



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, 2020

(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

Table of Contents

	Exhibit
Independent Auditors' Report on Compliance for the Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	I
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	II
Schedule of Findings and Questioned Costs	III
Consolidated Financial Statements with Supplemental Consolidating Information and Schedule of Expenditures of Federal Awards	IV



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

Exhibit I

Independent Auditors' Report on Compliance for the 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 the 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 U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on the Health System's major federal program for the year ended September 30, 2020. The Health System's major federal program is 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 program 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 the 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 its major federal program for the year ended September 30, 2020.



Exhibit I

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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 first paragraph of this section 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, we did identify a deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2020-001, 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 is also responsible for preparing a corrective action plan to address each audit finding included in our auditors' report. The Health System's response and corrective action plan were not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response or the corrective action plan.

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.



Exhibit I

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, 2020, and have issued our report thereon dated February 12, 2021, 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

October 26, 2021



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

Exhibit II

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of 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. (the Health System), which comprise the consolidated statement of financial position as of September 30, 2020, and the related consolidated statements of operations and changes in net assets without donor restrictions, 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 12, 2021.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's 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 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*.



Exhibit II

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 12, 2021

BMC HEALTH SYSTEM, INC.
Schedule of Findings and Questioned Costs
Year ended September 30, 2020

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

Type of auditors' report issued on whether consolidated financial statements were prepared in accordance with U.S. 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?

_____ Yes X No

Identification of major programs:

<u>Program title</u>	<u>CFDA</u>
Research and Development Cluster	Various

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

\$2,097,017

Auditee qualified as low-risk auditee:

_____ Yes X No

(2) Findings Related to the Consolidated Financial Statements Reported in Accordance with Government Auditing Standards

None noted.

BMC HEALTH SYSTEM, INC.

Schedule of Findings and Questioned Costs

Year ended September 30, 2020

(3) Findings and Questioned Costs Relating to Federal Award**United States Department of Health and Human Services (HHS)****R&D Cluster****Federal Award Numbers: Various****Award Year: 2020****Finding Reference: 2020-001****Activities Allowed or Unallowed and Allowable Costs/Cost Principles and Special Tests – Key Personnel****Type of Finding: Significant Deficiency****Prior Year Finding: Yes, 2019-002****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 that are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.

The Consolidated Appropriations Act, 2017, restricts the amount of direct salary for individuals working on NIH grants, cooperative agreement awards, and extramural research and development contracts. The salary limitation rate, determined twice a year, applies to any individual whose salary is charged directly to awards from these agencies. The rates in effect during fiscal year 2020 were \$192,300 for the period October 1, 2019 through January 4, 2020 and \$197,300 for the period January 5, 2020 through September 30, 2020. The limitation is not on the number of dollars that can be charged to an NIH grant. Rather, it is on the monthly pay rate that can be charged to an NIH grant.

The non-Federal entity may change the staffing mix and level of involvement within limits specified by agency policy or in the award, but may be required to obtain Federal awarding agency approval of changes in key personnel (as identified in the award, which may differ from the non-Federal entity's designation in the application/proposal) and changes in the principal investigator's/project director's time commitment/level of participation in the project. For grants and cooperative agreements, this may include not only a change in the principal investigator or project director but also the disengagement from the project for more than 3 months, or a 25 percent reduction in time devoted to the project, by the approved project director or principal investigator (OMB Circular A-110 §§.25(c)(2) and (3)/2 CFR sections 200.308(c)(1) (ii) and (iii)). For cost-reimbursement contracts under the FAR, specific key personnel requirements are included in the contract (or task order).

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

BMC HEALTH SYSTEM, INC.
Schedule of Findings and Questioned Costs
Year ended September 30, 2020

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

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, including BMC affiliates that participate in such federally sponsored programs. Due to the integrated nature of certain aspects of its operations, BMC has implemented various control activities to ensure it remains in compliance with the above requirements, which include:

1. Supervisory approval of timesheets
2. Semi-annual employee effort certifications, which are reviewed by the respective Department Research Administrator and BMC’s Central Research Office
3. All changes to an employee’s time charged to a grant must be reviewed by Research Finance prior to further grant accounting or close-out

Employee effort certifications are used to support the time and effort worked on a grant, in instances where a BMC affiliate participates in the grant, they also capture both the amount of time and the rate that both BMC and the affiliate must pay due to salary caps and other researcher time commitments.

In connection with our payroll allowability procedures, we tested 50 transactions and identified 2 instances in which BMC affiliated personnel did not initially fill out their effort certifications accurately and which required a recertification to support the effort and cost share charged. In each of these instances, the recertification occurred several months after the initial certification was prepared.

In connection with our key personnel work we tested 40 such employee certifications and noted 2 instances in which BMC affiliated personnel did not initially fill out their effort certifications accurately which required a recertification to support the effort and cost that was ultimately charged as a grant. In each of these instances, the recertification occurred months after the initial certification was prepared.

Cause

Employee certifications for affiliates are not consistently reviewed on a timely basis to detect and correct errors.

Effect

Not preparing employee certifications accurately or timely or effectively reviewing such certifications could result in an incorrect amount of effort documented or costs charged to the grant.

Recommendation

We recommend BMC continue to implement procedures to ensure effort certifications are filled out accurately and timely and also develop a more thorough and timely review procedure for BMC affiliates.

BMC HEALTH SYSTEM, INC.
Schedule of Findings and Questioned Costs
Year ended September 30, 2020

Questioned Costs

None.

View of Responsible Officials and Corrective Actions

Management agrees that additional review of effort needs to happen centrally, and will implement and document an internal control. Training and re-training of central research administration happened February 11, 2020. Additionally, guidance documents with specific examples will be provided to department research leadership to discuss correct documentation of effort. The development of departmental training guides and tools was rolled out by the Fall of 2020.

Management has provided several effort reporting trainings to the departments and central research office.

- On-site Effort Training provided by Huron Consulting group and central research operations managers for internal grant administrators and research financial analysts on February 11, 2020. Effort training focused on internal controls, effort reporting and salary allocations/cost transfers. This session was both didactic and hands on case study exercise.
- Research Operations provide time and effort training to all research departments administrators (80 plus attendees) on March 17, 2021.

We are currently working to develop retraining opportunities for departmental and central office employees, as well as resources for new hires. We have been delayed due to COVID-19 and a new financial system implementation. New anticipated completion date is Spring 2022.

Responsible Official(s)

Executive Director of Research Operations
Senior Director of Grants and Contracts

Implementation Date

Spring 2022



BMC HEALTH SYSTEM, INC.

Consolidated Financial Statements with
Supplemental Consolidating Information and
Schedule of Expenditures of Federal Awards

Year Ended September 30, 2020 and 2019

(With Independent Auditors' Reports Thereon)

BMC HEALTH SYSTEM, INC.
Consolidated Financial Statements with Supplemental Consolidating Information

Table of Contents

	Page(s)
Independent Auditors' Report	1–2
Consolidated Financial Statements:	
Consolidated Balance Sheets	3
Consolidated Statements of Operations and Changes in Net Assets without Donor Restrictions	4
Consolidated Statements of Changes in Net Assets	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7–53
Supplemental Consolidating Information:	
BMC Health System, Inc. Consolidating Supplemental Balance Sheets	54–55
BMC Health System, Inc. Consolidating Supplemental Statements of Operations and Changes in Net Assets without Donor Restrictions	56–57
BMC Health System, Inc. Consolidating Supplemental Statements of Cash Flows	58–59
Boston University Medical Group Consolidating Supplemental Balance Sheets	60–61
Boston University Medical Group Consolidating Supplemental Statements of Operations and Changes in Net Assets without Donor Restrictions	62–63
Boston Medical Center Health Plan, Inc. Mass Health Accountable Care and Managed Care Organization Statement of Revenues and Expenses	64
Note to Supplemental Consolidating Information	65
Schedule of Expenditures of Federal Awards	66
Notes to Schedule of Federal Awards	70



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

Exhibit IV

Independent Auditors' Report

To the Board of Trustees
of BMC Health System, Inc.:

We have audited the accompanying consolidated financial statements of BMC Health System, Inc. and its subsidiaries (the Health System), which comprise the consolidated balance sheets as of September 30, 2020 and 2019, and the related consolidated statements of operations and changes in net assets without donor restrictions, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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 audits. We conducted our audits 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 financial position of BMC Health System, Inc. and its subsidiaries as of September 30, 2020 and 2019, and the results of their operations, their changes in net assets, and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Exhibit IV

Emphasis of Matters

As discussed in note 2(z) to the consolidated financial statements, in 2020, the Health System adopted Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, as amended, ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, and ASU 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. Our opinion is not modified with respect to these matters.

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 2020 supplementary information on pages 54 through 64, is presented for purposes of additional analysis and is not a required part of the 2020 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 the *Government Auditing Standards*, we have also issued our report dated February 12, 2021 on our considerations of the Health System's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely 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 12, 2021

BMC HEALTH SYSTEM, INC.

Consolidated Balance Sheets

September 30, 2020 and 2019

(In thousands)

Assets	2020	2019
Current assets:		
Cash and cash equivalents	\$ 795,821	321,782
Short-term investments	—	2,671
Patient accounts receivable, net	94,306	111,500
Other accounts receivable, less allowance of \$3,183 and \$1,568 in 2020 and 2019, respectively	329,278	284,675
Current portion of grants receivable	17,801	17,585
Current portion of estimated receivable for final settlements with third-party payors	3,991	3,941
Inventories	17,337	12,714
Prepaid expenses and other current assets	22,723	19,165
Total current assets	<u>1,281,257</u>	<u>774,033</u>
Assets limited as to use:		
Board-designated investments	308,243	394,247
Funds held by trustees	41,624	40,593
Donor-restricted investments	325,597	330,615
Reserve funds	113,832	100,186
Total assets limited as to use	<u>789,296</u>	<u>865,641</u>
Other assets:		
Long-term investments	380,565	259,851
Property, plant and equipment, net	1,055,486	1,115,384
Right of use assets – operating	96,185	—
Right of use assets – financing	4,000	—
Other noncurrent assets	42,220	44,729
Total assets	<u>\$ 3,649,009</u>	<u>3,059,638</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 386,670	283,257
Claims payable	173,185	144,079
Estimated third party settlements, current	107,000	—
Deferred revenue	101,690	23,713
Current portion of long-term debt	7,985	8,067
Premium deficiency reserve	—	11,048
Other current liabilities	35,389	12,098
Total current liabilities	<u>811,919</u>	<u>482,262</u>
Long-term liabilities:		
Estimated third party settlements	81,571	56,341
Obligations under financing leases	2,669	31
Obligations under operating leases	89,401	—
Long-term debt	613,343	622,157
Other long-term liabilities	230,533	255,670
Total liabilities	<u>1,829,436</u>	<u>1,416,461</u>
Commitments and contingencies		
Net assets:		
Without donor restrictions	1,456,987	1,305,051
With donor restrictions	362,586	338,126
Total net assets	<u>1,819,573</u>	<u>1,643,177</u>
Total liabilities and net assets	<u>\$ 3,649,009</u>	<u>3,059,638</u>

See accompanying notes to consolidated financial statements.

BMC HEALTH SYSTEM, INC.

Consolidated Statements of Operations and Changes in Net Assets without Donor Restrictions

Years ended September 30, 2020 and 2019

(In thousands)

	<u>2020</u>	<u>2019</u>
Operating revenue:		
Net patient service revenue	\$ 1,072,717	1,088,916
Capitation revenue	2,740,286	2,629,817
Grants and contract revenue	257,244	118,643
Other revenue	306,776	263,011
Net assets released from restrictions for operations	<u>17,728</u>	<u>21,352</u>
Total operating revenue	<u>4,394,751</u>	<u>4,121,739</u>
Operating expenses:		
Salaries, wages and fringe benefits	1,143,899	1,061,932
Medical costs, supplies and other expenses	2,948,208	2,869,927
Depreciation and amortization	101,314	100,519
Interest expense	25,225	21,639
Research, sponsored programs and community health services	<u>91,981</u>	<u>85,737</u>
Total operating expenses	<u>4,310,627</u>	<u>4,139,754</u>
Income (loss) from operations	<u>84,124</u>	<u>(18,015)</u>
Nonoperating gains (losses), net:		
Investment income	55,661	56,010
Pension benefit, nonservice	2,770	4,125
Other	<u>4,841</u>	<u>(12)</u>
Total nonoperating gains, net	<u>63,272</u>	<u>60,123</u>
Excess of revenue over expenses	147,396	42,108
Other changes in net assets without donor restrictions:		
Change in unrealized (depreciation) on investments	—	(15,485)
Cumulative effect of change in accounting principle	1,920	—
Net assets released from restrictions for property, plant and equipment	5,032	13,609
Pension related changes other than net periodic pension costs	<u>(2,412)</u>	<u>(26,197)</u>
Change in net assets without donor restrictions	151,936	14,035
Net assets without donor restrictions:		
Beginning of year	<u>1,305,051</u>	<u>1,291,016</u>
End of year	\$ <u><u>1,456,987</u></u>	\$ <u><u>1,305,051</u></u>

See accompanying notes to consolidated financial statements.

BMC HEALTH SYSTEM, INC.

Consolidated Statements of Changes in Net Assets

Years ended September 30, 2020 and 2019

(In thousands)

	Without donor restrictions	With donor restrictions	Total
Net assets as of September 30, 2018	\$ 1,291,016	342,144	1,633,160
Increases (decreases) in net assets:			
Excess of revenues over expenses	42,108	—	42,108
Investment income	—	54,429	54,429
Change in net unrealized (depreciation) on investments	(15,485)	(49,596)	(65,081)
Contribution revenue	—	26,110	26,110
Net assets released from restrictions for operations	—	(21,352)	(21,352)
Net assets released from restrictions for property, plant and equipment	13,609	(13,609)	—
Pension related changes other than net periodic pension costs	(26,197)	—	(26,197)
Total increase (decrease) in net assets	14,035	(4,018)	10,017
Net assets as of September 30, 2019	1,305,051	338,126	1,643,177
Increases (decreases) in net assets:			
Excess of revenues over expenses	147,396	—	147,396
Investment income	—	5,832	5,832
Change in net unrealized (depreciation) on investments	—	15,356	15,356
Cumulative effect of change in accounting principle	1,920	—	1,920
Contribution revenue	—	26,032	26,032
Net assets released from restrictions for operations	—	(17,728)	(17,728)
Net assets released from restrictions for property, plant and equipment	5,032	(5,032)	—
Pension related changes other than net periodic pension costs	(2,412)	—	(2,412)
Total increase (decrease) in net assets	151,936	24,460	176,396
Net assets as of September 30, 2020	\$ 1,456,987	362,586	1,819,573

See accompanying notes to consolidated financial statements.

BMC HEALTH SYSTEM, INC.

Consolidated Statements of Cash Flows

Years ended September 30, 2020 and 2019

(In thousands)

	2020	2019
Operating activities:		
Change in net assets	\$ 176,396	10,017
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	101,315	100,519
Restricted contributions	(9,840)	(11,848)
Donated securities received	(408)	(1,340)
Return on investment of joint venture	(236)	(63)
Amortization of bond discount/premium and issuance costs	(1,696)	(1,699)
Discount and provision for bad debt on contributions receivable	1,748	2,303
Net realized gains and change in unrealized (appreciation) on investments	(48,238)	(20,785)
Decrease in asset retirement obligation	—	(6,647)
Gain on real estate transaction	(9,888)	—
Pension related changes other than net periodic pension costs	2,412	26,197
Changes in operating assets and liabilities:		
Grants receivable	(266)	(1,623)
Patient accounts receivable	17,194	(25,736)
Other current assets and liabilities	(11,501)	(70,685)
Other noncurrent assets and liabilities	25,113	49,610
Estimated final settlements with third-party payors	132,230	6,603
Claims payable	29,106	12,186
Premium deficiency reserve	(11,048)	11,048
Accounts payable and accrued expenses	100,251	(68,354)
Net cash provided by operating activities	<u>492,644</u>	<u>9,703</u>
Investing activities:		
Proceeds from sale of investments	327,128	523,782
Proceeds from sale of funds held by Trustees	46,325	87,601
Purchases of investments	(315,299)	(534,940)
Purchases of funds held by Trustees	(44,885)	(43,912)
Gain on real estate transaction	9,888	—
Purchase of property, plant and equipment	(47,335)	(205,609)
De-recognition of property, plant and equipment	3,909	—
Loss from disposal of assets	80	1,028
Net cash used in investing activities	<u>(20,189)</u>	<u>(172,050)</u>
Financing activities:		
Proceeds from restricted contributions	9,840	11,848
Proceeds from sale of donated securities	408	1,340
Repayment of long-term debt and capital leases	(8,664)	(88,702)
Net cash provided by (used in) financing activities	<u>1,584</u>	<u>(75,514)</u>
Increase (decrease) in cash and cash equivalents	474,039	(237,861)
Cash and cash equivalents:		
Beginning of year	<u>321,782</u>	<u>559,643</u>
End of year	\$ <u>795,821</u>	<u>321,782</u>
Supplemental disclosure of cash flow activities:		
Cash paid for interest	\$ 27,609	28,499
Property, plant and equipment included in accounts payable	3,656	5,728
Conditional asset retirement obligations	—	(6,447)
Net fixed assets recognized related to conditional asset retirement obligations	(1,010)	(1,010)
Contributed securities	(408)	(1,340)
Gift in-kind	500	500

See accompanying notes to consolidated financial statements.

BMC HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

(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, and its 22 affiliated faculty practice plan corporations (the Plans, and collectively with Faculty are 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), the now terminated BMC NAB Business Trust (NAB), Boston Accountable Care Organization, Inc. (BACO), and Cornerstone Health Solutions, LLC. 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 individuals 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.

BMCHP became licensed by the Massachusetts Division of Insurance as a health maintenance organization (HMO) in 2008.

BMCHP is also an HMO insurer licensed by the New Hampshire Insurance Department and operates under the name Well Sense Health Plan (Well Sense) in New Hampshire. Well Sense is one of three managed care organizations (MCOs) serving the New Hampshire Medicaid program. 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 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.

BMC HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

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 MCOs 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.

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

BUAP is a tax-exempt, nonprofit Massachusetts corporation that employs physicians in Boston, 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.

BMC HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

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.

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 corporation.

NAB was a Massachusetts business trust organized in May 2008. The Medical Center was a 90% shareholder of the trust, as well as trustee, and Genesys Research Institute, Inc., a tax-exempt, nonprofit corporation was a 10% shareholder. NAB was established to finance the Shapiro Ambulatory Care Center using the New Market Tax Credit (NMTC) Program, a program that provides incentives for 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. In fiscal year 2020, the Medical Center purchased Genesys Research Institute's ownership interest. The leases between the Medical Center and NAB were canceled, and the trust was terminated. The Shapiro building was transferred to the Medical Center.

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 Health System.

Cornerstone Health Solutions, LLC is a taxable Delaware limited liability company formed to establish and operate a pharmacy management services business. The Health System Corporation is Cornerstone's sole member.

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

(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) consistent with Accounting Standard Codification (ASC) No. 954, *Healthcare Entities*. The consolidated financial statements of the Health System Corporation include the accounts of the Medical Center, Cornerstone Health Solutions, LLC, the Faculty, 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 six institutions at September 30, 2020 and 2019, respectively. The Health System monitors the credit worthiness of the institutions and has not experienced any losses associated with deposits at these institutions. For the purpose of the consolidated statements of cash flows, cash equivalents that

BMC HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

are reported within assets whose use is limited and long-term investments are reported as cash flows from investing activities.

(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. For the purpose of the consolidated statement of cash flows, the Health System considers these as investments.

(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 consolidated 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. Effective October 1, 2019, upon the adoption of ASU No. 2016-01, (note 2(z)), the change in unrealized appreciation (depreciation) on available-for-sale investments is recorded in the determination of excess/ (deficiency) of revenue over expenses without donor restrictions in the consolidated statements 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. Prior to October 1, 2019, such changes were recognized through changes in 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 endowment and other 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.

BMC HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

(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, 2020 and 2019.

(h) Inventories

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

(i) Deferred Revenue

Deferred revenue consists primarily of amounts received in advance of the contract period. Certain advances are received from the Commonwealth and federal government related to grants. Advances received related to grants were \$96,243,000 and \$23,713,000 as of September 30, 2020 and 2019, respectively. Included in the \$96,243,000 is \$59,727,000 of provider relief funds and \$6,473,000 of deferred employee retention credit at September 30, 2020 (note 22).

In addition, in conjunction with the MassHealth ACO contract commencing in fiscal year 2018 (see note 23), 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 for qualifying activities are incurred. As of September 2020 and 2019, the Health System recognized revenue of \$7,520,000 and \$13,376,000, respectively, which is included in grants and contract revenue in the accompanying consolidated statements of operations and changes in net assets without donor restrictions, and recorded deferred revenue of \$0 and \$638,000, respectively, related to the DSRIP program.

The Health System recorded deferred revenue amounting to \$5,447,000 primarily related to contracted money received in advance, for the year ended September 30, 2020.

(j) 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.

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 claims payable represents the anticipated cost of claims incurred but unpaid at the balance sheet date. The estimates for claims payable may be more or less than the amounts ultimately paid when claims are settled. Such changes in estimates are

BMC HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

reflected in the current period consolidated statement of operations and changes in net assets without donor restrictions. 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.

(k) 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, 2020 and 2019, BMCHP had \$0 and \$11,048,000, respectively, for premium deficiency reserves on its consolidated balance sheets. During fiscal years ended September 30, 2020 and 2019, BMCHP recovered \$11,048,000 and \$0 premium deficiency reserve, respectively, through its consolidated statements of operations and change in net assets without donor restriction.

(l) 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 \$19,433,000 and \$20,035,000 as of September 30, 2020 and 2019, respectively.

BMCHP recorded a (payable)/receivable for Cost Sharing Reduction reconciliations. The estimated amount due (to)/from both CMS and the Massachusetts Health Connector for Cost Sharing Reduction reconciliations as of September 30, 2020 and 2019 is \$(10,927,000) and \$7,428,000 respectively.

On April 27, 2020, the Supreme Court of the United States ruled that the federal government is obligated to pay Qualified Health Plan carriers funds owed under the now-expired risk corridor component of Section 1342 of the Affordable Care Act. The case is a class action suit initiated in 2016; the Plan, along with hundreds of other carriers offering Qualified Health Plans, participated in substantively identical litigation. With the favorable Supreme Court ruling, the Plan expects to receive \$1,400,000 relating to its risk corridor receivable for calendar year 2014 and depending on instruction from CMS, to pay up to \$650,000 in rebates to members. Subsequent to September 30, 2020, cash of \$1,300,000 relating to the risk corridor was received.

(m) Net Assets

In accordance with the provisions of the ASC 954, net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. This is accomplished by classification of fund balances into two classes of net assets: without donor restrictions and with donor restrictions. Descriptions of the two net asset categories and the types of transactions affected in each category is as follows:

- Without donor restriction – Net assets that are not subject to donor stipulations restricting their use but may be designated for specific purposes by the System or may be limited by contractual agreements with outside parties.

BMC HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

- With donor restrictions – Net assets with donor restrictions includes gifts that are required by donors to be held in perpetuity, as well as, 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.

(n) Contributions and Grants

Contributions received, including unconditional promises to give cash and other assets to the Health System, are recognized as revenue generally in the period received at fair value. Conditional promises to give, in the form of both a barrier to entitlement and a refund of amounts paid (or a release from an obligation to make future payments), are not recognized until they become unconditional. Unconditional contributions may be restricted or without restrictions. Contributions are net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets or as net assets without donor restrictions if no such conditions exist. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, the net assets subject to donor restrictions are reclassified to net assets without restrictions and reported in the statements of operations as net assets released from restriction. Contributions 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 or construct long-lived assets are reported as additions to net assets with donor restrictions and are then reported as additions to net assets without donor restrictions when the assets are placed into service and are excluded from the excess (deficiency) of revenues over expenses.

Grants and sponsored program revenue are recognized as donor restricted revenues when all conditions have been met and are then released to net assets without donor restrictions 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 similar grant-based contracts.

(o) 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 sheets.

(p) Professional Liability Insurance

The Medical Center and the Faculty maintain medical malpractice insurance on a modified claims-made basis for residents, interns and physicians, the Medical Center, the Faculty 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

BMC HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

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 the Faculty have provided for the estimated cost of incurred but not reported malpractice claims and an estimate for amounts payable on the deductibles.

(q) 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 net assets without donor restrictions includes the excess of revenues over expenses. Other changes in net assets without donor restrictions which, consistent with U.S. GAAP, are excluded from the excess of revenues over expenses, include cumulative effect of change in accounting principle, 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 for the year ended September 30, 2019 this also included change in unrealized appreciation on investments.

(r) Net Patient Service Revenue

Net patient service revenue is reported at the amount that reflects the consideration to which the Health System expects to be entitled in exchange for providing patient care in accordance with FASB ASC Topic 606, *Revenue from Contracts with Customers* (ASC 606). Generally, the Health System bills the patients and third-party payors several days after the services are performed or shortly after discharge. Revenue is recognized as performance obligations are satisfied.

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

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

BMC HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

The Health System utilizes the portfolio approach practical expedient in ASC 606 for contracts related to net patient service revenue. The Health System accounts for contracts within each portfolio as a collective group, rather than individual contracts, based on the payment pattern expected in each portfolio category and the similar nature and characteristics of the patients within each portfolio. As a result, the Health System has concluded that revenue for a given portfolio would not be materially different than if accounting for revenue on a contract by contract basis.

Generally, patients who are covered by third-party payors are responsible for patient responsibility balances, including deductibles and coinsurance, which vary in amount. The Health System estimates the transaction price for patients with deductibles and coinsurance based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual amounts, discounts, and implicit price concessions (routine uncollectible amounts). Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Adjustments arising from a change in transaction price were not significant in 2020 or 2019.

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, as summarized below:

(i) 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.

(ii) 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. MassHealth uses an outpatient methodology of payment based on Enhanced Ambulatory Patient Groupings (EAPG's), which takes into account the services rendered to the patient and the diagnosis of the patient.

(iii) 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 Health Safety Net Office, 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 the City of Boston to provide accessible health care services to all in need of care, regardless of status or ability to pay.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation, as well as significant regulatory action, and, in the normal course of business, the Health System is subject to contractual reviews and audits, including audits initiated by the Medicare Recovery Audit Contractor program. As a result, there is at least a reasonable possibility that recorded estimates

BMC HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

will change in the near term. The Health System believes it is in compliance with applicable laws and regulations governing the Medicare and Medicaid programs and the adequate provisions have been made for any adjustments that may result from final settlements.

(s) *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. In accordance with ASC 606, the Health System considers compensation that will be subject to negotiation or ultimately determined at a later date as variable consideration and therefore recognizes as revenue only amounts to which it is entitled and to the extent it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Third-party settlement receivables or liabilities are created when there are amounts the Health System believes may be received later or subject to pay back in the future. 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 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 2020, the Medical Center recognized net favorable settlements from Medicare, Medicaid, BMCHP, Blue Cross and other payors related to prior years of approximately \$946,705.

During fiscal year 2019, the Medical Center recognized net favorable settlements from Medicare, Medicaid, BMCHP, Blue Cross and other payors related to prior years of approximately \$2,099,000.

(t) *Charity and Uncompensated Care*

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.

The Health System provided free care of \$108,688,000 and \$106,900,000 in 2020 and 2019, 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.

BMC HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

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 \$5,004,000 in 2020 and \$3,909,000 in 2019. The total amount paid to Medical Center through the Health Safety Net Pool, net of program shortfall allocations, was \$64,379,000 in 2020 and \$66,500,000 in 2019. These receipts cover services for Medical, Professional, Dental and Retail Pharmacy.

The Plan's health safety net assessment, which is a surcharge on certain payments to acute hospitals and ambulatory surgical centers for a component of its membership, amounted to \$9,936,000 and \$8,690,000 for the years ended September 30, 2020 and 2019, respectively.

(u) *Capitation Revenue*

Capitation/premium payments are generally for a period of one month, are received 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 receive monthly payments based on current enrollment, as well as retroactive payment adjustments relating to membership retro additions or terminations. Additional revenue relating to services provided outside the capitation rate, such as maternity, are recognized when earned but paid in arrears.

Also included in capitation revenue are certain risk sharing amounts under BMCHP's contracts with MassHealth and the New Hampshire DHHS under which capitation revenue can be increased or decreased based upon actual gain or loss on the particular component of risk adjusted capitation rate payment. Gross capitation receivables due from the Commonwealth of Massachusetts amounted to approximately \$88,924,000 and \$114,245,000 as of September 30, 2020 and 2019, respectively. Gross capitation receivables due from CMS amounted to approximately \$1,375,000 and \$1,214,000 as of September 30, 2020 and 2019, respectively. Gross capitation receivables due from the State of New Hampshire amounted to approximately \$81,548,000 and \$70,588,000 as of September 30, 2020 and 2019, respectively. Capitation receivables are recorded as other accounts receivable in the consolidated balance sheets (see note 17). Additionally, estimated Risk Share receivable (payable) to New Hampshire amounted to \$(5,047,000) and \$5,508,000 as of September 30, 2020 and 2019, respectively. The receivable balance is included in other accounts receivable in the consolidated balance sheet while the payable is included in accounts payable and accrued expenses in the consolidated balance sheet.

(v) *Other Revenue*

Other revenue consists primarily of revenue related to the retail pharmacy, including 340B Drug Pricing Program (340B), consulting revenue and other less material activities such as parking and food services. Retail pharmacy revenue is recognized at the point of sale; 340B drug pricing is recognized once it has been confirmed that the patient receiving the service meets the program qualifications, which qualifies BMC to receive the 340B discount.

BMC HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

(w) 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, risk share receivables, accruals for settlements with third-party payors, certain grant related revenue recognized, professional liability claims payable, claims payable, accrued expenses, right of use assets and lease obligations alternative investment, pension obligations and conditional asset retirement obligations. Actual results could differ from those estimates.

(x) 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, before it was terminated were nonprofit, tax-exempt corporations. The Health System recognizes 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 no material uncertain tax positions that need to be recorded as of September 30, 2020 and 2019. 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, 2020 and 2019.

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 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.

(y) Reclassifications

Certain amounts reported in the comparative 2019 consolidated financial statements have been reclassified to conform to the 2020 presentation.

(z) Recent Accounting Pronouncements

(i) Leases

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* which requires lessees to recognize right-of-use assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Subsequent amendments and guidance were issued through 2019, including ASU 2018-11, *Targeted Improvements to Leases (Topic 842)*, which amended the original guidance to allow for the adoption of ASU 2016-02 to be applied retrospectively at the beginning of the period of adoption, which was October 1, 2019 for the Health System, without revising prior comparative periods.

The Health System adopted this standard using the effective date method, with the cumulative-effect adjustment recorded at the beginning of the period of adoption. As a result, at the

BMC HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

date of adoption the Health System's assets and liabilities increased by \$100,531,000 and \$103,393,000, respectively, and a cumulative adjustment to net assets of \$1,920,000 was recognized. The adoption of ASU 2016-02 did not impact previously reported results of operations.

The adoption methodology used by the Health System allowed several practical expedients that were applied including the use of hindsight in determining the lease term when considering lessee options to extend or terminate the lease and in assessing impairment in the right-of-use asset.

(ii) Financial Instruments

In January 2016, FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which makes targeted improvements to accounting for, and presentation and disclosure of, financial instruments. ASU 2016-01 requires that most equity investments be measured at fair value, with subsequent changes in fair value recognized in net income which effectively removed the equity category.

The Health System adopted ASU 2016-01, using the cumulative effect method as of October 1, 2019. As a result of the adoption, on a prospective basis the Health System will recognize unrealized gains and losses arising from the changes in the fair value of such securities through the performance indicator. ASU 2016-01 prohibits the restatement of prior period financial statements and for periods ending prior to January 1, 2019, unrealized gains and losses from the changes in fair value of available-for-sale equity securities were recorded in changes in net assets without donor restrictions.

(iii) Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Costs

In March 2017, FASB issued ASU 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. ASU 2017-07 improves the presentation of net periodic pension cost and net periodic benefit cost by requiring that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside of income from operations.

The Health System reflected the adoption of ASU 2017-07 in its 2019 consolidated financial statements, resulting in a reclassification of \$4,125,000 pension benefit from operations to non-operating activities in the consolidated statement of operations, recording the service cost component the Health System's pension plans within employee benefit expense and the other components of net benefit cost as a component of the Health System's non-operating activities. See note 13.

BMC HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

(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:

	2020		2019	
	<u>At fair value</u>	<u>Cost</u>	<u>At fair value</u>	<u>Cost</u>
	(In thousands)			
Assets limited as to use:				
Cash and cash equivalents	\$ 15,534	15,534	23,729	23,729
Bonds and U.S. Treasury notes	284,378	272,402	277,485	269,196
Private investment funds	480,997	407,072	469,925	430,379
Mutual funds	94,458	96,535	101,880	103,226
Marketable equity securities	111,653	91,259	113,657	94,912
Money market mutual funds	2,066	2,066	2,056	2,056
Asset-backed securities	100,953	99,337	74,587	74,442
Private debt and equity	<u>38,198</u>	<u>40,892</u>	<u>24,251</u>	<u>25,004</u>
Total	1,128,237	1,025,097	1,087,570	1,022,944
Funds held by trustees	<u>41,624</u>	<u>41,145</u>	<u>40,593</u>	<u>40,469</u>
	\$ <u><u>1,169,861</u></u>	<u><u>1,066,242</u></u>	<u><u>1,128,163</u></u>	<u><u>1,063,413</u></u>

Included in private investment funds are alternative investment vehicles, including commingled funds, with an estimated fair value of approximately \$480,997,000 and \$469,925,000 as of September 30, 2020 and 2019, respectively.

BMCHP is required by its contract with MassHealth to maintain a deposit account with the State for reserve purposes. The cash reserves were \$1,066,000 and \$1,056,000 as of September 30, 2020 and 2019, 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 cash equivalent fund holding 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 as of September 30, 2020 and 2019, respectively.

BMC HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

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>2020</u>	<u>2019</u>
	(In thousands)	
Net assets without donor restrictions:		
Dividends and interest	\$ 25,009	20,547
Net realized gains on investments	12,733	35,463
Change in net unrealized appreciation (depreciation) on investments	17,919	—
Nonoperating activity	55,661	56,010
Other changes in net assets without restrictions	—	(15,485)
	<u>55,661</u>	<u>40,525</u>
Net assets with donor restrictions:		
Dividends and interest	3,602	4,026
Net realized gains on investments	2,230	50,403
Change in net unrealized (depreciation) appreciation on investments	15,356	(49,596)
	<u>21,188</u>	<u>4,833</u>
	<u>\$ 76,849</u>	<u>45,358</u>

Unrealized gains (losses) related to BMCIC of \$6,493,000 and \$2,575,000 as of September 30, 2020 and 2019, respectively, were used to offset the deposit liability for net unrealized holdings (gains) losses on 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.

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

BMC HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

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.

As of September 30, 2020 and 2019, 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, 2020 and 2019, 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.

BMC HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

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, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u> (In thousands)	<u>Net asset value</u>	<u>Total</u>
Investments:					
Cash and cash equivalents	\$ 15,534	—	—	—	15,534
Bonds and U.S. Treasury notes	33,720	250,658	—	—	284,378
Private investment funds	239,516	111,266	—	130,214	480,996
Mutual funds	94,458	—	—	—	94,458
Marketable equity securities	110,943	711	—	—	111,654
Money market mutual funds	2,066	—	—	—	2,066
Asset-backed securities	2,696	98,257	—	—	100,953
Private debt and equity	—	—	—	38,198	38,198
	<u>\$ 498,933</u>	<u>460,892</u>	<u>—</u>	<u>168,412</u>	<u>1,128,237</u>
Funds held by trustee:					
U.S. government securities	\$ 20,928	—	—	—	20,928
Money market mutual funds	20,695	—	—	—	20,695
	<u>\$ 41,623</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>41,623</u>

BMC HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

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, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u> (In thousands)	<u>Net asset value</u>	<u>Total</u>
Investments:					
Cash and cash equivalents	\$ 23,729	—	—	—	23,729
Bonds and U.S. Treasury notes	83,013	194,472	—	—	277,485
Private investment funds	259,121	97,630	—	113,174	469,925
Mutual funds	101,880	—	—	—	101,880
Marketable equity securities	113,470	187	—	—	113,657
Money market mutual funds	2,056	—	—	—	2,056
Asset-backed securities	2,552	72,035	—	—	74,587
Private debt and equity	—	—	—	24,251	24,251
	<u>\$ 585,821</u>	<u>364,324</u>	<u>—</u>	<u>137,425</u>	<u>1,087,570</u>
Funds held by trustee:					
U.S. government securities	\$ 20,143	—	—	—	20,143
Money market mutual funds	20,450	—	—	—	20,450
	<u>\$ 40,593</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>40,593</u>

There were no transfers between Levels 1 through 3 or NAV, as a result of changes in the approach to fair value measurements during 2020 and 2019.

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.

BMC HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

The following table presents liquidity information for the financial instruments carried at NAV as of September 30, 2020.

	Investments asset value		
	Net asset value	Redemption frequency	Notice period
		(In thousands)	
Investment type:			
Private investment funds	\$ 130,214	Weekly/ Bi-Monthly	3–15 days
Private debt and equity	38,198	Illiquid	—
	<u>\$ 168,412</u>		

The following table presents liquidity information for the financial instruments carried at NAV as of September 30, 2019.

	Investments asset value		
	Net asset value	Redemption frequency	Notice period
		(In thousands)	
Investment type:			
Private investment funds	\$ 113,174	Bi-Monthly	4–15 days
Private debt and equity	24,251	Illiquid	—
	<u>\$ 137,425</u>		

There were no unfunded commitments as of September 30, 2020 and 2019.

BMC HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

(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>2020</u>	<u>2019</u>
	(In thousands)	
Less than one year	\$ 3,568	13,477
One year to five years	11,063	15,066
More than five years	<u>—</u>	<u>800</u>
	14,631	29,343
Less discounts and allowance for uncollectible accounts	<u>(1,748)</u>	<u>(2,303)</u>
Contributions receivable, net	<u>\$ 12,883</u>	<u>27,040</u>

As of September 30, 2019, there were two significant pledges outstanding totaling \$15,000,000, of which \$12,000,000 was paid as of September 30, 2020. The discount rate used to calculate the present value of pledges receivable ranged from 2.90%–4.45%, depending upon the anticipated pledge fulfillment, valued at the date of the pledge.

(6) Liquidity

As of September 30, 2020 consolidated financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, scheduled principal payments on debt, and capital construction costs not financed with debt, were as follows:

	<u>2020</u>	<u>2019</u>
Financial assets:		
Cash and cash equivalents	\$ 795,821	321,782
Short-term investments	—	2,671
Patient accounts receivable, net	94,306	111,500
Other current receivables, net	329,278	284,675
Board designated investments	289,252	381,960
Funds functioning as endowment available for operations	<u>19,540</u>	<u>19,852</u>
Total financial assets available within one year	<u>\$ 1,528,197</u>	<u>1,122,440</u>

The Health System's revenues and related operating activities are generally not seasonal in nature. Board designated funds may be made available for operations by action of the board if they are not subject to third-party restrictions or otherwise not available within one year. Funds functioning as endowments are made available for operations based on the Health System's endowment spending policy by action of the

BMC HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

Health System's board. In addition, the Health System has access to unused lines of credit aggregating approximately \$150,000,000 that may be used for operations. The table above does not include funds subject to third-party restrictions.

(7) Property, Plant and Equipment

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

	<u>Useful life</u>	<u>2020</u>	<u>2019</u>
		(In thousands)	
Land	5-40 years	\$ 18,299	18,302
Land improvements	15-45 years	763	775
Buildings	5-40 years	465,618	476,627
Building and leasehold improvements	5-25 years	926,715	874,716
Fixed equipment	3-20 years	17,705	43,338
Major movable equipment	15-20 years	633,302	727,060
Leased buildings and equipment		—	119,673
Construction in progress		29,700	25,635
		2,092,102	2,286,126
Accumulated depreciation and amortization		(1,036,616)	(1,170,742)
Property, plant and equipment, net		\$ 1,055,486	1,115,384

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

Depreciation expense amounted to \$100,066,000 and \$100,202,000 for the years ended September 30, 2020 and 2019, respectively. Amortization expense amounted to \$1,248,000 and \$317,000 for the years ended September 30, 2020 and 2019, respectively.

Fully depreciated property, plant and equipment with an original cost of \$111,894,000 and \$1,010,000 was disposed of during the year ended September 30, 2020 and 2019, respectively.

The Master Trust Indenture (note 9) places certain restrictions on property, plant and equipment in terms of the creation of liens and transfers of assets.

As of September 30, 2020 and 2019, assets under capital lease agreements amounted to approximately \$123,970,000 and \$119,673,000, respectively, with accumulated amortization of \$119,811,000 and \$118,441,000, respectively. Amortization expense is included with depreciation and amortization expense in the consolidated statements of operations and changes in net assets without donor restrictions.

The Health System has capitalized interest net of amortization in the amount of \$59,344,000 and \$63,255,000 as of September 30, 2020 and 2019, respectively.

BMC HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

In 2014, the Medical Center sold the Gambro building for \$12,000,000. The Medical Center leased back certain space in this building, consistent with clinical and administrative needs. The transaction was accounted for as a failed sales-lease-back and therefore, prior to the adoption of ASU 2016-02, the building remained on the Medical Center's books, of which the carrying value was \$4,426,960 as of September 30, 2019. Upon adopting ASU 2016-02, the building was removed from the Health System's financial statements (note 10).

On October 4, 2018, the Medical Center purchased the Crosstown Center Office Building and 600 spaces in the Crosstown Center Garage from an unrelated, for-profit entity for \$123,000,000. The Medical Center contemporaneously purchased the associated land, formerly under ground lease, from the Boston Planning and Development Agency (BPDA) for \$12,000,000.

(8) Other Noncurrent Assets

Other noncurrent assets primarily consist of investments in joint ventures and long term pledges (see footnote 5) as of September 30, 2020. The joint ventures are recorded utilizing the equity method of accounting.

(9) Long-Term Debt

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

	<u>Interest rate</u>	<u>2020</u>	<u>2019</u>
		(In thousands)	
Revenue Bonds Series C	3.00–5.25%	\$ 30,200	32,920
Revenue Bonds Series D	4.00–5.00%	158,155	158,155
Revenue Bonds Series E	2.00–5.00%	174,340	174,765
Revenue Bonds Series F	4.00–5.00%	39,550	41,955
Taxable Bonds Series 2016	0.05 %	75,000	75,000
Taxable Bonds Series 2017	3.91–4.58%	105,000	105,000
ECMF Series A Bonds	6.00 %	—	1,500
Series O – Tax Exempt (Garage)	Varies	6,387	7,105
Series O – Taxable (Garage)	Varies	1,989	2,212
		<u>590,621</u>	<u>598,612</u>
Less current portion of long-term debt		(7,118)	(7,991)
Revenue Bonds Series C premium		3,890	4,334
Revenue Bonds Series D premium		6,650	6,919
Revenue Bonds Series E premium		21,575	22,791
Revenue Bonds Series F premium		1,369	1,417
Revenue Bonds Series 2016 discount		(291)	(341)
Revenue Bonds Series 2017 discount		(723)	(748)
Revenue Bonds issuance costs		<u>(2,630)</u>	<u>(2,836)</u>
Long-term debt, less current portion		<u>\$ 613,343</u>	<u>622,157</u>

BMC HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

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 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 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

BMC HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

non-revolving loan. In November 2018, the Medical Center paid off the remaining balance of \$79,270,000 for the Citizens Bank Non-Revolving Credit Loan and retired the interest rate swap at that time.

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. In connection with the sales of the three parcels (note 7), 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 as of September 30, 2020 and 2019. 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 Yaw key Ambulatory Care Center pursuant to the Amended and Restated Master Trust Indenture. On November 15, 2018, BMC executed a ground lease agreement for the Massachusetts Department of Public Health to lease the Newton Pavilion and Health Services building. With the disposition of the property and transfer of beds to the property, the Newton Pavilion and Health Services Building were released from the mortgage in accordance with the requirements of the Master Trust Indenture. The Master Trust Indenture maintains the financial covenant requiring the Medical Center to maintain an annual debt service coverage ratio of at least 1.10 to 1.

In October 2012, the Medical Center entered into a Demand 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 Demand Line of Credit agreement to increase up to \$50,000,000, which may be borrowed at any time. In June 2019, the Medical Center amended the Demand Line of Credit agreement to increase up to \$100,000,000, which may be borrowed at any time. In June 2020, the Medical Center replaced the existing \$100,000,000 Demand Line of Credit with a \$150,000,000 Committed Line of Credit, which may be borrowed at any time. This Agreement has a two year commitment and can be renewed annually. 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, 2020 and 2019.

Included in the Medical Center's debt is approximately \$8,376,000 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) to secure bond repayment and interest obligations associated with its VRDBs. RBS Citizens, N.A. provides LOCs totaling \$9,578,000. There are no drawings under the LOCs as of September 30, 2020 and 2019. The LOCs supporting the Series O-1 and O-2 will expire on July 1, 2023. 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, 2020 were 0.13% and 0.40% for the tax exempt and taxable loan, respectively. The interest rates at September 30, 2019 were 1.36% and 2.19% for the tax exempt and taxable loan, respectively.

BMC HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

If the VRDBs are unable to be remarketed, the trustee for the VRDBs 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, Series F Revenue bonds, Series 2017 taxable 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 benefit purposes. These funds are included in assets limited as to use in the consolidated financial statements.

	September 30	
	2020	2019
	(In thousands)	
Construction fund	\$ 64	75
Debt service fund	8,502	9,570
Debt service reserve funds	21,025	20,348
Accrued interest receivable	67	67
Workers' compensation reserve fund	11,740	10,310
Other held funds	226	223
	<u>\$ 41,624</u>	<u>40,593</u>

The assets of the funds held by the trustees are invested principally in government securities and money market funds. See Note 4.

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

Years ending September 30:	
2021	\$ 7,118
2022	7,248
2023	7,606
2024	7,983
2025	8,380
Thereafter	552,286
	<u>\$ 590,621</u>

BMC HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

(10) Leases

Effective October 1, 2019, the Health System accounts for leases in accordance with Topic 842, *Leases*. The Health System determines if an arrangement is or contains a lease at contract inception. The Health System recognizes a right-of-use (ROU) asset and a lease liability at the lease commencement date.

For operating leases, the lease liability is initially and subsequently measured at the present value of the unpaid lease payments at the lease commencement date. For finance leases, the lease liability is initially measured in the same manner and date as for operating leases, and is subsequently measured at amortized cost using the effective-interest method.

Topic 842 requires a lessee to discount its unpaid lease payments using the interest rate implicit in the lease or, if that rate cannot be readily determined, its incremental borrowing rate. Generally, the Health System cannot determine the interest rate implicit in the lease because it does not have access to the lessor's estimated residual value or the amount of the lessor's deferred initial direct costs. Therefore, the Health System generally uses its incremental borrowing rate as the discount rate for the lease. The Health System's incremental borrowing rate for a lease is the rate of interest it would have to pay on a collateralized basis to borrow an amount equal to the lease payments under similar terms. Because the Health System does not generally borrow on a collateralized basis, it acquired quotes from its banking partner for collateralized borrowing rates for each class of underlying assets: real estate, medical equipment, and office equipment.

The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for lease payments made at or before the lease commencement date, plus any initial direct costs incurred less any lease incentives received.

For operating leases, the ROU asset is subsequently measured throughout the lease term at the carrying amount of the lease liability, plus initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

For finance leases, the ROU asset is subsequently amortized using the straight-line method from the lease commencement date to the earlier of the end of its useful life or the end of the lease term unless the lease transfers ownership of the underlying asset to the Health System or the Health System is reasonably certain to exercise an option to purchase the underlying asset. In those cases, the ROU asset is amortized over the useful life of the underlying asset. Amortization of the ROU asset is recognized and presented separately from interest expense on the lease liability.

The Health System does not recognize ROU assets and lease liabilities for short-term leases of that have a lease term of 12 months or less. The Health System has elected not to apply the short-term lease recognition and measurement exemption for other classes of leased assets. The Health System recognizes the lease payments associated with its short-term leases as an expense on a straight-line basis over the lease term.

The Health System's leases generally include non-lease maintenance services (i.e. equipment maintenance or common area maintenance). The Health System allocates the consideration in the contract to the lease and non-lease maintenance component based on each component's relative standalone price.

BMC HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

Amounts reported in the consolidated balance sheet as of September 30, 2020 were as follows:

Consolidated Balance Sheet Presentation			
<hr/>			
Finance leases:			
	Right of use assets – finance	\$	4,000
	Current portion of long term debt and financing leases		867
	Obligations under financing leases		2,669
Operating leases:			
	Right of use assets – operating	\$	96,185
	Other current liabilities		21,897
	Obligations under operating leases		89,033

The components of lease cost for the year ended September 30, 2020 were as follows:

Consolidated Statement of Operations and Changes in Net Assets Without Donor Restriction Presentation			
<hr/>			
Finance lease cost:			
Amortization of right-of-use assets	Depreciation and amortization expense	\$	706
Interest on lease liabilities	Interest expense		114
	Total finance lease cost		820
Operating lease cost:	Medical costs, supplies and other expense		19,306
Lease expense	Total lease cost	\$	<u>20,126</u>

Other information related to leases as of September 20, 2020 was as follows:

Cash paid for amounts included in the measurement of lease liabilities:

Operating cash flows from finance leases	\$	(114)
Operating cash flow from operating leases		(19,240)
Financing cash flows from finance leases		(673)
Right-of-use assets obtained in exchange for new finance lease liabilities		1,656
Right-of-use assets obtained in exchange for new operating leases liabilities		43,990

Weighted average remaining lease term—finance leases	5.91 years
Weighted average remaining lease term—operating leases	6.73 years
Weighted average discount rate—finance leases	3.32 %
Weighted average discount rate—operating leases	3.10 %

BMC HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

Future lease payments at September 30, 2020 are as follows:

	Operating leases	Finance leases
Year ending September 30:		
2021	\$ 21,897	867
2022	19,589	764
2023	13,805	696
2024	12,212	504
2025	12,128	200
Thereafter	<u>47,503</u>	<u>872</u>
Total undiscounted lease payments	127,134	3,903
Less net present value adjustment	<u>(16,204)</u>	<u>(367)</u>
Lease liability	<u>\$ 110,930</u>	<u>3,536</u>

The Health System adopted ASU 2016-02 using a modified retrospective adoption at October 1, 2019 as discussed in note 1. Upon adoption, the previously deferred gain associated with the failed sales-leaseback of the Gambro building was recognized, which totaled \$11,670,000.

On November 16, 2018, the Medical Center executed a 99 year ground lease for its Newton Pavilion (including the Health Services Building) with the Commonwealth of Massachusetts, acting through its Division of Capital Asset Management and Maintenance on behalf of the Commonwealth of Massachusetts Department of Public Health, for \$77,500,000. The Medical Center recorded \$69,825,000 as deferred lease revenue, which is included in long term liabilities, and will recognize the rental income over the term of the lease. The lease also included a \$7,500,000 option to develop land on a parcel of the ground lease, which the Medical Center recorded as a long term liability. The remaining deferred lease revenue was \$68,473,000 and \$69,825,000 as of September 30, 2020 and September 30, 2019, respectively.

In 2014, the Medical Center entered into a ground lease of its Doctor's Office building, of which \$38,422,000 was paid upon commencement of the lease, and will be recognized over the term of the lease (99 years). The deferred rental revenue was \$31,600,000 as of September 30, 2020.

BMC HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

Prior to the adoption of ASC 842, the Health System's estimated future minimum lease obligations under noncancelable operating leases as of September 30, 2019, were as follows:

	Operating leases
Year ending December 31:	
2020	\$ 13,670
2021	12,277
2022	9,740
2023	8,053
2024	8,051
Thereafter	<u>21,097</u>
Total minimum lease payments	\$ <u><u>72,888</u></u>

Consistent with ASC 840, the Health System recorded rent expense on a straight-line basis over the life of the lease and recorded accrued rent as the difference between rent expense and actual payments made. The Health System recorded rent expense of approximately \$22,694,000 for the year ended September 30, 2019. As of September 30, 2019, the accumulated difference between rent expense and amounts paid amounted to \$5,343,000, and was included in accounts payable and accrued expenses and other long-term liabilities on the consolidated balance sheet.

(11) Donor Restricted Net Assets

Donor 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 as of September 30:

	2020	2019
	(In thousands)	
Net assets with donor restrictions:		
Research	\$ 154,829	150,451
Buildings and capital	91,598	89,288
Hospital programs	94,702	51,356
Patient care	<u>21,457</u>	<u>47,031</u>
Total with donor restriction net assets	\$ <u><u>362,586</u></u>	<u><u>338,126</u></u>

(12) Endowments

The Health System's endowment consists of approximately 265 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 with or without donor restrictions based on the existence or absence of donor-imposed restrictions.

BMC HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

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 permanently classifies as donor restricted net assets the original value of gifts donated to the endowment. The remaining portion of the donor-restricted endowment fund that is not permanently classified as donor restricted net assets represents accumulated gains and losses on such endowment funds 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 three-year average market value of the endowment fund.

As of September 30, 2020 and 2019, 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:

September 30, 2020	Original gift (former Perm)	Accumulated gains and losses, net (In thousands)	Total
Donor-restricted endowment funds	\$ 40,606	225,153	265,759
	<u>\$ 40,606</u>	<u>225,153</u>	<u>265,759</u>
September 30, 2019	Original gift (former Perm)	Accumulated gains and losses, net (In thousands)	Total
Donor-restricted endowment funds	\$ 37,235	216,326	253,561
	<u>\$ 37,235</u>	<u>216,326</u>	<u>253,561</u>

BMC HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

Changes in endowment net assets for the years ended September 30, 2020 and 2019, consisted of the following:

	<u>2020</u>	<u>2019</u>
Endowment net assets at the beginning of year	\$ 253,561	250,587
Investment return:		
Investment income	5,056	49,816
Net unrealized appreciation (depreciation)	<u>12,272</u>	<u>(38,763)</u>
Total investment return	17,328	11,053
Contributions	3,372	145
Appropriation of endowment assets for expenditures	<u>(8,502)</u>	<u>(8,224)</u>
	<u>12,198</u>	<u>2,974</u>
Endowment net assets at the end of year	<u>\$ 265,759</u>	<u>253,561</u>

(13) Benefit Plans Available to Employees

The Medical Center has a defined contribution retirement plans under Section 403(b) of the Internal Revenue code. The plan is also offered to Medical Center employees who hold administrative positions at the Faculty. Participation in the Plans is voluntary. The Medical Center has two employer contribution schedules, one based on years of service and one a flat percentage. The contributions under these plans amounted to \$22,942,000 and \$21,399,000 for the years ended September 30, 2020 and 2019, 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% to 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%, however employer contributions to the Boston University Retirement Plan have been suspended from July 1, 2020 through June 30, 2021.

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 costs under this plan are not material to the Health System as of September 30, 2020 and 2019.

BMC HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

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. BMCHP contributions under this DC Plan were \$1,903,000 and \$2,194,000 in 2020 and 2019, respectively. In September 2020, the Plan announced that its 401(k) Plan will terminate on December 31, 2020 and all employees will become fully vested in Company contributions as of that date. The Plan will then become a participating employer in the Boston Medical Center Corporation retirement plan, which is a 403(b) plan.

BMCHP also offers a nonqualified supplemental executive retirement plan to certain key executives. BMCHP's contribution is 8% of each eligible executive's Plan Year 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 \$66,918 and \$43,000 in the years ended September 30, 2020 and 2019, 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 non-forfeitable 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 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>2020</u>	<u>2019</u>
	(In thousands)	
Accumulated benefit obligation	\$ 209,850	195,087
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 195,087	166,661
Service cost	3,567	3,380
Interest cost	5,821	6,816
Actuarial loss	12,468	24,720
Benefits paid	<u>(7,094)</u>	<u>(6,490)</u>
Projected benefit obligation at end of year	\$ <u>209,849</u>	<u>195,087</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 173,517	155,544
Actual return on plan assets	18,648	9,463
Employer contributions	13,500	15,000
Benefits paid	<u>(7,094)</u>	<u>(6,490)</u>
Fair value of plan assets at end of year	\$ <u>198,571</u>	<u>173,517</u>

BMC HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
	(In thousands)	
Reconciliation of funded status:		
Projected benefit obligation	\$ 209,849	195,087
Fair value of plan assets	<u>198,571</u>	<u>173,517</u>
Funded status	<u>(11,278)</u>	<u>(21,570)</u>
Amounts recognized in the consolidated balance sheet included within other long-term liabilities	\$ <u>(11,278)</u>	<u>(21,570)</u>

The components of net periodic benefit cost for the years ended September 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
	(In thousands)	
Included in salaries and related benefits:		
Service cost	\$ 3,567	3,380
Included in nonoperating activities:		
Interest cost	5,821	6,816
Expected return on plan assets	(11,896)	(10,941)
Amortization of net loss	<u>3,305</u>	<u>—</u>
Nonoperating activities	<u>(2,770)</u>	<u>(4,125)</u>
Net periodic cost (benefit)	\$ <u>797</u>	<u>(745)</u>

Weighted average assumptions used to determine the net periodic cost for the period just ended:

Discount rate	3.04 %	4.17 %
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	2.44 %	3.04 %
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	\$ 5,717	26,197
Amortization of net loss	<u>(3,305)</u>	<u>—</u>
	\$ <u>2,412</u>	<u>26,197</u>

BMC HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
	(In thousands)	
Amounts recognized in net assets without donor restriction:		
Net actuarial loss	\$ 41,983	39,571
	\$ <u>41,983</u>	<u>39,571</u>

BMC is expected to recognize \$3,559,000 of net loss as amortization in the upcoming year.

Pension Plan Assets

The Pension Plan weighted average asset allocation as of the measurement dates September 30, 2020 and 2019, respectively, is as follows:

	Target allocation fiscal year ending September 30, 2020	Percentage of plan assets at September 30	
	<u>2020</u>	<u>2020</u>	<u>2019</u>
Asset category:			
Equity securities	50 %	47 %	47 %
Debt securities	42	38	30
Other	8	15	23
	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

The fair value of pension plan assets as of September 30, 2020 is disclosed in the table below.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Net asset value</u>	<u>Total</u>
	(In thousands)				
Investments:					
Cash and cash equivalents	\$ 19,265	—	—	—	19,265
Fixed income	76,294	—	—	—	76,294
Equities	79,875	—	—	13,282	93,157
Global asset	9,854	—	—	—	9,854
	<u>\$ 185,288</u>	<u>—</u>	<u>—</u>	<u>13,282</u>	<u>198,570</u>

BMC HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

The fair value of pension plan assets as of September 30, 2019 is disclosed in the table below.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Net</u>	<u>Total</u>
			(In thousands)	<u>asset value</u>	
Investments:					
Cash and cash equivalents	\$ 20,211	—	—	—	20,211
Fixed income	52,501	—	—	—	52,501
Equities	44,424	—	—	37,703	82,127
Global asset	18,678	—	—	—	18,678
	<u>\$ 135,814</u>	<u>—</u>	<u>—</u>	<u>37,703</u>	<u>173,517</u>

As of September 30, 2020, cash and cash equivalents balance includes \$13,500,000 that was funded by the Medical Center on September 28, 2020 and was invested in October 2020.

As of September 30, 2019, cash and cash equivalents balance includes \$13,900,000 for in-transit transactions that were invested in October 2019 totaling \$12,400,000 for fixed income investments and \$1,500,000 for equities investments.

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 recommend 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-2018.

BMC HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

Cash Flows

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

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

2021	\$	8,110,000
2022		8,857,000
2023		9,603,000
2024		10,204,000
2025		10,728,000
2026–2030		60,176,000

- The Medical Center contributed \$13,500,000 to the Pension Plan for year ended September 30, 2020. The Medical Center expects to contribute \$0 to the Pension Plan in 2021.

(14) Net Patient Service Revenue

The composition of net patient service revenue by primary payor for the years ended September 30 is as follows:

	2020		2019			
Medicare and Medicare						
Managed Care	\$	371,382	35 %	\$	369,377	32 %
MassHealth		336,168	32		369,579	32
Commercial carriers		292,211	28		333,146	29
No fault and worker's						
compensation		5,776	1		6,846	1
Self pay and other		45,771	4		74,945	6
	\$	1,051,308	100 %	\$	1,153,893	100 %

For both 2020 and 2019, the chart above excludes state supplemental funding and does not reflect the impact of intercompany eliminations.

Revenue from patient's deductibles and coinsurance are included in the preceding categories based on the primary payor.

BMC HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

The System's primary geographic areas are Boston and surrounding metro-area at the BMC, BUMG, and BUAP locations. The composition of net patient care service revenue based lines of business and method of reimbursement for the years ended September 30, 2020 and 2019 are as follows:

2020				
	BMC	BUMG	BUAP	Total
Service lines:				
Hospital – inpatient	\$ 500,074	—	—	500,074
Hospital – outpatient	399,566	—	—	399,566
Physician services	—	150,846	823	151,669
	899,640	150,846	823	1,051,309
Eliminations	(218,631)	—	—	(218,631)
	<u>\$ 681,009</u>	<u>150,846</u>	<u>823</u>	<u>832,678</u>

The service line chart above excludes state supplemental funding because funding is not provided at specific service lines.

Method of reimbursement:

Fee for service	\$ 899,640	150,846	823	1,051,309
State supplemental funds and other	240,039	—	—	240,039
Eliminations	(218,631)	—	—	(218,631)
	<u>\$ 921,048</u>	<u>150,846</u>	<u>823</u>	<u>1,072,717</u>

2019				
	BMC	BUMG	BUAP	Total
Service lines:				
Hospital – inpatient	\$ 509,418	—	—	509,418
Hospital – outpatient	472,829	—	—	472,829
Physician services	—	170,230	1,416	171,646
	982,247	170,230	1,416	1,153,893
Eliminations	(187,047)	(27,642)	—	(214,689)
	<u>\$ 795,200</u>	<u>142,588</u>	<u>1,416</u>	<u>939,204</u>

BMC HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

	2019			
	BMC	BUMG	BUAP	Total
The service line chart above excludes state supplemental funding because funding is not provided at specific service lines.				
Method of reimbursement:				
Fee for service	\$ 982,247	170,230	1,416	1,153,893
State supplemental funds and other	149,712	—	—	149,712
Eliminations	<u>(187,047)</u>	<u>(27,642)</u>	<u>—</u>	<u>(214,689)</u>
	<u>\$ 944,912</u>	<u>142,588</u>	<u>1,416</u>	<u>1,088,916</u>

Healthcare services are generally recognized as the services are transferred over time. In addition to the above, other operating revenues and gains includes revenue recognized for various other Health System activities, primarily retail pharmacy of approximately \$228,571,000 and \$153,478,000 in 2020 and 2019, respectively, which is recognized on a point in time basis. Also included in other operating revenues are parking, cafeteria, and rental income.

Cost reports supporting third party service revenue have been audited and finalized through September 30, 2016 by the designated intermediaries. Cost reports for 2017 through 2019 have been filed. The 2017 Medicare cost report is under desk review but has not been finalized. A provision for the estimated settlements for all open years has been recorded at September 30, 2020 and 2019. In the opinion of management, no material adjustments are expected to result from the audit of 2017 through 2019 cost reports. The System has classified a portion of the accrual for estimated third party payor settlements as other long term liabilities because such amounts, by their nature or by virtue of regulations or legislation, will not be settled within one year.

Accounts receivable, prior to reserves established, is summarized as follows as of September 30, 2020 and 2019:

	2020	2019
	(In thousands)	
Patient	\$ 28,405	46,544
Third-party payors	<u>399,414</u>	<u>468,762</u>
Total	427,819	515,306
Implicit and explicit price concessions	<u>(333,513)</u>	<u>(403,806)</u>
Patient accounts receivable, net	<u>\$ 94,306</u>	<u>111,500</u>

BMC HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

(15) 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 as of September 30, 2020 and 2019 was as follows (BMCHP has been grouped under Medicaid and makes up approximately 56% of the Medicaid receivable):

	2020	2019
Medicare	35 %	26 %
Medicaid	28	46
HMOs	6	6
Self-Pay	1	1
Commercial	14	11
Blue Cross	7	7
Commonwealth Care	7	2
Other	2	1
	<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 as of September 30, 2020:

	Receivable balance	Discounts and allowances	Net receivable
		(In thousands)	
Other hospitals and health centers	\$ 17,776	1,522	16,254
Outside contracts	8,212	671	7,541
Contributions receivable	3,568	974	2,594
Capitation receivable	188,888	—	188,888
HSN supplemental receivable	79,720	—	79,720
Pharmacy and other	34,297	16	34,281
	<u>\$ 332,461</u>	<u>3,183</u>	<u>329,278</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.

BMC HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

Other Health System accounts receivable and respective allowances for doubtful accounts (credit losses) are comprised of the following as of September 30, 2019:

	Receivable balance	Discounts and allowances (In thousands)	Net receivable
Other hospitals and health centers	\$ 13,719	1,099	12,620
Outside contracts	8,447	888	7,559
Contributions receivable	13,477	1,204	12,273
Capitation receivable	219,923	—	219,923
HSN supplemental receivable	4,180	—	4,180
Pharmacy and other	28,151	31	28,120
	<u>\$ 287,897</u>	<u>3,222</u>	<u>284,675</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.

(16) Related Party Transactions

The following summary of transactions between the Health System's controlled entities (referred to as related party transactions) eliminate upon consolidation.

The Faculty and the Medical Center have significant transactions with each other for operating purposes. During the years ended September 30, 2020 and 2019, the Medical Center provided approximately \$157,882,000 and \$104,469,000, respectively, to the Faculty for professional and support services. The Faculty is comprised of physician groups which provide teaching and other services to the Medical Center. In addition, the Medical Center and the Faculty have certain board members in common. The Medical Center has various notes receivable and other receivables from the Faculty, which totaled approximately \$23,323,000 and \$33,201,000 as of September 30, 2020 and 2019, respectively. In addition, the Medical Center owed the Faculty \$4,854,000 and \$2,408,000 as of September 30, 2020 and 2019, 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 for medical services and pharmacy services provided to BMCHP members was \$395,306,000 and \$381,227,000 for the years ended September 30, 2020 and 2019, respectively, and is included in net patient service revenue. In addition, BMCHP owed the Medical Center

BMC HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

\$20,924,000 and \$26,728,000 as of September 30, 2020 and 2019, respectively, and the amounts due are included in the Medical Center's patient accounts receivable and in BMCHP's claims payable. During the year, the Medical Center transferred \$125,000,000 of net assets to the Health Plan. The Board of Trustees approved the transfer. In addition, effective 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. As of September 30, 2020 and 2019, the Health System Corporation owed the Medical Center \$25,306,000 and \$13,770,000, respectively for operating related activities. As of September 30, 2020 and 2019, the Medical Center owed the Health System Corporation \$0 and \$4,333,000, respectively, for Health System Corporation's operating related activities. In addition, the Medical Center transferred \$16,000,000 of net assets to the Health System in 2019.

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 \$5,245,000 and \$2,832,000 for the years ended September 30, 2020 and 2019, respectively. The Medical Center has \$41,811,000 and \$34,065,000 of prepaid premiums and retrospective premium credits that were prepaid by the Medical Center to BMCIC as of September 30, 2020 and 2019, respectively. The Medical Center and the Faculty recorded a combined insurance recovery receivable and a professional liability claims payable of \$87,862,000 and \$86,248,000 for the years ended September 30, 2020 and 2019, respectively.

BUAP and the Medical Center have transactions with each other for operating purposes. During the years ended September 30, 2020 and 2019, respectively, the Medical Center provided funding of approximately \$1,649,000 and \$1,966,000, respectively, to BUAP for professional and support services. The Medical Center has various accounts receivable from BUAP which totaled approximately \$4,406,000 and \$1,162,000 as of September 30, 2020 and 2019, respectively.

BMCHP and the Faculty have transactions with each other for operating purposes. The total revenue earned by the Faculty from BMCHP related to medical services provided by the Faculty to BMCHP members was \$29,152,000 and \$27,748,000 for the years ended September 30, 2020 and 2019, respectively, and is included in net patient service revenue and supplies and other expenses. Also as of September 30, 2020 and 2019, BMCHP owed the Faculty \$1,359,000 and \$2,056,000, respectively.

The Faculty's 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 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 or deficit amounts in excess of amounts withheld have been recorded and retained by BACO and BMCICS. A deficit of (\$175,000) and surplus of 927,000 was earned for years ended June 30, 2020 and 2019, respectively.

BMC HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

The Health System Corporation and the Faculty have transactions with each other for operating purposes. As of September 30, 2020, the Health System Corporation owed the Faculty \$(327,000) for operating expenses. As of September 30, 2019, the Health System Corporation owed the Faculty \$722,000 for operating expenses.

From time to time, the Health System or the Medical Center provides institutional support to BACO to fund contract losses. The Medical Center transferred \$9,100,000 of net assets to BACO during year ended September 2019.

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. In fiscal year 2019, the NAB Trust was terminated, the leases between the Medical Center and NAB were canceled, and the Shapiro building, with a remaining book value of \$122,500,000, was transferred to the Medical Center, and a net gain of \$5,900,000 was recorded on the Health System.

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 2020, each Plan, with respect to each Faculty Member that the Plan employs, pays BU 25.50% 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 12.20% 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. 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 net assets without donor restrictions.

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, 2020 and 2019, respectively.

BMC HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

(17) Claims Payable

In conjunction with the BMCHP health plan programs, the Health System establishes a claims payable account for insured events. The table below shows the changes in the claims payable account for the years ended September 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
	(In thousands)	
Accrued at beginning of year	\$ 144,079	131,893
Incurred services:		
Current year	2,525,945	2,469,338
Prior years	<u>(11,801)</u>	<u>9,037</u>
Total incurred	<u>2,514,144</u>	<u>2,478,375</u>
Paid claims:		
Current year	2,324,353	2,301,262
Prior years	<u>160,685</u>	<u>164,927</u>
Total paid	<u>2,485,038</u>	<u>2,466,189</u>
Accrued at end of year	<u>\$ 173,185</u>	<u>144,079</u>

Claims expense of \$2,514,144,000 and \$2,478,375,000 for 2020 and 2019, respectively is included in the medical cost, supplies and other expenses line item on the consolidated statement of operations and changes in net assets without donor restrictions. Health claims paid by BMCHP to BMC are eliminated in the Health System's accompanying consolidated financial statements. As of September 30, 2020 and 2019, \$(11,801,000) and \$9,037,000 had been (released) or expensed for incurred claims attributable to services rendered to insured in the prior year as of September 30, 2020, and September 30, 2019, respectively. Favorable/ unfavorable development is generally a result of ongoing analysis of recent loss development trends and therefore, estimates are increased or decreased accordingly.

(18) Functional Expenses

The consolidated statements of operations present expenses by natural classification. The System also summarizes its expenses by functional classification. The System's primary program service is healthcare services. Natural expenses attributed to more than one functional expense category are allocated using a variety of cost allocation techniques such as percentage of revenues, percentage of expenses, and square footage.

BMC HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

Expenses by functional classification for the year ended September 30, 2020 consist of the following:

	2020						
	Patient and member services	Medical education	Research	Mgmt and general	Fundraising efforts	Eliminations	Total
Operating expenses:							
Salaries	\$ 666,484	38,217	9,063	222,998	3,211	(31,061)	908,912
Employee benefits	165,141	10,179	2,414	56,398	855	—	234,987
Medical costs	2,515,899	—	—	—	—	(425,205)	2,090,694
Supplies	93,903	—	1,629	74,019	—	16,186	185,737
Purchased services	43,377	64	3,061	56,355	1,515	—	104,372
Depreciation and amortization	64,355	—	5,676	31,283	—	—	101,314
Interest	15	—	—	25,210	—	—	25,225
Corporate allocation	—	—	—	(1,235)	—	1,235	—
Other expenses	554,938	1,599	4,164	162,520	3,715	(159,531)	567,405
Research, sponsored, and community health services	—	—	91,981	—	—	—	91,981
Operating expenses	\$ 4,104,112	50,059	117,988	627,548	9,296	(598,376)	4,310,627

Expenses by functional classification for the year ended September 30, 2019 consisted of the following:

	2019						
	Patient and member services	Medical education	Research	Mgmt and general	Fundraising efforts	Eliminations	Total
Operating expenses:							
Salaries	\$ 681,512	36,183	8,562	205,461	4,182	(32,098)	903,802
Employee benefits	106,920	9,552	2,260	34,169	1,104	—	154,005
Medical costs	2,488,756	—	—	—	—	(408,975)	2,079,781
Supplies	92,154	—	62	19,275	—	(26,317)	85,174
Purchased services	44,973	61	2,811	51,924	2,527	—	102,296
Depreciation and amortization	60,240	—	5,301	34,978	—	—	100,519
Interest	15	—	—	21,624	—	—	21,639
Other expenses	470,552	2,129	9,961	229,925	669	(106,435)	606,801
Research, sponsored, and community health services	—	—	85,737	—	—	—	85,737
Operating expenses	\$ 3,945,122	47,925	114,694	597,356	8,482	(573,825)	4,139,754

(19) Governmental Subsidies

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 Centers for Medicare and Medicaid Services (CMS) approval of a Section 1115 demonstration in which \$882,000,000 will be available in safety net provider supplemental payments to eligible hospitals between State fiscal year 2018 and 2022, subject to hospitals' compliance with program requirements. There are a total of 14 hospitals that were eligible for these funds, of which the Medical Center's portion recognized during the year ended September 30, 2020 was \$108,667,500 as compared to \$111,893,000 in the prior year.

The Medical Center received additional payments for both Delivery System Reform Incentive Payments (DSRIP) and a DSTI Glide path. The DSTI Glide Path dollars assist the Medical Center in the transition to a new payment model, and the DSRIP payments assist as the Medical Center move into the new ACO

BMC HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

payment models that have been set forth by the State. The State recognizes that the Medical Center must make necessary investments in order to achieve downstream cost savings. Revenue recognized under these programs is included in supplemental revenue and were \$36,604,642 in 2020 and \$37,819,258 in 2019.

An additional supplement payment was issued to help support the Medical Center during the COVID-19 emergency. These funds were approved by EOHHS and must meet the Medicaid Uniform and Low Income guidelines as instructed by the special agreement that was entered into between EOHHS and the Medical Center. This contract was consistent with other supplemental agreements entered into with EOHHS. The amount that was received and recorded in 2020 was \$94,766,850 and is included in patient service revenue.

(20) 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.

(21) 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 professional, general or employment practices liability claims or potential claims which have been reported, as well as a provision for claims incurred but not reported. Estimated medical professional, general and employment practices liabilities are based on claims reported and historical experience. 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 there is always some 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 \$40,000,000 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.

BMC HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

The Health System provided \$98,000,000 and \$96,400,000 for expected claims liabilities as of September 30, 2020 and 2019, respectively.

(22) Coronavirus Pandemic

In January 2020, the Secretary of the U.S. Department of Health and Human Services (HHS) declared a national public health emergency due to a novel strain of coronavirus (COVID-19) and in March 2020 the World Health Organization declared the spread of the virus to be a pandemic. In early March 2020, the Governor of Massachusetts also declared a state of emergency which provided various orders by the State, Department of Public Health, and other state agencies to respond to COVID-19. Among such orders, all hospitals were required to cancel non-essential elective procedures effective March 18, 2020 in order to protect patients and the healthcare workforce, and in order to conserve resources including personal protective equipment.

In coordination with State health authorities, the Health System initiated emergency measures to prevent avoidable transmission of the illness, including canceling non-urgent elective surgeries, procedures, and clinic visits. The Health System also implemented significant new safety measures, expanded critical care bed capacity, acquired personal protective equipment, expanded testing capabilities, and redeployed clinical and nonclinical staff to work in areas where the need was most urgent. In addition, in coordination with the State, the Health System also resumed using the Newton Pavilion, which it previously vacated in 2019, to provide COVID-19 related health services.

The cancelation of all elective procedures and non-urgent ambulatory visits resulted in a significant reduction in patient volumes. In addition to the lost revenue that accompanied the lower patient volumes the Health System experienced a significant increase in operating expenses associated with the purchase of personal protective equipment, certain pharmaceuticals, and COVID-19 testing supplies.

In response to COVID-19, the federal government took various actions intended to assist healthcare providers and in March 2020 the Coronavirus Aid, Relief, and Economic Security (CARES) Act became law. The CARES Act included Provider Relief Funds (PRF), which are not subject to repayment as certain terms and conditions provided by HHS are met. Generally, those terms and conditions require PRF payments will only be used to prevent, prepare for, and respond to coronavirus and shall only reimburse the recipients for health care-related expenses or lost revenues that are attributable to coronavirus, so long as such expenses and lost revenues have not been reimbursed by other sources.

During 2020, the Health System received \$174,825,000 of PRF payments of which \$115,099,000 was recognized in other operating revenue on the consolidated statement of operations during the year ended September 30, 2020 and \$59,727,000 was deferred and recorded in deferred revenue on the consolidated September 30, 2020 balance sheet.

The CARES Act also expanded the Medicare Accelerated and Advance Payment Program (the Program) and allowed eligible providers to receive up to six months of advanced Medicare payments. As of September 30, 2020, the Medical Center received approximately \$107,000,000 through the Program and recorded the payments within estimated settlements with third parties on the consolidated balance sheet (current). These advanced payments are interest free with repayments to begin in 2021.

BMC HEALTH SYSTEM, INC.

Notes to Consolidated Financial Statements

September 30, 2020 and 2019

The CARES Act also provide a refundable payroll tax credit for qualified wages paid by certain employers to employees. The ERC is available to eligible employers carrying on a trade or business in calendar year 2020 whose operations were fully or partially suspended, due to the orders from an appropriate governmental authority limiting commerce. In connection with this program, the Health System received \$10,439,000. The Health System recognized \$3,966,000 of the credit, which is included in grant and contract revenue on the income statement and deferred the remaining \$6,473,000 of the credit, which is included in deferred revenue on the balance sheet as of the year ended September 30, 2020

The Health System's assessment of whether the terms and conditions related to CARES Act funding have been met considers all frequently asked questions and other interpretive guidance issued by HHS through February 12, 2021. However, amounts recognized as revenue could change in the future based on continuing analysis of lost revenues and COVID-related expenses as well as evolving compliance guidance provided by HHS and other agencies.

In addition, as described in note 19, the Health System received \$94.8 million of additional supplemental payments from the State designated for hospitals financially at-risk due to COVID-19. These payments are subject to the Medical Center's annual Medicaid unreimbursed care payment limits. The Health System determined that the payment of \$94.8 million was within such limits and was therefore recognized in other operating income during 2020.

On December 11, 2020 to help manage a resurgence of the virus, State health authorities directed hospitals to discontinue elective inpatient procedures that would potentially limit inpatient capacity for COVID positive patients. Ambulatory procedures, outpatient visits and preventive care were allowed to continue. The ultimate effect on the Health System's financial condition will depend on the duration and severity of the pandemic and economic conditions arising from the broad impact of the pandemic.

(23) Subsequent Events

The Health System has assessed the impact of subsequent events through February 12, 2021, 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.

The Continuing Appropriations Act, 2021 and Other Extensions Act (P.L. 116-159), enacted on October 1, 2020, amended the repayment terms for all providers and suppliers who requested and received accelerated and advance payment(s) under the Medicare Accelerated and Advance Payment. Based on this amendment, repayment does not begin for one year starting from the date the accelerated payment was issued for a period of up to two years. This has been accounted for as a type-2 subsequent event and therefore is not reflected in the accompanying consolidated financial statements.

SUPPLEMENTAL CONSOLIDATING INFORMATION

BMC HEALTH SYSTEM, INC.
Consolidating Supplemental Balance Sheet

September 30, 2020

(In thousands)

Assets	The Health System Corporation	Medical Center	BMCHP	Faculty	BMCIC and BMCIC of Vermont	BACO	All other entities	Eliminations	The Health System
Current assets:									
Cash and cash equivalents	\$ 14,919	478,240	207,282	69,364	3,131	12,290	10,595	—	795,821
Short-term investments	—	—	—	—	—	—	—	—	—
Patients accounts receivable, net	—	98,085	—	18,433	—	—	71	(22,283)	94,306
Other accounts receivable, less allowance of \$3,183 in 2020	1,034	127,593	188,888	3,376	2,905	11,493	264	(6,275)	329,278
Current portion of grants receivable	—	17,801	—	—	—	—	—	—	17,801
Current portion of estimated receivable for final settlements with third-party payors	—	3,991	—	—	—	—	—	—	3,991
Current portion due from related parties	4,522	97,973	—	7,079	12,563	5,083	2,190	(129,410)	—
Inventories	—	17,337	—	—	—	—	—	—	17,337
Prepaid expenses and other current assets	14,221	4,203	3,957	255	733	—	51	(697)	22,723
Insurance recoveries receivable	—	35,839	—	52,023	—	—	—	(87,862)	—
Total current assets	34,696	881,062	400,127	150,530	19,332	28,866	13,171	(246,527)	1,281,257
Assets limited as to use:									
Board-designated investments	—	308,243	—	—	—	—	—	—	308,243
Funds held by Trustees	—	41,624	—	—	—	—	—	—	41,624
Donor-restricted investments	—	325,597	—	—	—	—	—	—	325,597
Reserve funds	—	—	2,566	—	111,266	—	—	—	113,832
Total assets limited as to use	—	675,464	2,566	—	111,266	—	—	—	789,296
Other assets:									
Long-term investments	—	489	329,763	50,313	—	—	—	—	380,565
Property, plant and equipment, net	284	1,040,043	9,435	2,033	—	—	3,691	—	1,055,486
Right of use assets – operating	—	95,875	23,290	187	—	—	—	(23,167)	96,185
Right of use assets – finance	—	3,807	—	193	—	—	—	—	4,000
Other noncurrent assets	—	45,447	—	44	—	—	—	(3,271)	42,220
Total assets	\$ 34,980	2,742,187	765,181	203,300	130,598	28,866	16,862	(272,965)	3,649,009
Liabilities and Net Assets									
Current liabilities:									
Accounts payable and accrued expenses	\$ 9,382	209,573	110,026	11,294	68	2,446	3,535	40,346	386,670
Claims payable	—	—	195,797	—	—	—	—	(22,612)	173,185
Estimated third party settlements, current	—	107,000	—	—	—	—	—	—	107,000
Deferred revenue	—	96,243	—	5,339	668	108	—	(668)	101,690
Current portion of due to related parties	24,979	19,732	4,194	61,652	—	11,297	6,463	(128,317)	—
Current portion of long-term debt	—	7,911	—	74	—	—	—	—	7,985
Professional liability claims	—	35,839	—	52,023	—	—	—	(87,862)	—
Other current liabilities	—	21,204	8,607	194	—	8,335	6,074	(9,025)	35,389
Total current liabilities	34,361	497,502	318,624	130,576	736	22,186	16,072	(208,138)	811,919
Long-term liabilities:									
Estimated third party settlements	—	80,099	—	—	—	1,472	—	—	81,571
Obligations under financing leases	—	2,591	—	78	—	—	—	—	2,669
Due to related parties	—	—	—	2,250	41,811	—	—	(44,061)	—
Obligations under operating leases	—	89,401	19,146	—	—	—	—	(19,146)	89,401
Long-term debt	—	613,343	—	—	—	—	—	—	613,343
Other long-term liabilities	1,427	135,328	—	5,916	87,862	—	—	—	230,533
Total liabilities	35,788	1,418,264	337,770	138,820	130,409	23,658	16,072	(271,345)	1,829,436
Commitments and contingencies									
Net assets:									
Without donor restrictions	(808)	961,337	427,411	64,480	189	5,208	790	(1,620)	1,456,987
With donor restrictions	—	362,586	—	—	—	—	—	—	362,586
Total net assets	(808)	1,323,923	427,411	64,480	189	5,208	790	(1,620)	1,819,573
Total liabilities and net assets	\$ 34,980	2,742,187	765,181	203,300	130,598	28,866	16,862	(272,965)	3,649,009

See accompanying independent auditors' report.

BMC HEALTH SYSTEM, INC.
Consolidating Supplemental Balance Sheet

September 30, 2019

(In thousands)

Assets	The Health System Corporation	Medical Center	BMCHP	Faculty	BMCIC and BMCIC of Vermont	BACO	All other entities	Eliminations	The Health System
Current assets:									
Cash and cash equivalents	\$ 4,994	198,651	54,185	39,862	10,821	7,163	6,106	—	321,782
Short-term investments	—	—	2,671	—	—	—	—	—	2,671
Patients accounts receivable, less allowance of \$0 in 2019	—	118,007	—	22,136	—	—	141	(28,784)	111,500
Other accounts receivable, less allowance of \$1,568 in 2019	1,227	52,237	219,923	3,914	2,817	8,770	2,136	(6,349)	284,675
Current portion of grants receivable	—	17,585	—	—	—	—	—	—	17,585
Current portion of estimated receivable for final settlements with third-party payors	—	3,941	—	—	—	—	—	—	3,941
Current portion due from related parties	6,539	72,628	—	2,979	10,805	13,184	309	(106,444)	—
Inventories	—	12,714	—	—	—	—	—	—	12,714
Prepaid expenses and other current assets	12,980	4,525	1,348	293	650	—	16	(647)	19,165
Insurance recoveries receivable	—	35,793	—	50,455	—	—	—	(86,248)	—
Total current assets	25,740	516,081	278,127	119,639	25,093	29,117	8,708	(228,472)	774,033
Assets limited as to use:									
Board-designated investments	—	394,247	—	—	—	—	—	—	394,247
Funds held by Trustees	—	40,057	—	—	—	—	536	—	40,593
Donor-restricted investments	—	330,615	—	—	—	—	—	—	330,615
Reserve funds	—	—	2,556	—	97,630	—	—	—	100,186
Total assets limited as to use	—	764,919	2,556	—	97,630	—	536	—	865,641
Other assets:									
Long-term investments	—	410	211,446	47,995	—	—	—	—	259,851
Property, plant and equipment, net	336	1,098,661	9,240	2,544	—	—	4,603	—	1,115,384
Other noncurrent assets	—	47,911	—	43	—	—	—	(3,225)	44,729
Total assets	\$ 26,076	2,427,982	501,369	170,221	122,723	29,117	13,847	(231,697)	3,059,638
Liabilities and Net Assets									
Current liabilities:									
Accounts payable and accrued expenses	\$ 5,567	164,526	87,089	16,874	70	—	3,626	5,505	283,257
Claims payable	—	—	172,713	—	—	—	—	(28,634)	144,079
Deferred revenue	638	23,075	—	—	647	—	—	(647)	23,713
Current portion of due to related parties	738	27,396	2,014	26,704	—	17,153	4,233	(78,238)	—
Current portion of long-term debt and capital leases	—	6,491	—	76	—	—	1,500	—	8,067
Professional liability claims	—	35,793	—	50,455	—	—	—	(86,248)	—
Premium deficiency reserve	—	—	11,048	—	—	—	—	—	11,048
Other current liabilities	—	—	6,994	—	—	4,935	3,669	(3,500)	12,098
Total current liabilities	6,943	257,281	279,858	94,109	717	22,088	13,028	(191,762)	482,262
Long-term liabilities:									
Estimated final settlements with third-party payors	—	55,755	—	—	—	586	—	—	56,341
Obligations under capital leases	—	—	—	31	—	—	—	—	31
Due to related parties	—	—	—	942	37,373	—	—	(38,315)	—
Long-term debt	—	622,184	—	—	—	—	(27)	—	622,157
Other long-term liabilities	—	165,294	—	5,937	84,439	—	—	—	255,670
Total liabilities	6,943	1,100,514	279,858	101,019	122,529	22,674	13,001	(230,077)	1,416,461
Commitments and contingencies									
Net assets:									
Without donor restrictions	19,133	989,342	221,511	69,202	194	6,443	846	(1,620)	1,305,051
With donor restrictions	—	338,126	—	—	—	—	—	—	338,126
Total net assets	19,133	1,327,468	221,511	69,202	194	6,443	846	(1,620)	1,643,177
Total liabilities and net assets	\$ 26,076	2,427,982	501,369	170,221	122,723	29,117	13,847	(231,697)	3,059,638

See accompanying independent auditors' report.

BMC HEALTH SYSTEM, INC.

Consolidating Supplemental Statement of Operations and Changes in Net Assets without Donor Restrictions

Year ended September 30, 2020

(In thousands)

	The Health System Corporation	Medical Center	BMCHP	Faculty	BMCIC and BMCIC of Vermont	BACO	All other entities	Eliminations	The Health System
Operating revenue:									
Net patient service revenue	\$ —	1,139,679	—	150,846	—	—	823	(218,631)	1,072,717
Capitation revenue	—	—	2,740,110	135	—	—	41	—	2,740,286
Grants and contract revenue	7,520	221,704	—	27,911	—	—	109	—	257,244
Institutional support	—	—	—	132,471	—	—	1,649	(134,120)	—
Other revenue	732	463,948	—	79,396	—	7,590	1,952	(246,842)	306,776
Net assets released from restrictions for operations	—	17,728	—	—	—	—	—	—	17,728
Total operating revenue	8,252	1,843,059	2,740,110	390,759	—	7,590	4,574	(599,593)	4,394,751
Operating expenses:									
Salaries, wages and fringe benefits	92,335	665,556	58,706	354,416	—	1,160	2,787	(31,061)	1,143,899
Medical costs, supplies and other expenses	90,829	632,010	2,581,630	37,461	7,125	7,302	870	(409,019)	2,948,208
Institutional support	—	159,531	—	—	—	—	—	(159,531)	—
Corporate allocations	(166,838)	113,590	40,854	10,740	—	419	—	1,235	—
Depreciation and amortization	52	97,399	2,329	623	—	—	911	—	101,314
Interest expense	—	25,123	—	18	—	—	84	—	25,225
Research, sponsored programs and community health services	—	91,981	—	—	—	—	—	—	91,981
Total operating expenses	16,378	1,785,190	2,683,519	403,258	7,125	8,881	4,652	(598,376)	4,310,627
Income (loss) from operations	(8,126)	57,869	56,591	(12,499)	(7,125)	(1,291)	(78)	(1,217)	84,124
Nonoperating gains (losses), net:									
Realized gains	142	15,549	13,464	1,395	7,120	56	22	—	37,748
Unrealized gains	—	6,379	10,845	689	—	—	—	—	17,913
Gain on disposal of property	—	—	—	(24)	—	—	—	—	(24)
Other	—	9,888	—	(5,023)	—	—	—	—	4,865
Pension benefit, nonservice	—	2,770	—	—	—	—	—	—	2,770
Total nonoperating gains, net	142	34,586	24,309	(2,963)	7,120	56	22	—	63,272
Excess (deficiency) of revenue over expenses	(7,984)	92,455	80,900	(15,462)	(5)	(1,235)	(56)	(1,217)	147,396
Other changes in unrestricted net assets:									
Net assets transfer (to)/from affiliates	—	(125,000)	125,000	—	—	—	—	—	—
Cumulative effect of change in accounting principle	—	1,920	—	—	—	—	—	—	1,920
Net assets released from restrictions for property, plant and equipment	—	5,032	—	—	—	—	—	—	5,032
Pension related changes other than net periodic pension costs	—	(2,412)	—	—	—	—	—	—	(2,412)
Donated services (to)/from affiliates	(11,957)	—	—	10,740	—	—	—	1,217	—
Change in net assets without donor restrictions	(19,941)	(28,005)	205,900	(4,722)	(5)	(1,235)	(56)	—	151,936
Net assets without donor restriction:									
Beginning of year	19,133	989,342	221,511	69,202	194	6,443	846	(1,620)	1,305,051
End of year	\$ (808)	961,337	427,411	64,480	189	5,208	790	(1,620)	1,456,987

See accompanying independent auditors' report.

BMC HEALTH SYSTEM, INC.

Consolidating Supplemental Statement of Operations and Changes in Net Assets without Donor Restrictions

Year ended September 30, 2019

(In thousands)

	The Health System Corporation	Medical Center	BMCHP	Faculty	BMCIC and BMCIC of Vermont	BACO	All other entities	Eliminations	The Health System
Operating revenue:									
Net patient service revenue	\$ —	1,131,959	—	170,230	—	—	1,416	(214,689)	1,088,916
Capitation revenue	—	—	2,629,817	—	—	—	—	—	2,629,817
Grants and contract revenue	13,376	105,267	—	—	—	—	—	—	118,643
Institutional support	—	—	—	95,877	—	—	1,966	(97,843)	—
Other revenue	—	403,265	4,577	99,480	—	15,347	3,592	(263,250)	263,011
Net assets released from restrictions for operations	—	21,352	—	—	—	—	—	—	21,352
Total operating revenue	13,376	1,661,843	2,634,394	365,587	—	15,347	6,974	(575,782)	4,121,739
Operating expenses:									
Salaries, wages and fringe benefits	12,013	684,748	71,275	320,420	—	1,827	3,747	(32,098)	1,061,932
Medical costs, supplies and other expenses	11,508	666,014	2,589,948	53,301	7,172	18,489	(41,213)	(435,292)	2,869,927
Institutional support	—	106,435	—	—	—	—	—	(106,435)	—
Depreciation and amortization	52	90,975	3,784	724	—	—	4,984	—	100,519
Interest expense	—	21,440	—	15	—	—	184	—	21,639
Research, sponsored programs and community health services	—	85,737	—	—	—	—	—	—	85,737
Total operating expenses	23,573	1,655,349	2,665,007	374,460	7,172	20,316	(32,298)	(573,825)	4,139,754
Income (loss) from operations	(10,197)	6,494	(30,613)	(8,873)	(7,172)	(4,969)	39,272	(1,957)	(18,015)
Nonoperating gains (losses), net:									
Income from investments (including other-than-temporary impairment losses of \$403 in 2019)	257	26,101	25,665	1,158	2,584	34	28	183	56,010
Other	—	—	—	4	—	—	(16)	—	(12)
Pension benefit, nonservice	—	4,125	—	—	—	—	—	—	4,125
Total nonoperating gains, net	257	30,226	25,665	1,162	2,584	34	12	183	60,123
Excess (deficiency) of revenue over expenses	(9,940)	36,720	(4,948)	(7,711)	(4,588)	(4,935)	39,284	(1,774)	42,108
Other changes in unrestricted net assets:									
Change in unrealized appreciation (depreciation) on investments	—	(4,769)	(12,467)	1,751	—	—	—	—	(15,485)
Net asset transfer to affiliate	16,000	(25,100)	—	—	—	9,100	—	—	—
Net assets released from restrictions for property, plant and equipment	—	13,609	—	—	—	—	—	—	13,609
Pension-related changes other than net periodic pension costs	—	(26,197)	—	—	—	—	—	—	(26,197)
Donated services from/(to) affiliates	(4,043)	(6,843)	941	7,511	—	558	102	1,774	—
Change in net assets without donor restrictions	2,017	(12,580)	(16,474)	1,551	(4,588)	4,723	39,386	—	14,035
Net assets without donor restriction:									
Beginning of year	17,116	1,001,922	237,985	67,651	4,782	1,720	(38,540)	(1,620)	1,291,016
End of year	\$ 19,133	989,342	221,511	69,202	194	6,443	846	(1,620)	1,305,051

See accompanying independent auditors' report.

BMC HEALTH SYSTEM, INC.
Consolidating Supplemental Statement of Cash Flows
Year ended September 30, 2020
(In thousands)

	The Health System Corporation	Medical Center	BMCHP	Faculty	BMCIC and BMCIC of Vermont	BACO	All other entities	Eliminations	The Health System
Operating activities:									
Change in net assets	\$ (19,941)	(3,545)	205,900	(4,722)	(5)	(1,235)	(56)	—	176,396
Adjustments to reconcile change in net assets to net cash provided by operating activities:									
Depreciation and amortization	52	97,399	2,329	623	—	—	912	—	101,315
Restricted contributions	—	(9,840)	—	—	—	—	—	—	(9,840)
Donated securities received	—	(408)	—	—	—	—	—	—	(408)
Return on investment of joint venture	—	(236)	—	—	—	—	—	—	(236)
Bond premium/discount	—	—	—	—	—	—	—	—	—
Amortization of bond discount/premium and issuance costs	—	(1,723)	—	—	—	—	27	—	(1,696)
Discount and provision for bad debt on contributions receivable	—	1,748	—	—	—	—	—	—	1,748
Net realized gains and change in unrealized (appreciation) depreciation on investments	—	(31,267)	(16,005)	(895)	—	—	—	(71)	(48,238)
Increase in asset retirement obligation	—	—	—	—	—	—	—	—	—
Gain on real estate transaction	—	(9,888)	—	—	—	—	—	—	(9,888)
Pension related changes other than net periodic pension costs	—	2,412	—	—	—	—	—	—	2,412
Transfer of net assets	—	125,000	(125,000)	—	—	—	—	—	—
Changes in operating assets and liabilities:									
Grants receivable	—	(266)	—	—	—	—	—	—	(266)
Patient accounts receivable	—	19,922	—	3,703	—	—	70	(6,501)	17,194
Other current assets and liabilities	(1,686)	(50,666)	31,119	6,183	—	785	4,242	(1,478)	(11,501)
Other noncurrent assets and liabilities	1,427	27,450	10	(293)	(3,527)	—	—	46	25,113
Due to/from Related parties	26,258	(33,009)	2,180	32,156	2,680	2,245	349	(32,859)	—
Estimated final settlements with third-party payors	—	131,344	—	—	—	886	—	—	132,230
Claims payable	—	—	23,084	—	—	—	—	6,022	29,106
(Decrease) increase in premium deficiency reserve	—	—	(11,048)	—	—	—	—	—	(11,048)
Accounts payable and accrued expenses	3,815	47,119	17,703	(5,580)	(2)	2,446	(91)	34,841	100,251
Net cash provided by (used in) operating activities	9,925	311,546	130,272	31,175	(854)	5,127	5,453	—	492,644
Investing activities:									
Proceeds from sale of investments	—	127,150	199,180	798	—	—	—	—	327,128
Proceeds from sale of funds held by Trustees	—	42,462	—	—	2,000	—	1,863	—	46,325
Purchases of investments	—	(72,837)	(231,405)	(2,221)	(8,836)	—	—	—	(315,299)
Purchases of funds held by Trustees	—	(43,558)	—	—	—	—	(1,327)	—	(44,885)
Gain on real estate transaction	—	9,888	—	—	—	—	—	—	9,888
Purchase of property, plant and equipment	—	(44,632)	(2,524)	(179)	—	—	—	—	(47,335)
De-recognition of property, plant and equipment	—	3,909	—	—	—	—	—	—	3,909
Loss from disposal of assets	—	56	—	24	—	—	—	—	80
Net cash provided by (used in) investing activities	—	22,438	(34,749)	(1,578)	(6,836)	—	536	—	(20,189)
Financing activities:									
Proceeds from restricted contributions	—	9,840	—	—	—	—	—	—	9,840
Proceeds from sale of donated securities	—	408	—	—	—	—	—	—	408
Repayment of long-term debt and capital leases	—	(7,069)	—	(95)	—	—	(1,500)	—	(8,664)
Net asset transfer (to) from affiliate	—	(57,574)	57,574	—	—	—	—	—	—
Net cash provided by financing activities	—	(54,395)	57,574	(95)	—	—	(1,500)	—	1,584
Increase (decrease) in cash and cash equivalents	9,925	279,589	153,097	29,502	(7,690)	5,127	4,489	—	474,039
Cash and cash equivalents:									
Beginning of year	4,994	198,651	54,185	39,862	10,821	7,163	6,106	—	321,782
End of year	\$ 14,919	478,240	207,282	69,364	3,131	12,290	10,595	—	795,821
Supplemental disclosure of cash flow activities:									
Cash paid for interest	\$ —	27,587	—	22	—	—	—	—	27,609
Property, plant and equipment included in accounts payable	—	3,656	—	—	—	—	—	—	3,656
Conditional asset retirement obligations	—	—	—	—	—	—	—	—	—
Net fixed assets recognized related to conditional asset retirement obligations	—	(1,010)	—	—	—	—	—	—	(1,010)
Contributed securities	—	(408)	—	—	—	—	—	—	(408)
Gift in-kind	—	—	—	500	—	—	—	—	500
New capital leases	—	—	—	—	—	—	—	—	—
Net Asset Transfer – non cash	—	(17,426)	17,426	—	—	—	—	—	—

See accompanying independent auditors' report.

BMC HEALTH SYSTEM, INC.
Consolidating Supplemental Statement of Cash Flows
Year ended September 30, 2019
(In thousands)

	The Health System Corporation	Medical Center	BMCHP	Faculty	BMCIC and BMCIC of Vermont	BACO	All other entities	Eliminations	The Health System
Operating activities:									
Change in net assets	\$ 2,017	(16,598)	(16,474)	1,551	(4,588)	4,723	39,386	—	10,017
Adjustments to reconcile change in net assets to net cash provided by operating activities:									
Depreciation and amortization	52	90,976	3,783	724	—	—	4,984	—	100,519
Restricted contributions	—	(11,848)	—	—	—	—	—	—	(11,848)
Donated securities received	—	(1,340)	—	—	—	—	—	—	(1,340)
Return on investment of joint venture	—	(63)	—	—	—	—	—	—	(63)
Bond premium/discount	—	—	—	—	—	—	—	—	—
Amortization of bond discount/premium and issuance costs	—	(1,727)	—	—	—	—	28	—	(1,699)
Discount and provision for bad debt on contributions receivable	—	2,303	—	—	—	—	—	—	2,303
Net realized gains and change in unrealized (appreciation) depreciation on investments	—	(11,156)	(7,878)	(1,751)	—	—	—	—	(20,785)
Increase in asset retirement obligation	—	(6,647)	—	—	—	—	—	—	(6,647)
Pension related changes other than net periodic pension costs	—	26,197	—	—	—	—	—	—	26,197
Transfer of building	—	(122,522)	—	—	—	—	122,522	—	—
Changes in operating assets and liabilities:									
Grants receivable	—	(1,623)	—	—	—	—	—	—	(1,623)
Patient accounts receivable	—	(29,563)	—	(834)	—	—	139	4,522	(25,736)
Other current assets and liabilities	(16,948)	18,569	(65,414)	84	—	(6,231)	(1,539)	794	(70,685)
Other noncurrent assets and liabilities	—	221,992	—	126	(7,528)	—	(165,251)	271	49,610
Due to/from Related parties	(13,625)	(5,736)	14,421	(23,943)	4,415	7,316	1,567	15,585	—
Estimated final settlements with third-party payors	—	6,623	—	—	—	(20)	—	—	6,603
Claims payable	—	—	16,558	—	—	—	—	(4,372)	12,186
(Decrease) increase in premium deficiency reserve	—	—	11,048	—	—	—	—	—	11,048
Accounts payable and accrued expenses	4,908	(8,665)	(45,066)	(367)	(9)	(2,924)	569	(16,800)	(68,354)
Net cash provided by (used in) operating activities	(23,596)	149,172	(89,022)	(24,410)	(7,710)	2,864	2,405	—	9,703
Investing activities:									
Proceeds from sale of investments	—	295,183	228,541	58	—	—	—	—	523,782
Proceeds from sale of funds held by Trustees	—	64,170	—	—	21,844	—	1,587	—	87,601
Purchases of investments	—	(300,399)	(223,344)	(1,193)	(10,004)	—	—	—	(534,940)
Purchases of funds held by Trustees	—	(42,319)	—	—	—	—	(1,593)	—	(43,912)
Purchase of property, plant and equipment	—	(201,067)	(3,877)	(665)	—	—	—	—	(205,609)
Loss from disposal of assets	—	1,010	—	2	—	—	16	—	1,028
Net cash provided by (used in) investing activities	—	(183,422)	1,320	(1,798)	11,840	—	10	—	(172,050)
Financing activities:									
Proceeds from restricted contributions	—	11,848	—	—	—	—	—	—	11,848
Proceeds from sale of donated securities	—	1,340	—	—	—	—	—	—	1,340
Repayment of long-term debt and capital leases	—	(87,189)	—	(113)	—	—	(1,400)	—	(88,702)
Net cash provided by financing activities	—	(74,001)	—	(113)	—	—	(1,400)	—	(75,514)
Increase (decrease) in cash and cash equivalents	(23,596)	(108,251)	(87,702)	(26,321)	4,130	2,864	1,015	—	(237,861)
Cash and cash equivalents:									
Beginning of year	28,590	306,902	141,887	66,183	6,691	4,299	5,091	—	559,643
End of year	\$ 4,994	198,651	54,185	39,862	10,821	7,163	6,106	—	321,782
Supplemental disclosure of cash flow activities:									
Cash paid for interest	\$ —	28,494	—	5	—	—	—	—	28,499
Property, plant and equipment included in accounts payable	—	5,728	—	—	—	—	—	—	5,728
Conditional asset retirement obligations	—	(6,447)	—	—	—	—	—	—	(6,447)
Net fixed assets recognized related to conditional asset retirement obligations	—	(1,010)	—	—	—	—	—	—	(1,010)
Contributed securities	—	(1,340)	—	—	—	—	—	—	(1,340)
Gift in-kind	—	—	—	500	—	—	—	—	500
New capital leases	—	—	—	—	—	—	—	—	—

See accompanying independent auditors' report.

BMC HEALTH SYSTEM, INC.
Boston University Medical Group Consolidating Supplemental Balance Sheets
June 30, 2020
(In thousands)

Assets		Division of Surgery	Anesthesia	Cardiac	Dermatology	ER	Evans	Eye	Family	Corporate	Surgery	Neurology	Neurosurgery	OB/GYN	Orthopedic	Otolaryngology	Pediatrics	Pathology	Plastic Surgery	Psychiatry	Radiology	Rehab	Radiation Oncology	Urology	Eliminations	Total
Current assets:																										
Cash and cash equivalents	\$	—	75	—	334	1,263	1,232	297	37	59,680	1,092	59	37	323	2,775	462	104	884	—	602	53	—	29	24	—	69,364
Patients accounts receivable	—	—	1,316	—	299	1,033	4,872	714	585	313	622	677	386	632	1,354	70	930	145	—	2,787	1,076	—	195	428	—	18,433
Other accounts receivable, less allowance of \$242 in 2020	—	—	—	—	128	128	458	10	1,138	243	92	21	3	287	—	9	263	96	—	356	347	—	—	—	(243)	3,376
Current portion due from related parties	—	—	154	—	340	703	274	1,045	49	1,334	1,703	—	118	432	645	674	378	498	—	—	905	—	—	424	(2,596)	7,079
Prepaid expenses and other current assets	—	—	34	—	30	—	62	21	—	49	(3)	1	2	17	—	—	14	21	—	—	—	—	6	—	—	255
Insurance recoveries receivable	—	—	—	—	—	—	—	—	—	52,023	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	52,023
Total current assets	—	—	1,579	—	1,171	3,127	6,888	2,087	1,809	113,642	3,506	758	546	1,691	4,774	1,215	1,689	1,644	—	3,745	2,381	—	230	876	(2,839)	150,530
Other assets:																										
Long-term investments	—	—	—	—	36	4,934	32,880	—	—	8,858	—	—	—	—	—	394	4,579	1,046	—	586	—	—	—	—	—	50,313
Property, plant and equipment, net	—	—	—	—	92	5	485	850	20	2	—	—	—	—	107	—	12	199	—	71	190	—	—	—	—	2,033
Right of use assets – operating	—	—	—	—	5	—	2	137	32	—	3	12	—	—	—	3	—	—	—	—	(7)	—	—	—	—	187
Right of use assets – finance	—	—	—	—	—	—	163	—	—	—	6	—	—	—	—	—	25	—	—	—	—	—	—	—	—	193
Other noncurrent assets	—	—	—	—	—	—	—	—	—	36	—	7	—	—	—	—	—	—	—	—	—	—	—	—	—	44
Total assets	\$	—	1,579	—	1,304	8,066	40,265	3,237	1,861	119,536	3,517	777	546	1,691	4,881	1,609	6,283	2,914	—	4,395	2,571	—	230	876	(2,839)	203,300
Liabilities and Net Assets																										
Current liabilities:																										
Accounts payable and accrued expenses	\$	—	1,302	—	53	1,307	968	608	596	1,193	300	29	50	145	1,502	214	387	434	—	2,033	177	—	11	(15)	—	11,294
Deferred revenue	—	—	57	—	26	275	2,734	241	126	—	690	76	18	113	189	131	69	—	—	41	231	—	52	56	—	5,339
Current portion of due to related parties	—	—	219	—	133	109	5,307	82	204	54,623	189	360	50	183	197	88	315	121	—	1,297	580	—	176	13	(2,596)	61,652
Current portion of long-term debt and capital leases	—	—	—	—	—	—	—	48	—	—	6	—	—	—	—	—	19	—	—	—	—	—	—	—	—	74
Professional liability claims	—	—	—	—	—	—	—	—	—	52,023	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	52,023
Other current liabilities	—	—	—	—	—	2	141	32	—	3	13	—	—	—	—	3	—	—	—	—	—	—	—	—	—	194
Total current liabilities	—	—	1,578	—	212	1,691	9,011	1,120	958	107,839	1,188	478	118	441	1,888	433	918	643	—	3,371	988	—	239	54	(2,596)	130,576
Long-term liabilities:																										
Obligations under capital leases	—	—	—	—	5	—	—	67	—	—	—	—	—	—	—	—	6	—	—	—	—	—	—	—	—	78
Due to related parties	—	—	—	—	—	2,250	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	2,250
Long-term debt	—	—	—	—	—	—	243	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(243)	—
Other long-term liabilities	—	—	—	—	—	—	—	—	—	5,916	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	5,916
Total liabilities	—	—	1,578	—	217	1,691	11,261	1,430	958	113,755	1,188	478	118	441	1,888	433	918	649	—	3,371	988	—	239	54	(2,839)	138,820
Commitments and contingencies																										
Net assets:																										
Without donor restrictions	—	—	—	—	1,086	6,374	29,005	1,806	902	5,779	2,329	300	428	1,250	2,994	1,176	5,366	2,265	—	1,025	1,583	—	(10)	821	—	64,480
Total net assets	—	—	—	—	1,086	6,374	29,005	1,806	902	5,779	2,329	300	428	1,250	2,994	1,176	5,366	2,265	—	1,025	1,583	—	(10)	821	—	64,480
Total liabilities and net assets	\$	—	1,578	—	1,303	8,065	40,266	3,236	1,860	119,534	3,517	778	546	1,691	4,882	1,609	6,284	2,914	—	4,396	2,571	—	229	875	(2,839)	203,300

See accompanying independent auditors' report.

BMC HEALTH SYSTEM, INC.
Boston University Medical Group Consolidating Supplemental Balance Sheets
June 30, 2019
(In thousands)

Assets	Division of Surgery	Anesthesia	Cardiac	Dermatology	ER	Evans	Eye	Family	Corporate	Surgery	Neurology	Neurosurgery	OB/GYN	Orthopedic	Otolaryngology	Pediatrics	Pathology	Plastic Surgery	Psychiatry	Radiology	Rehab	Radiation Oncology	Urology	Eliminations	Total	
Current assets:																										
Cash and cash equivalents	\$	—	37	—	487	1,078	160	1,335	22	27,661	414	106	20	21	3,442	401	22	1,616	—	2,287	380	—	20	353	—	39,862
Patients accounts receivable	—	—	—	—	477	1,769	5,703	1,218	685	(804)	2,283	812	344	1,053	1,543	391	1,507	506	—	2,053	1,623	—	254	519	—	22,136
Other accounts receivable, less allowance of \$226 in 2019	—	—	—	—	115	158	410	7	821	585	91	37	354	365	—	61	266	119	—	188	765	—	—	—	(440)	3,914
Current portion due from related parties	—	—	92	—	143	358	1,482	22	226	1,498	794	342	14	2	41	286	122	273	—	599	—	—	11	30	(3,356)	2,979
Prepaid expenses and other current assets	—	—	—	—	56	—	(21)	27	—	180	16	—	1	15	—	3	11	3	—	—	—	—	—	—	—	293
Insurance recoveries receivable	—	—	—	—	—	—	—	—	—	50,455	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	50,455
Total current assets	—	129	—	—	1,323	3,320	7,734	2,609	1,754	79,776	3,598	1,297	743	1,457	5,026	1,142	1,928	2,517	—	4,528	3,367	—	285	902	(3,796)	119,639
Other assets:																										
Long-term investments	—	—	—	—	36	4,723	32,315	—	—	5,583	—	—	—	—	375	4,379	25	—	559	—	—	—	—	—	—	47,995
Property, plant and equipment, net	—	—	—	—	122	8	746	1,074	6	—	60	—	—	—	121	—	40	198	17	152	—	—	—	—	—	2,544
Other noncurrent assets	—	—	—	—	—	—	—	—	—	36	7	—	—	—	—	—	—	—	—	—	—	—	—	—	—	43
Total assets	\$	—	129	—	1,481	8,051	40,795	3,683	1,760	85,395	3,658	1,304	743	1,457	5,147	1,517	6,347	2,740	—	5,104	3,519	—	285	902	(3,796)	170,221
Liabilities and Net Assets																										
Current liabilities:																										
Accounts payable and accrued expenses	\$	—	2	—	126	1,644	4,771	958	564	809	1,143	245	175	145	1,998	288	828	381	—	1,872	791	—	104	30	—	16,874
Current portion of due to related parties	—	—	127	—	130	56	2,405	414	106	22,516	140	376	140	302	156	69	333	116	—	2,230	256	—	181	7	(3,356)	26,704
Current portion of long-term debt	—	—	—	—	—	—	—	39	—	—	37	—	—	—	—	—	—	—	—	—	—	—	—	—	—	76
Professional liability claims	—	—	—	—	—	—	—	—	—	50,455	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	50,455
Total current liabilities	—	129	—	—	256	1,700	7,176	1,411	670	73,780	1,320	621	315	447	2,154	357	1,161	497	—	4,102	1,047	—	285	37	(3,356)	94,109
Long-term liabilities:																										
Obligations under financing leases	—	—	—	—	—	—	—	23	—	—	8	—	—	—	—	—	—	—	—	—	—	—	—	—	—	31
Due to related parties	—	—	—	—	—	—	942	440	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(440)	842
Other long-term liabilities	—	—	—	—	—	—	—	—	—	5,937	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	5,937
Total liabilities	—	129	—	—	256	1,700	8,118	1,874	670	79,717	1,328	621	315	447	2,154	357	1,161	497	—	4,102	1,047	—	285	37	(3,796)	101,019
Commitments and contingencies																										
Net assets:																										
Without donor restrictions	—	—	—	—	1,225	6,351	32,677	1,809	1,090	5,678	2,330	683	428	1,010	2,993	1,160	5,186	2,243	—	1,002	2,472	—	—	865	—	69,202
Total net assets	—	—	—	—	1,225	6,351	32,677	1,809	1,090	5,678	2,330	683	428	1,010	2,993	1,160	5,186	2,243	—	1,002	2,472	—	—	865	—	69,202
Total liabilities and net assets	\$	—	129	—	1,481	8,051	40,795	3,683	1,760	85,395	3,658	1,304	743	1,457	5,147	1,517	6,347	2,740	—	5,104	3,519	—	285	902	(3,796)	170,221

See accompanying independent auditors' report.

BMC HEALTH SYSTEM, INC.
 Boston University Medical Group Consolidation Supplemental Statements of Operations and Changes in Net Assets without Donor Restrictions

June 30, 2020
 (In thousands)

	Division of	Anesthesia	Cardiac	Dermatology	ER	Evans	Eye	Family	Corporate	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	\$	—	10,188	—	2,422	10,779	38,863	12,442	5,435	—	9,118	5,322	1,554	9,625	9,036	4,273	10,270	2,859	—	4,087	10,204	—	1,724	2,646	—	150,846
Capitation revenue		—	—	—	—	—	312	—	3	(186)	—	—	—	—	3	1	—	—	—	—	1	—	—	—	—	135
Grants and contract revenue		—	—	—	1,078	465	3,822	141	6,202	10,959	921	74	50	633	32	51	1,336	408	—	797	942	—	—	—	—	27,911
Institutional support		—	16,793	—	1,221	6,022	34,188	1,381	3,892	6,214	17,037	4,102	3,332	4,349	3,545	2,037	7,800	3,484	—	9,894	5,864	—	303	1,015	—	132,471
Other revenue		—	1,674	—	1,886	2,039	52,566	2,359	4,845	5,452	3,171	3,445	626	2,858	1,985	1,355	7,884	828	—	4,007	3,643	—	721	703	(22,731)	79,396
Total operating revenue		—	28,655	—	6,607	19,305	129,751	16,323	20,477	22,439	30,247	12,944	5,562	17,465	14,578	7,719	27,291	7,579	—	18,785	20,654	—	2,748	4,364	(22,731)	390,759
Operating expenses:																										
Salaries, wages and fringe benefits		—	26,609	—	5,763	17,173	119,668	10,613	18,362	6,287	25,959	11,877	4,857	13,801	13,067	6,806	25,157	6,598	—	17,497	18,445	—	2,438	4,025	(585)	354,416
Medical costs, supplies and other expenses		—	2,047	—	952	2,316	9,853	5,500	2,294	16,338	4,239	1,447	705	3,424	1,486	912	2,128	916	—	1,280	3,077	—	308	383	(22,145)	37,461
Corporate Allocations		—	—	—	—	—	—	—	—	10,740	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	10,740
Depreciation and amortization		—	—	—	—	3	230	—	195	7	—	47	—	—	—	14	—	6	—	7	20	—	—	—	—	623
Interest expenses		—	—	—	—	—	—	—	—	—	1	—	—	—	—	—	—	—	—	—	—	—	—	—	—	18
Total operating expenses		—	28,656	—	6,745	19,492	129,751	16,325	20,663	33,365	30,246	13,324	5,562	17,225	14,567	7,718	27,291	7,578	—	18,784	21,542	—	2,746	4,408	(22,730)	403,258
Income (loss) from operations		—	(1)	—	(138)	(187)	—	(2)	(186)	(10,926)	1	(380)	—	240	11	—	1	—	—	1	(888)	—	2	(44)	(1)	(12,499)
Nonoperating gains (losses), net:																										
Realized gains		—	—	—	—	117	968	—	—	155	—	—	—	—	10	109	19	—	15	—	—	—	—	—	—	1,395
Unrealized gains		—	—	—	—	94	349	—	—	132	—	—	—	—	9	91	1	—	13	—	—	—	—	—	—	689
Gain on disposal of property		—	—	—	—	—	—	(3)	—	—	—	—	—	—	—	(21)	—	—	—	—	—	—	—	—	—	(24)
Other		—	—	—	(1)	—	(4,989)	—	(2)	—	(1)	(2)	—	(10)	(3)	—	—	—	(6)	—	—	—	(12)	—	—	(5,023)
Total nonoperating gains, net		—	—	—	(1)	211	(3,672)	(3)	(2)	287	(1)	(2)	—	(10)	16	179	20	—	23	—	—	—	(12)	—	—	(2,963)
Excess (deficiency) of revenue over expenses		—	(1)	—	(139)	24	(3,672)	(5)	(188)	(10,639)	—	(382)	—	240	1	17	179	21	—	24	(888)	—	(10)	(44)	(1)	(15,462)
Other changes in unrestricted net assets:																										
Donated services (to)/from affiliates		—	—	—	—	—	—	—	—	10,740	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	10,740
Change in net assets without donor restrictions	\$	—	(1)	—	(139)	24	(3,672)	(5)	(188)	(10)	—	(382)	—	240	1	17	179	21	—	24	(888)	—	(10)	(44)	(1)	(4,722)

See accompanying independent auditors' report.

BMC HEALTH SYSTEM, INC.
Boston University Medical Group Consolidation Supplemental Statements of Operations and Changes in Net Assets without Donor Restrictions
June 30, 2019
(In thousands)

	Division of	Anesthesia	Cardiac	Dermatology	ER	Evans	Eye	Family	Corporate	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	\$	—	—	—	3,961	11,030	41,516	14,467	4,990	—	11,999	5,415	1,250	9,963	10,672	4,636	10,524	3,378	—	20,535	11,249	—	1,649	2,996	—	170,230
Institutional support		—	760	—	1,122	4,607	27,688	1,003	3,866	3,737	14,352	2,621	3,546	3,202	3,724	1,709	5,849	3,595	—	7,465	5,763	—	584	674	—	95,877
Other revenue		—	144	—	2,854	2,536	54,614	819	10,134	6,567	3,923	1,619	254	3,939	1,795	1,296	8,738	1,356	—	4,853	2,501	—	474	298	(9,363)	99,490
Total operating revenue		—	904	—	7,937	18,173	124,018	16,289	18,980	10,324	30,254	9,695	5,020	17,104	16,191	7,571	25,171	8,299	—	32,842	19,533	—	2,707	3,968	(9,363)	365,587
Operating expenses:																										
Salaries, wages and fringe benefits		—	867	—	6,599	15,877	112,469	10,596	17,021	13,244	26,396	9,191	4,491	14,287	14,406	6,419	23,223	6,918	—	15,247	16,620	—	2,486	3,543	520	320,420
Medical costs, supplies and other expenses		—	37	—	1,449	2,368	10,513	5,504	2,322	4,285	3,866	992	530	2,884	1,748	1,151	2,345	1,230	—	18,429	2,893	—	220	448	(9,883)	53,301
Depreciation and amortization		—	—	—	22	3	350	178	12	—	44	—	—	—	16	—	56	—	—	8	12	—	—	—	—	724
Interest expense		—	—	—	—	—	1	11	—	—	3	—	—	—	—	—	—	—	—	—	—	—	—	—	—	15
Total operating expenses		—	904	—	8,070	18,278	123,338	16,289	19,365	17,529	30,249	10,185	5,021	17,171	16,170	7,570	25,586	8,204	—	33,684	19,525	—	2,706	3,991	(9,363)	374,460
Income (loss) from operations		—	—	—	(133)	(105)	680	—	(385)	(7,205)	5	(528)	(1)	(67)	21	1	(415)	95	—	(842)	8	—	1	(23)	—	(8,873)
Nonoperating gains (losses), net:																										
Income from investments		—	—	—	1	115	761	—	—	148	—	—	—	—	1	10	107	—	—	15	—	—	—	—	—	1,158
Other		—	—	—	(9)	(10)	118	(1)	—	—	(5)	(4)	(4)	—	(22)	(6)	(10)	—	—	(35)	(8)	—	—	—	—	4
Total nonoperating gains, net		—	—	—	(8)	105	879	(1)	—	148	(5)	(4)	(4)	—	(21)	4	97	—	—	(20)	(8)	—	—	—	—	1,162
Excess (deficiency) of revenue over expenses		—	—	—	(141)	—	1,559	(1)	(365)	(7,057)	—	(532)	(5)	(67)	—	5	(318)	95	—	(862)	—	—	1	(23)	—	(7,711)
Other changes in unrestricted net assets:																										
Change in unrealized appreciation (depreciation) on investments		—	—	—	—	175	1,162	—	—	214	—	—	—	—	15	164	—	—	—	21	—	—	—	—	—	1,751
Donated services from (to) affiliates		—	—	—	—	—	—	—	7,511	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	7,511
Change in net assets without donor restrictions	\$	—	—	—	(141)	175	2,721	(1)	(365)	668	—	(532)	(5)	(67)	—	20	(154)	95	—	(841)	—	—	1	(23)	—	1,551

See accompanying independent auditors' report.

BOSTON MEDICAL CENTER HEALTH PLAN, INC.

MassHealth Accountable Care and Managed Care Organization Statement of Revenues and Expenses

Calendar Year Ended September 30, 2020

(In thousands)

	BACO	Mercy	Signature	Southcoast	MCO	SKSC	Total
Revenue	\$ 1,026,661	176,719	133,900	146,598	313,702	15,060	1,812,640
Medical claims expense	981,205	161,303	127,040	139,117	299,849	12,372	1,720,886
Administrative expense	48,828	10,520	7,409	7,774	16,797	853	92,181
Premium deficiency reserve	(6,819)	(72)	(648)	(1,277)	(2,031)	(201)	(11,048)
Total underwriting deductions	1,023,214	171,751	133,801	145,614	314,615	13,024	1,802,019
Net underwriting gain (loss)	\$ 3,447	4,968	99	984	(913)	2,036	10,621

The MassHealth Accountable Care (ACO) and Managed Care Organization (MCO) Statement of Revenues and Expenses includes revenue, medical costs, administrative expenses and necessary premium deficiency reserves associated with each of the Plan's four ACO contracts and its MCO contract. The format of the supplemental schedule differs from the Consolidated Statement of Operations and Changes in Net Assets without Donor Restrictions. These contract results are included in the Plan's Consolidated Statement of Operations and Changes in Net Assets without Donor Restrictions along with the Plan's other lines of business, but in a more abbreviated format.

BMC HEALTH SYSTEM, INC.

Note to Supplemental Consolidating Information

September 30, 2020 and 2019

(1) Basis of Presentation

The accompanying supplemental consolidating information includes the Consolidating Supplemental Balance Sheets, the Consolidating Supplemental Statement of Operations and Changes in Net Assets without Donor Restrictions and the Consolidating Supplemental Statement of Cash Flows of individual entities of the Health System and the Consolidating Supplemental Balance Sheets, the Consolidating Supplemental Statement of Operations and Changes in Net Assets without Donor Restrictions of 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 SYSTEM, INC.
Supplementary Schedule of Expenditures of Federal Awards
Year ended September 30, 2020

Exhibit IV

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:					
Department of Agriculture:					
Agricultural Research Service:					
Agricultural Research Basic and Applied Research	10.001	Johns Hopkins University	DAA3-19-65673-1	\$ —	56,948
Agricultural Research Basic and Applied Research	10.001	Rutgers The State University of New Jersey	1048	—	6,287
Agricultural Research Basic and Applied Research	10.001	Rutgers The State University of New Jersey	DAA3-19-65147-1	—	6,676
Agricultural Research Service total				—	69,911
National Institutes of Food and Agriculture:					
Food Insecurity Nutrition Incentive Grants Program	10.331		Direct	—	25,539
National Institutes of Food and Agriculture total				—	25,539
Department of Agriculture total				—	95,450
Department of Health and Human Services:					
Administration for Children and Families:					
Assistance for Torture Victims	93.604		Direct	—	420,223
Family Violence Prevention and Services/Discretionary	93.592		Direct	—	449,923
Administration for Children and Families total				—	870,146
Agency for Healthcare Research and Quality:					
National Research Service Awards Health Services Research Training	93.225		Direct	135,759	308,768
Research on Healthcare Costs, Quality and Outcomes	93.226	Trustees of Boston University	4500002841	—	34,529
Research on Healthcare Costs, Quality and Outcomes	93.226	University of Mass.	OSP27392-01	—	34,575
Research on Healthcare Costs, Quality and Outcomes	93.226	University of Utah	10042477-01	—	113,344
Research on Healthcare Costs, Quality and Outcomes	93.226		Direct	103,293	489,218
Agency for Healthcare Research and Quality total				239,052	980,434
Centers for Disease Control and Prevention:					
Birth Defects and Developmental Disabilities – Prevention and Surveillance	93.073		Direct	53,454	370,581
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	93.898	Mass. Department of Public Health	INTF3406MM3190428104	64,131	300,260
Centers for Disease Control and Prevention	93.RD	Antigen Institute for Biomed Research	BMC Agreement ID: 5129	—	27,084
Centers for Disease Control and Prevention	93.RD	Antigen Institute for Biomed Research	NA	—	65,880
Centers for Disease Control and Prevention	93.RD		772105-BMC	—	245,749
Immunization Research, Demonstration, Public Information and Education Training and Clinical Skills Improvement Projects	93.185	American Academy of Pediatrics	INTF2400H78500224302	—	451
Injury Prevention and Control Research and State and Community Based Programs	93.136	Mass. Department of Public Health	INTF2400H4300522428	—	(5,837)
Injury Prevention and Control Research and State and Community Based Programs	93.136	Mass. Department of Public Health	INTF2400H4300522428	—	28,970
Injury Prevention and Control Research and State and Community Based Programs	93.136	Mass. Department of Public Health	INTF3416H78500224020	—	7,562
Injury Prevention and Control Research and State and Community Based Programs	93.136	RAND Corporation	SCON-00000176	—	52,464
Injury Prevention and Control Research and State and Community Based Programs	93.136	Rhode Island Department of Health	1450197	—	2,108
Injury Prevention and Control Research and State and Community Based Programs	93.136	University of Michigan	3004806994	—	64,750
Injury Prevention and Control Research and State and Community Based Programs	93.136		Direct	180,205	841,464
Prevention of Disease, Disability, and Death by Infectious Diseases	93.084	Harvard School of Public Health	116532-5085651	—	2,385
Strengthening Public Health Systems and Services through National Partnerships to Improve and Protect the Nation's Health	93.421	American Academy of Pediatrics	851114BMC	—	31,036
Strengthening Public Health Systems and Services through National Partnerships to Improve and Protect the Nation's Health	93.421	ChangeLab Solutions	MSA0191	—	39,675
Centers for Disease Control and Prevention total				297,790	2,074,582
Health Resources and Services Administration:					
Grants for Primary Care Training and Enhancement	93.884		Direct	107,216	587,797
Maternal and Child Health Federal Consolidated Programs	93.110	Johns Hopkins University	20030650297	—	128,916
Maternal and Child Health Federal Consolidated Programs	93.110		Direct	38,035	538,858
National Research Service Award in Primary Care Medicine	93.186		Direct	7,796	340,566
Preventive Medicine Residency	93.117		Direct	—	(3,688)
Primary Care Medicine and Dentistry Clinician Educator Career Development Awards	93.976		Direct	—	182,905
Sickle Cell Treatment Demonstration Program	93.365	Johns Hopkins University	005492160	—	100,034
Health Resources and Services Administration total				153,047	1,873,288
Immed Office of the Secretary of Health and Human Services:					
Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities	93.817	Mass. Department of Public Health	INTF6207PP1W16052807	—	54,540
Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities	93.817	Mass. General Hospital	233381	—	94,836
Immed Office of the Secretary of Health and Human Services total				—	149,376
National Institutes of Health:					
21st Century Cures Act – Beau Biden Cancer Moonshot	93.353		Direct	303,369	354,428
Aging Research	93.866	Dana Farber Cancer Institute	1224622	—	192,622
Aging Research	93.866	Northern California Institute for Research and Education	SHL2120-07	—	24,941
Aging Research	93.866	Trustees of Boston University	4500002772	—	4,678
Aging Research	93.866	Trustees of Boston University	4500002831	—	405,299
Aging Research	93.866	Trustees of Boston University	4500002900	—	22,237
Aging Research	93.866	Trustees of Boston University	4500003275	—	429,480
Aging Research	93.866		Direct	25,387	427,837
Alcohol Research Programs	93.273	Boston University	4500003139	—	63,391
Alcohol Research Programs	93.273	Fast Track Drugs and Biologics	HHSN27500008-1078-NCIG7-BMC	—	981
Alcohol Research Programs	93.273	KWJ Engineering	593	—	39,462
Alcohol Research Programs	93.273	The Regents of the University of California	91772ac	—	61,641
Alcohol Research Programs	93.273	Trustees of Boston University	4500002958	—	36,361
Alcohol Research Programs	93.273		Direct	956,207	1,981,596
Allergy and Infectious Diseases Research	93.855	Harvard Pilgrim Health Care (HPHC)	R21A143386/AH707	—	1,784
Allergy and Infectious Diseases Research	93.855	Johns Hopkins University	LDR 11	—	29,969
Allergy and Infectious Diseases Research	93.855	Johns Hopkins University	LDR 14 – 1097P	—	7,996
Allergy and Infectious Diseases Research	93.855	Johns Hopkins University	PO 2002249257	—	23,212
Allergy and Infectious Diseases Research	93.855	Johns Hopkins University	PO 2002532372	—	6,605
Allergy and Infectious Diseases Research	93.855	Johns Hopkins University	PO# 2003738345	—	(18,391)
Allergy and Infectious Diseases Research	93.855	Johns Hopkins University	PO# 2003746446	—	5,073
Allergy and Infectious Diseases Research	93.855	Johns Hopkins University	PO#2003738345	—	1,609
Allergy and Infectious Diseases Research	93.855	Johns Hopkins University	Protocol 2021 Discretionary	—	12,492
Allergy and Infectious Diseases Research	93.855	Johns Hopkins University	UM1 A068632	—	115,950
Allergy and Infectious Diseases Research	93.855	Medical University of South Carolina	A00-3461-S001	—	33,106
Allergy and Infectious Diseases Research	93.855	Medical University of South Carolina	MUSC18-012-8D160	—	59,491
Allergy and Infectious Diseases Research	93.855	Miriam Hospital	7109155JB	—	22,372
Allergy and Infectious Diseases Research	93.855	Miriam Hospital	7109156LA	—	(14,119)
Allergy and Infectious Diseases Research	93.855	Miriam Hospital	7147100UE	—	86,606
Allergy and Infectious Diseases Research	93.855	Miriam Hospital	7147101BL	—	28,399
Allergy and Infectious Diseases Research	93.855	Miriam Hospital	7147102NL	—	89,849
Allergy and Infectious Diseases Research	93.855	Miriam Hospital	7147104AH	—	63,950
Allergy and Infectious Diseases Research	93.855	Miriam Hospital	7147105JS	—	129,048
Allergy and Infectious Diseases Research	93.855	Miriam Hospital	7147106KJ	—	14,919
Allergy and Infectious Diseases Research	93.855	Miriam Hospital	F30A042853	—	225
Allergy and Infectious Diseases Research	93.855	Rutgers The State University of New Jersey	0925	—	(34,033)
Allergy and Infectious Diseases Research	93.855	Rutgers The State University of New Jersey	NA	—	128,060
Allergy and Infectious Diseases Research	93.855	Rutgers, New Jersey Medical School	0792	—	75,177
Allergy and Infectious Diseases Research	93.855	Trustees of Boston University	4500002129	—	(1,034)
Allergy and Infectious Diseases Research	93.855	Trustees of Boston University	4500002465	—	60,186
Allergy and Infectious Diseases Research	93.855	University of Alabama	000509701-002	—	150,049
Allergy and Infectious Diseases Research	93.855	University of California, Los Angeles	1560 G WB860	—	37,158
Allergy and Infectious Diseases Research	93.855		Direct	849,241	3,777,854
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	University of Arizona	244231	—	(3,159)
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	University of Arizona	428238	—	33,495
Biomedical Research and Research Training	93.859	BioSensics, LLC	2 R44 GM123821-02	—	70,152
Biomedical Research and Research Training	93.859	University of Pittsburgh	0047862(126884-7)	—	10,873
Blood Diseases and Resources Research	93.839	Duke University	A032459	—	33,616
Blood Diseases and Resources Research	93.839	Lurie Children's Hospital of Chicago	901516-BMC	—	18,910
Blood Diseases and Resources Research	93.839	Mount Sinai Medical Center	0255-A902-4609	—	11,984
Blood Diseases and Resources Research	93.839	Mount Sinai Medical Center	0255-A903-4609	—	3,855
Blood Diseases and Resources Research	93.839	Rutgers, New Jersey Medical School	0477	—	4,614
Blood Diseases and Resources Research	93.839	Trustees of Boston University	4500002955	—	32,128
Blood Diseases and Resources Research	93.839	Trustees of Boston University	4500003310	—	46,895
Blood Diseases and Resources Research	93.839		Direct	483,858	1,658,303
Cancer Biology Research	93.396	Trustees of Boston University	4500002812	—	120,699
Cancer Biology Research	93.396		Direct	—	48,426
Cancer Cause and Prevention Research	93.393		SP0045469-PROJ0012695	—	11,207
Cancer Cause and Prevention Research	93.393	Northwestern University	Direct	—	68,742
Cancer Centers Support Grants	93.397	Dana Farber Cancer Institute	1205202	—	100,450
Cancer Centers Support Grants	93.397	Dana Farber Cancer Institute	2230006	—	27,282
Cancer Centers Support Grants	93.397	Dana Farber Cancer Institute	1285808	—	16,839

BMC HEALTH SYSTEM, INC.
Supplementary Schedule of Expenditures of Federal Awards
 Year ended September 30, 2020

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
Cancer Control	93.309	South West Oncology Group	CA37429	\$ —	569
Cancer Detection and Diagnosis Research	93.394	Northwestern University	SP0028253-PROJ0007361	—	79,655
Cancer Detection and Diagnosis Research	93.394	Northwestern University	SP0031569-PROJ0008430	—	103,340
Cancer Detection and Diagnosis Research	93.394	University of California, Los Angeles	1559 GWC176	—	7,482
Cancer Detection and Diagnosis Research	93.394	—	—	245,384	574,357
Cancer Research Manpower	93.398	—	—	—	131,819
Cancer Treatment Research	93.395	Northwestern University	SP0045578-PROJ0012716	—	59,178
Cancer Treatment Research	93.395	NRG Oncology Foundation, Inc.	BMC/Kachnic-NCORP-01	—	218,687
Cancer Treatment Research	93.395	Oregon Health and Science University	NA	—	66,083
Cancer Treatment Research	93.395	University of California, Los Angeles	UCLA Subaward Number 1568 G TA632	—	472,018
Cardiovascular Diseases Research	93.837	Brigham & Women's Hospital	113286	—	166,401
Cardiovascular Diseases Research	93.837	Children's Hospital	GENFD0001569484	—	(7,531)
Cardiovascular Diseases Research	93.837	Mass. General Hospital	U01HL023336	—	4,197
Cardiovascular Diseases Research	93.837	New England Medical Research Inst, Inc.	U01HL107407	—	7,406
Cardiovascular Diseases Research	93.837	Trustees of Boston University	4500003238	—	76,510
Cardiovascular Diseases Research	93.837	Trustees of Boston University	4500003493	—	159,161
Cardiovascular Diseases Research	93.837	Trustees of Columbia University	NA	125,777	674,791
Cardiovascular Diseases Research	93.837	University of Pittsburgh	AWD00000108 (132784-1)	—	30,824
Cardiovascular Diseases Research	93.837	University of Pittsburgh	AWD00000108 (134474-1)	—	13,096
Cardiovascular Diseases Research	93.837	University of Pittsburgh	AWD00000040 (133431-2)	—	26,970
Cardiovascular Diseases Research	93.837	Wake Forest University Health Sciences	126-100730-112789	—	68,771
Cardiovascular Diseases Research	93.837	—	—	13,596	319,038
Child Health and Human Development Extramural Research	93.865	Florida State University	R01949	—	334,015
Child Health and Human Development Extramural Research	93.865	George Washington University	U10HD036801	—	516
Child Health and Human Development Extramural Research	93.865	Johns Hopkins University	2002901077	—	108,089
Child Health and Human Development Extramural Research	93.865	Johns Hopkins University	2003025892	—	131,291
Child Health and Human Development Extramural Research	93.865	Trustees of Boston University	4500003159	—	52,882
Child Health and Human Development Extramural Research	93.865	University of Maryland, Baltimore	1802614	—	(2,256)
Child Health and Human Development Extramural Research	93.865	University of North Carolina	5108777	—	17,447
Child Health and Human Development Extramural Research	93.865	—	—	1,452,436	2,220,782
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	Brigham & Women's Hospital	1199408	—	22,763
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	Brigham & Women's Hospital	122308	—	54,387
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	Brigham & Women's Hospital	113318	—	20,319
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	Kaiser Foundation Research Inst	DC08030228 BMC	—	7,118
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	Mass. General Hospital	226440	—	19,131
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	Northern California Institute for Research and Education	SHL2118-05	—	9,385
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	Northwestern University	600409777 BMCC	—	(3,724)
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	Washington University	WU-20-277	—	38,943
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	—	—	1,493,256	3,174,185
Drug Abuse and Addiction Research Programs	93.279	American Academy of Child and Adolescent Psychiatry	K12DA000357	—	113,967
Drug Abuse and Addiction Research Programs	93.279	Bay State Medical	15-259	—	81,414
Drug Abuse and Addiction Research Programs	93.279	Brigham & Women's Hospital	119865	—	354,579
Drug Abuse and Addiction Research Programs	93.279	Brown University	00001502	—	34,749
Drug Abuse and Addiction Research Programs	93.279	Brown University	NA	—	9,866
Drug Abuse and Addiction Research Programs	93.279	Cornell University	162864	—	96,061
Drug Abuse and Addiction Research Programs	93.279	Denver Health and Hospital Authority	A19-0001-S005	—	20,133
Drug Abuse and Addiction Research Programs	93.279	Emocha Mobile Health, Inc.	6883	—	91,927
Drug Abuse and Addiction Research Programs	93.279	Heluna Health, the new PHFE	0526.0101	—	(192)
Drug Abuse and Addiction Research Programs	93.279	Heluna Health, the new PHFE	0526.0102	—	171,528
Drug Abuse and Addiction Research Programs	93.279	Heluna Health, the new PHFE	0526.0103	—	146,409
Drug Abuse and Addiction Research Programs	93.279	Heluna Health, the new PHFE	3R01DA045690-02S1	—	94,312
Drug Abuse and Addiction Research Programs	93.279	Kaiser Foundation Research Inst	2019117046	—	139,911
Drug Abuse and Addiction Research Programs	93.279	Mass. General Hospital	23540002	—	83,561
Drug Abuse and Addiction Research Programs	93.279	McLean Hospital	401108	—	254,125
Drug Abuse and Addiction Research Programs	93.279	Miriam Hospital	7109993JB	—	3,263
Drug Abuse and Addiction Research Programs	93.279	Miriam Hospital	7147185MLD	—	3,113
Drug Abuse and Addiction Research Programs	93.279	New York University	17-AD-03-1000021-01	—	120,640
Drug Abuse and Addiction Research Programs	93.279	RAND Corporation	9620180074	—	16,144
Drug Abuse and Addiction Research Programs	93.279	RAND Corporation	9620180098	—	36,916
Drug Abuse and Addiction Research Programs	93.279	Trustees of Boston University	4500002350	—	5,335
Drug Abuse and Addiction Research Programs	93.279	Trustees of Boston University	4500002825	92,489	375,217
Drug Abuse and Addiction Research Programs	93.279	Trustees of Boston University	4500003058	—	83,933
Drug Abuse and Addiction Research Programs	93.279	Trustees of Columbia University	2(G010054-01)	—	92,377
Drug Abuse and Addiction Research Programs	93.279	University of Kentucky	2000002473-19-258	—	95,975
Drug Abuse and Addiction Research Programs	93.279	Weill Cornell Medical College	190191-4	—	49,011
Drug Abuse and Addiction Research Programs	93.279	Weill Cornell Medical College	191194-2	—	8,661
Drug Abuse and Addiction Research Programs	93.279	Weill Cornell Medical College	193098-2	—	7,125
Drug Abuse and Addiction Research Programs	93.279	Weill Cornell Medical College	1014991-4	—	54,827
Drug Abuse and Addiction Research Programs	93.279	West Virginia University	17-752-BMC	—	85,760
Drug Abuse and Addiction Research Programs	93.279	Yale University	GR109709 (CON-80002424)	—	97,230
Drug Abuse and Addiction Research Programs	93.279	—	—	5,320,938	17,601,461
Environmental Health	93.113	Trustees of Boston University	4500002019	—	61,477
Environmental Health	93.113	Trustees of Boston University	4500002463	—	94,891
Environmental Health	93.113	—	—	—	166,684
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	Mass. General Hospital	236396	—	(3,133)
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	Mass. General Hospital	233020	—	1,470
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	Mass. General Hospital	233251	—	134,391
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	The Regents of the University of California	96686c	—	18,970
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	Trustees of Boston University	4500002494	—	(34)
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	Trustees of Boston University	4500003093	—	239,169
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	University of Cincinnati	010785-133380	—	3,621
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	—	—	34,315	465,537
International Research and Research Training	93.989	Rutgers The State University of New Jersey	—	—	70,500
International Research and Research Training	93.989	—	—	35,420	72,391
Lung Diseases Research	93.838	University of Cincinnati	011283-002	—	22,718
Lung Diseases Research	93.838	—	—	—	93,040
Mental Health Research Grants	93.242	Brown University	00001294	—	158,223
Mental Health Research Grants	93.242	Dimagi, Inc.	9R44MH117956-02(SBIR Phase II)	—	100,193
Mental Health Research Grants	93.242	Kaiser Foundation Research Inst	RNG21(0241-BUDG01-BMC-00	—	29,598
Mental Health Research Grants	93.242	Mass. General Hospital	234070	—	268,176
Mental Health Research Grants	93.242	McLean Hospital	401612	—	110,872
Mental Health Research Grants	93.242	Northwestern University	60050996 BMC	—	69,326
Mental Health Research Grants	93.242	Oregon Health and Science University	1014693_BOSTON	—	10,510
Mental Health Research Grants	93.242	Oregon Health and Science University	1014694_BMCC	—	38,007
Mental Health Research Grants	93.242	RAND Corporation	SCON-00000231	—	89,999
Mental Health Research Grants	93.242	University of North Carolina	5111488	—	37,428
Mental Health Research Grants	93.242	University of North Carolina	5115546	—	11,028
Mental Health Research Grants	93.242	—	—	221,854	1,530,520
Minority Health and Health Disparities Research	93.307	Northwestern University	60046231 BMC	—	393,267
Minority Health and Health Disparities Research	93.307	Northwestern University	60051328 BMC	—	100,317
Minority Health and Health Disparities Research	93.307	Wake Forest University Health Sciences	127-100730-110219	—	192,600
Minority Health and Health Disparities Research	93.307	Wake Forest University Health Sciences	128-100730-112779	—	48,424
Minority Health and Health Disparities Research	93.307	—	—	—	115,003
National Center for Advancing Translational Sciences	93.350	American BioOptics, LLC	1R44CA199667-01A1	—	834
National Center for Advancing Translational Sciences	93.350	Boston University	NA	—	960
National Center for Advancing Translational Sciences	93.350	University of Utah	10046258-01	—	145,438
National Center for Advancing Translational Sciences	93.350	—	—	871,362	1,732,129
National Institutes of Health	93.RD	Anlagen Biosciences, Inc.	NA	—	162,029
National Institutes of Health	93.RD	WESTAT	6579-S48	—	119,438
National Institutes of Health	93.RD	—	—	—	196,514
Nursing Research	93.361	Regents of the University of Colorado	FY16.342.003	—	(24,154)
Nursing Research	93.361	—	—	98,309	578,831
Oral Diseases and Disorders Research	93.121	Trustees of Boston University	4500003158	—	29,946
Oral Diseases and Disorders Research	93.121	—	—	—	73,183
Research and Training in Complementary and Integrative Health	93.213	Butler Hospital	5001651-4	—	7,991
Research and Training in Complementary and Integrative Health	93.213	Cambridge Health Alliance	NA	—	13,182
Research and Training in Complementary and Integrative Health	93.213	Mass. General Hospital	230481	—	(1,133)
Research and Training in Complementary and Integrative Health	93.213	Northwestern University	60047299 BMC	—	25,309
Research and Training in Complementary and Integrative Health	93.213	—	—	285,660	672,242
Research Related to Deafness and Communication Disorders	93.173	Children's Hospital	FORGENFD0001491910	—	(93,743)
Research Related to Deafness and Communication Disorders	93.173	Children's Hospital	FORGENFD0001682397	—	128,743
Research Related to Deafness and Communication Disorders	93.173	Georgia State University	SP00013351-02	—	24,048
Research Related to Deafness and Communication Disorders	93.173	University of Michigan	9303754646	—	54,882
Translation and Implementation Science Research for Heart, Lung, Blood Diseases, and Sleep Disorders	93.840	Mass. General Hospital	234862	—	191,923

BMC HEALTH SYSTEM, INC.
Supplementary Schedule of Expenditures of Federal Awards
Year ended September 30, 2020

Exhibit IV

<u>Federal program/pass-through grantor/program or cluster</u>	<u>CFDA</u>	<u>Pass-through entity</u>	<u>Direct award or pass-through entity number</u>	<u>Passed to sub-recipients</u>	<u>Total expenditures</u>
Translation and Implementation Science Research for Heart, Lung, Blood Diseases, and Sleep Disorders	93.840		Direct	\$ 246	133,668
Trans-NIH Research Support	93.310	Mass. General Hospital	232124	—	2,042,450
Trans-NIH Research Support	93.310	University of North Carolina	5109603	—	35,980
Trans-NIH Research Support	93.310	University of North Carolina	5114828	—	417,766
Trans-NIH Research Support	93.310	University of Pittsburgh	AW000001053(133401-1)	—	51,945
Vision Research	93.867	Jaeb Center for Health Research	NA	—	322
Vision Research	93.867	Jaeb Center for Health Research	NA	—	3,680
Vision Research	93.867	Jaeb Center for Health Research	U10EY11751	—	74
Vision Research	93.867	New York University	NA	—	1,926
Vision Research	93.867	University of California, Irvine	2019-1215	—	15,013
Vision Research	93.867		Direct	—	874,573
National Institutes of Health total				12,909,114	53,532,393
Office of Assistant Secretary for Health:					
Community Programs to Improve Minority Health Grant Program	93.137	Mass. Department of Public Health	F419020171	—	40,931
Community Programs to Improve Minority Health Grant Program	93.137		Direct	6,650	348,861
Office of Assistant Secretary for Health total				6,650	389,792
Office of Research Planning Evaluation:					
Administration for Children and Families	93.RD	Child Trends	NA	—	20,002
Office of Research Planning Evaluation total				—	20,002
Department of Health and Human Services total				13,605,653	59,890,013
Department of Justice:					
National Institute of Justice:					
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	Johns Hopkins University	PO# 2003750769	—	85,802
National Institute of Justice total				—	85,802
Department of Justice total				—	85,802
Dept of Defense:					
Military Medical Research and Development	12.420		Direct	25,082	132,366
Dept of Defense total				25,082	132,366
Dept of Defense total				25,082	132,366
Dept of State:					
Dept of State:					
Public Diplomacy Programs	19.040	University of Nebraska Medical Center	45-2402-1031-311	1,629	1,629
Dept of State total				1,629	1,629
Dept of State total				1,629	1,629
National Science Foundation:					
National Science Foundation:					
Computer and Information Science and Engineering	47.070	Northeastern University	502658-78050	—	133,075
Engineering Grants	47.041	Northwestern University	SP004398-PROJ0013652	—	16,773
Mathematical and Physical Sciences	47.049	Trustees of Boston University	4500002711	—	24,465
Office of International Science and Engineering	47.079	U.S. Civilian Research and Development Foundation	OISE-17-62909-1	10,799	10,799
National Science Foundation total				10,799	185,112
National Science Foundation total				10,799	185,112
Social Security Administration:					
Social Security Administration:					
Social Security Administration	96.RD	WESTAT	6464-S-MA02-001	—	141,791
Social Security Administration total				—	141,791
Social Security Administration total				—	141,791
Research and Development total				13,643,163	60,532,163
Other programs:					
Corporation for National and Community Service:					
Corporation for National and Community Service:					
Volunteer Generation Fund	94.021	Massachusetts Service Alliance	YDV1-20-F-472096070	—	436
Corporation for National and Community Service total				—	436
Corporation for National and Community Service total				—	436
Department of Health and Human Services:					
Administration for Children and Families:					
Refugee and Entrant Assistance State/Replacement Designee Administered Programs	93.566	Mass. Department of Public Health	5189999DDM3-13	—	47,701
Administration for Children and Families total				—	47,701
Centers for Disease Control and Prevention:					
HIV Prevention Activities Health Department Based	93.940	Mass. Department of Public Health	INTF2400H78500224395	91,469	185,184
HIV Prevention Activities Health Department Based	93.940	Mass. Department of Public Health	INTF4944MM3161926007	—	2,762,032
Centers for Disease Control and Prevention total				91,469	2,947,216
Health Resources And Services Administration:					
COVID-19 – Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153		Direct	—	17,100
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153		Direct	—	399,365
COVID-19 – Claims Reimbursement to Health Care Providers and Facilities for Testing, Treatment, and Vaccine Administration for the Uninsured	93.461		Direct	—	8,267
Healthy Start Initiative	93.926	Boston Public Health Commission	FY180109610	—	(398)
Healthy Start Initiative	93.926	Boston Public Health Commission	FY190206069	—	37,735
Healthy Start Initiative	93.926	Boston Public Health Commission	FY20021417	—	40,649
HIV Emergency Relief Project Grants	93.914	Boston Public Health Commission	6-H89-HA-00011-16	—	(211)
HIV Emergency Relief Project Grants	93.914	Boston Public Health Commission	FY17018196A	—	220,348
HIV Emergency Relief Project Grants	93.914	Boston Public Health Commission	FY18019409A	—	(11,319)
HIV Emergency Relief Project Grants	93.914	Boston Public Health Commission	FY20 021016	—	3,643
HIV Emergency Relief Project Grants	93.914	Boston Public Health Commission	PO21201941	—	565
Maternal and Child Health Services Block Grant to the States	93.994	Mass. Department of Public Health	INTF3105M03901424004-2019	—	230,745
Maternal and Behavioral Health Education and Training Grants	93.732		Direct	4,439	300,521
Health Resources and Services Administration total				4,439	1,247,010
Immed Office of the Secretary of Health and Human Services:					
National Bioterrorism Hospital Preparedness Program	93.889	Mass.Hospital Research and Educational Association Inc	NA	—	15,750
Immed Office of the Secretary of Health and Human Services total				—	15,750
Office for Victims of Crime:					
National Bioterrorism Hospital Preparedness Program	93.889,93.074	Boston Public Health Commission	FY16016396	—	2,547
Office for Victims of Crime total				—	2,547
Office of Assistant Secretary for Health:					
Family Planning Services	93.217	ABCD	00-549-2160	—	83,151
Office of Assistant Secretary for Health total				—	83,151
Substance Abuse and Mental Health Services Administration:					
Block Grants for Prevention and Treatment of Substance Abuse	93.959	Mass. Department of Public Health	INTF2330M78500824150	—	653,104
Block Grants for Prevention and Treatment of Substance Abuse	93.959	Mass. Department of Public Health	INTF2351M03183626033	—	89,801
Block Grants for Prevention and Treatment of Substance Abuse	93.959	Mass. Department of Public Health	INTF2351M03183626052	—	1,114,029
Opioid STR	93.788	American Academy of Addiction Psychiatry	STATES 16-13 52	—	41,948
Opioid STR	93.788	American Academy of Addiction Psychiatry	STATES 16-13 NCE	—	24,630
Opioid STR	93.788	American Academy of Addiction Psychiatry	STATES-16-13	—	42,603
Opioid STR	93.788	Mass. Department of Public Health	INTF2330M04500824114	—	56,333
Opioid STR	93.788	Mass. Department of Public Health	INTF2351M03W19026065	—	271,941
Opioid STR	93.101	Institute for Health and Recovery	INTF233MM3W18002127	—	175,701
Substance Abuse and Mental Health Services Administration	93.243	Signature Healthcare Brockton Hospital	BOBAT	—	45,278
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	University of California, San Francisco	9895c	—	30,552
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	University of Mass.	OSP29147-01	—	8,099
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243		Direct	—	519,369
Substance Abuse and Mental Health Services Administration total				—	3,073,388
Department of Health and Human Services total				95,908	7,416,763

BMC HEALTH SYSTEM, INC.
Supplementary Schedule of Expenditures of Federal Awards
Year ended September 30, 2020

Exhibit IV

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
Department of Housing and Urban Development:					
Assistant Secretary for Community Planning and Development:					
Emergency Solutions Grant Program	14.231	Boston Department of Neighborhood Development	38431-16	\$ —	1,131
Emergency Solutions Grant Program	14.231	Boston Department of Neighborhood Development	47599	—	87,527
Assistant Secretary for Community Planning and Development total				—	68,658
Department of Housing and Urban Development total				—	68,658
Department of Justice:					
Office for Victims of Crime:					
Crime Victim Assistance	16.575	Mass. Office of Victim Assistance	VOCA2017BMCKVCVRT0000	—	(66,557)
Crime Victim Assistance	16.575	Mass. Office of Victim Assistance	VOCA2018BMCKVCVRT0000	—	(235,602)
Crime Victim Assistance	16.575	Mass. Office of Victim Assistance	VOCA2018BMCKIDV000000	—	225,487
Crime Victim Assistance	16.575	Mass. Office of Victim Assistance	VOCA2019BMCKVCVRT0000	—	1,025,330
Crime Victim Assistance	16.575	Mass. Office of Victim Assistance	VOCA2019BMCKICWTV0000	—	258,372
Crime Victim Assistance	16.575	Massachusetts Trial Court	NA	—	202,981
Crime Victim Assistance	16.575		Direct	—	20,752
Office for Victims of Crime total				—	1,470,763
Office of Justice Programs:					
Crime Victim Assistance/Discretionary Grants	16.582		Direct	—	168,892
Office of Justice Programs total				—	168,892
Violence Against Women Office:					
Violence Against Women Formula Grants	16.588	Exec Office of Public Safety & Security	SCEPS3001VAWA18BMCD1	—	26,689
Violence Against Women Formula Grants	16.588	Exec Office of Public Safety & Security	SCEPSVAWA17BOSTONMED	—	9,954
Violence Against Women Formula Grants	16.588	Exec Office of Public Safety & Security	SCEPSVAWA19BOSTONMED	—	74,832
Violence Against Women Office total				—	111,475
Department of Justice total				—	1,751,130
Other programs total				95,908	9,236,987
Food Distribution Cluster:					
Department of Agriculture:					
Emergency Food Assistance Program (Food Commodities)	10.569		Direct	—	110,038
Department of Agriculture total				—	110,038
Department of Agriculture total				—	110,038
Food Distribution Cluster total				—	110,038
Aging:					
Department of Health and Human Services:					
Administration For Community Living (Acl):					
Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers	93.044	City of Boston	4B-19	—	434
Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers	93.044	City of Boston	PO BOSTN-0000708376; award # 4B-20	—	20,948
Administration for Community Living (Acl) total				—	21,382
Department of Health and Human Services total				—	21,382
Aging total				—	21,382
Grand total				\$ 13,739,071	69,900,570

See accompanying independent auditors' report.

BMC HEALTH SYSTEM, INC.

Notes to Schedule of Expenditure of Federal Awards

Year ended September 30, 2020

(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, 2020. 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 2020, \$110,038 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.