The Health System, like the healthcare industry as a whole, is subject to numerous and complex laws and regulations of federal, state, and local governments. In recent years, governmental review and enforcement has increased in the healthcare industry, resulting in some cases in significant fines and penalties for individual health care providers. While the outcome of legal and regulatory matters is inherently uncertain, management believes open matters will be resolved without a material adverse effect on the Health System's consolidated financial statements.

**(22) Self-Insurance***Professional, General and Employment Practices Liability*

Estimated professional, general and employment practices liability costs, as calculated by BMCIC's consulting actuaries, consist of specific reserves to cover the estimated liability resulting from medical general or employment practices liability incidents or potential claims which have been reported, as well as a provision for claims incurred but not reported. Estimated professional, general and employment practices-liabilities are based on claims reported, historical experience, and industry trends. These liabilities include estimates of future trends in loss severity and frequency and other factors that could vary as the claims are ultimately resolved. Although it is not possible to measure the degree of variability inherent in such estimates, management believes the reserves for claims are adequate. These estimates are periodically reviewed, and necessary adjustments are reflected in the consolidated statement of operations in the year the need for such adjustments becomes known. Management is unaware of any claims that would cause the final expense for professional and general liability risks to vary materially from the amounts provided.

*Reinsurance and Excess Liability Coverage*

The Health System has reinsurance coverage of \$30,000,000 for professional and general liability losses per individual claim, and for annual aggregate professional and general liability losses on a claims-made basis. The Health System has excess liability coverage of 20,000,000 for Employment Practices liability on a claims-made basis. The existence of this reinsurance and excess coverage does not relieve the Health System of their primary obligation with respect to losses incurred. The Health System would be liable for claims ceded to reinsurers in the event such reinsurers are unable to meet their obligations.

The Health System provided \$96,756,000 and \$96,460,000 for expected claims liabilities as of September 30, 2018 and 2017, respectively.

**(23) Subsequent Events**

The Health System has assessed the impact of subsequent events through February 7, 2019, the date the audited financial statements were issued, and have concluded that other than the notes below, there were no such events that require adjustment to the audited consolidated financial statements or disclosure in the notes to the consolidated financial statements.

In October 2018, the Medical Center finalized a purchase for a building and land for a total of \$135,000,000 of which \$128,000,000 was paid in October 2018 and the remaining \$7,000,000 of this total was paid as a deposit as of September 30, 2018.

**BMC HEALTH SYSTEM, INC.**

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

In November 2018, the Medical Center sale of the Newton Pavilion was finalized and received payment of \$77,000,000. The sale of the building resulted in a gain of \$67,124,000.

In November 2018, the Medical Center paid off the remaining balance of \$79,270,000 for the Citizens Bank Non-Revolving Credit Loan.

## **SUPPLEMENTAL CONSOLIDATING INFORMATION**

**BMC HEALTH SYSTEM, INC.**  
Consolidating Supplemental Balance Sheet  
September 30, 2018  
(In thousands)

Assets	The Health System Corporation	Medical Center	BMCHP	Foundation	BMCIC and BMCIC of Vermont	BACO	All other entities	Eliminations	The Health System
Current assets:									
Cash and cash equivalents	\$ 28,590	306,902	141,887	66,183	6,691	4,299	5,091	—	559,643
Short-term investments	—	—	—	—	—	—	—	—	—
Patients accounts receivable, less allowance of \$52,624 in 2018	—	88,444	—	21,302	—	—	280	(24,262)	85,764
Other accounts receivable, less allowance of \$3,350 in 2018	—	44,621	146,072	3,934	2,556	213	100	(2,055)	195,441
Current portion of grants receivable, less allowance of \$0 in 2018	—	15,962	—	—	—	—	—	—	15,962
Current portion of estimated receivable for final settlements with third-party payors	—	3,941	—	—	—	—	—	—	3,941
Current portion due from related parties	1,440	71,458	12,407	3,263	8,491	4,300	4,919	(106,278)	—
Inventories	—	13,568	—	—	—	—	—	—	13,568
Prepaid expenses and other current assets	45	33,957	6,525	357	585	—	40	(544)	40,965
Insurance recoveries receivable	—	37,222	—	49,340	—	—	—	(86,562)	—
Current portion of funds held by Trustees	—	23,161	—	—	—	—	—	—	23,161
Total current assets	30,075	639,236	306,891	144,379	18,323	8,812	10,430	(219,701)	938,445
Assets limited as to use:									
Board-designated investments	—	376,419	—	—	—	—	—	—	376,419
Funds held by Trustees	—	38,235	—	—	—	—	530	—	38,765
Donor-restricted investments	—	332,656	—	—	—	—	—	—	332,656
Reserve funds	—	—	3,568	—	104,295	—	—	—	107,863
Total assets limited as to use	—	747,310	3,568	—	104,295	—	530	—	855,703
Other assets:									
Long-term investments	—	337	210,424	45,109	—	—	—	—	255,870
Property, plant and equipment, net	388	884,319	9,146	2,605	—	—	132,125	—	1,028,583
Other noncurrent assets	—	209,173	—	43	—	—	—	(168,205)	41,011
Total assets	\$ 30,463	2,480,375	530,029	192,136	122,618	8,812	143,085	(387,906)	3,119,612
<b>Liabilities and Net Assets</b>									
Current liabilities:									
Accounts payable and accrued expenses	\$ 659	190,452	132,155	17,241	79	2,924	3,057	22,305	368,872
Claims payable	—	—	156,155	—	—	—	—	(24,262)	131,893
Deferred revenue	3,424	24,873	—	—	544	—	—	(544)	28,297
Current portion of due to related parties	9,264	31,962	—	50,906	387	953	7,276	(100,748)	—
Current portion of long-term debt and capital leases	—	85,483	—	113	—	—	1,400	—	86,996
Professional liability claims	—	37,222	—	49,340	—	—	—	(86,562)	—
Premium deficiency reserve	—	—	—	—	—	—	—	—	—
Other current liabilities	—	—	3,734	—	7	2,609	3,196	—	9,546
Total current liabilities	13,347	369,992	292,044	117,600	1,017	6,486	14,929	(189,811)	625,604
Long-term liabilities:									
Estimated final settlements with third-party payors	—	49,132	—	—	—	606	—	—	49,738
Obligations under capital leases	—	44,928	—	107	—	—	—	—	45,035
Due to related parties	—	—	—	967	30,257	—	—	(31,224)	—
Long-term debt	—	630,402	—	—	—	—	1,445	—	631,847
Other long-term liabilities	—	41,855	—	5,811	86,562	—	165,251	(165,251)	134,228
Total liabilities	13,347	1,136,309	292,044	124,485	117,836	7,092	181,625	(386,286)	1,486,452
Commitments and contingencies									
Net assets:									
Unrestricted	17,116	1,001,922	237,985	67,651	4,782	1,720	(38,540)	(1,620)	1,291,016
Temporarily restricted	—	305,054	—	—	—	—	—	—	305,054
Permanently restricted	—	37,090	—	—	—	—	—	—	37,090
Total net assets	17,116	1,344,066	237,985	67,651	4,782	1,720	(38,540)	(1,620)	1,633,160
Total liabilities and net assets	\$ 30,463	2,480,375	530,029	192,136	122,618	8,812	143,085	(387,906)	3,119,612

See accompanying independent auditors' report.



**BMC HEALTH SYSTEM, INC.**  
Consolidating Supplemental Balance Sheet  
September 30, 2017  
(In thousands)

Assets	The Health System Corporation	Medical Center	BMCHP	Foundation	BMCIC and BMCIC of Vermont	BACO	All other entities	Eliminations	The Health System
Current assets:									
Cash and cash equivalents	\$ 25,814	115,709	24,083	60,670	9,154	4,360	11,570	—	251,360
Short-term investments	—	—	39,732	—	—	—	—	—	39,732
Patients accounts receivable, less allowance of \$38,475 in 2017	—	97,569	—	16,725	—	—	231	(18,105)	96,420
Other accounts receivable, less allowance of \$3,188 in 2017	2,883	49,256	152,018	3,884	2,852	577	74	(2,415)	209,129
Current portion of grants receivable, less allowance of \$734 in 2017	—	16,671	—	—	—	—	—	—	16,671
Current portion of estimated receivable for final settlements with third-party payors	—	3,941	—	—	—	—	—	—	3,941
Current portion due from related parties	25,278	113,877	—	18,382	—	5,948	1,237	(164,722)	—
Inventories	—	8,751	—	—	—	—	—	—	8,751
Prepaid expenses and other current assets	—	22,784	—	282	584	—	40	(544)	23,146
Insurance recoveries receivable	—	38,325	—	48,355	—	—	—	(86,680)	—
Current portion of funds held by Trustees	—	3,189	—	—	—	—	—	—	3,189
Total current assets	53,975	470,072	215,833	148,298	12,590	10,885	13,152	(272,466)	652,339
Assets limited as to use:									
Board-designated investments	—	367,108	—	—	—	—	—	—	367,108
Funds held by Trustees	—	35,108	—	—	—	—	558	—	35,666
Donor-restricted investments	—	332,883	—	—	—	—	—	—	332,883
Reserve funds	—	—	3,533	—	120,108	—	—	—	123,641
Total assets limited as to use	—	735,099	3,533	—	120,108	—	558	—	859,298
Other assets:									
Long-term investments	—	138	238,834	38,463	21,435	—	—	—	298,870
Property, plant and equipment, net	439	810,994	12,193	2,806	—	—	137,419	—	963,851
Other noncurrent assets	8,183	215,719	—	44	—	—	—	(166,871)	57,075
Total assets	\$ 62,597	2,232,022	470,393	189,611	154,133	10,885	151,129	(439,337)	2,831,433
<b>Liabilities and Net Assets</b>									
Current liabilities:									
Accounts payable and accrued expenses	\$ 2,680	149,305	82,959	21,906	66	2,071	3,254	(2,644)	259,597
Claims payable	—	—	140,650	—	—	—	—	(18,050)	122,600
Deferred revenue	—	25,508	5,792	—	629	—	—	(544)	31,385
Current portion of due to related parties	27,207	24,012	1,085	46,471	10,147	9,684	12,065	(130,671)	—
Current portion of long-term debt and capital leases	—	4,478	—	124	—	—	1,300	—	5,902
Professional liability claims	—	38,325	—	48,355	—	—	—	(86,680)	—
Premium deficiency reserve	—	—	—	—	—	—	—	—	—
Other current liabilities	—	—	4,942	—	2,456	—	3	(1,344)	6,057
Total current liabilities	29,887	241,628	235,428	116,856	13,298	11,755	16,622	(239,933)	425,541
Long-term liabilities:									
Estimated final settlements with third-party payors	—	51,626	—	—	—	—	—	—	51,626
Obligations under capital leases	—	46,480	—	220	—	—	—	—	46,700
Due to related parties	—	—	—	—	32,533	—	—	(32,533)	—
Long-term debt	—	568,928	—	—	—	—	2,818	—	571,746
Other long-term liabilities	—	60,764	—	5,663	86,348	—	168,439	(165,251)	155,963
Total liabilities	29,887	969,426	235,428	122,739	132,179	11,755	187,879	(437,717)	1,251,576
Commitments and contingencies									
Net assets:									
Unrestricted	32,710	923,777	234,965	66,872	21,954	(870)	(36,750)	(1,620)	1,241,038
Temporarily restricted	—	300,939	—	—	—	—	—	—	300,939
Permanently restricted	—	37,880	—	—	—	—	—	—	37,880
Total net assets	32,710	1,262,596	234,965	66,872	21,954	(870)	(36,750)	(1,620)	1,579,857
Total liabilities and net assets	\$ 62,597	2,232,022	470,393	189,611	154,133	10,885	151,129	(439,337)	2,831,433

See accompanying independent auditors' report.

## BMC HEALTH SYSTEM, INC.

Consolidating Supplemental Statement of Operations and Changes in Unrestricted Net Assets

Year ended September 30, 2018

(In thousands)

	The Health System Corporation	Medical Center	BMCHP	Foundation	BMCIC and BMCIC of Vermont	BACO	All other entities	Eliminations	The Health System
Operating revenue:									
Net patient service revenue	\$ —	1,150,633	—	193,699	—	—	2,243	(222,788)	1,123,787
Provision for bad debt	—	(58,012)	—	(23,065)	—	—	(67)	—	(81,144)
Net patient service revenue net of provision for bad debt	—	1,092,621	—	170,634	—	—	2,176	(222,788)	1,042,643
Capitation revenue	—	—	2,061,595	—	—	—	—	(1,651)	2,059,944
Grants and contract revenue	18,074	90,561	—	—	—	—	—	—	108,635
Institutional support	—	—	—	99,150	—	1,220	1,791	(102,161)	—
Other revenue	—	279,909	1,652	95,957	5,279	(545)	3,129	(184,110)	201,271
Net assets released from restrictions for operations	—	18,351	—	—	—	—	—	—	18,351
Total operating revenue	18,074	1,481,442	2,063,247	365,741	5,279	675	7,096	(510,710)	3,430,844
Operating expenses:									
Salaries, wages and fringe benefits	13,093	630,674	75,547	313,986	—	2,136	5,163	(32,172)	1,008,427
Medical costs, supplies and other expenses	21,663	526,586	1,994,201	54,310	3,662	779	1,988	(379,354)	2,223,835
Institutional support	(889)	99,873	—	—	—	—	—	(98,984)	—
Depreciation and amortization	1,918	86,520	3,694	780	—	—	5,295	—	98,207
Interest expense	—	24,833	—	9	—	—	271	—	25,113
Research, sponsored programs and community health services	—	74,709	—	—	—	—	—	—	74,709
Total operating expenses	35,785	1,443,195	2,073,442	369,085	3,662	2,915	12,717	(510,510)	3,430,291
Income (loss) from operations	(17,711)	38,247	(10,195)	(3,344)	1,617	(2,240)	(5,621)	(200)	553
Nonoperating gains (losses), net:									
Income from investments (including other-than-temporary impairment losses of \$978 in 2018)	219	17,124	13,344	1,420	2,646	—	16	200	34,969
Gain on sale of real estate	—	—	—	—	—	—	—	—	—
Loss on defeasance of debt	—	—	—	—	—	—	—	—	—
Fundraising costs and other	—	(5,950)	—	(3,906)	—	—	—	—	(9,856)
Total nonoperating gains, net	219	11,174	13,344	(2,486)	2,646	—	16	200	25,113
Excess (deficiency) of revenue over expenses	(17,492)	49,421	3,149	(5,830)	4,263	(2,240)	(5,605)	—	25,666
Other changes in unrestricted net assets:									
Change in unrealized appreciation (depreciation) on investments	—	(2,844)	(10,129)	1,418	(1,435)	—	—	—	(12,990)
Net asset transfer to Affiliate	—	2,000	10,000	—	(20,000)	4,300	3,700	—	—
Other changes	—	206	—	—	—	—	(218)	—	(12)
Net assets released from restrictions for property, plant and equipment	—	29,194	—	—	—	—	—	—	29,194
Pension-related changes other than net periodic pension costs	—	8,120	—	—	—	—	—	—	8,120
Donated services from/to affiliates	1,898	(7,734)	—	5,191	—	530	115	—	—
Change in unrestricted net assets	(15,594)	78,363	3,020	779	(17,172)	2,590	(2,008)	—	49,978
Unrestricted net assets:									
Beginning of year	32,710	923,471	234,965	66,872	21,954	(870)	(36,444)	(1,620)	1,241,038
End of year	\$ 17,116	1,001,834	237,985	67,651	4,782	1,720	(38,452)	(1,620)	1,291,016

See accompanying independent auditors' report.

## BMC HEALTH SYSTEM, INC.

Consolidating Supplemental Statement of Operations and Changes in Unrestricted Net Assets

Year ended September 30, 2017

(In thousands)

	The Health System Corporation	Medical Center	BMCHP	Foundation	BMCIC and BMCIC of Vermont	BACO	All Other Entities	Eliminations	The Health System
Operating revenue:									
Net patient service revenue	\$ —	1,089,390	—	173,868	—	—	2,750	(202,591)	1,063,417
Provision for bad debt	—	52,390	—	23,469	—	—	70	—	75,929
Net patient service revenue net of provision for bad debt	—	1,037,000	—	150,399	—	—	2,680	(202,591)	987,488
Capitation revenue	—	—	1,637,223	—	—	—	—	—	1,637,223
Grants and contract revenue	—	91,318	—	—	—	—	—	(35)	91,283
Institutional support	—	—	—	106,434	—	1,523	2,013	(109,970)	—
Other revenue	—	167,066	16,437	108,470	2,580	1,876	3,409	(47,693)	252,145
Net assets released from restrictions for operations	—	18,623	—	—	—	—	—	—	18,623
Total operating revenue	—	1,314,007	1,653,660	365,303	2,580	3,399	8,102	(360,289)	2,986,762
Operating expenses:									
Salaries, wages and fringe benefits	8,087	613,327	71,643	332,750	—	3,277	4,882	(51,050)	982,916
Medical costs, supplies and other expenses	5,329	404,853	1,574,431	35,282	6,416	2,627	2,088	(197,125)	1,833,901
Institutional support	1,523	110,391	—	—	—	—	—	(111,914)	—
Depreciation and amortization	52	78,925	2,468	1,497	—	—	5,332	—	88,274
Interest expense	—	17,915	—	12	—	—	347	—	18,274
Research, sponsored programs and community health services	—	75,511	—	—	—	—	—	—	75,511
Total operating expenses	14,991	1,300,922	1,648,542	369,541	6,416	5,904	12,649	(360,089)	2,998,876
(Loss) Income from operations	(14,991)	13,085	5,118	(4,238)	(3,836)	(2,505)	(4,547)	(200)	(12,114)
Nonoperating gains (losses), net:									
Income from investments (including other-than-temporary impairment losses of \$841 in 2017)	53	21,083	2,354	5,285	3,922	—	3	200	32,900
Gain on sale of real estate	—	—	—	—	—	—	—	—	—
Loss on defeasance of debt	—	—	—	—	—	—	—	—	—
Fundraising costs and other	—	(5,247)	—	93	—	—	—	—	(5,154)
Total nonoperating gains, net	53	15,836	2,354	5,378	3,922	—	3	200	27,746
Excess (deficiency) of revenue over expenses	(14,938)	28,921	7,472	1,140	86	(2,505)	(4,544)	—	15,632
Other changes in unrestricted net assets:									
Change in unrealized appreciation (depreciation) on investments	—	2,328	12,319	(1,700)	1,434	—	—	—	14,381
Net asset transfer to Affiliate	—	—	—	—	—	—	—	—	—
Other changes	—	—	—	—	—	(65)	(361)	426	—
Net assets released from restrictions for property, plant and equipment	—	41,342	—	—	—	—	—	—	41,342
Pension-related changes other than net periodic pension costs	—	16,751	—	—	—	—	—	—	16,751
Donated services from/(to) affiliates	3,112	(9,370)	—	4,873	—	1,234	151	—	—
Change in unrestricted net assets	(11,826)	79,972	19,791	4,313	1,520	(1,336)	(4,754)	426	88,106
Unrestricted net assets:									
Beginning of year	44,536	843,587	215,174	62,559	20,434	466	(31,778)	(2,046)	1,152,932
End of year	\$ 32,710	923,559	234,965	66,872	21,954	(870)	(36,532)	(1,620)	1,241,038

See accompanying independent auditors' report.

BMC HEALTH SYSTEM, INC.  
Boston University Medical Group Consolidating Supplemental Balance Sheets  
June 30, 2018

Assets	Division of Surgery	Anesthesia	Cardiac	Dermatology	ER	Evans	Eye	Family	Faculty	Surgery	Neurology	Neurosurgery	OB/GYN	Orthopedic	Otolaryngology	Pediatrics	Pathology	Plastic Surgery	Psychiatry	Radiology	Rehab	Radiation Oncology	Urology	Eliminations	Total	
Cash	\$	—	—	—	396	1,417	1,145	1,388	31	50,362	1,328	502	22	22	2,836	823	249	1,606	—	1,959	1,619	—	23	455	—	66,183
Patient accounts receivable		—	—	—	679	2,520	6,344	1,343	981	—	2,903	832	517	1,487	1,865	1,148	1,967	764	—	2,275	2,122	—	198	523	—	28,468
Patient allowance for doubtful accounts		—	—	—	(134)	(839)	(1,313)	(245)	(332)	—	(742)	(164)	(195)	(257)	(483)	(433)	(345)	—	—	(358)	(651)	—	(29)	(113)	—	(7,166)
Total patient accounts receivable, less allowance for doubtful accounts		—	—	—	545	1,681	5,031	1,098	649	—	2,161	668	322	1,230	1,382	715	1,434	419	—	1,917	1,471	—	169	410	—	21,302
Other receivables		—	—	—	243	204	540	8	1,125	43	78	88	703	242	—	10	351	102	—	270	194	—	—	—	(143)	4,058
Nonpatient allowance for doubtful accounts		—	—	—	—	(3)	(41)	—	(2)	—	(1)	(45)	(20)	1	—	—	—	—	—	(13)	—	—	—	—	—	(124)
Total other receivables, less allowance for doubtful accounts		—	—	—	243	201	499	8	1,123	43	77	43	683	243	—	10	351	102	—	257	194	—	—	—	(143)	3,934
Due from related parties		—	—	—	227	522	2,722	54	124	345	65	255	—	49	160	—	441	261	—	75	366	—	—	60	(2,463)	3,263
Insurance recoveries receivable		—	—	—	—	—	—	—	—	49,340	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	49,340
Other current assets		—	—	—	98	—	101	30	—	48	16	—	—	15	—	2	12	17	—	—	18	—	—	—	—	357
Total current assets		—	—	—	1,509	3,821	9,498	2,578	1,927	100,138	3,647	1,468	1,027	1,559	4,378	1,550	2,487	2,405	—	4,208	3,668	—	192	925	(2,606)	144,379
Property and equipment, net		—	—	—	144	11	1,004	875	19	—	105	—	—	139	—	57	205	—	—	21	25	—	—	—	—	2,605
Investments		—	—	—	46	4,433	30,393	—	—	5,230	—	—	—	—	351	4,108	25	—	—	523	—	—	—	—	—	45,109
Other assets		—	—	—	—	—	—	—	—	36	—	7	—	—	—	—	—	—	—	—	—	—	—	—	—	43
Total assets	\$	—	—	—	1,699	8,265	40,895	3,453	1,946	105,404	3,752	1,475	1,027	1,559	4,517	1,901	6,652	2,635	—	4,752	3,693	—	192	925	(2,606)	192,136
Liabilities and Net Assets																										
Current liabilities:																										
Accounts payable and accrued expenses	\$	—	—	—	176	2,039	4,913	901	336	944	1,116	125	19	301	1,396	487	1,117	438	—	1,782	1,093	—	23	35	—	17,241
Due to related parties		—	—	—	158	51	5,059	603	155	44,301	225	135	575	181	128	273	194	48	—	1,127	128	—	169	2	(2,606)	50,906
Professional liability claims payable		—	—	—	—	—	—	—	—	49,340	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	49,340
Current portion of long term capital lease obligations		—	—	—	—	—	—	77	—	—	36	—	—	—	—	—	—	—	—	—	—	—	—	—	—	113
Total current liabilities		—	—	—	334	2,090	9,972	1,581	491	94,585	1,377	260	594	482	1,524	760	1,311	486	—	2,909	1,221	—	192	37	(2,606)	117,600
Long term capital lease obligations, net of current portion		—	—	—	—	—	—	62	—	—	45	—	—	—	—	—	—	—	—	—	—	—	—	—	—	107
Long term portion of due to related parties		—	—	—	—	—	967	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	967
Long term professional liability claims payable		—	—	—	—	—	—	—	—	5,811	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	5,811
Commitments and contingencies																										
Unrestricted net assets		—	—	—	1,365	6,175	29,956	1,810	1,455	5,008	2,330	1,215	433	1,077	2,993	1,141	5,341	2,149	—	1,843	2,472	—	—	888	—	67,651
Total liabilities and net assets	\$	—	—	—	1,699	8,265	40,895	3,453	1,946	105,404	3,752	1,475	1,027	1,559	4,517	1,901	6,652	2,635	—	4,752	3,693	—	192	925	(2,606)	192,136

See accompanying independent auditors' report.

SBC HEALTH SYSTEM, INC.																													
Boston University Medical Group Consolidating Supplemental Balance Sheet																													
June 30, 2017																													
Assets	Division of		Anesthesia	Cardiac	Dermatology	ES	Ears	Eye	Family	Facility	Surgery	Neurology	Neurosurgery	OB/GYN	Oncology	Orthopedics	Otolaryngology	Pediatrics	Pathology	Plastic Surgery	Psychiatry	Radiology	Rehab	Resident Education	Urology	Unallocated	Eliminations	Total	
	Surgery	Healthcare																											
Cash	283	145	—	—	245	1,641	2,187	1,507	39	40,557	1,501	517	42	62	3,471	1,354	68	1,157	—	3,675	1,462	—	23	694	—	—	60,670		
Patient accounts receivable	—	—	—	—	586	2,852	4,891	850	820	—	1,832	622	232	1,079	1,163	994	1,594	822	—	2,894	1,662	—	80	967	—	—	21,044		
Patient advances for doubtful accounts	—	—	—	—	2,981	2,886	4,855	10,045	3,669	—	3,961	1,669	1,035	1,116	1,369	1,695	1,554	1,366	—	3,984	1,662	—	1,046	967	—	—	14,646		
Total patient accounts receivable, less allowance for doubtful accounts	—	—	—	—	812	1,157	3,132	108	659	—	1,670	558	185	567	834	838	1,152	319	—	2,954	1,821	—	1,172	966	—	—	16,726		
Other receivables	—	—	—	—	341	559	583	7	1,329	—	72	64	178	347	—	8	453	172	—	283	115	—	—	—	—	—	—	4,154	
Prepayment advances for doubtful accounts	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Total other receivables, less allowance for doubtful accounts	—	—	—	—	341	559	583	7	1,329	—	72	64	178	347	—	8	453	172	—	283	115	—	—	—	—	—	—	—	3,894
Due from related parties	—	2	2,163	—	225	660	4,387	222	120	3,445	82	324	245	153	245	228	23	477	—	71	728	—	—	—	240	—	(1,718)	18,382	
Insurance recoveries receivable	—	—	—	—	—	—	—	—	—	68,320	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	68,320	
Other current assets	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Total current assets	285	2,336	—	—	1,348	3,615	10,742	2,516	2,084	58,433	3,230	1,361	641	1,469	4,730	2,221	1,694	2,127	—	6,129	3,540	—	195	1,330	(1,718)	148,298			
Property and equipment, net	80	4	—	—	179	16	1,078	837	27	20	148	—	—	—	—	—	—	116	59	104	—	8	—	—	—	—	—	2,858	
Investments	—	—	—	—	1,225	4,179	28,337	—	—	—	—	—	—	—	—	—	—	4,697	25	—	—	—	—	—	—	—	—	36,463	
Other assets	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	42	
Total assets	569	2,340	—	—	2,752	2,669	31,158	3,353	2,111	58,483	3,379	1,369	651	1,469	4,965	2,229	2,446	6,854	2,246	6,137	3,548	—	390	1,330	(1,718)	185,011			
Liabilities and Net Assets																													
Current liabilities:																													
Accounts payable and accrued expenses	1	—	2,175	—	474	1,822	4,734	1,123	488	3,305	583	343	65	220	1,623	1,035	1,162	499	—	2,740	1,159	—	26	214	—	—	—	21,505	
Due to related parties	23	933	—	—	127	40	2,583	71	165	24,259	940	62	21	21	155	90	156	141	—	1,430	295	—	26	73	—	(1,515)	—	46,471	
Professional liability claims payable	—	—	—	—	—	—	—	—	—	68,695	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	68,695	
Current portion of long-term capital lease obligations	23	2,340	—	—	637	1,871	10,680	1,234	653	87,594	842	425	97	437	1,829	1,126	1,268	940	—	4,110	1,465	—	95	240	(1,515)	116,808			
Total current liabilities	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Long-term capital lease obligations, net of current portion	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Long-term portion of due to related parties	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Long-term professional liability claims payable	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Commitments and contingencies	265	120	—	—	2,121	5,537	25,465	1,806	1,478	4,532	2,337	954	546	1,128	3,017	1,095	5,082	1,706	—	1,954	2,045	—	—	1,572	—	—	—	66,872	
Unallocated net assets	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Total liabilities and net assets	569	2,340	—	—	2,752	2,669	31,158	3,353	2,111	58,483	3,379	1,369	651	1,469	4,965	2,229	2,446	6,854	2,246	6,137	3,548	—	390	1,330	(1,718)	185,011			
See accompanying independent auditor's report.																													

BMC HEALTH SYSTEM, INC.																										
Boston University Medical Group Consolidation Supplemental Statements of Operations																										
June 30, 2018																										
Division of	Anesthesia	Cardiac	Chemotherapy	ES	Genes	Eye	Family	Family	Surgery	Neurology	Neurosurgery	OB/GYN	Orthopedic	Otolaryngology	Podiatry	Pathology	Plastic Surgery	Psychiatry	Radiology	Rehab	Reproductive Endocrinology	Urology	Geriatrics	Total		
Operating revenue:																										
Net patient service revenue	—	—	4,716	12,735	45,310	14,127	5,735	—	15,335	6,157	1,875	11,380	11,717	5,746	13,044	4,725	—	24,352	12,374	—	1,127	3,362	—	150,559		
Provision for bad debts on patient service revenue	—	—	412	7,222	4,774	355	439	—	2,758	757	377	951	1,329	1,031	1,816	1,552	—	2,496	2,147	—	350	557	—	73,695		
Total net patient service revenue, net of provision for bad debts	—	—	4,304	15,513	40,536	13,772	5,296	—	12,577	5,400	1,498	10,429	10,388	4,715	11,228	3,173	—	21,856	10,227	—	1,137	2,805	—	176,864		
Institutional support	—	3,423	—	1,098	3,798	27,467	1,407	4,318	4,882	14,485	2,901	2,655	3,420	3,550	1,806	5,384	3,798	—	6,233	6,098	—	501	1,274	—	95,150	
Research support	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—		
Reimbursement of operating expense	277	168	—	1,772	2,147	43,467	278	2,655	—	2,963	948	37	2,463	861	475	6,127	781	—	3,423	455	—	1,174	251	—	70,824	
Other revenue	45	—	—	1,186	354	3,731	454	2,734	4,637	834	254	1,545	799	200	1,124	544	—	1,186	1,691	—	—	4	34	—	23,614	
Total operating revenue	318	3,591	—	8,782	18,336	151,144	15,692	18,684	31,546	30,842	3,651	13,664	17,666	16,148	7,167	24,692	8,945	—	36,961	18,871	—	2,616	4,380	—	365,131	
Operating expenses:																										
Salaries, wages and fringe benefits	517	1,114	—	6,578	15,532	110,214	10,359	17,114	13,586	27,987	8,327	4,341	14,377	13,891	5,987	22,022	6,773	—	12,884	15,581	—	2,913	3,879	813	315,986	
Professional outside services	1	2,878	—	515	1,712	3,817	1,538	1,113	952	1,945	453	139	646	753	524	1,527	453	—	257	1,303	—	258	423	(4,300)	14,844	
Insurance	—	7	—	30	350	1,365	136	450	167	535	152	215	834	353	123	235	72	—	50	218	—	15	83	—	5,523	
Supplies	—	—	—	25	54	255	2,883	174	13	47	16	5	12	11	24	44	—	—	17	5	—	—	—	—	3,987	
Depreciation and amortization	33	4	—	41	3	404	152	9	21	44	—	—	—	—	—	12	37	—	4	—	—	—	—	—	730	
Provision for bad debts on nonpatient service revenue	—	—	—	—	1	(5)	—	(8)	—	(11)	12	23	(5)	—	—	—	—	—	2	—	—	—	—	—	7	
Interest	7	28	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Other	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Total operating expenses	558	2,926	—	6,954	18,014	115,446	12,050	18,744	14,764	30,684	9,017	4,736	15,726	14,944	6,521	24,692	7,265	—	19,581	17,108	—	3,191	4,386	—	369,196	
Income (loss) from operations	260	665	—	1,828	1,322	35,698	3,642	9,940	16,782	30,158	2,634	1,028	1,940	1,204	646	14,427	1,680	—	17,380	1,763	—	425	—	—	13,935	
Nonoperating gains (losses):																										
Contributions expense, net	—	—	—	(1,554)	(75)	(2,245)	—	(9)	—	(7)	(3)	(5)	—	(25)	(16)	(3)	—	—	(12)	(8)	—	(5)	—	—	(3,062)	
Investment income	—	—	—	11	269	684	—	1	117	—	11	—	—	—	—	251	—	—	12	—	—	1	—	—	1,420	
Losses on disposal of property	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Total nonoperating (losses) gains, net	—	—	—	(1,543)	294	(1,561)	—	(8)	117	(3)	(22)	(5)	—	(25)	(13)	251	—	—	2	(8)	—	(4)	—	—	(2,642)	
(Specific assets of internal user expense)	(245)	(5)	—	(146)	274	(885)	4	(9)	(5,276)	(7)	221	(171)	30	(24)	47	311	442	—	(142)	427	—	(108)	—	—	(3,432)	
Other changes in unrestricted net assets:																										
Marketable securities	—	5	—	—	(36)	1,365	—	—	53	—	—	—	—	—	—	(5)	(53)	—	11	—	—	—	—	—	1,418	
Change in unrealized appreciation (depreciation) on investments	—	—	—	—	—	—	—	—	115	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Donated services from affiliates	—	—	—	—	—	—	—	—	1,125	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	1,418	
Increase (decrease) in unrestricted net assets	(245)	5	—	(146)	238	480	4	(9)	78	71	201	(111)	30	(24)	46	308	442	—	(131)	427	—	(108)	—	—	278	
See accompanying independent auditor's report.																										

BMC HEALTH SYSTEM, INC.  
Boston University Medical Group Consolidating Supplemental Statements of Operations  
June 30, 2017

	Division of Surgery	Anesthesia	Cardiac	Dermatology	ER	Evans	Eye	Family	Faculty	Surgery	Neurology	Neurosurgery	OB/GYN	Orthopedic	Otolaryngology	Pediatrics	Pathology	Plastic Surgery	Psychiatry	Radiology	Rehab	Radiation Oncology	Urology	Eliminations	Total
Operating revenue:																									
Net patient service revenue	\$ —	—	—	5,107	13,022	41,409	11,558	5,287	—	12,642	5,458	1,965	10,268	10,816	5,326	12,420	4,300	—	18,944	11,042	—	1,276	3,028	—	173,868
Provision for bad debts on patient service revenue	—	—	—	327	2,845	5,045	420	517	—	2,092	661	621	922	1,106	796	2,313	1,484	—	1,950	2,026	—	48	296	—	23,469
Total net patient service revenue, net of provision for bad debts	—	—	—	4,780	10,177	36,364	11,138	4,770	—	10,550	4,797	1,344	9,346	9,710	4,530	10,107	2,816	—	16,994	9,016	—	1,228	2,732	—	150,399
Institutional support	—	11,494	—	947	3,749	22,874	548	3,498	6,095	13,917	2,131	2,346	2,972	2,852	2,278	5,425	3,838	—	5,823	5,866	—	474	1,172	—	98,299
Free care reimbursement from affiliate	—	—	—	170	562	2,140	1,008	146	—	1,152	214	90	451	427	323	155	199	—	199	681	—	44	174	—	8,135
Research support	—	—	—	—	—	505	—	—	—	—	4	—	—	—	—	—	—	—	6	—	—	—	—	—	515
Reimbursement of operating expense	278	—	—	844	2,413	45,151	324	2,612	—	2,715	1,050	352	2,949	1,368	228	6,734	809	—	3,414	435	—	788	239	—	72,701
Other revenue	292	60	—	1,872	1,054	13,155	734	8,985	13,396	1,208	698	599	1,570	1,040	490	2,909	714	—	2,180	1,175	—	11	187	(17,075)	35,254
Total operating revenue	570	11,554	—	8,613	17,955	120,189	13,752	20,011	19,491	29,542	8,894	4,731	17,288	15,395	7,849	25,330	8,376	—	28,616	17,173	—	2,545	4,504	(17,075)	365,303
Operating expenses:																									
Salaries, wages and fringe benefits	527	1,163	—	7,058	15,640	107,923	9,255	17,301	13,203	24,750	7,818	4,395	14,300	13,627	6,834	22,777	6,908	—	13,118	14,845	—	2,245	4,226	294	308,207
Professional outside services	1	10,301	—	581	1,204	3,970	895	950	1,498	2,626	369	147	552	782	451	1,320	429	—	328	1,247	—	202	249	(3,559)	24,543
Insurance	—	—	—	82	370	1,477	112	438	306	587	170	180	670	167	140	244	85	—	52	194	—	—	62	—	5,336
Supplies	—	6	—	189	27	238	2,281	198	14	342	11	5	19	12	30	45	399	—	14	9	—	1	—	—	3,840
Depreciation and amortization	20	2	—	42	3	1,103	167	9	41	45	—	—	—	—	—	10	37	—	—	3	—	—	—	—	1,497
Provision for bad debts on nonpatient service revenue	—	—	—	—	2	339	—	10	259	2	6	—	2	—	—	—	20	—	—	—	—	—	—	—	640
Interest	—	—	—	—	—	—	7	—	—	5	—	—	—	—	—	—	—	—	—	—	—	—	—	—	12
Other	15	82	—	539	743	4,985	1,035	747	9,587	1,185	473	122	1,708	776	371	933	33	—	15,101	540	—	98	203	(13,810)	25,466
Total operating expenses	563	11,554	—	8,491	17,989	120,035	13,752	19,653	24,908	29,542	8,847	4,849	17,251	15,377	7,826	25,329	7,911	—	28,616	16,837	—	2,545	4,741	(17,075)	369,541
Income (loss) from operations	7	—	—	122	(34)	154	—	358	(5,417)	—	47	(118)	37	18	23	1	465	—	—	336	—	—	(237)	—	(4,238)
Nonoperating gains (losses):																									
Contributions expense, net	—	—	—	(3)	(10)	204	—	(2)	—	(12)	(5)	(5)	—	(19)	(15)	(10)	—	—	(24)	(6)	—	—	—	—	93
Investment income	—	—	—	9	118	4,917	—	—	—	1	1	—	—	1	1	124	—	—	113	—	—	—	—	—	5,285
Gain (loss) on disposal of property	—	—	—	3	—	—	(3)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total nonoperating gains (losses), net	—	—	—	9	108	5,121	(3)	(2)	—	(11)	(4)	(5)	—	(18)	(14)	114	—	—	89	(6)	—	—	—	—	5,378
Excess (deficit) of revenue over expenses	7	—	—	131	74	5,275	(3)	356	(5,417)	(11)	43	(123)	37	—	9	115	465	—	89	330	—	—	(237)	—	1,140
Other changes in unrestricted net assets:																									
Change in unrealized appreciation (depreciation) on investments	—	—	—	—	199	(2,095)	—	—	—	—	—	—	—	—	—	196	—	—	—	—	—	—	—	—	(1,700)
Donated services from affiliates	—	—	—	—	—	—	—	—	4,873	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	4,873
Increase (decrease) in unrestricted net assets	\$ 7	—	—	131	273	3,180	(3)	356	(544)	(11)	43	(123)	37	—	9	311	465	—	89	330	—	—	(237)	—	4,313

See accompanying independent auditors' report.

**BMC HEALTH SYSTEM, INC.**

Note to Supplemental Consolidating Information

September 30, 2018 and 2017

**(1) Basis of Presentation**

The accompanying supplemental consolidating information includes the Consolidating Supplemental Balance Sheets and the Consolidating Supplemental Statement of Operations of individual entities of the Health System and the Faculty Practice Foundation, Inc. (Faculty), doing business as Boston University Medical Group (BUMG) and its 22 affiliated faculty practice plan corporations (the Plans, and collectively with Faculty known as BUMG). All intercompany accounts and transactions between entities have been eliminated and are shown in the elimination column of the consolidating supplemental schedules. The consolidating information presented is prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America consistent with the consolidated financial statements. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements and is not required as part of the basic financial statements.



## BMC HEALTH SYSTEMS, INC.

## Schedule of Expenditures of Federal Awards

Year ended September 30, 2018

Federal Program / Pass-through Grantor / Program or Cluster	CFDA	Pass-Through Entity	Direct Award or Pass-Through Entity Number	Passed to Sub- Recipients	Total Expenditures
Research and Development Cluster:					
Department of Agriculture:					
Agricultural Research Basic and Applied Research	10.001	US Civilian Research and Development Foundation	59-0210-2-160	\$ 29,197	28,245
Department of Agriculture Total				29,197	28,245
Department of Defense:					
Military Medical Research and Development	12.420	Johns Hopkins University	8487	—	64
Military Medical Research and Development	12.420	Johns Hopkins University	VUMC37447	—	34
Military Medical Research and Development	12.420	Johns Hopkins University	W81XWH0920108	—	84
Military Medical Research and Development	12.420	Johns Hopkins University	W81XWH-09-2-0108	—	2,528
Department of Defense Total				—	2,710
Department of Health and Human Services:					
Administration for Children and Families:					
Abandoned Infants	93.551		Direct	—	(6,681)
Assistance for Torture Victims	93.604		Direct	—	433,020
Family Violence Prevention and Services/Discretionary	93.592		Direct	—	294,681
Administration for Children and Families Total				—	721,020
Agency for Healthcare Research and Quality:					
National Research Service Awards_Health Services Research Training	93.225		Direct	—	247,721
Research on Healthcare Costs, Quality and Outcomes	93.226		Direct	136,003	712,613
Research on Healthcare Costs, Quality and Outcomes	93.226	University of Utah	10042477-01	—	88,422
Agency for Healthcare Research and Quality Total				136,003	1,048,756
Centers for Disease Control and Prevention:					
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	93.898	WESTAT	8625.09-S01	—	5,000
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	93.898	Commonwealth of Mass – DPH	INTF3406MM3190428104	—	121,087
Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and					—
Performance financed in part by the Prevention and Public Health Fund (PPHF)	93.733	American Academy of Pediatrics	772104-BMC	—	47,485
Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human					—
Immunodeficiency Virus (HIV) Infection in Selected Population Groups	93.943	Commonwealth of Mass – DPH	INTF4942MM3100119035-2017-CT	—	(1,873)
Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human					—
Immunodeficiency Virus (HIV) Infection in Selected Population Groups	93.943	Commonwealth of Mass – DPH	INTF4942MM3100119035-2018-CT	—	117,596
Injury Prevention and Control Research and State and Community Based Programs	93.136		Direct	15,322	325,731
Injury Prevention and Control Research and State and Community Based Programs	93.136	Commonwealth of Mass – DPH	INTF2400H78500224302	—	307,836
Injury Prevention and Control Research and State and Community Based Programs	93.136	University of Michigan	3004806994	—	11,444
Injury Prevention and Control Research and State and Community Based Programs	93.136	Rhode Island Department of Health	1450197	48,037	247,770
Prevention of Disease, Disability, and Death by Infectious Diseases	93.084	Harvard School of Public Health	116532-5085651	—	288,756
Centers for Disease Control and Prevention	93.RD		Direct	—	76,572
Centers for Disease Control and Prevention	93.RD	Antagen Institute for Biomed Research	BMC Agreement ID: 5129	—	212,012
Centers for Disease Control and Prevention	93.RD	OpenBiome	RACE-BMC-092016	—	153,057
Centers for Disease Control and Prevention	93.RD		Direct	—	15,698
Centers for Disease Control and Prevention	93.RD		Direct	—	179,942
Centers for Disease Control and Prevention Total				63,359	2,108,113
Centers for Medicare and Medicaid Services:					
Health Care Innovation Awards (HCIA)	93.610		Direct	463,692	801,423
Centers for Medicare and Medicaid Services Total				463,692	801,423
Health Resources and Services Administration:					
Grants for Primary Care Training and Enhancement	93.884		Direct	89,811	460,261
HIV Care Formula Grants	93.917	Commonwealth of Mass – DPH	INTF4943MM3200120006-2016-CT	—	(10,436)
HIV Care Formula Grants	93.917	Commonwealth of Mass – DPH	INTF4943MM3200120006-2018-CT	—	139,418
Maternal and Child Health Federal Consolidated Programs	93.110		Direct	11,871	622,189
Maternal and Child Health Federal Consolidated Programs	93.110	Johns Hopkins University	118525	—	546
Maternal and Child Health Federal Consolidated Programs	93.110	Johns Hopkins University	2003650297	—	100,386

## BMC HEALTH SYSTEMS, INC.

## Schedule of Expenditures of Federal Awards

Year ended September 30, 2018

Federal Program / Pass-through Grantor / Program or Cluster	CFDA	Pass-Through Entity	Direct Award or Pass-Through Entity Number	Passed to Sub- Recipients	Total Expenditures
National Research Service Award in Primary Care Medicine	93.186		Direct	\$ —	244,185
Preventive Medicine and Public Health Residency Training Program, Integrative Medicine Program, and National Center for Integrative Primary Healthcare	93.117		Direct	—	453,305
Primary Care Medicine and Dentistry Clinician Educator Career Development Awards Program	93.976		Direct	—	147,454
Sickle Cell Treatment Demonstration Program	93.365	Johns Hopkins University	005492160	—	51,714
Health Resources and Services Administration	93.RD	University of Mass. Worcester	WA00583864/OSP2017203	—	16,619
Health Resources and Services Administration Total				101,682	2,225,641
National Institutes of Health:					
21st Century Cures Act – Beau Biden Cancer Moonshot	93.353		Direct	—	284,027
Aging Research	93.866	Brandeis University	402461	—	15,544
Aging Research	93.866	Tufts University	101001-00001	—	8,492
Aging Research	93.866		Direct	305,947	1,049,121
Aging Research	93.866	University of North Carolina	5050163	—	33,435
Aging Research	93.866	Dana Farber Cancer Institute	1201601	—	3,979
Alcohol Research Programs	93.273	Colorado Seminary	SC37653-02/P0156193	—	5,037
Alcohol Research Programs	93.273		Direct	724,386	1,912,817
Alcohol Research Programs	93.273	University of California	9772sc	—	55,545
Alcohol Research Programs	93.273	Fast Track Drugs and Biologics	HHSN27500008-1078-NCIG7-BMC	—	55,332
Allergy and Infectious Diseases Research	93.855	Miriam Hospital	710-9155	—	(2,007)
Allergy and Infectious Diseases Research	93.855	Miriam Hospital	7109155JB	—	443
Allergy and Infectious Diseases Research	93.855	Miriam Hospital	7109155-JE	—	37,064
Allergy and Infectious Diseases Research	93.855	Miriam Hospital	7109155-JS	—	94,449
Allergy and Infectious Diseases Research	93.855	Miriam Hospital	7109155-KJ	—	11,981
Allergy and Infectious Diseases Research	93.855	Miriam Hospital	7109156	—	(2,204)
Allergy and Infectious Diseases Research	93.855	Miriam Hospital	710-9156	—	7,727
Allergy and Infectious Diseases Research	93.855	Miriam Hospital	7109156-BL	—	25,422
Allergy and Infectious Diseases Research	93.855	Miriam Hospital	7109156LA	—	6,389
Allergy and Infectious Diseases Research	93.855	Miriam Hospital	7109157-NL	—	27,778
Allergy and Infectious Diseases Research	93.855	Miriam Hospital	7109158-AH	—	45,191
Allergy and Infectious Diseases Research	93.855	Miriam Hospital	7147105JS	—	377
Allergy and Infectious Diseases Research	93.855	New York University	16-A0-00-007002-01	—	66,468
Allergy and Infectious Diseases Research	93.855		Direct	3,308,276	7,231,583
Allergy and Infectious Diseases Research	93.855	Johns Hopkins University	2003336400	—	(8,900)
Allergy and Infectious Diseases Research	93.855	Johns Hopkins University	PO 2002249257	—	22,018
Allergy and Infectious Diseases Research	93.855	Johns Hopkins University	PO 2002532372	—	10,266
Allergy and Infectious Diseases Research	93.855	Johns Hopkins University	PO# 2003738345	—	5,940
Allergy and Infectious Diseases Research	93.855	Johns Hopkins University	PO# 2003746446	—	45
Allergy and Infectious Diseases Research	93.855	Johns Hopkins University	UM1 AIO68632	—	121,401
Allergy and Infectious Diseases Research	93.855	Institute for Clinical Research, Inc.	M56-BU-071-1101-3	—	6,181
Allergy and Infectious Diseases Research	93.855	Trustees of Boston University	4500002129	—	81,958
Allergy and Infectious Diseases Research	93.855	Trustees of Boston University	4500002173	—	4,522
Allergy and Infectious Diseases Research	93.855	Trustees of Boston University	4500002302	—	64
Allergy and Infectious Diseases Research	93.855	Trustees of Boston University	4500002410	—	20,460
Allergy and Infectious Diseases Research	93.855	Trustees of Boston University	4500002465	—	120,165
Allergy and Infectious Diseases Research	93.855	Brigham and Women's Hospital	110236	—	9,312
Allergy and Infectious Diseases Research	93.855	Regents of the University of Colorado	3RZ17	—	9,912
Allergy and Infectious Diseases Research	93.855	University of Alabama	000509701-002	—	143,089
Allergy and Infectious Diseases Research	93.855	Medical University of South Carolina	MUSC18-012-8D160	—	207,343
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	University of Mass. Worcester	WA00303719/RFS2015153	—	(5,471)
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	Brigham and Women's Hospital	114745	—	(8,147)
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	University of Arizona	244231	—	35,066
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	University of Arizona	428238	—	36,946
Biomedical Research and Research Training	93.859	Biosensics, LLC	1R43GM123821-01	—	100,121
Biomedical Research and Research Training	93.859	University of Pittsburgh	0047882(126884-7)	—	5,635
Blood Diseases and Resources Research	93.839		Direct	112,296	1,046,388
Blood Diseases and Resources Research	93.839	Trustees of Boston University	4500001870	—	(213)
Blood Diseases and Resources Research	93.839	Trustees of Boston University	4500002284	—	116,881

## BMC HEALTH SYSTEMS, INC.

## Schedule of Expenditures of Federal Awards

Year ended September 30, 2018

Federal Program / Pass-through Grantor / Program or Cluster	CFDA	Pass-Through Entity	Direct Award or Pass-Through Entity Number	Passed to Sub- Recipients	Total Expenditures
Blood Diseases and Resources Research	93.839	Rutgers, New Jersey Medical School	SUB0170	\$ —	1,613
Blood Diseases and Resources Research	93.839	Mount Sinai Medical Center	0255-A901-4609	—	2,994
Cancer Biology Research	93.396		Direct	—	422,288
Cancer Biology Research	93.396	Massachusetts General Hospital	223690	—	136,169
Cancer Cause and Prevention Research	93.393		Direct	—	55,626
Cancer Control	93.399	South West Oncology Group	CA37429	—	541
Cancer Detection and Diagnosis Research	93.394	Nanocytomics, LLC.	1R44CA206844-01A1	—	49,059
Cancer Detection and Diagnosis Research	93.394		Direct	100,504	340,890
Cancer Detection and Diagnosis Research	93.394	Baylor College of Medicine	101573601	—	(622)
Cancer Detection and Diagnosis Research	93.394	Northwestern University	SP0010241-PROJ0007116	—	4,913
Cancer Detection and Diagnosis Research	93.394	Northwestern University	SP0028253-PROJ0007361	—	336,625
Cancer Detection and Diagnosis Research	93.394	Northwestern University	SP0031569-PROJ0008430	—	224,071
Cancer Detection and Diagnosis Research	93.394	Northwestern University	SP0039088-PROJ0011335	—	150,492
Cancer Research Manpower	93.398		Direct	—	16,217
Cancer Treatment Research	93.395	EMMES Corporation	2U01CA121947-04	—	100
Cancer Treatment Research	93.395		Direct	97,258	358,035
Cancer Treatment Research	93.395	University of California	UCLA Subaward Number 1568 G TA632	—	524,938
Cancer Treatment Research	93.395	NRG Oncology Foundation, Inc.	BMC/Kachnic-NCORP-01	—	34,805
Cardiovascular Diseases Research	93.837	New York University	001215	—	4,636
Cardiovascular Diseases Research	93.837		1U01HL105907-01	—	3,291
Cardiovascular Diseases Research	93.837		Direct	—	1,106,935
Cardiovascular Diseases Research	93.837	Brigham and Women's Hospital	113286	—	314,836
Cardiovascular Diseases Research	93.837	Massachusetts General Hospital	230744	—	4,279
Cardiovascular Diseases Research	93.837		U01HL023336	—	33,427
Cardiovascular Diseases Research	93.837	Boston Children's Hospital	702265	—	(4,751)
Cardiovascular Diseases Research	93.837		GENFD0001358800	—	75,770
Cardiovascular Diseases Research	93.837	New England Medical Research Inst, Inc	U01HL107407	—	102,380
Child Health and Human Development Extramural Research	93.865	WESTAT	6101-S069	—	327,651
Child Health and Human Development Extramural Research	93.865		Direct	93,273	794,206
Child Health and Human Development Extramural Research	93.865	Johns Hopkins University	2002901077	—	117,543
Child Health and Human Development Extramural Research	93.865		2003025892	—	187,565
Child Health and Human Development Extramural Research	93.865	University of North Carolina	5108777	—	6,993
Child Health and Human Development Extramural Research	93.865	George Washington University	U10HD036801	—	39,728
Child Health and Human Development Extramural Research	93.865	Florida State University	R01949	—	153,727
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847		Direct	658,996	2,895,551
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	Trustees of Boston University	4500002032	—	520
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	University of California	1555 G VA087	—	99,515
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	Northwestern University	60040977 BMCC	—	122,145
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	Massachusetts General Hospital	226449	—	30,319
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	The Scripps Research Institute	5-53280	—	73,489
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	The Scripps Research Institute	PO # 5-52801	—	(2,678)
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	Kaiser Foundation Research Institute	OOS030228 BMC	—	10,656
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	University of Kentucky	R01DK108056-01	—	52,268
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286	Northwestern University	SP0039942-PROJ0011715	—	498
Drug Abuse and Addiction Research Programs	93.279	Bay State Medical	15-259	—	80,643
Drug Abuse and Addiction Research Programs	93.279	Cornell University	170239	—	175,243
Drug Abuse and Addiction Research Programs	93.279	Cornell University	17060914-03	—	34,421
Drug Abuse and Addiction Research Programs	93.279	Cornell University	180114	—	23,124
Drug Abuse and Addiction Research Programs	93.279	Cornell University	182864	—	70,134
Drug Abuse and Addiction Research Programs	93.279	McLean Hospital	#401108	—	17,040
Drug Abuse and Addiction Research Programs	93.279	McLean Hospital	401108	—	47,159
Drug Abuse and Addiction Research Programs	93.279	New York University	17-A0-00-1000021-01	—	49,616
Drug Abuse and Addiction Research Programs	93.279	RAND Corporation	9920180074	—	4,884
Drug Abuse and Addiction Research Programs	93.279		Direct	1,082,008	3,830,207
Drug Abuse and Addiction Research Programs	93.279	Trustees of Boston University	4500002279	—	(235)
Drug Abuse and Addiction Research Programs	93.279	Trustees of Boston University	4500002350	—	10,184
Drug Abuse and Addiction Research Programs	93.279	University of California	9510sc	—	7,547
Drug Abuse and Addiction Research Programs	93.279	University of British Columbia	20R18965-03	—	44,598

## BMC HEALTH SYSTEMS, INC.

## Schedule of Expenditures of Federal Awards

Year ended September 30, 2018

Federal Program / Pass-through Grantor / Program or Cluster	CFDA	Pass-Through Entity	Direct Award or Pass-Through Entity Number	Passed to Sub- Recipients	Total Expenditures
Drug Abuse and Addiction Research Programs	93.279	University of British Columbia	20R18965-04	\$ —	1,847
Drug Abuse and Addiction Research Programs	93.279	Trustees of Columbia University	2(GG010654-01)	—	59,192
Drug Abuse and Addiction Research Programs	93.279	West Virginia University	17-752-BMC	—	134,036
Drug Abuse and Addiction Research Programs	93.279	Kaiser Foundation Research Institute	2017122507	—	249,979
Drug Abuse and Addiction Research Programs	93.279	Denver Health and Hospital Authority	E4724	—	3,428
Environmental Health	93.113	Trustees of Boston University	4500002019	—	132,395
Environmental Health	93.113	Trustees of Boston University	4500002463	—	189,082
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	EMMES Corporation	U01 NS062835	—	3,203
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853		Direct	33,825	260,600
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	University of California	9668sc	—	44,516
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	University of Washington	UWSC7761	—	16,783
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	Northwestern University	60036745 BUMC	—	19,165
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	Massachusetts General Hospital	226396	—	9,412
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	Trustees of Boston University	4500002494	—	71,708
Family Smoking Prevention and Tobacco Control Act Regulatory Research	93.077		Direct	—	78,739
International Research and Research Training	93.989		Direct	46,731	210,455
Lung Diseases Research	93.838		Direct	—	421,941
Lung Diseases Research	93.838	University of Cincinnati	011283-002	—	6,659
Mental Health Research Grants	93.242	Dimagi, Inc.	9R44MH117956-02(SBIR Phase II)	—	6,711
Mental Health Research Grants	93.242		Direct	—	199,220
Mental Health Research Grants	93.242	Northshore University	EH13-344-S1	—	15,812
Mental Health Research Grants	93.242	University of North Carolina	5106102	—	8,093
Minority Health and Health Disparities Research	93.307	Tufts Medical Center	5011778-SERV	—	58,006
Minority Health and Health Disparities Research	93.307		Direct	147,520	1,760,151
Minority Health and Health Disparities Research	93.307	Northwestern University	60046231 BMC	—	206,442
National Center for Advancing Translational Sciences	93.350		Direct	527,015	1,051,270
National Center for Advancing Translational Sciences	93.350	American Biooptics LLC	1R44CA199667-01A1	—	30,102
NIEHS Superfund Hazardous Substances_Basic Research and Education	93.143	Trustees of Boston University	NA	—	5,220
Nursing Research	93.361	Tufts University	HS3522	—	2,197
Nursing Research	93.361		Direct	325,044	887,575
Nursing Research	93.361	Regents of the University of Colorado	FY16.342.003	—	48,325
Research and Training in Complementary and Integrative Health	93.213		Direct	—	4,628
Research and Training in Complementary and Integrative Health	93.213	Massachusetts General Hospital	230481	—	68,375
Research Infrastructure Programs	93.351		Direct	—	185,539
Research Related to Deafness and Communication Disorders	93.173		Direct	—	(2,740)
Research Related to Deafness and Communication Disorders	93.173	University of Michigan	3003754646	—	47,059
Research Related to Deafness and Communication Disorders	93.173	Boston Children's Hospital	PO#00001136626	—	144,441
Research Related to Deafness and Communication Disorders	93.173	Georgia State University	SP00013351-02	—	5,992
Trans-NIH Research Support	93.310	Massachusetts General Hospital	229352	13,939	2,165,779
Trans-NIH Research Support	93.310	University of North Carolina	5106185	—	(27,885)
Trans-NIH Research Support	93.310	University of North Carolina	5108603	—	397,418
Vision Research	93.867		Direct	—	488,011
Vision Research	93.867	Jaeb Center for Health Research	NA	—	2,667
Vision Research	93.867	Jaeb Center for Health Research	U10EY11751	—	6,067
Vision Research	93.867	Case Western Reserve University	RES512053	—	63,684
Vision Research	93.867	Case Western Reserve University	RES513027	—	22,077
National Institutes of Health	93.RD	Leidos Biomedical Research Inc	16X153	—	1,203,466
National Institutes of Health	93.RD	WESTAT	6579-S48	—	111,026
National Institutes of Health	93.RD		Direct	—	198,545
National Institutes of Health	93.RD		Direct	—	577,973
National Institutes of Health	93.RD	Oregon Health and Science University	SWOG/NCI	—	4,601
National Institutes of Health	93.RD	Fast Track Drugs and Biologics	HHSN27500003-1061-NCIG6-BMC	—	8
National Institutes of Health Total				7,577,018	38,517,785
Office of Minority Health:					
Community Programs to Improve Minority Health Grant Program	93.137		Direct	6,268	189,337
Office of Minority Health Total				6,268	189,337

**BMC HEALTH SYSTEMS, INC.**  
Schedule of Expenditures of Federal Awards  
Year ended September 30, 2018

Federal Program / Pass-through Grantor / Program or Cluster	CFDA	Pass-Through Entity	Direct Award or Pass-Through Entity Number	Passed to Sub- Recipients	Total Expenditures
Office of Research Planning Evaluation: Office of Research Planning Evaluation	93.RD	Child Trends	HHSP233201500034I	\$ —	10,829
Office of Research Planning Evaluation Total				—	10,829
Office of the Secretary: Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities	93.817	Commonwealth of Mass – DPH	INTF6207PP1W16052807	—	4,972
Office of the Secretary Total				—	4,972
Social Security Administration: Social Security Administration	93.RD	WESTAT	6464-S-MA02-001	—	72,378
Social Security Administration Total				—	72,378
Department of Health and Human Services Total				8,348,022	45,700,254
Department of Justice: National Institute of Justice:					
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560		Direct	27,924	56,206
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	Johns Hopkins University	PO# 2003750769	—	64,394
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	Trustees of Boston University	4500001765	—	10,197
National Institute of Justice Total				27,924	130,797
Office for Victims of Crime: Crime Victim Assistance/Discretionary Grants	16.582		Direct	—	544,853
Office for Victims of Crime Total				—	544,853
Department of Justice Total				27,924	675,650
Executive Office of the President: Research and Data Analysis	95.007	University of Baltimore	34	—	44,031
Executive Office of the President Total				—	44,031
National Science Foundation: Office of International Science and Engineering	47.079	US Civilian Research and Development Foundation	OISE-15-61407-1	19,004	56,167
Office of International Science and Engineering	47.079	US Civilian Research and Development Foundation	OISE-16-62055-1	15,019	43,347
Office of International Science and Engineering	47.079	US Civilian Research and Development Foundation	OISE-17-62909-1	—	35,064
Office of International Science and Engineering	47.079	US Civilian Research and Development Foundation	OISE-17-62917-1	—	3,340
Office of International Science and Engineering	47.079	US Civilian Research and Development Foundation	OISE-17-63074-1	—	7,874
Office of International Science and Engineering	47.079	US Civilian Research and Development Foundation	USB1-31150-XX-13	96,118	234,473
National Science Foundation Total				130,141	380,265
Research and Development Cluster Total				8,535,284	46,831,155
Other Programs: Department of Health and Human Services: Administration for Children and Families:					
Refugee and Entrant Assistance State Administered Programs	93.566	Commonwealth of Mass – DPH	5189999DMM3-13	—	104,769
Administration for Children and Families Total				—	104,769
Centers for Disease Control and Prevention: HIV Prevention Activities Health Department Based	93.940	Commonwealth of Mass – DPH	INTF4944MM3181926007	—	2,444,882
PPHF: Racial and Ethnic Approaches to Community Health Program financed solely by Public Prevention and Health Funds	93.738	Boston Public Health Commission Commission	FY1701869	—	22,595
Centers for Disease Control and Prevention Total				—	2,467,477
Health Resources and Services Administration: Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153		Direct	—	375,399
Healthy Start Initiative	93.926	Boston Public Health Commission Commission	FY16016450	—	74,724

**BMC HEALTH SYSTEMS, INC.**  
Schedule of Expenditures of Federal Awards  
Year ended September 30, 2018

Federal Program / Pass-through Grantor / Program or Cluster	CFDA	Pass-Through Entity	Direct Award or Pass-Through Entity Number	Passed to Sub- Recipients	Total Expenditures
Healthy Start Initiative	93.926	Boston Public Health Commission Commission	FY18019610	\$ —	81,709
Total for the program				—	156,433
HIV Emergency Relief Project Grants	93.914	Boston Public Health Commission Commission	6-H89-HA-00011-16	—	21,633
HIV Emergency Relief Project Grants	93.914	Boston Public Health Commission Commission	FY17018196A	—	229,344
HIV Emergency Relief Project Grants	93.914	Boston Public Health Commission Commission	PO21201941	—	1,526
Total for the program				—	252,503
Maternal and Child Health Services Block Grant to the States	93.994	Commonwealth of Mass – DPH	INTF3105M03901424004-2013	—	91,216
Maternal and Child Health Services Block Grant to the States	93.994	Commonwealth of Mass – DPH	INTF3105M03901424004-2019	—	19,933
Total for the program				—	111,149
Health Resources and Services Administration Total				—	895,484
Office of the Assistant Secretary for Preparedness and Response: DHHS – Assistant Secretary for Preparedness and Response	93.889,93.074	Boston Public Health Commission	FY16016396	—	96,880
Office of the Assistant Secretary for Preparedness and Response Total				—	96,880
Office of Population Affairs: Family Planning Services	93.217	ABCD	FPHPA16204-01-00	—	40,752
Office of Population Affairs Total				—	40,752
Substance Abuse and Mental Health Services Administration: Block Grants for Prevention and Treatment of Substance Abuse	93.959	Commonwealth of Mass – DPH	INTF2351M03183626033	—	136,106
Block Grants for Prevention and Treatment of Substance Abuse	93.959	Commonwealth of Mass – DPH	INTF2351M03183626052	—	903,685
Block Grants for Prevention and Treatment of Substance Abuse	93.959	Commonwealth of Mass – DPH	INTF2351MM3802114020	—	(3,412)
Total for the program				—	1,036,379
Opioid STR	93.788	Commonwealth of Mass – DPH	INTF2330M04500824114	—	441,311
Opioid STR	93.788	American Academy of Pediatrics	States-16-13	—	48,540
Total for the program				—	489,851
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	Commonwealth of Mass – DPH	INTF2330M04500824100	—	39,697
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	Commonwealth of Mass – DPH	INTF2330MM3W16003108	—	138,881
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	University of California	1U79SM080030-01/9808sc	—	(8,892)
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	University of California	7429sc	—	97
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	University of California	9808sc	—	30,196
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	American Psychiatric Association	SM-14-007	—	5,388
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	Boston Public Health Commission	1H79TI080338-01	—	12,028
Total for the program				—	217,395
Project Promise	93.U1	Institute for Health and Recovery	INTF233MM3W18002127	—	224,993
Substance Abuse and Mental Health Services Administration Total				—	1,968,618
Department of Health and Human Services Total				—	5,573,980
Department of Housing and Urban Development: Emergency Solutions Grant Program	14.231	City of Boston – DND	38431-16	—	12,862
Emergency Solutions Grant Program	14.231	City of Boston – DND	44952-18	7,500	46,486
Total for the program				7,500	59,348
Department of Housing and Urban Development Total				7,500	59,348
Department of Justice: Crime Victim Assistance	16.575	Commonwealth of Mass – MOVA	VOCA2017BMCICVRT0000	—	52,152
Crime Victim Assistance	16.575	Commonwealth of Mass – MOVA	VOCA2018BMCICVRT0000	—	460,959
Crime Victim Assistance	16.575	Commonwealth of Mass – MOVA	VOCA2018BMCIDV000000	—	132,897
Crime Victim Assistance	16.575	Commonwealth of Mass – MOVA	2017AEAPBMCIRC000000	—	8,687

**BMC HEALTH SYSTEMS, INC.**

## Schedule of Expenditures of Federal Awards

Year ended September 30, 2018

<b>Federal Program / Pass-through Grantor / Program or Cluster</b>	<b>CFDA</b>	<b>Pass-Through Entity</b>	<b>Direct Award or Pass-Through Entity Number</b>	<b>Passed to Sub- Recipients</b>	<b>Total Expenditures</b>
Crime Victim Assistance	16.575	Commonwealth of Mass – MOVA	VOCA2015BMCICWTV0000	\$ —	52,268
Crime Victim Assistance	16.575	Commonwealth of Mass – MOVA	VOCA2018BMCICWTV0000	—	184,141
Total for the program				—	891,104
Reduction and Prevention of Children's Exposure to Violence	16.730	Boston Public Health Commission Commission	FY14013511A	—	1,670
Violence Against Women Formula Grants	16.588	Executive Office of Public Safety and Security	SCEPS3001VAWA17BMCD2	—	(4,613)
Violence Against Women Formula Grants	16.588	Executive Office of Public Safety and Security	SCEPS3001VAWA18BMCD1	—	57,474
Total for the program				—	52,861
Boston Police/BEST Collaborative Response Expansion to Serve Persons with Mental Illness	16.U1	Boston Police Department	0000000000000000000043493	—	17,945
Department of Justice Total				—	963,580
Indian Health Service:					
Maternal Substance Use Disorder Model Program	93.U2		Direct	—	106,397
Indian Health Service Total				—	106,397
Other Programs Total				7,500	6,703,305
Health Centers Cluster:					
Department of Health and Human Services:					
Health Resources and Services Administration:					
Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224	Mattapan Community Health Center	5014; H80CS00395-14-04	—	420
Health Resources and Services Administration Total				—	420
Health Centers Cluster Total				—	420
Food Distribution Cluster:					
Department of Agriculture:					
Emergency Food Assistance Program (Food Commodities)	10.569	Greater Boston Food Bank	Direct	—	64,752
Department of Agriculture Total				—	64,752
Food Distribution Cluster Total				—	64,752
Aging Cluster:					
Department of Health and Human Services:					
Administration for Community Living:					
Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers	93.044	City of Boston	PO# BOSTN-0000674858	—	13,796
Department of Health and Human Services Total				—	13,796
Aging Cluster Total				—	13,796
Total Federal Expenditures				\$ 8,542,784	53,613,428

**BMC HEALTH SYSTEM, INC**

## Notes to Schedule of Expenditure of Federal Awards

Year ended September 30, 2018

**(1) Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the Health System under programs of the federal government for the year ended September 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Health System, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Health System.

**(2) Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

**(3) Indirect rate**

The Health System applies its predetermined approved facilities and administrative rate when charging indirect costs to federal awards rather than the 10% de minimis cost rate as described in Section 200.414 of the Uniform Guidance.

**(4) Noncash Assistance**

In 2018, \$64,752 of U.S Department of Agriculture (USDA) was received from the Greater Boston Food Bank (CFDA #10.569) and distributed to program participants through the Boston Medical Center Food Bank. This noncash assistance amount represents the fair value of the product at the time of receipt and is included on the Schedule.