

BMC Health System, Inc.
Report on Federal Awards in Accordance with
Uniform Guidance
September 30, 2017
EIN #043314093

BMC Health System, Inc.
Report on Federal Awards in Accordance with Uniform Guidance
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**Part I - Financial Statements and
Schedule of Expenditures of Federal Awards**



Report of Independent Auditors

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of BMC Health System, Inc and its subsidiaries (the "Health System"), which comprise the consolidated statements of financial position as of September 30, 2017 and 2016, and the related consolidated statements of operations, of changes in net assets and of cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; 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 the 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, except as noted in the paragraphs below. 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 our 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, we consider internal control relevant to the Health System'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 Health System'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.



The PricewaterhouseCoopers affiliated firm in the Cayman Islands performed audit procedures for the Boston Medical Center Insurance Company (“BMCIC”) comprising approximately 4.6% and 4.3% of the total assets of the Health System for the years ended September 30, 2017 and 2016, respectively. Personnel of this firm, excluding United States personnel, do not participate in a continuing education program that satisfies the requirement set forth in Chapter 3, paragraph 3.76 of *Government Auditing Standards*. However, this firm does participate in continuing education programs applicable in the Cayman Islands.

Further, the PricewaterhouseCoopers affiliated firm in the Cayman Islands does not have an external quality review by an unaffiliated audit organization as required by Chapter 3, paragraph 3.82(b) of *Government Auditing Standards*, since no such program is offered by professional organizations in the country. However, this office participates in the PricewaterhouseCoopers worldwide internal control review program, which requires the office to be periodically subjected to an extensive quality control review by partners and managers from other PricewaterhouseCoopers affiliated firms.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the BMC Health System, Inc. and its subsidiaries as of September 30, 2017 and 2016, and the results of their operations, changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating 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 consolidating information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, changes in net assets and cash flows of the individual companies and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations, changes in net assets and cash flows of the individual companies.

Other Information

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 for the year ended September 30, 2017 is presented for purposes of additional analysis as required by Title 2 U.S *Code of Federal Regulations Part 200, Uniform Administrative Requirements Cost Principles, and Audit*



Requirements for Federal Awards (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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2018 on our consideration of Health System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended September 30, 2017. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on 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.

PricewaterhouseCoopers LLP

Boston, Massachusetts
January 24, 2018

BMC Health System, Inc.
Consolidated Balance Sheets
September 30, 2017 and 2016

<i>(in thousands)</i>	2017	2016
Assets		
Current assets		
Cash and cash equivalents	\$ 251,360	\$ 364,631
Short-term investments	39,732	41,200
Patients accounts receivable, less allowance of \$38,475 and \$33,251 in 2017 and 2016, respectively	96,420	88,223
Other accounts receivable, less allowance of \$3,188 and \$3,108 in 2017 and 2016, respectively	209,129	174,143
Current portion of grants receivable, less allowance of \$734 and \$541 in 2017 and 2016, respectively	16,671	14,387
Current portion of estimated receivable for final settlements with third-party payors	3,941	8,998
Inventories	8,751	8,277
Prepaid expenses and other current assets	23,146	22,584
Current portion of funds held by Trustees	3,189	38,000
Total current assets	<u>652,339</u>	<u>760,443</u>
Assets limited as to use		
Board-designated investments	367,108	330,691
Funds held by Trustees	35,666	40,850
Donor-restricted investments	332,883	314,363
Reserve funds	123,641	131,448
Total assets limited as to use	<u>859,298</u>	<u>817,352</u>
Other assets		
Long-term investments	298,870	267,335
Property, plant and equipment, net	963,851	905,341
Other noncurrent assets	57,075	57,635
Total assets	<u>\$ 2,831,433</u>	<u>\$ 2,808,106</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 259,597	\$ 305,163
Claims payable	122,600	121,066
Deferred revenue	31,385	23,543
Current portion of long-term debt and capital leases	5,902	5,789
Premium deficiency reserve	-	28,000
Other current liabilities	6,057	7,246
Total current liabilities	<u>425,541</u>	<u>490,807</u>
Long-term liabilities		
Estimated final settlements with third-party payors	51,626	52,697
Obligations under capital leases	46,700	48,179
Long-term debt	571,746	579,461
Other long-term liabilities	155,963	171,562
Total liabilities	<u>1,251,576</u>	<u>1,342,706</u>
Commitments and contingencies		
Net assets		
Unrestricted	1,241,038	1,152,932
Temporarily restricted	300,939	296,218
Permanently restricted	37,880	16,250
Total net assets	<u>1,579,857</u>	<u>1,465,400</u>
Total liabilities and net assets	<u>\$ 2,831,433</u>	<u>\$ 2,808,106</u>

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

BMC Health System, Inc.
Consolidated Statements of Operations
Years Ended September 30, 2017 and 2016

<i>(in thousands)</i>	2017	2016
Operating revenue		
Net patient service revenue	\$ 1,063,417	\$ 1,004,379
Provision for bad debt	75,929	56,781
Net patient service revenue net of provision for bad debt	<u>987,488</u>	<u>947,598</u>
Capitation revenue	1,637,223	1,565,692
Grants and contract revenue	91,283	98,531
Other revenue	252,145	218,999
Net assets released from restrictions for operations	18,623	26,840
Total operating revenue	<u>2,986,762</u>	<u>2,857,660</u>
Operating expenses		
Salaries, wages and fringe benefits	982,916	900,241
Supplies and expenses	1,833,901	1,790,083
Depreciation and amortization	88,274	87,707
Interest expense	18,274	24,763
Research, sponsored programs and community health services	75,511	99,915
Total operating expenses	<u>2,998,876</u>	<u>2,902,709</u>
Loss from operations	<u>(12,114)</u>	<u>(45,049)</u>
Nonoperating gains (losses), net		
Investment income (including other-than-temporary impairment losses of \$841 and \$752 in 2017 and 2016, respectively)	32,900	30,600
Gain on sale of real estate	-	315
Loss on defeasance of debt	-	(16,187)
Fundraising costs and other	(5,154)	(5,989)
Total nonoperating gains, net	<u>27,746</u>	<u>8,739</u>
Excess (deficiency) of revenue over expenses	15,632	(36,310)
Other changes in unrestricted net assets		
Change in unrealized appreciation on investments	14,381	13,810
Net assets released from restrictions for property, plant and equipment	41,342	39,113
Pension related changes other than net periodic pension costs	16,751	(10,510)
Change in unrestricted net assets	<u>88,106</u>	<u>6,103</u>
Unrestricted net assets		
Beginning of year	<u>1,152,932</u>	<u>1,146,829</u>
End of year	<u>\$ 1,241,038</u>	<u>\$ 1,152,932</u>

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

BMC Health System, Inc.
Consolidated Statements of Changes in Net Assets
Years Ended September 30, 2017 and 2016

<i>(in thousands)</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets at September 30, 2015	<u>\$ 1,146,829</u>	<u>\$ 314,551</u>	<u>\$ 16,260</u>	<u>\$ 1,477,640</u>
Increases (decreases) in net assets				
Deficiency of revenues over expenses	(36,310)	-	-	(36,310)
Investment income	-	8,026	-	8,026
Change in net unrealized appreciation on investments	13,810	17,053	-	30,863
Contribution revenue	-	22,541	(10)	22,531
Net assets released from restrictions for operations	-	(26,840)	-	(26,840)
Net assets released from restrictions for property, plant and equipment	39,113	(39,113)	-	-
Pension related changes other than net periodic pension costs	(10,510)	-	-	(10,510)
Total increase (decrease) in net assets	<u>6,103</u>	<u>(18,333)</u>	<u>(10)</u>	<u>(12,240)</u>
Net assets at September 30, 2016	<u>1,152,932</u>	<u>296,218</u>	<u>16,250</u>	<u>1,465,400</u>
Increases (decreases) in net assets				
Excess of revenues over expenses	15,632	-	-	15,632
Investment income	-	29,191	-	29,191
Change in net unrealized appreciation on investments	14,381	15,644	-	30,025
Contribution revenue	-	19,851	21,630	41,481
Net assets released from restrictions for operations	-	(18,623)	-	(18,623)
Net assets released from restrictions for property, plant and equipment	41,342	(41,342)	-	-
Pension related changes other than net periodic pension costs	16,751	-	-	16,751
Total increase (decrease) in net assets	<u>88,106</u>	<u>4,721</u>	<u>21,630</u>	<u>114,457</u>
Net assets at September 30, 2017	<u>\$ 1,241,038</u>	<u>\$ 300,939</u>	<u>\$ 37,880</u>	<u>\$ 1,579,857</u>

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

BMC Health System, Inc.
Consolidated Statements of Cash Flows
Years Ended September 30, 2017 and 2016

<i>(in thousands)</i>	2017	2016
Operating activities		
Change in net assets	\$ 114,457	\$ (12,240)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Accretion of discount on long-term grants	-	(141)
Depreciation and amortization	88,274	87,707
Restricted contributions	(14,002)	(13,569)
Donated securities received	(1,233)	(1,154)
Return on investment of joint venture	12	1,307
Amortization of bond discount/premium and issuance costs	(1,801)	32,677
City of Boston lease refinancing	-	(7,921)
Discount and provision for bad debt on contributions receivable	7,518	5,883
Net realized gains and change in unrealized (appreciation) on investments	(72,286)	(35,042)
Increase in asset retirement obligation	103	557
Gain on sale of real estate	-	(315)
Gain on sale of joint venture	-	(7,382)
Loss on defeasance	-	16,187
Provision for bad debts	75,929	56,781
Pension related changes other than net periodic pension costs	(16,751)	10,510
Changes in operating assets and liabilities		
Grants receivable	(2,284)	14,713
Patient accounts receivable	(84,126)	(65,739)
Other current assets and liabilities	(36,887)	52,034
Other noncurrent assets and liabilities	(10,461)	(4,392)
Estimated final settlements with third-party payors	3,986	(2,126)
Claims payable	1,534	6,406
(Decrease) increase in premium deficiency reserve	(28,000)	28,000
Accounts payable and accrued expenses	(36,000)	37,431
Net cash (used in) provided by operating activities	<u>(12,018)</u>	<u>200,172</u>
Investing activities		
Proceeds from sale of investments	361,856	131,141
Proceeds from sale of funds held by Trustees	87,668	252,086
Investment in joint ventures	-	(1,009)
Purchases of investments	(355,828)	(217,962)
Purchases of funds held by Trustees	(47,959)	(171,301)
Purchase of property, plant and equipment	(156,250)	(189,705)
Proceeds from sale of joint venture	-	14,541
Net cash used in investing activities	<u>(110,513)</u>	<u>(182,209)</u>
Financing activities		
Proceeds from borrowings	-	251,345
Debt issuance costs	-	(1,023)
Proceeds from restricted contributions	14,002	13,569
Proceeds from sale of donated securities	1,233	1,154
Repayment of long-term debt and capital leases	(5,975)	(238,368)
Net cash provided by financing activities	<u>9,260</u>	<u>26,677</u>
(Decrease) increase in cash and cash equivalents	(113,271)	44,640
Cash and cash equivalents		
Beginning of year	<u>364,631</u>	<u>319,991</u>
End of year	<u>\$ 251,360</u>	<u>\$ 364,631</u>
Supplemental disclosure of cash flow activities		
Cash paid for interest	\$ 22,373	\$ 27,273
Property, plant and equipment included in accounts payable	7,531	17,097
Conditional asset retirement obligations	103	557
Net fixed assets recognized related to conditional asset retirement obligations	(257)	(257)
Contributed securities	1,233	1,154
Gift in-kind	500	500
New capital leases	100	173

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

BMC Health System, Inc.

Notes to Consolidated Financial Statements

September 30, 2017 and 2016

1. Organization

BMC Health System, Inc. (the "Health System Corporation") is a tax-exempt, non-profit 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") and its 22 affiliated faculty practice plan corporations (the "Plans," collectively known as the "Foundation"), BMCHP, Univer Development Foundation, Inc. ("UDF"), East Concord Medical Foundation, Inc. ("ECMF"), Boston Medical Center Insurance Company, Ltd. ("BMCIC"), Boston Medical Center Insurance Company, Ltd. of Vermont ("BMCIC of Vermont"), Boston University Affiliated Physicians, Inc. ("BUAP"), BMC Integrated Care Services, Inc. ("BMCICS"), BMC NAB Business Trust ("NAB"), and Boston Accountable Care Organization, Inc. ("BACO"). The Medical Center and each of the affiliated organizations have fiscal years ending September 30, except the Foundation, ECMF, and BMCICS, which have fiscal years ending June 30.

The Medical Center was incorporated on July 1, 1996 when all of the assets and liabilities of 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 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 merger of BUMCH into the Medical Center was accounted for as a pooling of interests, and the consolidation of certain assets and liabilities of BCH, BSRH and THH into the Medical Center was accounted for as a contribution of net assets. Accordingly, the 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 contribution of net assets by the City of \$58,700,000 included cash, accounts receivable, inventory and moveable equipment less certain trade accounts payable. The Medical Center is a tax-exempt, non-profit Massachusetts corporation, and its sole corporate member is the Health System Corporation.

Faculty, incorporated on October 18, 1994, is a tax-exempt, non-profit Massachusetts corporation operated exclusively for clinical, charitable, scientific and educational purposes. The Plans, also tax-exempt, non-profit 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. The Foundation's combined financial statements are consolidated into the Health System. Effective October 1, 2017, Faculty conducts its business under the name "Boston University Medical Group."

Faculty, effective June 29, 2017, entered an operating agreement with Steward Medical Group, Inc. ("SMG"), to form Boston Neurosurgical Associates, LLC ("BNA") to efficiently provide neurosurgical services at the Medical Center and St. Elizabeth's Medical Center of Boston, Inc. BNA is a virtual

BMC Health System, Inc.

Notes to Consolidated Financial Statements

September 30, 2017 and 2016

physician group practice in which Faculty and SMG each bear the compensation expense for the providers in accordance with their respective pro rata use of the services.

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

Upon the enactment of legislation in 2006 providing subsidized coverage to individuals with incomes between 100% and 300% of the Federal Poverty Level (FPL), BMCHP became one of the original managed care organizations supporting the Commonwealth Care program administered by the Massachusetts Health Connector ("Connector"). As a later condition of serving as a Commonwealth Care carrier, BMCHP became licensed by the Massachusetts Division of Insurance as a health maintenance organization (HMO) in 2008. In 2012, BMCHP also offered coverage to eligible individuals and small groups under the Connector's Commonwealth Choice commercial insurance program in preparation for market developments prompted by the Affordable Care Act ("ACA").

On March 16, 2012, BMCHP became licensed as an HMO insurer by the New Hampshire Insurance Department. In April of 2012, the New Hampshire Department of Health and Human Services ("DHHS") selected BMCHP as one of three insurers to serve individuals qualifying for the New Hampshire Medicaid program. The DHHS Managed Care Program has been approved by the federal Centers for Medicare and Medicaid Services ("CMS"). Members became effective during December 2013. BMCHP operates under the name Well Sense Health Plan ("Well Sense") in the state of New Hampshire.

On September 12, 2013, the Massachusetts Health Connector Board granted final approval for BMCHP to offer Qualified Health Plans ("QHP"), including subsidized ConnectorCare Plans, in each of seven rating regions. These plans are a key component of the ACA and became effective January 1, 2014.

Effective January 1, 2016, BMCHP offered a fully integrated geriatric model of care under the Senior Care Options ("SCO") program. SCO is a Medicare Advantage Dual Eligible Special Needs Plan ("D-SNP"). The SCO program is jointly administered by MassHealth and CMS, and eligible individuals receive both Medicaid and Medicare benefits. BMCHP's SCO plan is available to eligible individuals, age 65 and older in Suffolk County, who are enrolled in MassHealth and are eligible for Medicare Parts A and B. Effective January 1, 2018, the SCO is expanding into four additional counties in Massachusetts: Barnstable, Bristol, Hampden and Plymouth.

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 to serve as an Accountable Care Partnership Plan for the BACO, Southcoast Health Network, LLC, Signature Healthcare Corp., and Mercy Health Accountable Care Organization, LLC ACO partnerships. 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.

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

BMC Health System, Inc.

Notes to Consolidated Financial Statements

September 30, 2017 and 2016

ECMF is a tax-exempt, non-profit 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. ECMF fully consolidates with the Medical Center as the Medical Center guarantees 100% of the debt of ECMF, and thus has significant economic interest in the company.

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

BMCIC of Vermont is a nonprofit, tax exempt captive insurance company licensed by the State of Vermont. It provides medical stop-loss coverage for the BMC employee health benefit program and BMCHP Medicaid program, and is owned 100% by the Health System Corporation. Effective October 20, 2016, the Health System Corporation replaced the Medical Center as BMCIC of Vermont's sole corporate member.

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

BMCICS is a tax-exempt, non-profit 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 and BMCICS consolidates into the Medical Center.

NAB is a Massachusetts business trust organized in May 2008. The Medical Center is a 90% shareholder of the trust, as well as trustee, and Genesys Research Institute, Inc., a tax-exempt, non-profit corporation is a 10% shareholder.

BACO, incorporated on February 26, 2015, is a tax-exempt, non-profit Massachusetts corporation formed to improve the healthcare of the populations that the Medical Center, Foundation 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, Foundation, and the group of community health centers participating in BACO each appoint six of the nineteen Boston Accountable Care Organization directors. In addition, there is a consumer representative appointed to the board by its patient advisory committee.

2. Summary of Significant Accounting Policies

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. The consolidated financial statements of the Health System Corporation include the accounts of the Medical Center, the Foundation, BMCHP, ECMF, UDF, NAB, BMCIC, BMCIC of Vermont, BUAP, BMCICS and BACO. All significant intercompany accounts and transactions have been eliminated in consolidation.

BMC Health System, Inc.

Notes to Consolidated Financial Statements

September 30, 2017 and 2016

Cash and Cash Equivalents

Cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less at date of purchase. The Health System maintains its cash and cash equivalents accounts at five institutions, \$251,360,000 and \$340,083,000 at September 30, 2017 and 2016, respectively. The Health System monitors the credit worthiness of the institutions and has not experienced any losses associated with deposits at these institutions.

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.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities (marketable investments) are measured at fair value in the balance sheets primarily based on quoted market prices. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the excess (deficiency) of revenues over expenses unless the income or loss is restricted by donor or law. The change in unrealized appreciation (depreciation) on investments is recorded in the statements of operations as other changes in unrestricted 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.

The fair value of the Health System's investments in bonds, notes, and common stock is based on quoted prices in an active market when available. At September 30, 2017 and 2016, the Health System held interests in private investment funds. Interests in private investment funds are generally recorded at net asset value ("NAV") based on the Health System's ownership share and rights of the investment, unless certain criteria require the investment to be recorded as equity method investments or at cost. In 2016 the Health System adopted *ASU 2015-10, Technical Corrections and Improvements* which amended the definition of readily determinable fair value ("RDFV"). Securities for which no such quotations or valuations are readily available are carried at NAV as estimated by management using values provided by external investment managers. The Health System believes that these valuations are a reasonable estimate of fair value as of September 30, 2017 and 2016, 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.

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, and designated assets set aside by the Board of Trustees for future capital improvements over which the Board retains control and may, at its discretion, subsequently use for other purposes. Also included are donor-restricted investments representing permanently and temporarily restricted net assets.

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

BMC Health System, Inc.

Notes to Consolidated Financial Statements

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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.

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, 2017 and 2016.

Inventories

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

Third-Party Settlements for Patient Services

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

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

Deferred Revenue

Deferred revenue consists of amounts received in advance of the contract period. Certain advances are received from the Commonwealth related to grants. Advances received related to grants were \$25,288,000 and \$23,366,000 as of September 30, 2017 and 2016, respectively. Also included in deferred revenue is the QHP October 2017 revenue received by BMCHP of \$6,097,000 and \$177,000 for the years ended September 30, 2017 and 2016, respectively.

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 accrued claims expense represents the anticipated cost of claims incurred but unpaid at the balance sheet date. The estimates for accrued claims expense may be more or less than the amounts ultimately paid when claims are settled. Such changes in estimates are reflected in the current period statement of operations and changes in unrestricted net assets. The estimated liability for medical and hospital claims payable also includes an accrual for loss adjustment expenses, which relate to the estimated costs to process claims, which have been incurred but not reported.

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BMCHP self-insures for a significant portion of its claims. However, effective in October 2016, BMCHP obtained reinsurance coverage for its MassHealth business through its affiliate BMCIC of Vermont. Premium payments to this affiliate amounted to \$2,325,000 for the year ending September 30, 2017.

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, 2017 and 2016, the premium deficiency reserve totals were \$0 and \$28,000,000, respectively. During the fiscal year ending September 30, 2017, BMCHP recovered \$28,000,000 of premium deficiency reserve as it was no longer necessary. This transaction was recorded in the statement of operations and is reflected in the supplies and other financial statement line item.

Affordable Care Act Reserves

In 2014, the Affordable Care Act introduced the provisions of the risk adjustment program. This program will assess the actuarial risk of the insurance pool within each health plan as compared to the average of all health plans in the state. Under the federal provisions of the Affordable Care Act, BMCHP recorded a payable to the Massachusetts Health Connector (the "Connector") for the risk adjustment program. The estimated amount due from BMCHP to the Connector was \$22,463,000 and \$10,815,000 as of September 30, 2017 and 2016, respectively. For risk corridor adjustments due to/from CMS, BMCHP recorded a receivable of \$1,468,000 and \$984,000 at September 30, 2017 and 2016, respectively. For both years the amounts included a risk corridor non-collectible accrual of \$1,080,000. BMCHP recorded a net receivable from CMS for reinsurance recoveries. The estimated amount due to BMCHP from CMS was \$210,000 and \$1,082,000 as of September 30, 2017 and 2016, respectively. The balances included an accrual payable from BMCHP to CMS for reinsurance contributions of \$0 and \$661,000 at September 30, 2017 and 2016, respectively. For Cost Sharing Reduction reconciliations BMCHP recorded a receivable from CMS and the Connector of \$3,498,000 at September 30, 2017 and a payable due to both CMS and the Massachusetts Health Connector of \$13,144,000 at September 30, 2016. BMCHP recorded a payable for Medical Loss Ratio ("MLR") rebates. The estimated amount for MLR rebates was \$25,302 and \$2,357,000 as of September 30, 2017 and September 30, 2016, respectively.

Net Assets

Permanently restricted net assets include only the historical dollar amount of gifts, which are required by donors to be held in perpetuity. Temporarily restricted net assets include gifts, grants, investment income, including realized gains and losses, and the change in unrealized appreciation on investments, which can be expended but for which restrictions have not yet been met. The restrictions include purpose restrictions, time restrictions and restrictions imposed by law on the use of capital appreciation on donor-restricted funds. Contributions for capital items are released from restriction upon the capitalization of the related assets. In 2016, there was a reclassification of \$10,000 from permanently restricted net assets to temporarily restricted net assets to reflect the reassignment, approved by the Commonwealth, of the purpose of a restricted fund.

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

Gifts and Grants

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

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

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

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 on the balance sheet.

Professional Liability Insurance

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

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

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revenues and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses.

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

During fiscal year 2017, the Medical Center received net unfavorable settlements from Medicare, Medicaid, BMCHP, Blue Cross and other payors related to prior years. Changes include favorable Medicare cost report settlements for \$667,000, an unfavorable Medicaid settlement of \$623,000, an unfavorable Blue Cross settlement of \$332,000, an unfavorable BMCHP settlement of \$355,000, and other unfavorable settlements of \$426,000.

During fiscal year 2016, the Medical Center received favorable settlements from Medicare related to prior years for \$3,935,000, and unfavorable settlements from Medicaid (for \$1,315,000) and BMCHP (for \$2,096,000).

Unfavorable changes in prior year estimates from third-party payors recorded in the years ended September 30, 2017 were \$1,069,000; favorable settlements in the year ending September 30, 2016 were \$524,000.

Net Patient Service Revenue

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

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

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

The Health System provided free care of \$72,278,000 and \$110,742,000 in 2017 and 2016, 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.

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Through the Commonwealth's Health Safety Net Office ("HSNO"), the Health System receives reimbursement for a significant portion of the charity care it provides. The amounts received were \$45,928,000 and \$67,875,000 for the years ended September 30, 2017 and 2016, respectively.

Capitation Revenue

Membership capitation payments are generally for a period of one month, are due monthly for the current month with the exception of Well Sense, which is paid three months in arrears for the current month and reported as earned during the period of coverage. Capitation payments received prior to the coverage period are recorded as deferred revenue. MassHealth remits monthly membership payments based on estimated enrollments. The estimates are subsequently adjusted on a periodic basis based on actual membership. The Connector and CMS remit monthly membership payments based upon actual enrollments. Also included in capitation revenue are certain risk sharing amounts under BMCHP's contracts with MassHealth, the Connector and the New Hampshire DHHS under which capitation revenue can be increased or decreased based upon actual net income that is above or below the permitted contract range. Gross capitation receivables from the Commonwealth of Massachusetts amounted to approximately \$68,644,000 and \$14,228,000 at September 30, 2017 and 2016, respectively. Gross capitation receivables for the CMS amounted to approximately \$413,000 and \$0 at September 30, 2017 and 2016, respectively. Gross capitation receivables from the State of New Hampshire amounted to approximately \$74,444,000 and \$79,528,000 at September 30, 2017 and 2016, respectively.

Other Revenue

Other revenue consists primarily of revenue related to the retail pharmacy, including 340B Drug Pricing Program consulting revenue. Also included are services rendered to other organizations (including community health centers and are hospitals) under contractual agreements, meaningful use payments received for meeting stage two of the CMS requirements, and miscellaneous fees related to the sale of medical products.

The Plans have agreements and participate in hospital affiliated network agreements with various health maintenance organizations ("HMOs"), through a master contract established by BACO and BMCICS to provide medical services to subscribing participants. Under certain agreements, the Plans earn capitation revenue based on the number of each HMO's participants, regardless of services actually performed by the Plans. In addition, the Medical Center and the Plans are responsible for deficits beyond withheld amounts and are entitled to surpluses over withheld amounts.

The Plans are required to fund their share (from risk contracts) of any deficits in excess of the amounts withheld under this master contract. Surplus amounts in excess of amounts withheld have been recorded and retained by BACO and BMCICS. A surplus of \$1,284,000 and \$282,000 was earned for years ended June 30, 2017 and 2016, respectively.

Use of Estimates

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

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Fair Value of Financial Instruments

The fair value of the Health System's financial instruments approximates the carrying amount reported in the balance sheets for cash and cash equivalents, investments, receivables and payables.

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 non-profit corporations that have been recognized as tax exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. The shareholders of NAB are non-profit, tax-exempt corporations. Accordingly, no provision for income taxes has been made in the accompanying consolidated financial statements for any of these entities.

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

Adoption of New Accounting Guidance

In May 2014, the FASB issued a standard on *Revenue from Contracts with Customers*. This standard implements a single framework for recognition of all revenue earned from customers. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services by allocating transaction price to identified performance obligations and recognizing revenue as performance obligations are satisfied. Qualitative and quantitative disclosures are required to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The standard is effective for fiscal years beginning after December 15, 2017 (Health System fiscal year ended as of September 30, 2019). The Health System is evaluating the impact this will have on the consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. The standard requires management to assess if there is substantial doubt about an entity's ability to continue as a going concern within one year after the issuance date and, as applicable, provide additional disclosures on management's plan to alleviate the substantial doubt. The ASU is effective for calendar years ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. For fiscal year 2017, the Health System adopted this standard, which had no impact on its financial statements and related disclosures.

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, which address certain aspects of recognition, measurement, presentation and disclosure of financial instruments. This guidance allows an entity to choose, investment-by-investment, to report an equity investment that neither has a readily determinable fair value, nor qualifies for the practical expedient for fair value estimation using NAV, at its cost minus impairment (if any), plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issue. Impairment of such investments must be assessed qualitatively at each reporting period. Entities must disclose their financial assets and liabilities by measurement category and form of asset either on the face of the balance sheet or in the accompanying notes. The ASU is effective for annual reporting periods beginning after December 15, 2018 or fiscal year 2020 for the Health System. The provision to eliminate the requirement to disclose the fair value of financial instruments measured at cost (such

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as the fair value of debt) may be early adopted. The Health System adopted the guidance for the year ended September 30, 2016.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which, for operating leases, requires a lessee to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, on its balance sheet. The standard also requires a lessee to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, on a generally straight-line basis. The guidance also expands the required quantitative and qualitative disclosures surrounding leases. The ASU is effective for fiscal years beginning after December 15, 2018, or fiscal year 2020 for the Health System. Early adoption is permitted. The Health System is evaluating the impact of the new guidance on the consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*, which introduces new guidance for the accounting for credit losses on financial assets within its scope. The amendments in this update require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the amount that is expected to be collected on the financial asset, net of an allowance for credit losses. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. This standard is effective for annual periods beginning after December 15, 2020, or fiscal year 2022 for the Health System. The Health System is evaluating the impact this will have on the consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*, which makes targeted changes to the not-for-profit financial reporting model. The new ASU marks the completion of the first phase of a larger project aimed at improving not-for-profit financial reporting. Under the new ASU, net asset reporting will be streamlined and clarified. The existing three-category classification of net assets will be replaced with a simplified model that combines temporarily restricted and permanently restricted into a single category called "net assets with donor restrictions." The guidance for classifying deficiencies in endowment funds and on accounting for the lapsing of restrictions on gifts to acquire property, plant, and equipment have also been simplified and clarified. New disclosures will highlight restrictions on the use of resources that make otherwise liquid assets unavailable for meeting near-term financial requirements. Not-for-profits will continue to have flexibility to decide whether to report an operating subtotal and if so, to self-define what is included or excluded. However, if the operating subtotal includes internal transfers made by the governing board, transparent disclosure must be provided. The ASU also imposes several new requirements related to reporting expenses, including providing information about expenses by their natural classification. The ASU is effective for fiscal years beginning after December 15, 2017 or fiscal year 2019 for the Health System and early adoption is permitted. The Health System is evaluating the impact of the new guidance on the consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments*. The standard addresses the classification of certain transactions within the statement of cash flows, including cash payments for debt prepayment or debt extinguishment costs, contingent consideration payments made after a business combination, and distributions received from equity method investments. The ASU is effective for fiscal years beginning after December 15, 2018, or fiscal year 2020 for the Health System. Early adoption is permitted. The Health System is evaluating the impact this will have on the financial statements and related disclosures.

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In March 2017, the FASB issued ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This amendment requires 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 a subtotal of income from operations, if one is presented. This guidance also allows only the service cost component to be eligible for capitalization, when applicable. The ASU is effective for fiscal years beginning after December 15, 2017 or fiscal year 2019 for the Health System and early adoption is permitted. The Health System is evaluating the impact of the new guidance on the consolidated financial statements.

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:

(in thousands)	2017		2016	
	At Fair Value	Cost	At Fair Value	Cost
Cash and cash equivalents	\$ 3,458	\$ 3,456	\$ 3,181	\$ 3,182
Bonds and U.S. Treasury Notes	196,876	190,249	211,746	202,420
Private investment funds	482,020	401,019	330,099	281,818
Mutual funds	253,026	235,880	285,091	268,253
Marketable equity securities	165,607	129,556	135,723	105,751
Money market mutual funds	44,205	44,191	106,290	106,789
Asset-backed securities	10,742	10,820	12,907	13,135
Private debt and equity	6,300	6,392	-	-
	<u>1,162,234</u>	<u>1,021,563</u>	<u>1,085,037</u>	<u>981,348</u>
Funds held by trustees	<u>38,855</u>	<u>39,034</u>	<u>78,850</u>	<u>78,847</u>
	<u>\$ 1,201,089</u>	<u>\$ 1,060,597</u>	<u>\$ 1,163,887</u>	<u>\$ 1,060,195</u>

Included in private investment funds (as described in the American Institute of Certified Public Accountants document, *A Practice Aid for Auditors Alternative Investments - Audit Considerations*) are alternative investment vehicles including commingled funds with an estimated fair value of approximately \$417,404,000 and \$330,099,000 at September 30, 2017 and 2016, respectively.

BMCHP was required by its contract with MassHealth to maintain a reinsurance reserve fund in an amount based on monthly enrollment. Effective October 1, 2016, BMCHP obtained reinsurance coverage through its affiliate BMCIC of Vermont, which eliminated the need for this reserve. This reserve fund amounted to \$0 and \$16,378,000 at September 30, 2017 and 2016, respectively and is included in assets whose use is limited. In addition to the reinsurance fund, BMCHP is required by its contract with MassHealth to place a deposit with the state for additional reserves. The cash reserves were \$2,033,000 and \$2,012,000 at September 30, 2017 and 2016, respectively, and are also included in assets whose use is limited.

In connection with its licensure with the Massachusetts Division of Insurance, BMCHP has placed on deposit with the Commonwealth a \$1,000,000 U.S. Treasury note with an amortized cost of \$1,000,000. In addition, for licensure in New Hampshire, BMCHP has purchased and placed on

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deposit a \$500,000 U.S. Treasury note with an amortized cost of \$500,000. Both security deposits are also included in assets limited as to use in 2017 and 2016.

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

<i>(in thousands)</i>	2017	2016
Unrestricted		
Dividends and interest	\$ 14,956	\$ 28,455
Net realized gains on investments	17,944	2,145
Change in net unrealized appreciation (depreciation) on investments	<u>14,381</u>	<u>13,810</u>
	<u>47,281</u>	<u>44,410</u>
Temporarily restricted		
Dividends and interest	4,874	5,992
Net realized gains on investments	24,317	2,034
Change in net unrealized appreciation (depreciation) on investments	<u>15,644</u>	<u>17,053</u>
	<u>44,835</u>	<u>25,079</u>
	<u>\$ 92,116</u>	<u>\$ 69,489</u>

Unrealized gains (losses) related to BMCIC of \$6,775,000 and (\$4,117,000) as of September 30, 2017 and 2016, respectively, were used to offset the deposit liability for net unrealized holdings (gains) losses on available for sale securities.

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

4. Fair Value Measurements

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

A fair value hierarchy has been established based on whether the inputs to valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entities' own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes 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.

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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.

Private investment funds listed under Net Asset Value (“NAV”) 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 Funds based on the NAV of the funds.

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, 2017:

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

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The following table summarizes fair value measurements at September 30, 2016 for financial assets measured at fair value on a recurring basis.

<i>(in thousands)</i>	Level 1	Level 2	Level 3	Net Asset Value	Total
Investments					
Cash and cash equivalents	\$ 3,181	\$ -	\$ -	\$ -	\$ 3,181
Bonds and U.S. Treasury Notes	39,079	172,667	-	-	211,746
Private investment funds	-	308,545	-	21,554	330,099
Mutual funds	173,939	79,662	-	31,490	285,091
Marketable equity securities	135,723	-	-	-	135,723
Money market mutual funds	73,957	-	-	32,333	106,290
Asset-backed securities	-	12,907	-	-	12,907
	<u>\$ 425,879</u>	<u>\$ 573,781</u>	<u>\$ -</u>	<u>\$ 85,377</u>	<u>\$ 1,085,037</u>
Funds held by trustee					
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. government securities	39,912	-	-	-	39,912
Money market mutual funds	38,938	-	-	-	38,938
	<u>\$ 78,850</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 78,850</u>

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 non-marketable alternative assets. The portfolio is expected to produce returns that meet or exceed long-term benchmarks.

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

<i>(in thousands)</i>	Investments Asset Value		
	Net Asset Value	Redemption Frequency	Notice Period
Investment type			
Private investment funds	87,110	Bi-Monthly-Monthly	3 - 45 days
	<u>\$ 87,110</u>		

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The following table presents liquidity information for the financial instruments carried at net asset value at September 30, 2016.

<i>(in thousands)</i>	Value	Frequency	Period
Investment type			
Private investment funds	\$ 21,554	Bi-Monthly-Monthly	3 - 45 days
Money market mutual funds	32,333	Daily	0 days
Mutual funds	<u>31,490</u>	Daily-Monthly	2 - 6 days
	<u>\$ 85,377</u>		

There were no unfunded commitments as of September 30, 2017 and 2016.

Externally managed marketable investments with fair value below cost are considered to be other-than-temporarily impaired and accordingly, the unrealized depreciation is recognized as realized losses through a write-down in the cost basis of these investments. All other investments are periodically reviewed for impairment to determine if such declines are other-than-temporary. Management's review is based upon the percentage and period of time that the investment is below cost as well as other qualitative considerations. A similar write down is recorded when the impairment on these investments has been judged to be other-than-temporary. During 2017 and 2016, the Health System reported recognized losses of approximately \$841,000 and \$752,000, respectively, relating to declines in fair value of investments that were determined by management to be other-than-temporary.

5. Contributions Receivable

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

Unconditional promises expected to be collected in:

<i>(in thousands)</i>	2017	2016
Less than one year	\$ 14,480	\$ 8,314
One year to five years	27,161	17,443
More than five years	<u>1,329</u>	<u>2,417</u>
	42,970	28,174
Less: Discounts and allowance for uncollectible accounts	<u>(7,518)</u>	<u>(5,883)</u>
Contributions receivable, net	<u>\$ 35,452</u>	<u>\$ 22,291</u>

Included in total gross contributions receivable are two contributions from single donors in the amount of \$24,000,000 and \$6,000,000 for the years ended September 30, 2017 and 2016, respectively. The original contribution from one of the donors in 2008 was \$15,000,000, of which \$11,000,000 was paid. The original contribution from one of the donors in 2017 was \$25,000,000, of which \$5,000,000 was paid. Discount rates used to calculate the present value of contributions receivable ranged from 2.95%-17.00%, depending upon the anticipated pledge fulfillment date.

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6. Property, Plant and Equipment

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

<i>(in thousands)</i>	Useful Life	2017	2016
Land		\$ 6,302	\$ 6,302
Land improvements	5 - 40 years	775	775
Buildings	15 - 45 years	197,138	197,138
Building and leasehold improvements	5 - 40 years	895,612	695,356
Fixed equipment	5 - 25 years	44,702	44,706
Major movable equipment	3 - 20 years	616,029	585,529
Leased buildings and equipment	15 - 20 years	119,912	119,812
Construction in progress		108,898	197,449
		<u>1,989,368</u>	<u>1,847,067</u>
Accumulated depreciation and amortization		<u>(1,025,517)</u>	<u>(941,726)</u>
Property, plant and equipment, net		<u>\$ 963,851</u>	<u>\$ 905,341</u>

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

Depreciation expense amounted to \$87,966,000 and \$79,245,000 for the years ended September 30, 2017 and 2016, respectively. Amortization expense amounted to \$308,000 and \$8,462,000 for the years ended September 30, 2017 and 2016, respectively.

Fully depreciated property, plant and equipment with an original cost of \$7,657,000 and \$9,365,000 was disposed of during the year ended September 30, 2017 and 2016, respectively.

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

As of September 30, 2017 and 2016, assets under capital lease agreements amounted to approximately \$119,912,000 and \$119,812,000, respectively, with accumulated amortization of \$118,054,000 and \$117,746,000, respectively. Amortization expense is included with depreciation and amortization expense in the statement of operations.

The Health System has capitalized interest in the amount of \$63,827,000 and \$58,406,000 for the years ended September 30, 2017 and 2016, respectively.

On December 18, 2014, the Medical Center sold three parcels of land to an unrelated, for-profit entity for \$80,100,000. The Medical Center continues to lease and occupy a portion of two of the buildings that are included in the parcels for varying amounts of time, consistent with clinical and administrative needs, while it completes its campus redesign construction project. The sale of two of the buildings resulted in a financing transaction and a capital lease obligation of \$50,092,000 was recorded (Note 9). At the end of the lease term, the remaining capital asset and liability will be written down and a gain on the sale of buildings will be recorded. The sale of the third building qualified for a sales-leaseback transaction and resulted in a gain of \$14,793,000, of which \$14,478,000 was recognized as of September 30, 2015. The remaining \$315,000 was recognized in fiscal year 2016 as the Medical Center vacated the building in September 2016.

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Additionally, the Medical Center signed an agreement with the same unrelated, for-profit entity to purchase the Newton Pavilion (including the Health Services Building) in 2017. The Medical Center exercised its option outlined in the purchase and sale agreement to delay the closing of the sale to October 1, 2018, to allow more time for the Medical Center to complete its campus redesign. Services in the Newton Pavilion will be relocated to the Menino Pavilion and the Yawkey Ambulatory Care Center during the summer of 2018. A deposit of \$6,000,000 was received and recorded as an other long-term liability. The Medical Center has accrued interest related to the deposit of \$1,890,000 and \$1,142,000 for the years ended September 30, 2017 and 2016, respectively, also recorded as an other long-term liability.

7. Other Noncurrent Assets

Other noncurrent assets consist of the Medical Center's investments in the 650 Albany Street Trust, Biosquare Realty Trust and notes receivable. The investments in the 650 Albany Street Trust and Biosquare Realty Trust are recorded utilizing the equity method of accounting.

The Medical Center has financed the cost for new construction of a building on its campus using the New Markets Tax Credit ("NMTC") program. NMTC is a program of the Community Development Financial Institutions Fund ("CDFI Fund"), a bureau of the United States Treasury. The NMTC program awards tax incentives to private sector investors who provide investment capital to entities that create economic growth and jobs in distressed neighborhoods. Investors receive a tax credit against federal income taxes over a seven-year period.

During 2008, the Medical Center loaned \$53,667,000 to a third party relating to project costs of \$190,110,000 for the demolition of 91 East Concord Street and for the design, construction, and equipping of the Shapiro Ambulatory Care Center. The loan is part of a financing package that utilizes \$70,000,000 of new markets tax credits ("NMTC") to reduce cash required by the Medical Center to construct this new facility. The loan from the Medical Center was combined with a third party capital contribution in the amount of \$16,333,000 in an investment fund totaling \$70,000,000. The total amount in the investment fund was used to make a "qualified equity investment" into community development entities ("CDEs"). The CDEs, in turn, are required to make a series of loans totaling \$68,900,000 to the BMC NAB Business Trust for the construction of the facility.

The \$53,667,000 loan is recorded as other noncurrent assets as of September 30, 2014. Included in the capital contribution is a low interest loan in the amount of \$2,917,000, which was repaid by the BMC NAB Trust in May 2015. At May 2015, the remainder of the outstanding loans related to the first round of NMTC funding was assigned and recorded as a liability to the Medical Center. The Medical Center thus became the sole lender to the BMC NAB Business Trust. At this time, the Medical Center terminated the loan agreements to BMC NAB Business Trust. Other long term assets and other long term liabilities of \$61,412,000 relating to the agreement were transferred to an investment in a long term asset, which was eliminated in consolidation.

In November and December 2008, the Medical Center closed on a second and third round of NMTC financing for the construction of the Shapiro Ambulatory Care Center. The Medical Center was the beneficiary of an allocation of the two federal NMTCs in the amounts of \$46,697,000 and \$24,000,000, respectively. In these two financing transactions, the Medical Center provided loans of \$33,582,000 and \$19,517,000 with the capital contribution of \$14,715,000 and \$4,483,000 provided by a third party. In the second round of NMTC financing, the Medical Center also entered into an additional loan in the amount of \$472,000 with an interest rate of 3.00%. All loans are recorded as notes receivable as of September 30, 2015. These funds also became equity

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investments into CDEs. The CDEs, in turn, are required to make a series of loans to the BMC NAB Business Trust totaling \$46,234,000 and \$24,000,000 for the construction of the facility.

In November 2015, the loans related to the second round of NMTC funding was assigned and recorded as a liability to the Medical Center. In December 2015, the loans related to the third round of NMTC funding were assigned and recorded as a liability to the Medical Center. The Medical Center thus became the sole lender to NAB. At this time, the Medical Center terminated the loan agreements to NAB. Other noncurrent assets and other long-term liabilities of \$95,549,000 relating to the agreement were transferred to an investment in an other noncurrent asset, which is eliminated in consolidation.

As part of these financing transactions, the Medical Center has entered into two put and call agreements in connection with the construction of the Shapiro Ambulatory Care Center. The purpose of these agreements is to ensure that the Medical Center retains control of the new building at the end of the NMTC period. In conjunction with the NMTC unwind in 2016, both put options were exercised.

Genesys Research Institute, Inc., a 10% shareholder in NAB, filed for Chapter 7 bankruptcy. Pursuant to the Bankruptcy Code, the Court appointed a Chapter 7 Trustee to liquidate the company's assets in the bankruptcy case. The Medical Center is unable to unwind the NAB until the bankruptcy case is resolved.

In May 2016, the Medical Center sold its interest in one of the joint ventures, previously accounted for in noncurrent assets, to Boston University for \$14,541,000. In conjunction with the sale, the Medical Center recorded a gain of \$7,382,000 for the year ending September 30, 2016.

8. Long-Term Debt

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

<i>(in thousands)</i>	Interest Rate	2017	2016
Revenue Bonds Series C	3.00 - 5.25 %	39,455	42,490
Revenue Bonds Series D	4.00 - 5.00 %	158,155	158,155
Revenue Bonds Series E	2.00 - 5.00 %	175,650	176,345
Taxable Bonds Series 2016	4.52 %	75,000	75,000
ECMF Series A Bonds	6.45 %	4,200	5,400
Series O - Tax Exempt (Garage)	Varies	8,421	9,114
Series O - Taxable (Garage)	Varies	2,622	2,855
Citizens Bank Non-Revolver Credit Loan	Varies	79,270	79,270
		<u>542,773</u>	<u>548,629</u>
Less: Current portion of long-term debt		(5,778)	(5,720)
Revenue Bonds Series C premium		5,223	5,668
Revenue Bonds Series D premium		7,456	7,725
Revenue Bonds Series E premium		25,222	26,437
Revenue Bonds Series 2016 discount		(442)	(493)
Revenue Bonds issuance costs		(2,708)	(2,785)
		<u>\$ 571,746</u>	<u>\$ 579,461</u>
Total long-term debt			

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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 due to tax issues. 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. The loss on defeasance and advanced refunding of the Series B Revenue Bonds was \$16,187,000 which was recorded as a nonoperating loss in the statements of operations.

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 principal 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 October 2014, the Medical Center signed a purchase and sale agreement to sell the Newton Pavilion (including the Health Services Building) in 2017 to an unrelated, for-profit entity. In October 2016, the Medical Center exercised the one-time option to delay the sale to October 1, 2018. On December 18, 2014, the Medical Center sold the Doctor’s Office Building (“DOB”) to an unrelated, for-profit entity. Portions of the proceeds of the Series B and Series C Revenue Bonds had been allocated to the Newton Pavilion and the DOB. The sale would cause the bonds to be taxable back to the date of issuance without remedial action. Therefore, allocable portions of such outstanding bonds have been defeased by the Medical Center as of January 2015. The defeasance resulted in a reduction of \$25,490,000 and \$50,505,000 for Series B and Series C debt respectively and a loss on defeasance of \$13,436,000 for the year ending September 30, 2015.

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 the Newton Pavilion. In January 2015, the Medical Center pre-paid \$15,730,000 in principal of the loan. In March 2017, the Medical Center entered into a floating to fixed rate interest rate swap for the purpose of hedging interest rate risk on the nonrevolving loan.

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

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In July 2008, the Medical Center issued through the Authority \$245,175,000 Series B Revenue Bonds. The bonds 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 B Revenue Bonds varies from 4.00% to 5.75% based on the bonds' maturities. A portion of this bond was advanced refunded with the issuance of the Series E Revenue Bonds, the remainder of the bond was defeased as of September 30, 2016.

The Medical Center granted a mortgage on the Newton Pavilion and Health Services building and a leasehold mortgage on the restricted property of the Menino Pavilion and the Yawkey Ambulatory Care Center pursuant to the Amended and Restated Master Trust Indenture. The Amended and Restated Master Trust maintains the financial covenant requiring the Medical Center to maintain an annual debt service coverage ratio of at least 1.10 to 1.

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 and three financially immaterial affiliates that are not members of the Obligated Group (UDF, ECMF and BMCICS).

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 and Series O Pool Loans.

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

In October 2012, the Medical Center entered into a Line of Credit for short-term borrowings with a 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. This Agreement will be renewed annually but can be withdrawn at the bank's option. The Medical Center has pledged certain board designated accounts to secure the line of credit. The assets of these accounts will collateralize borrowings against the line of credit. The Medical Center has not borrowed against the line of credit as of September 30, 2017 and 2016.

Included in the Medical Center's debt is approximately \$11,043,000 of the Authority's variable rate demand bonds ("VRDBs"), Capital Asset Program Issue 2009 Series O-1 and O-2 (a refinancing of the Authority's Series M loans issued in 2005). The Medical Center has entered into irrevocable letters of credit ("LOCs") with a financial institution to secure bond repayment and interest obligations associated with its VRDBs. RBS Citizens, N.A. provides LOCs totaling \$11,352,000. There are no drawings under the LOCs as of September 30, 2017 and 2016. The LOC supporting the Series O-1 and O-2 will expire on July 1, 2020. RBS Citizens provided a Federal Home Loan Bank wrap (AAA rated) for the two Letters of Credit. The term and payment schedule for the loans did not change. The interest rates at September 30, 2017 were 0.904% and 1.461% for the tax

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exempt and taxable loan, respectively. The interest rates at September 30, 2016 were 0.757% and 0.897% for the tax exempt and taxable loan, respectively.

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

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

The Medical Center has escrowed the following funds with bond trustees under the Series C Revenue Bonds, the Series D Revenue Bonds, the Series 2016 Taxable Bonds, the Series E Revenue Bonds, the ECMF Series A Bonds, and Series O Pool loans. 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.

<i>(in thousands)</i>	September 30,	
	2017	2016
Construction fund	\$ 3,260	\$ 49,174
Debt service fund	7,592	2,658
Debt service reserve funds	20,553	20,624
Accrued interest receivable	77	77
Workers' compensation reserve fund	7,160	5,980
Other held funds	213	337
	<u>\$ 38,855</u>	<u>\$ 78,850</u>

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

Maturities of long-term debt are as follows:

<i>(in thousands)</i>	
Years Ending September 30,	
2018	\$ 5,778
2019	85,338
2020	5,586
2021	5,633
2022	7,248
Thereafter	433,190
	<u>\$ 542,773</u>

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9. Obligations Under Capital Leases

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

<i>(in thousands)</i>	2017	2016
Doctor's Office Building	\$ 34,823	\$ 36,228
Gambro Building	11,657	11,657
Other	344	363
Less:		
Current portion	<u>(124)</u>	<u>(69)</u>
	<u>\$ 46,700</u>	<u>\$ 48,179</u>

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

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

(in thousands)

Years Ending September 30,

2018	\$ 124
2019	119
2020	83
2021	25
2022	12
Thereafter	<u>-</u>
Total minimum lease payments	363
Less: Amount representing interest	<u>(18)</u>
Present value of minimum lease payments	345
Less: Current portion	<u>(124)</u>
	<u>\$ 221</u>

In conjunction with the sale of the Gambro and Doctor's Office buildings (Note 6), the Health System recorded a capital lease liability of \$50,092,000. The payments on the capital lease are not included in the above schedule and are accounted for as a portion as interest expense, a portion as a reduction in liability and a portion as lease expense. The remaining capital lease liability at September 30, 2017 and 2016 is \$46,479,000 and \$47,885,000, respectively.

10. Operating Lease Commitments

The Health System amortizes deferred rent on a straight-line basis over the term of the lease. At September 30, 2017 and 2016 approximately \$1,936,000 and \$175,000, respectively, of amortization had been recorded as an offset to rent expense and at September 30, 2017 and 2016.

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

<i>(in thousands)</i>	Lease Obligations
Years Ending September 30,	
2018	\$ 17,803
2019	18,352
2020	16,749
2021	15,117
2022	12,473
Thereafter	48,992
	<u>\$ 129,486</u>

The Health System records rent expense on a straight-line basis over the life of the lease and records accrued rent as the difference between rent expense and actual payments made. The Health System recorded rent expense of \$21,761,000 and \$18,421,000 for the years ended September 30, 2017 and 2016, respectively. As of September 30, 2017 and 2016, the accumulated difference between rent expense and amounts paid amounted to \$3,838,000 and \$1,902,000, respectively, and is included in accounts payable and accrued expenses and other long-term liabilities on the balance sheet.

11. Restricted Net Assets

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

<i>(in thousands)</i>	2017	2016
Temporarily restricted net assets		
Research	\$ 145,899	\$ 132,615
Buildings & capital	86,334	102,781
Hospital programs	46,893	41,726
Other restricted purposes	21,813	19,096
Total temporarily restricted net assets	<u>\$ 300,939</u>	<u>\$ 296,218</u>
Permanently restricted net assets		
Total permanently restricted net assets	<u>\$ 37,880</u>	<u>\$ 16,250</u>

12. Endowments

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

The Health System has interpreted the UPMIFA as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Health System classifies as permanently restricted

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net assets the original value of gifts donated to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Health System in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Health System considers certain factors in making a determination to appropriate or accumulate endowment funds. The factors include the duration and preservation of the fund, the purpose of the organization and the donor-restricted endowment fund, general economic conditions, the possible effect of inflation and deflation, the expected total return from income and the appreciation of investments, other resources of the organization and the investment policies of the organization.

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

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

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

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

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As of September 30, 2016, the Medical Center did not have board-designated funds included in the endowment. The endowment net asset composition by type of fund consisted of the following:

<i>(in thousands)</i>	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	<u>\$ 184,014</u>	<u>\$ 16,250</u>	<u>\$ 200,264</u>
	<u>\$ 184,014</u>	<u>\$ 16,250</u>	<u>\$ 200,264</u>

Changes in endowment net assets for the year ended September 30, 2016, consisted of the following:

<i>(in thousands)</i>	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at September 30, 2015	<u>\$ 175,010</u>	<u>\$ 16,260</u>	<u>\$ 191,270</u>
Investment return			
Investment income	5,424	-	5,424
Net unrealized appreciation	<u>13,192</u>	<u>-</u>	<u>13,192</u>
Total investment return	<u>18,616</u>	<u>-</u>	<u>18,616</u>
Appropriation of endowment assets for expenditures	<u>(9,612)</u>	<u>(10)</u>	<u>(9,622)</u>
	<u>(9,612)</u>	<u>(10)</u>	<u>(9,622)</u>
Endowment net assets at September 30, 2016	<u>\$ 184,014</u>	<u>\$ 16,250</u>	<u>\$ 200,264</u>

13. Third-Party Reimbursement

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

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.

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, prospectively determined flat rates based on diagnoses and procedures performed for most outpatient services, and fixed fees for certain other outpatient services.

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September 30, 2017 and 2016

Uncompensated Care

The Health System is partially reimbursed for uncompensated care services, defined as charity care and bad debt associated with emergency services, through the statewide HSNO, administered by the Commonwealth. Following the merger of BUMCH and BCH on July 1, 1996, the Health System has continued the historical mission and commitment of BCH to the public health needs of all residents of the City of Boston to provide accessible health care services to all in need of care, regardless of status or ability to pay. As a result, the Health System receives a significant amount of reimbursement from the Health Safety Net. Changes in the level of funding of the HSNO or in the regulations governing its administration may have an adverse impact on the Health System.

14. Benefit Plans Available to Employees

The Medical Center has three defined contribution retirement plans under section 403(b) of the Internal Revenue code. The plans are also offered to Medical Center employees who hold administrative positions at the Foundation. Participation in the Plans is voluntary. The Medical Center offers contributions in two of the plans, one based on years of service and one a flat percentage. The contributions under these plans amounted to \$18,742,000 and \$17,697,000 for the years ended September 30, 2017 and 2016, respectively.

BUSM 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 for a Plan, who work at least 50% of full-time schedules and who have appointments or expected assignment durations of at least nine months. BUSM contributes between 5% and 14% of salary to this retirement plan, depending on age, base salary, and an integration level amount adjusted each year by BUSM.

University Hospital provided postretirement medical and life insurance benefits to retirees. These benefits were grandfathered to employees who terminated employment prior to January 1, 1994. Employees who terminated on or before December 31, 1993 were offered a life insurance benefit, employees who terminated on or before July 31, 1993 and had 20 years of services were granted medical benefits. The cost of medical benefits was capped at \$185.00 per month per participant. The accrued benefit cost amounted to \$89,000 and \$113,000 as of September 30, 2017 and 2016, respectively. The net periodic benefit cost recorded on the Plan amounted to (\$15,000) and (\$13,000) for the years ended September 30, 2017 and 2016, respectively.

BMCHP has a defined contribution retirement plan ("DC Plan") under Section 401(k) of the Internal Revenue Code established effective August 1, 2001. The DC Plan covers all eligible employees at BMCHP who do not opt out of participation, and requires BMCHP to match employees' contributions up to specified limitations. Participants are 100% vested in their deferred contributions, and rollover contribution accounts immediately plus actual earnings thereon. The matching employer contribution is based on a discretionary formula and vests over a four year period. BMCHP contributions under this DC Plan were \$2,278,000 and \$2,064,000 in 2017 and 2016, respectively.

BMCHP also offers a 457(b) and 457(f) deferred compensation plan to certain key executives. BMCHP's contribution is 8% of each eligible executive's base salary. The 457 plans have a three year "rolling cliff" vesting schedule. Contributions made in a particular plan year are 100% vested three years later. BMCHP's contribution for these plans was \$150,000 and \$104,000 in the years ended September 30, 2017 and 2016, respectively.

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

<i>(in thousands)</i>	2017	2016
Accumulated benefit obligation	\$ 170,959	\$ 159,723
Change in projected benefit obligation		
Projected benefit obligation at beginning of year	\$ 174,619	\$ 152,432
Service cost	4,695	4,562
Interest cost	5,960	6,360
Actuarial (gain) loss	(9,676)	15,299
Benefits paid	(4,639)	(4,034)
Projected benefit obligation at end of year	<u>\$ 170,959</u>	<u>\$ 174,619</u>
Change in plan assets		
Fair value of plan assets at beginning of year	\$ 130,262	\$ 116,170
Actual return (loss) on plan assets	13,319	11,326
Employer contributions	6,800	6,800
Benefits paid	(4,639)	(4,034)
Fair value of plan assets at end of year	<u>\$ 145,742</u>	<u>\$ 130,262</u>
Reconciliation of funded status		
Projected benefit obligation	\$ 170,959	\$ 174,619
Fair value of plan assets	145,742	130,262
Funded status	<u>(25,217)</u>	<u>(44,357)</u>
Amounts recognized in the balance sheet included within other long-term liabilities	<u>\$ (25,217)</u>	<u>\$ (44,357)</u>

BMC Health System, Inc.
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The components of net periodic benefit cost for the years ended September 30, 2017 and 2016 are as follows:

<i>(in thousands)</i>	2017	2016
Service cost	\$ 4,695	\$ 4,562
Interest cost	5,960	6,360
Expected return on plan assets	(9,231)	(8,266)
Amortization of net loss	<u>3,001</u>	<u>1,738</u>
Net periodic benefit cost	<u>\$ 4,425</u>	<u>\$ 4,394</u>
Weighted average assumptions used to determine the net periodic cost for the period just ended		
Discount rate	3.46 %	4.23 %
Long-term rate of return	N/A	N/A
Rate of compensation increase	3.00 %	3.50 %
Weighted average assumptions used to determine the benefit obligations		
Discount rate	3.69 %	3.46 %
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	\$ (13,764)	\$ 12,239
Amortization of net loss	<u>(3,001)</u>	<u>(1,738)</u>
	<u>\$ (16,765)</u>	<u>\$ 10,501</u>
Amounts recognized in unrestricted net assets		
Net actuarial loss	<u>\$ 21,494</u>	<u>\$ 38,259</u>
	<u>\$ 21,494</u>	<u>\$ 38,259</u>

The amounts expected to be recognized as amortization of prior net service cost and amortization of net loss, respectively, and as components of net periodic cost in the upcoming year are \$675,000 and \$3,001,000.

Pension Plan Assets

The Pension Plan weighted average asset allocation as of the measurement dates September 30, 2017 and 2016, respectively, is as follows:

Asset category	Target Allocation Fiscal Year Ending September 30, 2017	Percentage of Plan Assets at September 30,	
		2017	2016
Equity securities	60 %	60 %	58 %
Debt securities	30	30	31
Other	<u>10</u>	<u>10</u>	<u>11</u>
	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

BMC Health System, Inc.
Notes to Consolidated Financial Statements
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The fair value of pension plan assets as of September 30, 2017 is disclosed in the table below.

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

The fair value of pension plan assets as of September 30, 2016 is disclosed in the table below.

<i>(in thousands)</i>	Level 1	Level 2	Level 3	Net Asset Value	Total
Investments					
Cash and cash equivalents	\$ 3,637	\$ -	\$ -	\$ -	\$ 3,637
Fixed income	3,847	36,545	-	-	40,392
Equities	12,516	62,993	-	-	75,509
Commodities	10,724	-	-	-	10,724
	<u>\$ 30,724</u>	<u>\$ 99,538</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 130,262</u>

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

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

An experience study was completed reviewing actual plan experience from 2007-2014. The study was the basis for changes to the retirement and termination rates. The pension mortality table used in the analysis was RP-2014 with MP-2015.

BMC Health System, Inc.
Notes to Consolidated Financial Statements
September 30, 2017 and 2016

Cash Flows

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

Expected contributions for fiscal year ending September 30, 2018

Expected employer contributions \$ 6,800,000

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

2018	\$ 5,570,000
2019	6,306,000
2020	6,999,000
2021	7,720,000
2022	8,569,000
2023 - 2027	53,510,000

The Medical Center contributed \$6,800,000 to the Pension Plan for each of the years ended September 30, 2017 and 2016. The Medical Center plans to make any necessary contributions during the upcoming fiscal year 2017 to ensure the Pension Plan continues to be adequately funded during the current market conditions.

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 payor agreements or covered by the Health Safety Net Care Pool.

The mix of receivables from patients and third-party payors at September 30, 2017 and 2016 was as follows:

	2017	2016
Medicare	20 %	15 %
Medicaid	22	27
HMOs	35	35
Self-Pay	7	6
Commercial	9	9
Blue Cross	3	3
Commonwealth Care	1	1
Other	3	4
	<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.

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The Health System records allowances for doubtful accounts (credit losses) for the following other accounts receivable balances at September 30, 2017:

<i>(in thousands)</i>	Receivable Balance	Discount	Allowance for Doubtful Accounts
Other hospitals and health centers	\$ 5,637	\$ -	\$ 1,329
Outside contracts	9,959	-	1,119
Contributions receivable	14,480	845	379
Capitation receivable	143,501	-	-
HSN Supplemental receivable	20,000	-	-
Other	19,585	-	361
	<u>\$ 213,162</u>	<u>\$ 845</u>	<u>\$ 3,188</u>

The Health System records an allowance for doubtful accounts (credit losses) for the following other accounts receivable balances at September 30, 2016:

<i>(in thousands)</i>	Receivable Balance	Discount	Allowance for Doubtful Accounts
Other hospitals and health centers	\$ 5,684	\$ -	\$ 1,198
Outside contracts	9,889	-	1,191
Contributions receivable	8,731	417	517
Capitation receivable	93,750	-	-
Other	59,614	-	202
	<u>\$ 177,668</u>	<u>\$ 417</u>	<u>\$ 3,108</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.

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Changes in the allowance for doubtful accounts for the years ended September 30, 2017 and 2016 were as follows:

<i>(in thousands)</i>	2017	2016
Balances at beginning of year	\$ 3,108	\$ 4,414
Recoveries	(228)	(2,562)
Net write-offs	83	-
New reserves	225	1,256
Balances at end of year	<u>\$ 3,188</u>	<u>\$ 3,108</u>

16. Net Patient Service Revenue and Allowance for Doubtful Accounts

Net patient service revenue before the provision for bad debts for the year ended September 30, 2017 and 2016 is summarized as follows:

<i>(in thousands)</i>	2017	2016
Patient and HSNO	\$ 46,728	\$ 52,149
Third-party payors (net of contractals)	862,710	796,669
State supplemental funds	153,979	155,561
Less: Provision for bad debt	<u>(75,929)</u>	<u>(56,781)</u>
Net patient service revenue	<u>\$ 987,488</u>	<u>\$ 947,598</u>

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

Accounts receivable, prior to adjustments for doubtful accounts, is summarized as follows at September 30, 2017 and 2016:

<i>(in thousands)</i>	2017	2016
Patient	\$ 28,419	\$ 17,444
Third-party payors	<u>401,260</u>	<u>375,878</u>
Total	429,679	393,322
Reserve for contractual allowance	(294,784)	(271,848)
Reserve for doubtful accounts	<u>(38,475)</u>	<u>(33,251)</u>
Patient accounts receivable, net	<u>\$ 96,420</u>	<u>\$ 88,223</u>

BMC Health System, Inc.
Notes to Consolidated Financial Statements
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17. Related Party Transactions

The Foundation and the Medical Center have significant transactions with each other for operating purposes. During the years ended September 30, 2017 and 2016, the Medical Center provided funding of approximately \$108,378,000 and \$105,826,000, respectively, to the Foundation for professional and support services. The Foundation is comprised of physician groups which provide teaching and other services to the Medical Center. In addition, the Medical Center and the Foundation have certain board members in common. The Medical Center has various notes receivable and other receivables from the Foundation, which totaled approximately \$35,680,000 and \$66,897,000 at September 30, 2017 and 2016, respectively. In addition, the Medical Center owed the Foundation \$4,785,000 and \$38,888,000 at September 30, 2017 and 2016, respectively, and the amounts due are included in the current portion of due to related parties

BMCHP and the Medical Center have significant transactions with each other for operating purposes. Total revenue earned by the Medical Center from BMCHP related to medical services provided by the Medical Center to BMCHP members was \$167,573,000 and \$137,071,000 for the years ended September 30, 2017 and 2016, respectively, and is included in net patient service revenue. In addition, BMCHP owed the Medical Center \$17,421,000 and \$11,865,000 at September 30, 2017 and 2016, respectively, and the amounts due are included in patient accounts receivable. 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. At September 30, 2017 and 2016, the Health System Corporation owed the Medical Center \$22,924,000 and \$13,148,000, respectively for operating related activities. At September 30, 2017 and 2016, the Medical Center owed the Health System Corporation \$25,278,000 and \$26,197,000, respectively, for Health System Corporation's operating related activities.

The Medical Center and BMCIC have significant transactions with each other for the purpose of providing professional and general liability insurance. Total expenses incurred by the Medical Center related to the insurance provided by BMCIC were \$4,249,000 and \$4,473,000 for the years ending September 30, 2017 and 2016, respectively. The Medical Center has \$31,779,000 and \$28,517,000 of prepaid premiums and retrospective premium credits that were prepaid by the Medical Center to BMCIC at September 30, 2017 and 2016, respectively. The Medical Center and the Foundation recorded an insurance recovery receivable and a professional liability claims payable of \$87,103,000 and \$82,212,000 for the year ended September 30, 2017 and 2016, respectively. The receivable and payable for the Medical Center and Foundation eliminate upon consolidation.

The Medical Center and BMCIC of Vermont have transactions with each other for the purpose of providing medical stop-loss coverage for the Medical Center. There were no expenses incurred by the Medical Center related to the insurance provided by BMCIC of Vermont for the years ending September 30, 2017 and 2016, respectively. At September 30, 2017 and 2016, respectively, there were no premiums owed to BMCIC of Vermont as all premiums written were paid prior to year-end. The Medical Center approved a net asset transfer of \$0 and \$10,000,000 to BMCIC of Vermont for the years ending September 30, 2017 and 2016, respectively.

BMC Health System, Inc.

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BMCHP approved a net asset transfer of \$0 and \$10,000,000 to the BMCIC of Vermont for the years ending September 30, 2017 and 2016, respectively. The purpose of the net asset transfers were to fund the cost of activating BMCIC of Vermont in order to provide stop-loss insurance.

BUAP and the Medical Center have transactions with each other for operating purposes. During the years ended September 30, 2017 and 2016, respectively, the Medical Center provided funding of approximately \$2,013,000 and \$1,877,000, respectively, to BUAP for professional and support services. The Medical Center has various accounts receivable from BUAP which totaled approximately \$3,347,000 and \$3,911,000 at September 30, 2017 and 2016, respectively. The Medical Center is affiliated with several community health centers. At September 30, 2017 and 2016, the Medical Center had loaned a total of \$3,260,000 and \$4,140,000, respectively, to the community health centers. The loans are interest bearing and are forgiven as long as no event of default as defined in the loan documents shall have occurred.

BMCHP and the Foundation have transactions with each other for operating purposes. The total revenue earned by the Foundation from BMCHP related to medical services provided by the Foundation to BMCHP members was \$22,579,000 and \$19,498,000 for the years ended September 30, 2017 and 2016, respectively, and is included in net patient service revenue and supplies and other expenses. Also as of September 30, 2017 and 2016, BMCHP owed the Foundation \$629,000 and \$703,000, respectively.

The Health System Corporation and the Foundation have significant transactions with each other for operating purposes. At September 30, 2017 and 2016, the Health System Corporation owed the Foundation \$417,000 and \$647,000, respectively, for operating expenses.

The Health System Corporation provided institutional support to BACO to fund contract losses. For the years ending September 30, 2017 and 2016, the Health System Corporation provided support of \$1,523,000 and \$1,736,000, respectively. Also, the Health System Corporation owed BACO \$3,867,000 and \$2,344,000 for the years ending September 30, 2017 and 2016; respectively.

The Medical Center and the BMC NAB Business Trust have 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 NMTTC, the transactions between NAB and the Medical Center were limited to lease transactions for the land and building.

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"). Each Plan, with respect to each Faculty Member that the Plan employs, pays BU 28.8% 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 13.9% 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 statements of operations and changes in unrestricted net assets.

BMC Health System, Inc.
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The Medical Center, the Health System Corporation and BUSM pay a portion of salaries of several physicians of the Foundation, and the Foundation is not responsible for reimbursing either institution. The Foundation also receives from the Medical Center reimbursement for a portion of free care services provided by the Foundation, as well as for teaching and other administrative duties. The Foundation received a total of \$32,665,000 and \$31,078,000 for institutional support from BUSM, all of which was recorded in reimbursement of operating expenses for the years ended June 30, 2017 and 2016, respectively. The Foundation received a total of \$467,000 and \$481,000 The Foundation received a total of \$467,000 and \$481,000 in research support from BUSM for the years ended June 30, 2017 and 2016. The Foundation received a total of \$106,434,000 and \$98,197,000 for institutional support from the Medical Center for the years ended June 30, 2017 and 2016, respectively. The Foundation also received \$34,110,000 and \$35,203,000 from the Medical Center which was recorded as reimbursement of operating expenses for the years ended June 30, 2017 and 2016, respectively. The Foundation received \$5,926,000 and \$3,113,000 from the Health System Corporation, which was recorded as reimbursement of operating expenses for the years ended June 30, 2017 and 2016, respectively.

The Plans use space in buildings owned by BUSM at no charge. Rent expense of \$500,000, based upon estimated market rates, has been recorded as an in-kind donation for each of the years ended June 30, 2017 and 2016, respectively.

18. Claims Payable

The Health System establishes a claims payable account for insured events which include estimates of future payments of loss and related loss adjustment expenses. The table below shows the changes in the claims payable account for the years ended September 30, 2017 and 2016:

<i>(in thousands)</i>	2017	2016
Accrued at beginning of year	<u>\$ 121,066</u>	<u>\$ 114,660</u>
Incurred services		
Current year	1,535,392	1,452,869
Prior years	<u>(4,710)</u>	<u>(18,833)</u>
Total incurred	<u>1,530,682</u>	<u>1,434,036</u>
Paid claims		
Current year	1,400,275	1,319,806
Prior years	<u>128,873</u>	<u>107,824</u>
Total paid	<u>1,529,148</u>	<u>1,427,630</u>
Accrued at end of year	<u>\$ 122,600</u>	<u>\$ 121,066</u>

The estimated cost of losses and loss adjustment expenses attributable to insured events of the prior year decreased by approximately \$4,710,000 and \$18,833,000 during 2017 and 2016, respectively. Increases or decreases occur as a result of claim settlements during the year and receipt of additional information regarding individual claims. Recent loss development trends are also considered in evaluating the adequacy of the claims payable account.

BMC Health System, Inc.
Notes to Consolidated Financial Statements
September 30, 2017 and 2016

19. Functional Expenses

The total operating expenses of the Health System by function are as follows for the years ended September 30, 2017 and 2016:

<i>(in thousands)</i>	2017	2016
Patient care	\$ 2,456,352	\$ 2,386,963
Medical education	70,614	69,289
Research, sponsored programs and community health services	75,511	99,915
General and administrative	396,399	346,542
	<u>\$ 2,998,876</u>	<u>\$ 2,902,709</u>

20. Governmental Subsidies

On October 30, 2014, Centers for Medicare and Medicaid Services (“CMS”) approved a Massachusetts Medicaid Waiver extension for the period of July 1, 2014 through June 30, 2019 that included Delivery System Transformation Initiative (“DSTI”) potential funding of \$113,909,000 annually for the Medical Center for three years through June 30, 2017. These initiatives are designed as incentive payments to support investments in health care delivery systems that will support payment reform, and transition away from free-for-service payments toward alternative payment arrangements that reward high-quality, efficient, and integrated systems of care. Participating hospitals must select a minimum number of projects from each category as outlined in the Master DSTI Plan. The Medical Center has submitted a DSTI Plan with detailed projects to be implemented consistent with the categories outlined. CMS finalized the approval of the Medical Center’s DSTI plan on October 30, 2015. The Medical Center has recorded \$101,979,383 and \$103,553,000 for the years ending September 30, 2017 and 2016.

Other Safety Net Care Pool Supplemental Payments

The Medical Center receives additional supplemental payments from the State under the Special Terms and Conditions of the MassHealth Medicaid Section 1115 Demonstration, the Corporation meets the criteria for qualification for Public Service Hospital Safety Net Care Payments. The Medical Center has recorded \$52,000,000 for years ending September 30, 2017 and 2016.

21. Commitments and Contingencies

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

BMC Health System, Inc.
Notes to Consolidated Financial Statements
September 30, 2017 and 2016

22. Self Insurance

Professional and General Liability

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

Excess Liability Coverage

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

The Health System estimates that the expected claims liabilities at September 30, 2017 and 2016, on an undiscounted basis, are approximately \$90,413,000 and \$88,961,000, respectively.

23. Subsequent Events

The Health System has assessed the impact of subsequent events through January 24, 2018, 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.

Effective October 2017, BMCHP entered into an agreement for the Medical Center to begin, in January 2018, providing specialty drugs and related services to individuals enrolled in any current or future BMCHP managed care product offered in Massachusetts. The initial term is for three years with subsequent one year renewable terms.

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 and other routine capital projects. 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 \$1,485,000 to \$5,150,000.

In December 2017, the Medical Center also 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 3.912% maturing in 2028 and 4.581% for the bonds maturing in 2047.

Supplemental Consolidating Information

BMC Health System, Inc.
Consolidating Supplemental Balance Sheet
September 30, 2017

<i>(in thousands)</i>	The Health System Corporation	Medical Center	BMCHP	Foundation	BMCIC and BMCIC of Vermont	NAB	BACO	BUAP	Eliminations	The Health System
Assets										
Current assets										
Cash and cash equivalents	\$ 25,814	125,728	\$ 24,083	\$ 60,670	\$ 9,154	\$ -	\$ 4,360	\$ 1,551	\$ -	\$ 251,360
Short-term investments	-	-	39,732	-	-	-	-	-	-	39,732
Patients accounts receivable, less allowance of \$38,475 in 2017	-	97,569	-	16,725	-	-	-	231	(18,105)	96,420
Other accounts receivable, less allowance of \$3,188 in 2017	2,883	49,316	152,018	3,884	2,852	-	577	14	(2,415)	209,129
Current portion of grants receivable, less allowance of \$734 in 2017	-	16,671	-	-	-	-	-	-	-	16,671
Current portion of estimated receivable for final settlements with third-party payors	-	3,941	-	-	-	-	-	-	-	3,941
Current portion due from related parties	25,278	114,668	-	18,382	-	350	5,948	96	(164,722)	-
Inventories	-	8,751	-	-	-	-	-	-	-	8,751
Prepaid expenses and other current assets	-	22,788	-	282	584	-	-	36	(544)	23,146
Insurance recoveries receivable	-	38,325	-	48,355	-	-	-	-	(86,680)	-
Current portion of funds held by Trustees	-	3,189	-	-	-	-	-	-	-	3,189
Total current assets	53,975	480,946	215,833	148,298	12,590	350	10,885	1,928	(272,466)	652,339
Assets limited as to use										
Board-designated investments	-	367,108	-	-	-	-	-	-	-	367,108
Funds held by Trustees	-	35,666	-	-	-	-	-	-	-	35,666
Donor-restricted investments	-	332,883	-	-	-	-	-	-	-	332,883
Reserve funds	-	-	3,533	-	120,108	-	-	-	-	123,641
Total assets limited as to use	-	735,657	3,533	-	120,108	-	-	-	-	859,298
Other assets										
Long-term investments	-	138	238,834	38,463	21,435	-	-	-	-	298,870
Property, plant and equipment, net	439	817,413	12,193	2,806	-	130,870	-	130	-	963,851
Other noncurrent assets	8,183	215,719	-	44	-	-	-	-	(166,871)	57,075
Total assets	\$ 62,597	\$ 2,249,873	\$ 470,393	\$ 189,611	\$ 154,133	\$ 131,220	\$ 10,885	\$ 2,058	\$ (439,337)	\$ 2,831,433
Liabilities and Net Assets										
Current liabilities										
Accounts payable and accrued expenses	\$ 2,680	\$ 152,206	\$ 82,959	\$ 21,906	\$ 66	\$ -	\$ 2,071	\$ 353	\$ (2,644)	\$ 259,597
Claims payable	-	-	140,650	-	-	-	-	-	(18,050)	122,600
Deferred revenue	-	25,508	5,792	-	629	-	-	-	(544)	31,385
Current portion of due to related parties	27,207	31,961	1,085	46,471	10,147	768	9,684	3,348	(130,671)	-
Current portion of long-term debt and capital leases	-	5,778	-	124	-	-	-	-	-	5,902
Professional liability claims	-	38,325	-	48,355	-	-	-	-	(86,680)	-
Premium deficiency reserve	-	-	-	-	-	-	-	-	-	-
Other current liabilities	-	-	4,942	-	2,456	-	-	3	(1,344)	6,057
Total current liabilities	29,887	253,778	235,428	116,856	13,298	768	11,755	3,704	(239,933)	425,541
Long-term liabilities										
Estimated final settlements with third-party payors	-	51,626	-	-	-	-	-	-	-	51,626
Obligations under capital leases	-	46,480	-	220	-	-	-	-	-	46,700
Due to related parties	-	-	-	-	32,533	-	-	-	(32,533)	-
Long-term debt	-	571,746	-	-	-	-	-	-	-	571,746
Other long-term liabilities	-	63,953	-	5,663	86,348	165,250	-	-	(165,251)	155,963
Total liabilities	29,887	987,583	235,428	122,739	132,179	166,018	11,755	3,704	(437,717)	1,251,576
Commitments and contingencies										
Net assets										
Unrestricted	32,710	923,471	234,965	66,872	21,954	(34,798)	(870)	(1,646)	(1,620)	1,241,038
Temporarily restricted	-	300,939	-	-	-	-	-	-	-	300,939
Permanently restricted	-	37,880	-	-	-	-	-	-	-	37,880
Total net assets	32,710	1,262,290	234,965	66,872	21,954	(34,798)	(870)	(1,646)	(1,620)	1,579,857
Total liabilities and net assets	\$ 62,597	\$ 2,249,873	\$ 470,393	\$ 189,611	\$ 154,133	\$ 131,220	\$ 10,885	\$ 2,058	\$ (439,337)	\$ 2,831,433

The accompanying note is an integral part of these supplemental consolidating financial statements.

BMC Health System, Inc.
Consolidating Supplemental Balance Sheet
September 30, 2016

<i>(in thousands)</i>	The Health System Corporation	Medical Center	BMCHP	Foundation	BMCIC and BMCIC of Vermont	NAB	BACO	BUAP	Eliminations	The Health System
Assets										
Current assets										
Cash and cash equivalents	\$ 26,884	\$ 189,144	\$ 68,085	\$ 53,177	\$ 25,379	\$ -	\$ 81	\$ 1,881	\$ -	\$ 364,631
Short-term investments	-	-	41,200	-	-	-	-	-	-	41,200
Patients accounts receivable, less allowance of \$33,251 in 2016	-	84,603	-	15,918	-	-	-	270	(12,568)	88,223
Other accounts receivable, less allowance of \$3,108 in 2016	1,142	26,367	100,278	2,840	2,795	-	28	297	40,396	174,143
Current portion of grants receivable, less allowance of \$541 in 2016	-	14,387	-	-	-	-	-	-	-	14,387
Current portion of estimated receivable for final settlements with third-party payors	-	8,998	-	-	-	-	-	-	-	8,998
Current portion due from related parties	26,197	123,063	186	7,101	-	150	5,766	67	(162,530)	-
Inventories	-	8,277	-	-	-	-	-	-	-	8,277
Prepaid expenses and other current assets	-	22,172	-	365	575	-	-	22	(550)	22,584
Insurance recoveries receivable	-	38,640	-	43,572	-	-	-	-	(82,212)	-
Current portion of funds held by Trustees	-	38,000	-	-	-	-	-	-	-	38,000
Total current assets	54,223	553,651	209,749	122,973	28,749	150	5,875	2,537	(217,464)	760,443
Assets limited as to use										
Board-designated investments	-	330,691	-	-	-	-	-	-	-	330,691
Funds held by Trustees	-	40,850	-	-	-	-	-	-	-	40,850
Donor-restricted investments	-	314,363	-	-	-	-	-	-	-	314,363
Reserve funds	-	-	19,890	-	111,558	-	-	-	-	131,448
Total assets limited as to use	-	685,904	19,890	-	111,558	-	-	-	-	817,352
Other assets										
Long-term investments	-	-	230,848	36,487	-	-	-	-	-	267,335
Property, plant and equipment, net	491	757,556	7,887	3,984	-	135,226	-	197	-	905,341
Other noncurrent assets	9,789	208,761	-	60	-	-	-	-	(160,975)	57,635
Total assets	\$ 64,503	\$ 2,205,872	\$ 468,374	\$ 163,504	\$ 140,307	\$ 135,376	\$ 5,875	\$ 2,734	\$ (378,439)	\$ 2,808,106
Liabilities and Net Assets										
Current liabilities										
Accounts payable and accrued expenses	\$ 3,829	\$ 156,621	\$ 84,365	\$ 20,892	\$ 54	\$ -	\$ 2,723	\$ 493	\$ 36,186	\$ 305,163
Claims payable	-	-	133,671	-	-	-	-	-	(12,605)	121,066
Deferred revenue	-	23,451	92	-	550	-	-	-	(550)	23,543
Current portion of due to related parties	16,138	67,732	-	29,490	8,075	659	2,686	3,911	(128,691)	-
Current portion of long-term debt and capital leases	-	5,720	-	69	-	-	-	-	-	5,789
Professional liability claims	-	38,640	-	43,572	-	-	-	-	(82,212)	-
Premium deficiency reserve	-	-	28,000	-	-	-	-	-	-	28,000
Other current liabilities	-	-	7,072	-	-	-	-	-	174	7,246
Total current liabilities	19,967	292,164	253,200	94,023	8,679	659	5,409	4,404	(187,698)	490,807
Long-term liabilities										
Estimated final settlements with third-party payors	-	52,697	-	-	-	-	-	-	-	52,697
Obligations under capital leases	-	47,885	-	294	-	-	-	-	-	48,179
Due to related parties	-	-	-	1,250	28,516	-	-	-	(29,766)	-
Long-term debt	-	579,461	-	-	-	-	-	-	-	579,461
Other long-term liabilities	-	77,610	-	5,378	82,678	165,251	-	-	(159,355)	171,562
Total liabilities	19,967	1,049,817	253,200	100,945	119,873	165,910	5,409	4,404	(376,819)	1,342,706
Commitments and contingencies										
Net assets										
Unrestricted	44,536	843,587	215,174	62,559	20,434	(30,534)	466	(1,670)	(1,620)	1,152,932
Temporarily restricted	-	296,218	-	-	-	-	-	-	-	296,218
Permanently restricted	-	16,250	-	-	-	-	-	-	-	16,250
Total net assets	44,536	1,156,055	215,174	62,559	20,434	(30,534)	466	(1,670)	(1,620)	1,465,400
Total liabilities and net assets	\$ 64,503	\$ 2,205,872	\$ 468,374	\$ 163,504	\$ 140,307	\$ 135,376	\$ 5,875	\$ 2,734	\$ (378,439)	\$ 2,808,106

The accompanying note is an integral part of these supplemental consolidating financial statements.

BMC Health System, Inc.
Consolidating Supplemental Statement of Operations
Year Ended September 30, 2017

<i>(in thousands)</i>	The Health System Corporation	Medical Center	BMCHP	Foundation	BMCIC and BMCIC of Vermont	NAB	BACO	BUAP	Eliminations	The Health System
Operating revenue										
Net patient service revenue	\$ -	\$ 1,089,390	\$ -	\$ 173,868	\$ -	\$ -	\$ -	\$ 2,750	\$ (202,591)	\$ 1,063,417
Provision for bad debt	-	52,390	-	23,469	-	-	-	70	-	75,929
Net patient service revenue net of provision for bad debt	-	1,037,000	-	150,399	-	-	-	2,680	(202,591)	987,488
Capitation revenue	-	-	1,637,223	-	-	-	-	-	-	1,637,223
Grants and contract revenue	-	91,318	-	-	-	-	-	-	(35)	91,283
Institutional support	-	-	-	106,434	-	-	1,523	2,013	(109,970)	-
Other revenue	-	169,134	16,437	108,470	2,580	200	1,876	1,141	(47,693)	252,145
Net assets released from restrictions for operations	-	18,623	-	-	-	-	-	-	-	18,623
Total operating revenue	-	1,316,075	1,653,660	365,303	2,580	200	3,399	5,834	(360,289)	2,986,762
Operating expenses										
Salaries, wages and fringe benefits	8,087	613,712	71,643	332,750	-	-	3,277	4,497	(51,050)	982,916
Supplies and expenses	5,329	405,587	1,574,431	35,282	6,416	108	2,627	1,246	(197,125)	1,833,901
Institutional support	1,523	110,391	-	-	-	-	-	-	(111,914)	-
Depreciation and amortization	52	79,834	2,468	1,497	-	4,356	-	67	-	88,274
Interest expense	-	18,262	-	12	-	-	-	-	-	18,274
Research, sponsored programs and community health services	-	75,511	-	-	-	-	-	-	-	75,511
Total operating expenses	14,991	1,303,297	1,648,542	369,541	6,416	4,464	5,904	5,810	(360,089)	2,998,876
(Loss) Income from operations	(14,991)	12,778	5,118	(4,238)	(3,836)	(4,264)	(2,505)	24	(200)	(12,114)
Nonoperating gains (losses), net										
Income from investments (including other-than-temporary impairment losses of \$841 in 2017)	-	-	-	-	-	-	-	-	-	-
Gain on sale of real estate	53	21,086	2,354	5,285	3,922	-	-	-	200	32,900
Loss on defeasance of debt	-	-	-	-	-	-	-	-	-	-
Fundraising costs and other	-	(5,247)	-	93	-	-	-	-	-	(5,154)
Total nonoperating gains, net	53	15,839	2,354	5,378	3,922	-	-	-	200	27,746
Excess (deficiency) of revenue over expenses	(14,938)	28,617	7,472	1,140	86	(4,264)	(2,505)	24	-	15,632
Other changes in unrestricted net assets										
Change in unrealized appreciation (depreciation) on investments	-	2,328	12,319	(1,700)	1,434	-	-	-	-	14,381
Net asset transfer to Affiliate	-	-	-	-	-	-	-	-	-	-
Other changes	-	65	-	-	-	(426)	(65)	-	426	-
Net assets released from restrictions for property, plant and equipment	-	41,342	-	-	-	-	-	-	-	41,342
Pension-related changes other than net periodic pension costs	-	16,751	-	-	-	-	-	-	-	16,751
Donated services from/(to) affiliates	3,112	(9,219)	-	4,873	-	-	1,234	-	-	-
Change in unrestricted net assets	(11,826)	79,884	19,791	4,313	1,520	(4,690)	(1,336)	24	426	88,106
Unrestricted net assets										
Beginning of year	44,536	843,587	215,174	62,559	20,434	(30,108)	466	(1,670)	(2,046)	1,152,932
End of year	\$ 32,710	\$ 923,471	\$ 234,965	\$ 66,872	\$ 21,954	\$ (34,798)	\$ (870)	\$ (1,646)	\$ (1,620)	\$ 1,241,038

The accompanying note is an integral part of these supplemental consolidating financial statements.

BMC Health System, Inc.
Consolidating Supplemental Statement of Operations
Year Ended September 30, 2016

<i>(in thousands)</i>	The Health System Corporation	Medical Center	BMCHP	Foundation	BMCIC and BMCIC of Vermont	NAB	BACO	BUAP	Eliminations	The Health System
Operating revenue										
Net patient service revenue	\$ -	\$ 1,005,820	\$ -	\$ 164,922	\$ -	\$ -	\$ -	\$ 2,335	\$ (168,698)	\$ 1,004,379
Provision for bad debt	-	33,438	-	23,260	-	-	-	83	-	56,781
Net patient service revenue net of provision for bad debt	-	972,382	-	141,662	-	-	-	2,252	(168,698)	947,598
Capitation revenue	-	-	1,565,692	-	-	-	-	-	-	1,565,692
Grants and contract revenue	-	98,556	-	-	-	-	-	-	(25)	98,531
Institutional support	-	-	-	98,197	-	-	1,736	1,877	(101,810)	-
Other revenue	-	141,238	15,092	101,827	-	791	(703)	1,320	(40,566)	218,999
Net assets released from restrictions for operations	-	26,840	-	-	-	-	-	-	-	26,840
Total operating revenue	-	1,239,016	1,580,784	341,686	-	791	1,033	5,449	(311,099)	2,857,660
Operating expenses										
Salaries, wages and fringe benefits	6,458	566,714	64,557	289,189	-	-	974	4,301	(31,952)	900,241
Supplies and expenses	3,498	360,906	1,522,805	55,819	13,152	685	863	1,272	(168,917)	1,790,083
Institutional support	1,736	107,703	-	-	-	-	-	-	(109,439)	-
Depreciation and amortization	26	77,917	3,804	1,178	-	4,655	-	127	-	87,707
Interest expense	-	24,138	-	10	-	615	-	-	-	24,763
Research, sponsored programs and community health services	-	99,915	-	-	-	-	-	-	-	99,915
Total operating expenses	11,718	1,237,293	1,591,166	346,196	13,152	5,955	1,837	5,700	(310,308)	2,902,709
(Loss) Income from operations	(11,718)	1,723	(10,382)	(4,510)	(13,152)	(5,164)	(804)	(251)	(791)	(45,049)
Nonoperating gains (losses), net										
Income from investments (including other-than-temporary impairment losses of \$752 in 2016)	56	11,684	3,636	1,288	13,145	-	-	-	791	30,600
Gain on sale of real estate	-	315	-	-	-	-	-	-	-	315
Loss on defeasance of debt	-	(16,187)	-	-	-	-	-	-	-	(16,187)
Fundraising costs and other	-	(5,166)	-	(928)	-	105	-	-	-	(5,989)
Total nonoperating gains (losses), net	56	(9,354)	3,636	360	13,145	105	-	-	791	8,739
(Deficiency) of revenue over expenses	(11,662)	(7,631)	(6,746)	(4,150)	(7)	(5,059)	(804)	(251)	-	(36,310)
Other changes in unrestricted net assets										
Change in unrealized appreciation (depreciation) on investments	-	6,111	8,003	(304)	-	-	-	-	-	13,810
Net asset transfer to Affiliate	-	(10,321)	(10,000)	-	20,000	321	-	-	-	-
Other changes	-	(1,948)	-	-	-	-	1,948	-	-	-
Net assets released from restrictions for property, plant and equipment	-	39,113	-	-	-	-	-	-	-	39,113
Pension-related changes other than net periodic pension costs	-	(10,510)	-	-	-	-	-	-	-	(10,510)
Donated services from/(to) affiliates	2,049	(6,476)	-	4,427	-	-	-	-	-	-
Change in unrestricted net assets	(9,613)	8,338	(8,743)	(27)	19,993	(4,738)	1,144	(251)	-	6,103
Unrestricted net assets										
Beginning of year	54,149	835,249	223,917	62,586	441	(25,370)	(678)	(1,419)	(2,046)	1,146,829
End of year	\$ 44,536	\$ 843,587	\$ 215,174	\$ 62,559	\$ 20,434	\$ (30,108)	\$ 466	\$ (1,670)	\$ (2,046)	\$ 1,152,932

The accompanying note is an integral part of these supplemental consolidating financial statements.

BMC Health System, Inc.
Note to Supplemental Consolidating Information
September 30, 2017 and 2016

1. Basis of Presentation

The accompanying supplemental consolidating information includes the Consolidating Supplemental Balance Sheets and the Consolidating Supplemental Statement of Operations of the individual entities of the Health System. 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.
Schedule of Expenditures of Federal Awards
September 30, 2017

Federal Program / Pass-through Grantor / Program or Cluster	CFDA	Direct	Pass-Through	Pass-Through Entity	Pass-Through Entity Sponsor Number	Total Expenditures	Passed to Sub-Recipients
Research and Development Cluster							
Department of Agriculture							
Agricultural Research Basic and Applied Research	10.001	\$ -	\$ 17,353	US Civilian Research and Development Foundation	59-0210-2-160	\$ 17,353	\$ 12,469
Department of Agriculture Total		<u>-</u>	<u>17,353</u>			<u>17,353</u>	<u>12,469</u>
Department of Defense							
Military Medical Research and Development	12.420	-	320	Johns Hopkins University	8487	320	-
Military Medical Research and Development	12.420	-	169	Johns Hopkins University	VUMC37447	169	-
Military Medical Research and Development	12.420	-	85	Johns Hopkins University	W81XWH0920108	85	-
Military Medical Research and Development	12.420	-	6,633	Johns Hopkins University	W81XWH-09-2-0108	6,633	-
Conversion of Human Muscle Cells to Brown Adipocytes: In Vitro Studies	12.RD	-	10,670	Energesis Pharmaceuticals	W81XWH-15-C-0090	10,670	-
Department of Defense Total		<u>-</u>	<u>17,877</u>			<u>17,877</u>	<u>-</u>
Department of Housing and Urban Development							
General Research and Technology Activity	14.506	4,379	-			4,379	-
Department of Housing and Urban Development Total		<u>4,379</u>	<u>-</u>			<u>4,379</u>	<u>-</u>
Department of Justice							
National Institute of Justice							
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	-	5,000	Trustees of Boston University	4500001518	5,000	-
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	-	40,742	Trustees of Boston University	4500001765	40,742	-
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	156,706	-			156,706	69,142
National Institute of Justice Total		<u>156,706</u>	<u>45,742</u>			<u>202,448</u>	<u>69,142</u>
Department of Justice							
Crime Victim Assistance	16.575	-	231,787	Commonwealth of Mass - MOVA	2015AEAPBMCIRC000000	231,787	29,778
Crime Victim Assistance	16.575	-	251,306	Commonwealth of Mass - MOVA	VOC A2015BMCICWTV0000	251,306	-
Department of Justice	16.RD	-	92,985	Rhode Island Department of Health	1450197	92,985	-
Department of Justice Total		<u>-</u>	<u>576,078</u>			<u>576,078</u>	<u>29,778</u>
Office of Justice Programs							
Crime Victim Assistance/Discretionary Grants	16.582	366,668	-			366,668	-
Office of Justice Total		<u>366,668</u>	<u>-</u>			<u>366,668</u>	<u>-</u>
Department of Justice Total		<u>523,374</u>	<u>621,820</u>			<u>1,145,194</u>	<u>98,920</u>
National Science Foundation							
Office of International Science and Engineering	47.079	-	(853)	US Civilian Research and Development Foundation	OISE-14-60704-1	(853)	-
Office of International Science and Engineering	47.079	-	41,664	US Civilian Research and Development Foundation	OISE-16-62055-1	41,664	16,187
Office of International Science and Engineering	47.079	-	59,955	US Civilian Research and Development Foundation	OISE-15-61407-1	59,955	14,236
Office of International Science and Engineering	47.079	-	223,583	US Civilian Research and Development Foundation	USB1-31150-XX-13	223,583	44,347
National Science Foundation Total		<u>-</u>	<u>324,349</u>			<u>324,349</u>	<u>74,770</u>
Department of Health and Human Services ("DHHS")							
National Centers for Complimentary and Alternative Medicine							
Family Smoking Prevention and Tobacco Control Act Regulatory Research	93.077	81,051	-			81,051	-
Research and Training in Complimentary and Integrative Health	93.213	43,786	-			43,786	41,524
National Centers for Complimentary and Alternative Medicine Total		<u>124,837</u>	<u>-</u>			<u>124,837</u>	<u>41,524</u>

The accompanying notes are an integral part of the schedule.

BMC Health System, Inc.
Schedule of Expenditures of Federal Awards
September 30, 2017

Federal Program / Pass-through Grantor / Program or Cluster	CFDA	Direct	Pass-Through	Pass-Through Entity	Pass-Through Entity Sponsor Number	Total Expenditures	Passed to Sub-Recipients
Research and Development Cluster (continued)							
Centers for Disease Control and Prevention							
Prevention of Disease, Disability, and Death by Infectious Diseases	93.084	\$ -	\$ 407,365	Harvard School of Public Health	116532-5085651	\$ 407,365	\$ -
Injury Prevention and Control Research and State and Community Based Programs	93.136	-	107,775	Commonwealth of Mass - DPH	INTF2400H78500224302	107,775	-
Injury Prevention and Control Research and State and Community Based Programs	93.136	-	(2,333)	Rhode Island Hospital	701-713-7039	(2,333)	-
Injury Prevention and Control Research and State and Community Based Programs	93.136	291,951	-			291,951	15,323
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	-	157,325	Commonwealth of Mass - DPH	INTF3406MM3900817012	157,325	-
Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by the Prevention and Public Health Fund	93.733	-	13,676	American Academy of Pediatrics	772102-BMC	13,676	-
Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by the Prevention and Public Health Fund	93.733	-	29,236	American Academy of Pediatrics	772103-BMC	29,236	-
Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome and Human Immunodeficiency Virus Infection in Selected Population Groups	93.943	-	(13,744)	Commonwealth of Mass - DPH	INTF4942MM3100119035-2016-CT	(13,744)	-
Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome and Human Immunodeficiency Virus Infection in Selected Population Groups	93.943	-	905,896	Commonwealth of Mass - DPH	INTF4942MM3100119035-2017-CT	905,896	-
Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome and Human Immunodeficiency Virus Infection in Selected Population Groups	93.943	-	266,424	Commonwealth of Mass - DPH	INTF4942MM3100119035-2018-CT	266,424	-
DHHS - Centers for Disease Control and Prevention	93.RD	-	69,266	Antigen Institute for Biomed Research	BMC Agreement ID: 5129	69,266	-
DHHS - Centers for Disease Control and Prevention	93.RD	-	46,925	OpenBiome	RACE-BMC-092016	46,925	-
DHHS - Centers for Disease Control and Prevention	93.RD	-	123,231	Rhode Island Department of Health	1450197	123,231	-
DHHS - Centers for Disease Control and Prevention	93.RD	-	(5,000)	WESTAT	8625.09-S01	(5,000)	-
DHHS - Centers for Disease Control and Prevention	93.RD	263,670	-			263,670	58,784
Center for Disease Control and Prevention Total		<u>555,621</u>	<u>2,106,042</u>			<u>2,661,663</u>	<u>74,107</u>
Health Resources Services Administration							
Maternal and Child Health Federal Consolidated Programs	93.110	-	8,001	Boston Children's Hospital	3208960816-P	8,001	-
Maternal and Child Health Federal Consolidated Programs	93.110	-	140,622	Johns Hopkins University	118525	140,622	-
Maternal and Child Health Federal Consolidated Programs	93.110	620,881	-			620,881	16,170
Preventive Medicine and Public Health Residency Training Program, Integrative Medicine Program, and National Center for Integrative Primary Healthcare	93.117	659,521	-			659,521	-
Geriatric Training for Physicians, Dentists and Behavioral/Mental Health Professionals	93.156	369,373	-			369,373	117,285
National Research Service Award in Primary Care Medicine	93.186	32,103	-			32,103	-
Affordable Care Act Primary Care Residency Expansion Program	93.510	283,387	-			283,387	-
Grants for Primary Care Training and Enhancement	93.884	416,908	-			416,908	94,264
HIV Care Formula Grants	93.917	-	1,035,968	Commonwealth of Mass - DPH	INTF4943MM3200120006-2016-CT	1,035,968	-
HIV Care Formula Grants	93.917	-	277,285	Commonwealth of Mass - DPH	INTF4943MM3200120006-2018-CT	277,285	-
DHHS - Health Resources and Services Administration	93.RD	-	295	National Initiative for Children's Health	9295	295	-
Health Resources Services Administration Total		<u>2,382,173</u>	<u>1,462,171</u>			<u>3,844,344</u>	<u>227,719</u>
National Institute of Environmental Health Sciences							
Environmental Health	93.113	-	257,126	Trustees of Boston University	4500002019	257,126	-
National Institute of Environmental Health Sciences Total		<u>-</u>	<u>257,126</u>			<u>257,126</u>	<u>-</u>
National Institute of Dental and Craniofacial Research							
Oral Diseases and Disorders Research	93.121	4,554	-			4,554	4,126
National Institute of Dental and Craniofacial Research Total		<u>4,554</u>	<u>-</u>			<u>4,554</u>	<u>4,126</u>

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Research and Development Cluster (continued)							
National Institute of Deafness and Other Communication Disorders							
Research Related to Deafness and Communication Disorders	93.173	\$ -	\$ 193,737	Boston Children's Hospital	PO#00001136626	\$ 193,737	\$ -
Research Related to Deafness and Communication Disorders	93.173	-	39,738	University of Michigan	3003754646	39,738	-
Research Related to Deafness and Communication Disorders	93.173	183,591	-			183,591	-
National Institute of Deafness and Other Communication Disorders Total		<u>183,591</u>	<u>233,475</u>			<u>417,066</u>	<u>-</u>
Agency for Healthcare Research & Quality							
National Research Service Awards Health Services Research Training	93.225	319,942	-			319,942	-
Research on Healthcare Costs, Quality and Outcomes	93.226	-	18,448	University of Utah	10042477-01	18,448	-
Research on Healthcare Costs, Quality and Outcomes	93.226	879,836	-			879,836	147,792
Agency for Healthcare Research & Quality Total		<u>1,199,778</u>	<u>18,448</u>			<u>1,218,226</u>	<u>147,792</u>
National Institute on Mental Health							
Mental Health Research Grants	93.242	-	19,570	Northshore University	EH13-344-S1	19,570	-
Mental Health Research Grants	93.242	155,509	-			155,509	4,423
National Institute on Mental Health Total		<u>155,509</u>	<u>19,570</u>			<u>175,079</u>	<u>4,423</u>
National Institutes of Health							
Mental Health Research Grants	93.242	-	8,054	University of North Carolina	5106102	8,054	-
Cancer Detection and Diagnosis Research	93.394	-	29,651	Nanocytomics, LLC.	1R43CA200052-01A1	29,651	-
Cancer Detection and Diagnosis Research	93.394	-	54,719	Nanocytomics, LLC.	1R44CA206844-01A1	54,719	-
Lung Diseases Research	93.838	-	2,020	Boston Public Health Commission	FY16016604	2,020	-
National Institutes of Health Total		<u>-</u>	<u>94,444</u>			<u>94,444</u>	<u>-</u>
Substance Abuse and Mental Health Services Administration							
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	-	13,920	American Psychiatric Association	SM-14-007	13,920	-
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	-	75,355	Commonwealth of Mass - DPH	INTF2330MM3W16003108	75,355	-
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	-	44,065	University of California	1U79SM080030-01/9808sc	44,065	-
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	-	5,974	University of California	8395sc	5,974	-
Substance Abuse and Mental Health Services Administration Total		<u>-</u>	<u>139,314</u>			<u>139,314</u>	<u>-</u>
National Institute on Alcohol Abuse and Alcoholism							
Alcohol Research Programs	93.273	-	66,941	University of California	9772sc	66,941	-
Alcohol Research Programs	93.273	1,951,262	-			1,951,262	748,963
DHHS - National Institute on Alcohol Abuse and Alcoholism	93.RD	-	416,757	Fast Track Drugs and Biologics	HHSN27500003-1061-NCIG6-BMC	416,757	-
National Institute on Alcohol Abuse and Alcoholism Total		<u>1,951,262</u>	<u>483,698</u>			<u>2,434,960</u>	<u>748,963</u>
National Institute of Drug Abuse							
Drug Abuse and Addiction Research Programs	93.279	-	59,450	Albert Einstein College of Medicine	310487	59,450	-
Drug Abuse and Addiction Research Programs	93.279	-	104,753	Baystate Medical Center	15-259	104,753	-
Drug Abuse and Addiction Research Programs	93.279	-	(14,509)	Butler Hospital	9006-8332	(14,509)	-
Drug Abuse and Addiction Research Programs	93.279	-	15,870	Cornell University	16070995-03	15,870	-
Drug Abuse and Addiction Research Programs	93.279	-	121,402	Cornell University	16091540-02	121,402	-
Drug Abuse and Addiction Research Programs	93.279	-	99,806	Cornell University	170239	99,806	-
Drug Abuse and Addiction Research Programs	93.279	-	46,434	Cornell University	17060914-03	46,434	-

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Research and Development Cluster (continued)							
Drug Abuse and Addiction Research Programs	93.279	\$ -	\$ 95,490	Group Health Cooperative	2017112385	\$ 95,490	\$ -
Drug Abuse and Addiction Research Programs	93.279	-	16,665	Massachusetts General Hospital	227313	16,665	-
Drug Abuse and Addiction Research Programs	93.279	-	169,087	McLean Hospital	#401108	169,087	-
Drug Abuse and Addiction Research Programs	93.279	-	54,912	Pacific Institute for Research and Evaluation	0835	54,912	-
Drug Abuse and Addiction Research Programs	93.279	-	54,544	Trustees of Boston University	4500002279	54,544	-
Drug Abuse and Addiction Research Programs	93.279	-	25,915	Trustees of Boston University	4500002350	25,915	-
Drug Abuse and Addiction Research Programs	93.279	-	61,515	Trustees of Columbia University	2(GG010654-01)	61,515	-
Drug Abuse and Addiction Research Programs	93.279	-	(618)	Tufts Medical Center	5007570-SERV	(618)	-
Drug Abuse and Addiction Research Programs	93.279	-	24,370	University of British Columbia	5R25DA037756-04	24,370	-
Drug Abuse and Addiction Research Programs	93.279	-	1,639	University of British Columbia	R25 DA030756	1,639	-
Drug Abuse and Addiction Research Programs	93.279	-	15,886	University of California	2000GQM779	15,886	-
Drug Abuse and Addiction Research Programs	93.279	-	19,453	University of California	9510sc	19,453	-
Drug Abuse and Addiction Research Programs	93.279	-	7,957	West Virginia University	17-752-BMC	7,957	-
Drug Abuse and Addiction Research Programs	93.279	3,589,540	-			3,589,540	780,043
DHHS - National Institute on Drug Abuse	93.RD	210,512	-			210,512	-
National Institute of Drug Abuse Total		3,800,052	980,021			4,780,073	780,043
National Institute of Biomedical Imaging and Bioengineering							
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286	-	24,428	Northwestern University	SP0039942-PROJ0011715	24,428	-
National Institute of Biomedical Imaging and Bioengineering Total		-	24,428			24,428	-
National Institute on Minority Health and Health Disparities							
Minority Health and Health Disparities Research	93.307	-	36,068	Northwestern University	60046231 BMC	36,068	-
Minority Health and Health Disparities Research	93.307	-	54,809	Tufts Medical Center	5011778-SERV	54,809	-
Minority Health and Health Disparities Research	93.307	1,910,840	-			1,910,840	171,727
National Institute on Minority Health and Health Disparities Total		1,910,840	90,877			2,001,717	171,727
National Institutes of Health - Office of the Director							
Trans-NIH Research Support	93.310	-	431,866	Massachusetts General Hospital	229352	431,866	7,967
Trans-NIH Research Support	93.310	-	88,188	University of North Carolina	5106185	88,188	-
National Institute of Health - Office of the Director Total		-	520,054			520,054	7,967
National Cancer Institute							
National Center for Advancing Translational Sciences	93.350	-	40,090	American Biooptics LLC	1R44CA199667-01A1	40,090	-
Cancer Cause and Prevention Research	93.393	-	25,000	Dana Farber Cancer Institute	1289206	25,000	-
Cancer Cause and Prevention Research	93.393	45,789	-			45,789	-
Cancer Detection and Diagnosis Research	93.394	-	154,005	Baylor College of Medicine	101573601	154,005	-
Cancer Detection and Diagnosis Research	93.394	-	3,770	Nanocytomics, LLC.	4R42 CA168055-02	3,770	-
Cancer Detection and Diagnosis Research	93.394	-	107,532	Northwestern University	SP0010241-PROJ0007116	107,532	4,598
Cancer Detection and Diagnosis Research	93.394	-	(2,793)	Northwestern University	SP0014771-PROJ0006515	(2,793)	-
Cancer Detection and Diagnosis Research	93.394	-	297,297	Northwestern University	SP0028253-PROJ0007361	297,297	-
Cancer Detection and Diagnosis Research	93.394	-	268,878	Northwestern University	SP0031569-PROJ0008430	268,878	-
Cancer Detection and Diagnosis Research	93.394	-	330,061	Northwestern University	SP0039088-PROJ0011335	330,061	-
Cancer Detection and Diagnosis Research	93.394	-	9,055	Trustees of Boston University	4500001500	9,055	-
Cancer Detection and Diagnosis Research	93.394	-	(217)	University of Texas Health Science Center - San Antonio	157050	(217)	-
Cancer Detection and Diagnosis Research	93.394	363,615	-			363,615	142,156

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Research and Development Cluster (continued)							
Cancer Treatment Research	93.395	\$ -	\$ (74,582)	EMMES Corporation	2U01CA121947-04	\$ (74,582)	\$ -
Cancer Treatment Research	93.395	-	450	NRG Oncology Foundation, Inc.	BMC/Kachnic-NCORP-01	450	-
Cancer Treatment Research	93.395	-	421,462	University of California	UCLA Subaward Number 1568 G TA632	421,462	-
Cancer Treatment Research	93.395	484,552	-			484,552	114,484
Cancer Biology Research	93.396	-	224,352	Massachusetts General Hospital	223690	224,352	-
Cancer Biology Research	93.396	406,774	-			406,774	-
DHHS - National Cancer Institute	93.RD	-	304,433	Leidos Biomedical Research Inc	16X153	304,433	-
DHHS - National Cancer Institute	93.RD	-	35,144	Oregon Health and Science University	SWOG/NCI	35,144	-
National Cancer Institute Total		<u>1,300,730</u>	<u>2,143,937</u>			<u>3,444,667</u>	<u>261,238</u>
National Institute of Nursing Research							
Nursing Research	93.361	-	26,386	Tufts University	HS3522	26,386	-
Nursing Research	93.361	-	109,667	University of Colorado	FY16.342.003	109,667	-
Nursing Research	93.361	492,669	-			492,669	276,605
National Institute of Nursing Research Total		<u>492,669</u>	<u>136,053</u>			<u>628,722</u>	<u>276,605</u>
Administration for Children & Families							
Abandoned Infants	93.551	291,358	-			291,358	-
Family Violence Prevention and Services/Discretionary	93.592	128,520	-			128,520	-
Assistance for Torture Victims	93.604	373,181	-			373,181	-
Adoption Opportunities	93.652	-	3,861	L.U.K. Crisis Center, Inc.	09CO1057/01	3,861	-
Administration for Children & Families Total		<u>793,059</u>	<u>3,861</u>			<u>796,920</u>	<u>-</u>
Centers for Medicare and Medicaid							
Health Care Innovation Awards	93.610	2,024,751	-			2,024,751	867,249
DHHS - Centers for Medicare and Medicaid	93.RD	-	17,917	Georgia Medical Care Foundation	HHSM-500-2014-QIN0121	17,917	-
Center for Medicare and Medicaid Total		<u>2,024,751</u>	<u>17,917</u>			<u>2,042,668</u>	<u>867,249</u>
National Heart, Blood, and Lung Institute							
Cardiovascular Diseases Research	93.837	-	367,629	Brigham and Women's Hospital	113286	367,629	-
Cardiovascular Diseases Research	93.837	-	68,736	Boston Children's Hospital	702265	68,736	-
Cardiovascular Diseases Research	93.837	-	(50)	Massachusetts General Hospital	218586	(50)	-
Cardiovascular Diseases Research	93.837	-	43,667	Massachusetts General Hospital	U01HL023336	43,667	-
Cardiovascular Diseases Research	93.837	-	104,947	New England Medical Research Inst, Inc	U01HL107407	104,947	-
Cardiovascular Diseases Research	93.837	-	1,197	New York University	001215	1,197	-
Cardiovascular Diseases Research	93.837	-	836	New York University	1U01HL105907-01	836	-
Cardiovascular Diseases Research	93.837	1,473,272	-			1,473,272	-
Lung Diseases Research	93.838	430,671	-			430,671	-
Blood Diseases and Resources Research	93.839	-	5,248	Trustees of Boston University	4500001870	5,248	-
Blood Diseases and Resources Research	93.839	-	43,105	Trustees of Boston University	4500002284	43,105	-
Blood Diseases and Resources Research	93.839	303,187	-			303,187	67,372
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	-	15,239	University of Texas Health Science Center - San Antonio	R01 DK100603-02	15,239	-
DHHS - National Heart, Lung, and Blood Institute	93.RD	-	(10,383)	Trustees of Boston University	4500001380	(10,383)	-
National Heart, Blood, and Lung Institute Total		<u>2,207,130</u>	<u>640,171</u>			<u>2,847,301</u>	<u>67,372</u>
National Institute of Arthritis and Musculoskeletal and Skin Diseases							
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	-	49,552	Brigham and Women's Hospital	114745	49,552	-
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	-	486	Johns Hopkins University	1R01AR064066-01	486	-

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Federal Program / Pass-through Grantor / Program or Cluster	CFDA	Direct	Pass-Through	Pass-Through Entity	Pass-Through Entity Sponsor Number	Total Expenditures	Passed to Sub-Recipients
Research and Development Cluster (continued)							
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	\$ -	\$ 79,335	University of Mass-Worcester	WA00303719/RFS2015153	\$ 79,335	\$ -
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	-	41,893	University of Arizona	244231	41,893	-
National Institute of Arthritis and Musculoskeletal and Skin Diseases Total		<u>-</u>	<u>171,266</u>			<u>171,266</u>	<u>-</u>
National Institute of Diabetes, Digestive, and Kidney Diseases							
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	-	5,170	Massachusetts General Hospital	226449	5,170	-
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	-	142,767	Northwestern University	60040977 BMCC	142,767	-
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	-	21,612	The Scripps Research Institute	5-53280	21,612	-
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	-	93,792	The Scripps Research Institute	PO # 5-52801	93,792	-
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	-	72,847	Trustees of Boston University	4500002032	72,847	-
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	4,356,130	-			4,356,130	1,029,509
National Institute of Diabetes, Digestive, and Kidney Diseases Total		<u>4,356,130</u>	<u>336,188</u>			<u>4,692,318</u>	<u>1,029,509</u>
National Institute of Neurological Disorders and Stroke							
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	-	3,494	EMMES Corporation	U01 NS062835	3,494	-
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	-	3,025	Massachusetts General Hospital	223334	3,025	-
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	-	3,859	Massachusetts General Hospital	226396	3,859	-
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	-	800	Northwestern University	60036745 BUMC	800	-
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	-	22,296	University of California	9668sc	22,296	-
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	-	33,326	University of Washington	UWSC7761	33,326	-
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	821,026	-			821,026	402,921
National Institute of Neurological Disorders and Stroke Total		<u>821,026</u>	<u>66,800</u>			<u>887,826</u>	<u>402,921</u>
National Institute on Allergy and Infectious Diseases							
Allergy and Infectious Diseases Research	93.855	-	2,012	Duke University	203-4127	2,012	-
Allergy and Infectious Diseases Research	93.855	-	1,690	Harvard Pilgrim Health Care (HPHC)	PH000391A	1,690	-
Allergy and Infectious Diseases Research	93.855	-	7,307	Institute for Clinical Research, Inc.	M56-BU-071-1101-3	7,307	-
Allergy and Infectious Diseases Research	93.855	-	86,539	Johns Hopkins University	2003336400	86,539	-
Allergy and Infectious Diseases Research	93.855	-	(5,775)	Johns Hopkins University	5 UM1 AI068632-09	(5,775)	-
Allergy and Infectious Diseases Research	93.855	-	64,081	Johns Hopkins University	HHSN272200900050C	64,081	-
Allergy and Infectious Diseases Research	93.855	-	13,564	Johns Hopkins University	PO 2002249257	13,564	-
Allergy and Infectious Diseases Research	93.855	-	121,747	Johns Hopkins University	UM1 AI068632	121,747	-
Allergy and Infectious Diseases Research	93.855	-	10,029	Merck & Co.	PO 2002249257	10,029	-
Allergy and Infectious Diseases Research	93.855	-	21,915	Merck & Co.	PO 2002532372	21,915	-
Allergy and Infectious Diseases Research	93.855	-	242,624	Miriam Hospital	710-9155	242,624	-
Allergy and Infectious Diseases Research	93.855	-	22,198	Miriam Hospital	7109156	22,198	-
Allergy and Infectious Diseases Research	93.855	-	88,118	Miriam Hospital	710-9156	88,118	-
Allergy and Infectious Diseases Research	93.855	-	128,757	New York University	16-A0-00-007002-01	128,757	-
Allergy and Infectious Diseases Research	93.855	-	105,911	Trustees of Boston University	4500002129	105,911	-
Allergy and Infectious Diseases Research	93.855	-	20,120	Trustees of Boston University	4500002134	20,120	-
Allergy and Infectious Diseases Research	93.855	-	92,827	Trustees of Boston University	4500002173	92,827	-
Allergy and Infectious Diseases Research	93.855	-	9,662	Trustees of Boston University	4500002302	9,662	-
Allergy and Infectious Diseases Research	93.855	-	134,060	University of Alabama	000509701-001	134,060	-
Allergy and Infectious Diseases Research	93.855	-	3,379	University of California	7388sc	3,379	-
Allergy and Infectious Diseases Research	93.855	-	25,712	University of New Mexico	3RZ17	25,712	-
Allergy and Infectious Diseases Research	93.855	7,114,041	-			7,114,041	3,209,362
National Institute on Allergy and Infectious Diseases Total		<u>7,114,041</u>	<u>1,196,477</u>			<u>8,310,518</u>	<u>3,209,362</u>

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Federal Program / Pass-through Grantor / Program or Cluster	CFDA	Direct	Pass-Through	Pass-Through Entity	Pass-Through Entity Sponsor Number	Total Expenditures	Passed to Sub-Recipients
Research and Development Cluster (continued)							
National Institute of General Medical Sciences							
Biomedical Research and Research Training	93.859	\$ 36,750	\$ -			\$ 36,750	\$ -
National Institute of General Medical Sciences Total		<u>36,750</u>	<u>-</u>			<u>36,750</u>	<u>-</u>
National Institute of Child Health and Human Development							
Child Health and Human Development Extramural Research	93.865	-	6,244	George Washington University	U10HD036801	6,244	-
Child Health and Human Development Extramural Research	93.865	-	120,526	Johns Hopkins University	2002901077	120,526	-
Child Health and Human Development Extramural Research	93.865	-	154,695	Johns Hopkins University	2003025892	154,695	-
Child Health and Human Development Extramural Research	93.865	-	6,456	New England Medical Research Inst, Inc	R44-HD063173	6,456	-
Child Health and Human Development Extramural Research	93.865	788,596	-			788,596	25,536
DHHS - National Institute of Child Health and Human Development	93.RD	-	511,844	WESTAT	6101-S069	511,844	-
DHHS - National Institute of Child Health and Human Development	93.RD	21,720	-			21,720	-
National Institute of Child Health and Human Development Total		<u>810,316</u>	<u>799,765</u>			<u>1,610,081</u>	<u>25,536</u>
National Institute on Aging							
Aging Research	93.866	-	11,148	Trustees of Boston University	4500002223	11,148	-
Aging Research	93.866	-	9,072	Tufts University	101001-00001	9,072	-
Aging Research	93.866	-	33,299	University of North Carolina	5050163	33,299	-
Aging Research	93.866	-	(15,406)	Vanderbilt University Medical Center	VUMC 52540	(15,406)	-
Aging Research	93.866	-	(5,705)	Vanderbilt University Medical Center	VUMC43215	(5,705)	-
Aging Research	93.866	1,383,318	-			1,383,318	335,950
National Institute on Aging Total		<u>1,383,318</u>	<u>32,408</u>			<u>1,415,726</u>	<u>335,950</u>
National Eye Institute							
Vision Research	93.867	-	5,012	Case Western Reserve University	RESS11044	5,012	-
Vision Research	93.867	-	21,316	Case Western Reserve University	RES512053	21,316	-
Vision Research	93.867	-	11,442	Jaeb Center for Health Research	U10EY11751	11,442	-
Vision Research	93.867	407,064	-			407,064	-
National Eye Institute Total		<u>407,064</u>	<u>37,770</u>			<u>444,834</u>	<u>-</u>
National Institutes of Health - Fogarty International Center							
International Research and Research Training	93.989	322,995	-			322,995	35,146
National Institute of Health- Fogarty International Center Total		<u>322,995</u>	<u>-</u>			<u>322,995</u>	<u>35,146</u>
Office of the Assistant Secretary for Preparedness and Response							
DHHS - Assistant Secretary for Preparedness and Response	93.RD	-	5,799	Commonwealth of Mass - DPH	INTF6207PP1W16052707	5,799	-
Office of the Assistant Secretary for Preparedness and Response		<u>-</u>	<u>5,799</u>			<u>5,799</u>	<u>-</u>
Department of Health and Human Services Total		<u>34,338,196</u>	<u>12,018,080</u>			<u>46,356,276</u>	<u>8,719,279</u>
Research and Development Cluster Total		<u>34,865,949</u>	<u>12,999,479</u>			<u>47,865,428</u>	<u>8,905,438</u>
Food Distribution Cluster							
Department of Agriculture							
Emergency Food Assistance Program (Food Commodities)	10.569	-	64,132	Greater Boston Food Bank	NA	64,132	-
Food Distribution Cluster Total		<u>-</u>	<u>64,132</u>			<u>64,132</u>	<u>-</u>

The accompanying notes are an integral part of the schedule.

BMC Health System, Inc.
Schedule of Expenditures of Federal Awards
September 30, 2017

Federal Program / Pass-through Grantor / Program or Cluster	CFDA	Direct	Pass-Through	Pass-Through Entity	Pass-Through Entity Sponsor Number	Total Expenditures	Passed to Sub-Recipients
Aging Cluster							
Administration on Aging							
Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers	93.044	\$ -	\$ (459)	City of Boston	PO# BOSTN-0000660667	\$ (459)	\$ -
Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers	93.044	-	13,750	City of Boston	PO# BOSTN-0000674858	13,750	-
Aging Cluster Total		-	13,291			13,291	-
Health Center Program Cluster							
Health Resources Services Administration							
Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224	-	3,150	Harbor Health Services Inc	BMC Agree ID: 4290	3,150	-
Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224	-	42,959	Mattapan Community Health Center	5014; H80CS00395-14-04	42,959	-
Health Center Program Cluster Total		-	46,109			46,109	-
Other Programs							
Department of Health and Human Services							
Health Resources Services Administration							
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153	421,635	-			421,635	-
HIV Emergency Relief Project Grants	93.914	-	74,224	Boston Public Health Commission	6-H89-HA-00011-16	74,224	-
HIV Emergency Relief Project Grants	93.914	-	101,549	Boston Public Health Commission	FY17018196A	101,549	-
HIV Emergency Relief Project Grants	93.914	-	90,412	Boston Public Health Commission	PO21201941	90,412	-
Total 93.914		-	266,185			266,185	-
Healthy Start Initiative	93.926	-	158,408	Boston Public Health Commission	FY16016450	158,408	-
Health Resources Services Administration Total		421,635	424,593			846,228	-
Office of Public Health and Science							
Family Planning Services	93.217	-	21,226	ABCD	111-F84-887-00	21,226	-
Family Planning Services	93.217	-	7,651	ABCD	FPHPA16204-01-00	7,651	-
Office of Public Health and Science Total		-	28,877			28,877	-
Substance Abuse and Mental Health Services Administration							
Substance Abuse and Mental Health Services_ Projects of Regional and National Significance	93.243	-	29,607	Commonwealth of Mass - DPH	INTF2330M04500824100	29,607	-
Opioid STR - State Targeted Response to the Opioid Crisis Grants	93.788	-	46,631	Commonwealth of Mass - DPH	INTF2330M04500824114	46,631	-
Block Grants for Prevention and Treatment of Substance Abuse	93.959	-	304,200	Commonwealth of Mass - DPH	INTF2330M04500824097	304,200	-
Block Grants for Prevention and Treatment of Substance Abuse	93.959	-	31,917	Commonwealth of Mass - DPH	INTF2330M04500824121	31,917	-
Block Grants for Prevention and Treatment of Substance Abuse	93.959	-	47,842	Commonwealth of Mass - DPH	INTF2351M03183626052	47,842	-
Block Grants for Prevention and Treatment of Substance Abuse	93.959	-	99,765	Commonwealth of Mass - DPH	INTF2351MM3802114020	99,765	-
Block Grants for Prevention and Treatment of Substance Abuse	93.959	-	483,747	Commonwealth of Mass - DPH	INTF2400HH4300522175	483,747	241,090
Total 93.959		-	1,043,709			1,043,709	241,090
DHHS - Substance Abuse and Mental Health Services Administration	93.U01	-	466	American Psychiatric Association	NA	466	-
Substance Abuse and Mental Health Services Administration Total		-	1,044,175			1,044,175	241,090

The accompanying notes are an integral part of the schedule.

BMC Health System, Inc.
Schedule of Expenditures of Federal Awards
September 30, 2017

Federal Program / Pass-through Grantor / Program or Cluster	CFDA	Direct	Pass-Through	Pass-Through Entity	Pass-Through Entity Sponsor Number	Total Expenditures	Passed to Sub-Recipients
Other Programs (continued)							
Administration for Children & Families							
Refugee and Entrant Assistance State Administered Programs	93.566	\$ -	\$ 174,714	Commonwealth of Mass - DPH	5189999DMM3-13	\$ 174,714	\$ -
Administration for Children & Families Total		-	174,714			174,714	-
Department of Health and Human Services							
Health Information Technology Regional Extension Centers Program	93.718	-	177,636	Massachusetts Technology Collaborative - ARRA	90RC0016/01	177,636	-
Maternal and Child Health Services Block Grant to the States	93.994	-	112,718	Commonwealth of Mass - DPH	INTF3105M03901424004-2013	112,718	-
Department of Health and Human Services Total		-	290,354			290,354	-
Centers for Disease Control and Prevention							
PPHF: Racial and Ethnic Approaches to Community Health Program financed solely by Public Prevention and Health Funds	93.738	-	16,718	Boston Public Health Commission	FY1701869	16,718	-
Center for Disease Control and Prevention Total		-	16,718			16,718	-
Office of the Assistant Secretary for Preparedness and Response							
DHHS - Assistant Secretary for Preparedness and Response	93.889,93.074	-	51,533	Boston Public Health Commission	FY16016396	51,533	-
DHHS - Assistant Secretary for Preparedness and Response	93.U02	-	3,479	Commonwealth of Mass - DPH	INTF6207PP1204215664	3,479	-
Office of the Assistant Secretary for Preparedness and Response Total		-	55,012			55,012	-
Indian Health Service							
DHHS - Indian Health Service	93.U03	3,601	-			3,601	-
Indian Health Service Total		3,601	-			3,601	-
Department of Health and Human Services Total		425,236	2,034,443			2,459,679	241,090
Department of Housing and Urban Development							
Department of Housing and Urban Development							
Emergency Solutions Grant Program	14.231	-	25,727	Commonwealth of Mass - Department of Neighborhood De38431-16		25,727	-
Department of Housing and Urban Development Total		-	25,727			25,727	-
Department of Justice							
Department of Justice							
Crime Victim Assistance	16.575	-	464,372	Commonwealth of Mass - MOVA	VOCA2017BMCICVRT0000	464,372	-
Crime Victim Assistance	16.575	-	82,013	Commonwealth of Mass - MOVA	VOCA2017BMCIDV000000	82,013	-
Crime Victim Assistance	16.575	-	28,460	Commonwealth of Mass - MOVA	VOCA2018BMCIDV000000	28,460	-
Total 16.575		-	574,845			574,845	-
Violence Against Women Formula Grants	16.588	-	622	Executive Office of Public Safety and Security	SCEPS3001VAWA15BMCDM	622	-
Violence Against Women Formula Grants	16.588	-	70,945	Executive Office of Public Safety and Security	SCEPS3001VAWA17BMCD2	70,945	-
Violence Against Women Formula Grants	16.588	-	22,111	Executive Office of Public Safety and Security	SCEPS3001VAWA17BMCDM	22,111	-
Total 16.588		-	93,678			93,678	-
Department of Justice	16.U04	-	7,550	Boston Police Department	00000000000000000000043493	7,550	-
Department of Justice	16.U05	-	27,385	Boston Public Health Commission	FY14013511A	27,385	-
Department of Justice Total		-	703,458			703,458	-
Other Programs Total		425,236	2,763,628			3,188,864	241,090
Total Federal Award Expenditures		\$ 35,291,185	\$ 15,886,639			\$ 51,177,824	\$ 9,146,528

The accompanying notes are an integral part of the schedule.

BMC Health System, Inc.
Notes to Schedule of Expenditures of Federal Awards
September 30, 2017

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards ("Schedule") includes the federal grant awards received directly from the federal government and federal awards passed through from other primary recipients using the accrual basis of accounting. The purpose of this schedule is to present a summary of those activities of BMC Health System, Inc. and its subsidiaries (the "Health System") for the year ended September 30, 2017 which have been financed by the United States government (federal awards). For the purpose of this Schedule, federal awards include all federal assistance entered into directly between the Health System and the federal government and subawards from nonfederal organizations made under federally sponsored agreements. 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)*. The 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 and negative amounts on the Schedule represent adjustments in the normal course of business to expenditures reported in the prior year. CFDA and pass-through numbers are included when available.

2. Noncash Assistance

In 2017, \$64,132 of U.S. Department of Agriculture (USDA) product 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.

Part II - Reports on Internal Controls and Compliance



**Report of Independent Auditors 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***

To the Board of Trustees of
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, except as noted in the paragraphs below, the consolidated financial statements of BMC Health System, Inc. and its subsidiaries (the "Health System"), which comprise the consolidated statement of financial position as of September 30, 2017, and the related consolidated statement of operations, of change in net assets and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 24, 2018.

The PricewaterhouseCoopers firm in the Cayman Islands performed audit procedures for the Boston Medical Center Insurance Company ("BMCIC") comprising approximately 4.6% of the total assets of the Health System for the year ended September 30, 2017. Personnel of this firm, excluding United States personnel, do not participate in a continuing education program that satisfies the requirement set forth in Chapter 3, paragraph 3.76 of *Government Auditing Standards*. However, this firm does participate in continuing education programs applicable in the Cayman Islands.

Further, the PricewaterhouseCoopers firm in the Cayman Islands does not have an external quality review by an unaffiliated audit organization as required by Chapter 3, paragraph 3.82(b) of *Government Auditing Standards*, since no such program is offered by professional organizations in the country. However, this office participates in the PricewaterhouseCoopers worldwide internal control review program, which requires the office to be periodically subjected to an extensive quality control review by partners and managers from other PricewaterhouseCoopers affiliated firms.

Internal Control Over Financial Reporting

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PricewaterhouseCoopers LLP

Boston, Massachusetts
January 24, 2018



**Report of Independent Auditors on Compliance With Requirements
That Could Have a Direct and Material Effect on Each Major Program and on Internal
Control Over Compliance in Accordance with the Uniform Guidance**

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

Report on Compliance for Each Major Federal Program

We have audited BMC Health System, Inc. (the "Health System") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Health System's major federal programs for the year ended September 30, 2017. The Health System's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the 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 each of the Health System's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit 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). 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 each major federal program. However, our audit does not provide a legal determination of the Health System's compliance.



Opinion on Each Major Federal Program

In our opinion, BMC Health System, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2017.

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 Health System's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the 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 and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

PricewaterhouseCoopers LLP

Boston, Massachusetts
March 30, 2018

Part III – Audit Findings and Questioned Costs

BMC Health System, Inc.
Schedule of Findings and Questioned Costs
September 30, 2017

III. Federal Award Findings and Questioned Costs

None noted.

BMC Health System, Inc.

Summary Schedule of Prior Audit Findings and Status

Year Ended September 30, 2017

2016-001 Classification of Federal Awards within the Schedule of Federal Expenditures

Federal program: Various
Federal agency: Various
CFDA Title: Various
CFDA Number: Various
Award Year: October 1, 2015 – September 30, 2016

Through PwC's testing of the classification within the 2016 Schedule of Federal Expenditures (the "Schedule"), \$1.9 million of grants (or 3.4% of total awards) were misclassified under the research and development cluster. These misclassifications were subsequently corrected and there was no impact on the 2016 audit scoping given these programs were each individually below the Type A and Type B thresholds. At the time, management did not have adequate controls centrally to perform an assessment of classification in the Schedule at the onset of the award or a reassessment of classification throughout the life cycle of the award. PwC recommended that management implement a control to review the scope of all new awards and a selection of ongoing awards on a periodic basis to ensure proper cluster identification as well as retain documentation of their review to ensure accuracy.

Status:

Management has closely reviewed all cluster determinations for questioned programs within the SEFA and instituted additional controls to assess classifications for new awards and continuations. The scope of each new award is reviewed by Research Finance Managers and cluster identifications are tracked through a database on a quarterly basis with verification performed and documentation kept on file to ensure accuracy. For continuations, a selection of programs are reviewed on a periodic basis to ensure cluster identification remain accurate. The Director, Research Finance monitors the process and provides more critical review where judgment may be required to ensure the Schedule is prepared and classified accurately.