

# **BMC Health System, Inc.**

**Report on Federal Awards in Accordance With**

**OMB Circular A-133**

**September 30, 2015**

**EIN #043314093**

**BMC Health System, Inc.**  
**Report on Federal Awards in Accordance With OMB Circular A-133**  
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**September 30, 2015**

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**Part I - Financial Statements and  
Schedule of Expenditures of Federal Awards**



## Independent Auditor's Report

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. (the "System"), which comprise the consolidated statement of financial position as of September 30, 2015 and 2014, and the related consolidated statements of operations, of changes in net assets and of cash flows for the year then ended, and the related notes to the consolidated financial statements.

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

Management is responsible for the preparation and fair presentation of 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.

### ***Auditor's 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 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 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 firm in the Cayman Islands performed audit procedures for the Boston Medical Center Insurance Company (“BMCIC”). 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 3.96 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 System as of September 30, 2015 and 2014, and the related consolidated statements of operations, changes in net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Other Information***

Our audit was 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 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 entities 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 entities.



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, 2015 is presented for purposes of additional analysis as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* 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 February 3, 2016 on our consideration of BMC Health System, Inc.'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, 2015. 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 BMC Health System, Inc.'s internal control over financial reporting and compliance.

*Priscilla House Cooper LLP*

Boston, Massachusetts  
February 3, 2016

**BMC Health System, Inc.**  
**Consolidated Balance Sheets**  
**September 30, 2015 and 2014**

<i>(in thousands)</i>	<b>2015</b>	<b>2014</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 319,991	\$ 276,813
Short-term investments	38,486	41,549
Patients accounts receivable, less allowance of \$35,012 and \$36,004 in 2015 and 2014, respectively	79,265	85,612
Other accounts receivable, less allowance of \$4,414 and \$6,445 in 2015 and 2014, respectively	253,641	151,361
Current portion of grants receivable, less allowance of \$586 and \$480 in 2015 and 2014, respectively	28,959	28,880
Current portion of estimated receivable for final settlements with third-party payors	11,962	36,583
Inventories	8,316	6,201
Prepaid expenses and other current assets	18,942	12,069
Current portion of funds held by Trustees	65,000	8,842
Total current assets	<u>824,562</u>	<u>647,910</u>
Assets limited as to use		
Board-designated investments	314,940	343,704
Funds held by Trustees	95,138	49,725
Donor-restricted investments	305,907	330,761
Reserve funds	122,104	131,610
Total assets limited as to use	<u>838,089</u>	<u>855,800</u>
Other assets		
Long-term investments	172,229	166,055
Property, plant and equipment, net	810,038	713,939
Grants receivable, less current portion	-	7,921
Other noncurrent assets	112,971	166,334
Total assets	<u>\$ 2,757,889</u>	<u>\$ 2,557,959</u>
<b>Liabilities and Net Assets</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 279,488	\$ 208,368
Claims payable	114,660	123,852
Deferred revenue	19,890	19,436
Current portion of long-term debt and capital leases	13,840	21,715
Other current liabilities	13,478	21,521
Total current liabilities	<u>441,356</u>	<u>394,892</u>
Long-term liabilities		
Estimated final settlements with third-party payors	57,787	55,764
Obligations under capital leases	49,370	8,262
Long-term debt	591,411	491,000
Other long-term liabilities	140,325	135,863
Total liabilities	<u>1,280,249</u>	<u>1,085,781</u>
Commitments and contingencies		
Net assets		
Unrestricted	1,146,829	1,111,793
Temporarily restricted	314,551	344,125
Permanently restricted	16,260	16,260
Total net assets	<u>1,477,640</u>	<u>1,472,178</u>
Total liabilities and net assets	<u>\$ 2,757,889</u>	<u>\$ 2,557,959</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, 2015 and 2014**

<i>(in thousands)</i>	<b>2015</b>	<b>2014</b>
<b>Operating revenue</b>		
Net patient service revenue, net of provision for bad debt (\$53,591 in 2015 and \$62,825 in 2014)	\$ 1,009,273	\$ 949,547
Capitation revenue	1,637,629	1,706,020
Grants and contract revenue	72,285	66,973
Other revenue	79,333	76,077
Net assets released from restrictions for operations	33,184	30,074
Total operating revenue	<u>2,831,704</u>	<u>2,828,691</u>
<b>Operating expenses</b>		
Salaries and wages and fringe benefits	848,085	825,664
Supplies and expenses	1,800,530	1,866,572
Depreciation and amortization	80,020	70,641
Interest expense	10,319	16,390
Research, sponsored programs and community health services	77,021	74,352
Total operating expenses	<u>2,815,975</u>	<u>2,853,619</u>
Income (loss) from operations	<u>15,729</u>	<u>(24,928)</u>
Nonoperating gains (losses), net		
Investment income (including other-than-temporary impairment losses of \$3,022 and \$1,171 in 2015 and 2014, respectively)	36,212	41,295
Gain on sale of real estate	14,478	-
Loss on defeasance of debt	(13,436)	-
Fundraising costs and other	(14,345)	(3,277)
Total nonoperating gains, net	<u>22,909</u>	<u>38,018</u>
Excess of revenue over expenses	38,638	13,090
Other changes in unrestricted net assets		
Change in unrealized (depreciation) appreciation on investments	(22,693)	7,967
Contributed capital asset	-	4,802
Net assets released from restrictions for property, plant and equipment	23,420	1,613
Pension related changes other than net periodic pension costs	(4,329)	(8,190)
Change in unrestricted net assets	35,036	19,282
<b>Unrestricted net assets</b>		
Beginning of year	<u>1,111,793</u>	<u>1,092,511</u>
End of year	<u>\$ 1,146,829</u>	<u>\$ 1,111,793</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, 2015 and 2014**

<i>(in thousands)</i>	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Net assets at September 30, 2013</b>	<u>\$ 1,092,511</u>	<u>\$ 320,112</u>	<u>\$ 16,353</u>	<u>\$ 1,428,976</u>
Increases (decreases) in net assets				
Excess of revenues over expenses	13,090	-	-	13,090
Investment income	-	23,373	-	23,373
Change in net unrealized appreciation on investments	7,967	9,204	-	17,171
Contribution revenue	-	23,030	-	23,030
Net assets released from restrictions for operations	-	(30,074)	-	(30,074)
Other changes	-	93	(93)	-
Net assets released from restrictions for property, plant and equipment	1,613	(1,613)	-	-
Contributed capital asset	4,802	-	-	4,802
Pension related changes other than net periodic pension costs	(8,190)	-	-	(8,190)
Total increase (decrease) in net assets	<u>19,282</u>	<u>24,013</u>	<u>(93)</u>	<u>43,202</u>
<b>Net assets at September 30, 2014</b>	<u>1,111,793</u>	<u>344,125</u>	<u>16,260</u>	<u>1,472,178</u>
Increases (decreases) in net assets				
Excess of revenues over expenses	38,638	-	-	38,638
Investment income	-	41,254	-	41,254
Change in net unrealized depreciation on investments	(22,693)	(36,247)	-	(58,940)
Contribution revenue	-	22,023	-	22,023
Net assets released from restrictions for operations	-	(33,184)	-	(33,184)
Net assets released from restrictions for property, plant and equipment	23,420	(23,420)	-	-
Pension related changes other than net periodic pension costs	(4,329)	-	-	(4,329)
Total increase (decrease) in net assets	<u>35,036</u>	<u>(29,574)</u>	<u>-</u>	<u>5,462</u>
<b>Net assets at September 30, 2015</b>	<u>\$ 1,146,829</u>	<u>\$ 314,551</u>	<u>\$ 16,260</u>	<u>\$ 1,477,640</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, 2015 and 2014

<i>(in thousands)</i>	<b>2015</b>	<b>2014</b>
<b>Operating activities</b>		
Change in net assets	\$ 5,462	\$ 43,202
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Accretion of discount on long-term grants	(574)	(997)
Depreciation and amortization	80,020	70,641
Restricted contributions	(8,809)	(8,706)
Donated securities received	(1,485)	(588)
Contribution returned to donor	-	1,799
Equity in net losses of joint ventures	729	1,509
Contributed capital asset	-	(4,802)
Amortization of bond discount/premium	7,689	(311)
City of Boston lease refinancing	(10,177)	(9,753)
Discount and allowance for contributions receivable	7,630	6,149
Net realized gains and change in unrealized depreciation (appreciation) on investments	8,906	(49,263)
Increase in asset retirement obligation	557	918
Gain on asset retirement obligation	(7,115)	-
Gain on sale of real estate	(14,478)	-
Loss of defeasance	13,436	-
Provision for bad debts	53,591	62,825
Pension related changes other than net periodic pension costs	4,329	8,190
Changes in operating assets and liabilities		
Grants receivable	8,416	8,106
Patient accounts receivable	(47,244)	(79,228)
Other current assets and liabilities	(144,279)	(47,343)
Other noncurrent assets and liabilities	7,611	(12,290)
Estimated final settlements with third-party payors	26,644	(25,979)
Claims payable	(9,186)	53,246
Accounts payable and accrued expenses	57,621	33,478
Net cash provided by operating activities	<u>39,294</u>	<u>50,803</u>
<b>Investing activities</b>		
Proceeds from sale of investments	286,145	337,061
Use of funds held by trustees	343,282	54,294
Investment in subsidiaries	(1,277)	(520)
Purchases of investments	(238,902)	(235,859)
Additions to funds held by trustees	(444,185)	(41,805)
Purchase of property, plant and equipment	(176,703)	(141,840)
Proceeds from sale of real estate	80,902	-
Net cash used in investing activities	<u>(150,738)</u>	<u>(28,669)</u>
<b>Financing activities</b>		
Proceeds from borrowings	253,155	-
Proceeds from restricted contributions	8,809	8,706
Proceeds from sale of donated securities	1,485	588
Contribution returned to donor	-	(1,799)
Repayment of long-term debt and capital leases	(114,827)	(7,940)
Proceeds from East Newton deferred sale	6,000	-
Net cash used in financing activities	<u>154,622</u>	<u>(445)</u>
Increase in cash and cash equivalents	43,178	21,689
<b>Cash and cash equivalents</b>		
Beginning of year	<u>276,813</u>	<u>255,124</u>
End of year	<u>\$ 319,991</u>	<u>\$ 276,813</u>
<b>Supplemental disclosure of cash flow activities</b>		
Cash paid for interest	\$ 20,929	\$ 21,166
Property, plant and equipment included in accounts payable	23,965	10,465
Conditional asset retirement obligations	557	585
Net fixed assets recognized related to conditional asset retirement obligations	(257)	(333)
Contributed securities	1,485	588
Gift in kind	500	500
New capital leases	50,344	86

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

# **BMC Health System, Inc.**

## **Notes to Consolidated Financial Statements**

### **September 30, 2015 and 2014**

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#### **1. Organization**

Boston Medical Center Corporation (the "Medical Center" or "BMC") 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.

BMC's sole corporate member is BMC Health System, Inc. (the "System"), a tax-exempt, non-profit corporation that oversees the operation of BMC, Boston Medical Center Health Plan, Inc. ("BMCHP"), and various affiliates and associated services. The System was organized effective July 1, 2013.

The consolidated financial statements of the System include the Medical Center, the combined accounts of Faculty Practice Foundation, Inc. ("Faculty") and its 21 affiliated faculty practice plans (the "Plans," collectively known as the "Foundation"), BMCHP, Univer Development Foundation, Inc. ("UDF"), East Concord Medical Foundation ("ECMF"), Boston Medical Center Insurance Company, Ltd. ("BMCIC"), Boston Medical Center Insurance Company of Vermont ("BMCIC of Vermont"), Boston University Affiliated Physicians, Inc. ("BUAP"), BMC Integrated Care Services, Inc., Gryant, Inc., BMC NAB Business Trust, and Boston Accountable Care Organization, Inc. ("BACO"). The Medical Center and each of its member organizations have fiscal years ending September 30, except the Foundation, ECMF and BMC Integrated Care Services, Inc. which have a fiscal year ending June 30.

Faculty was incorporated on October 18, 1994 under the provisions of General Laws, Chapter 180, of The Commonwealth of Massachusetts as a non-profit organization operated exclusively for clinical, charitable, scientific and educational purposes. The Plans were established as not-for-profit faculty practice plan corporations operating 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 financial statements are consolidated into the System.

BMCHP is a tax exempt non-profit corporation established on July 1, 1997. BMCHP was established to administer the BMC Health Plan, which is a capitated provider-sponsored program of the Commonwealth of Massachusetts' Division of Medical Assistance ("DMA") designed to provide medical coverage to people who are covered by Medicaid.

**BMC Health System, Inc.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2015 and 2014**

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On March 16, 2012, BMCHP became licensed as a Health Maintenance Organization (“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 New Hampshire.

On September 12, 2013, the Commonwealth Health Insurance Connector Board granted final approval for BMCHP to offer Qualified Health Plan (“QHP”) Connector Care Plans in each of seven rating regions. These plans are a key component of the Affordable Care Act (“ACA”) and members became effective on January 1, 2014.

Effective January 1, 2016, the Plan is launching a fully integrated geriatric model of care under the Senior Care Option program (“SCO”). The SCO is a Medicare Advantage Dual Eligible Special Needs Plan (“D-SNP”). The SCO program is jointly administered by MassHealth and the Centers for Medicare and Medicaid Services under which eligible individuals receive Medicaid and Medicare benefits. The Plan will be offered to eligible individuals age 65 and older in Suffolk County who are enrolled in MassHealth and are eligible for Medicare Parts A and B.

UDF is a Massachusetts corporation involved in real estate development activities. UDF is wholly owned by the Medical Center.

ECMF is a 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 has been fully consolidated with the Medical Center as the Medical Center guarantees 100% of the debt of ECMF.

Effective May 30, 2002, the Medical Center and Faculty established BMCIC for purposes of providing professional and general liability insurance to each entity, its 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 was incorporated on October 7, 2004 as a single parent captive insurance company licensed by the State of Vermont. BMCIC of Vermont provided insurance coverage from December 31, 2004 until December 31, 2005. BMCIC of Vermont provided coverage for the Medical Center for property and for certain liability exposures arising from acts of terrorism under the Terrorism Risk Insurance Act of 2002 (“TRIA”). All coverages provided by BMCIC of Vermont were on a claims-made basis. BMCIC of Vermont ceased to provide coverage, effective December 31, 2005, because TRIA expired on December 31, 2005 and was not extended by the federal government. BMCIC of Vermont is owned 100% by the Medical Center.

BUAP is a tax-exempt, non-profit 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.

# **BMC Health System, Inc.**

## **Notes to Consolidated Financial Statements**

### **September 30, 2015 and 2014**

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BMC Integrated Care Services, Inc., is a 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. Effective December 1, 2014, the Medical Center replaced Faculty as BMC Integrated Care Services' sole corporate member.

Gryant, Inc. was a Massachusetts corporation, wholly owned by the Medical Center, organized for real estate development activities. Gryant was the Managing Member of BCD Building, LLC and FGH Building LLC, until it transferred its interest in those companies to BMC on May 1, 2012 (BCD) and July 31, 2012 (FGH). FGH then dissolved effective June 12, 2013; Gryant voluntarily dissolved effective October 25, 2013; and BCD dissolved effective September 22, 2014.

BMC NAB Business Trust was organized in May 2008 as a Massachusetts business trust under Chapter 182 of the General Laws of Massachusetts. 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 Massachusetts corporation formed to improve the healthcare of the populations that BMC, Faculty physicians, and the community health centers serve. BACO is designed to better manage all aspects of healthcare, integrating the resources of BMC, the community health centers, and their affiliated physicians to provide more effective, higher quality and less expensive care for the BACO's patients. BMC, Faculty, and the group of community health centers participating in the BACO each appoint six of the nineteen Boston Accountable Care Organization directors. In addition, there is a customer 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 System include the accounts of the Medical Center, the Foundation, BMCHP, ECMF, UDF, Gryant, Inc., BMC NAB Business Trust, BMCIC, BMCIC of Vermont, BUAP, BMC Integrated Care Services, Inc. and BACO. All significant intercompany accounts and transactions have been eliminated.

### **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 System maintains the majority of its cash and cash equivalents accounts at two institutions, \$284,146,000 and \$275,090,000 at September 30, 2015 and 2014, respectively. The System 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 System intends on using for operations within a year.

# **BMC Health System, Inc.**

## **Notes to Consolidated Financial Statements**

### **September 30, 2015 and 2014**

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#### **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 sheet 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 of revenues over expenses unless the income or loss is restricted by donor or law. The change in unrealized appreciation on investments is recorded in the statement of operations as changes in net assets, unless their use is restricted by explicit donor-imposed stipulations or law, in which case they are reported in the appropriate restricted class of net assets.

The fair value of the System's investments in bonds, notes, and common stock is based on quoted prices in an active market when available. At September 30, 2015 and 2014, the System held interests in private investment funds. Interests in private investment funds are generally recorded at fair market value based on the 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. Securities for which no such quotations or valuations are readily available, are carried at fair value as estimated by management using values provided by external investment managers. The System believes that these valuations are a reasonable estimate of fair value as of September 30, 2015 and 2014, 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 System has the ability to liquidate their 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—Impairment**

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. 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. There has been no impairment of property and equipment as of September 30, 2015 and 2014.

#### **Assessment of Long-Lived Assets**

The 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.

#### **Inventories**

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

**BMC Health System, Inc.**  
**Notes to Consolidated Financial Statements**  
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**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 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 Medical Center 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 Medical Center 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 of Massachusetts (the "Commonwealth") related to grants. Advances received related to grants were \$19,769,000 and \$19,080,000 as of September 30, 2015 and 2014, respectively. Also included in deferred revenue is a rebate received in advance. The System recorded deferred revenue related to the rebate of \$121,000 and \$356,000 for the years ended September 30, 2015 and 2014, respectively.

**Health Care Cost Recognition**

The delivery network for BMCHP consists of BMC 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 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.

Since August 1, 2001, BMCHP self-insures for a significant portion of its claims.

**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, 2015 and 2014, the premium deficiency reserve totals approximately \$0 and \$16,395,000, respectively, and is included in other current liabilities on the balance sheet.

# **BMC Health System, Inc.**

## **Notes to Consolidated Financial Statements**

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#### **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 has recorded a payable to the Massachusetts Health Connector for the risk adjustment program. The estimated amount due from BMCHP to the Massachusetts Health Connector as of September 30, 2015 is \$9,310,000. BMCHP has recorded a payable to CMS for risk corridor adjustments. The estimated amount due to CMS from BMCHP as of September 30, 2015 is \$4,627,000. This includes a risk corridor non-collectible accrual of \$1,080,000. BMCHP has recorded a net receivable from CMS for reinsurance recoveries. The estimated amount due to BMCHP from CMS as of September 30, 2015 is \$573,000. This includes an accrual payable from BMCHP to CMS for reinsurance contributions of \$556,000. BMCHP has recorded a payable for Cost Sharing Reduction reconciliations. The estimated amount due to both CMS and the Massachusetts Health Connector for Cost Sharing Reduction reconciliations as of September 30, 2015 is \$8,189,000. BMCHP has recorded a payable for Medical Loss Ratio (MLR) rebates. The estimated amount for MLR rebates as of September 30, 2015 is \$4,531,000.

#### **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. Such restrictions include purpose restrictions, time restrictions and restrictions imposed by law on the use of capital appreciation on donor restricted funds.

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 System in accordance with policies established by the 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 System. See Note 11 for further information on the composition of restricted net assets.

#### **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 of revenues over expenses.

Unconditional promises to give cash and other assets to the 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.

# **BMC Health System, Inc.**

## **Notes to Consolidated Financial Statements**

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Grants and contracts are recognized as unrestricted revenues as the related expenditures are incurred. The System recognizes indirect cost recoveries 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 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.

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

The statement of operations includes the excess of revenues over expenses. Changes in unrestricted net assets which, consistent with industry practice are excluded from the excess of revenues over expenses, include the change in unrealized (depreciation) 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. Additionally, changes in unrestricted net assets include a contributed capital asset related to the BCD building transfer in fiscal year 2014.

During fiscal year 2015, the Medical Center received favorable settlements from Medicaid, Medicare and the Health Safety Net fund ("HSN") related to prior years. Changes include Medicaid inpatient rate adjustments for \$417,000. Medicare prior period cost report settlements for \$5,335,000 and HSN settlements from community health centers for \$4,776,000; offset by unfavorable settlements from Medicaid for \$1,758,000.

During fiscal year 2014, the Medical Center received favorable settlements from Medicaid, Medicare and the Health Safety Net fund ("HSN") related to prior years. Changes include Medicaid inpatient rate adjustment for \$1,037,000, meaningful use incentive payments for electronic medical records of \$706,000, Medicare prior period cost report settlements for \$10,226,000 and HSN settlements for hospital-based physician free care payments for \$20,480,000.

# **BMC Health System, Inc.**

## **Notes to Consolidated Financial Statements**

### **September 30, 2015 and 2014**

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Favorable changes in prior year estimates from third-party payors recorded in the years ended September 30, 2015 and 2014 amounted to approximately \$8,770,000 and \$32,449,000, respectively.

#### **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 Plans have agreements and participate in hospital affiliated network agreements with various health maintenance organizations ("HMOs"), through a master contract established by BACO and BMC Integrated Care Services, Inc. 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 BMC Integrated Care Services, Inc. A surplus of \$25,000 and \$86,000 was earned for years ended June 30, 2015 and 2014, 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. Such estimates are subsequently adjusted on a periodic basis based on actual membership. Gross capitation receivables from MassHealth, the Connector and Well Sense amounted to approximately \$67,690,000 and \$69,040,000 at September 30, 2015 and 2014, respectively.

#### **Other Revenue**

Other revenue consists primarily of services rendered to other organizations under contractual agreements which include community health centers and area hospitals. Additionally included in other revenues are meaningful use payments received for meeting stage one of the CMS requirements and miscellaneous fees related to the sale of medical products.

#### **Charity Care**

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

# **BMC Health System, Inc.**

## **Notes to Consolidated Financial Statements**

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The System provided free care of \$105,974,000 and \$85,731,000 in 2015 and 2014, 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 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.

Through the Commonwealth's Health Safety Net Office ("HSNO"), the Medical Center receives reimbursement for a significant portion of the charity care it provides. The amounts received were \$67,809,000 and \$66,065,000 for the years ended September 30, 2015 and 2014, 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, accrued professional liability insurance incurred but not reported claims, accrued compensation and benefits, alternative investments and conditional asset retirement obligations. Actual results could differ from those estimates.

#### **Fair Value of Financial Instruments**

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

#### **Income Taxes**

The System, the Medical Center, BMCHP, UDF, ECMF, BUAP, Faculty and the Plans, BACO and BMC Integrated Care Services, Inc., are non-profit corporations and have been recognized as tax exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. The shareholders of NAB Trust are non-profit, tax exempt, corporations. Accordingly, no provision for income taxes has been made in the accompanying financial statements for any of these entities. BMCIC of Vermont is a non-profit captive insurance company licensed by the State of Vermont. Gryant, Inc. is a taxable entity.

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. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

# **BMC Health System, Inc.**

## **Notes to Consolidated Financial Statements**

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#### **Adoption of New Accounting Guidance**

On October 1, 2013, the System adopted accounting standard, ASU 2012-05—*Statement of Cash Flows (Topic 230): Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*. This guidance requires the System to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any imposed limitations for sale and were converted nearly immediately into cash. Accordingly, the cash receipts from the sale of those financial assets should be classified as cash inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes, in which case those cash receipts should be classified as cash flows from financing activities. Otherwise, cash receipts from the sale of donated financial assets should be classified as cash flows from investing activities by the System. Management retrospectively applied the standard to all prior periods presented upon the date of adoption.

In April 2013, the FASB issued Accounting Standards Update (“ASU”) No. 2013-06—*Services Received from Personnel of an Affiliate*. ASU 2013-06 requires that contributed services be recognized at fair value if employees of separately governed affiliated entities regularly perform services (in other than an advisory capacity) for and under the direction of the donee. ASU 2013-06 is effective prospectively for fiscal year beginning after June 15, 2014. The system adopted ASU 2013-06 effective September 30, 2015. The Medical Center recorded \$5,121,000 in donated services to affiliates which was eliminated in consolidation.

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 (System fiscal year ended as of September 30, 2019). The System is evaluating the impact this will have on the consolidated financial statements beginning in fiscal year 2019.

In May 2015, the FASB issued ASU 2015-07 – *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, which eliminates the requirement to categorize investments valued using the net asset value of the investment as a practical expedient within the fair value hierarchy. This standard is effective for fiscal years beginning after December 15, 2016 (The System fiscal year ended as of September 30, 2018). The System has not yet evaluated all of the provisions, which are effective for fiscal years beginning after December 15, 2015, and interim and annual periods within.

#### **Reclassification**

Certain amounts from the 2014 financial statements have been reclassified to conform with the 2015 presentation.

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**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)	2015		2014	
	At Fair Value	Cost	At Fair Value	Cost
Cash and cash equivalents	\$ 10,306	\$ 10,311	\$ 5,098	\$ 5,104
Bonds and U.S. Treasury Notes	173,851	169,462	175,497	167,009
Private investment funds	214,365	181,737	300,267	244,527
Mutual funds	265,257	248,582	239,669	198,739
Marketable equity securities	140,143	115,013	149,468	111,913
Money market mutual funds	85,753	87,380	80,831	81,030
Asset-backed securities	9,262	9,475	9,456	9,547
	898,937	821,960	960,286	817,869
Funds held by trustees	160,138	160,169	58,567	58,722
	\$ 1,059,075	\$ 982,129	\$ 1,018,853	\$ 876,591

At September 30, 2015 and 2014, the System recorded certain private investment funds of \$54,729,000 and \$53,393,000 using the cost method. For the private investment funds reflected in the balance sheet at cost, the difference (unrecorded net unrealized (depreciation)/appreciation) between the value reported by the investment managers and the cost for these investments was \$(6,580,000) and \$7,139,000 as of September 30, 2015 and 2014, respectively. 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 \$214,365,000 and \$300,267,000 at September 30, 2015 and 2014, respectively.

BMCHP is required by its contract with MassHealth to maintain a reinsurance reserve fund in an amount based on monthly enrollment. The reserve funds of BMCHP amounted to \$15,320,000 and \$20,303,000 at September 30, 2015 and 2014, respectively. In addition to the reinsurance fund, BMCHP is required by its contract with MassHealth to place deposit with the state an additional \$2,004,000 in cash reserves.

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

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

<i>(in thousands)</i>	<b>2015</b>	<b>2014</b>
<b>Unrestricted</b>		
Dividends and interest	\$ 21,094	\$ 26,490
Net realized gains on investments	15,118	14,805
Change in net unrealized appreciation on investments	<u>(22,693)</u>	<u>7,967</u>
	<u>13,519</u>	<u>49,262</u>
<b>Temporarily restricted</b>		
Dividends and interest	6,338	6,086
Net realized gains on investments	34,916	17,287
Change in net unrealized appreciation on investments	<u>(36,247)</u>	<u>9,204</u>
	<u>5,007</u>	<u>32,577</u>
	<u>\$ 18,526</u>	<u>\$ 81,839</u>

Unrealized losses/ (gains) related to BMCIC of \$6,376,000 and \$(2,895,000) as of September 30, 2015 and 2014, 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 System for financial instruments measured at fair value on a recurring basis. The three levels of inputs are as follows:

- Level 1    Observable inputs such as quoted prices in active markets;
- Level 2    Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3    Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Assets and liabilities measured at fair value are based on one or more of the following three valuation techniques:

***Market Approach***

Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;

***Cost Approach***

Amount that would be required to replace the service capacity of an asset (i.e., replacement cost); and

***Income Approach***

Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques).

Investments (except for private partnerships, which are reported on either the equity method or cost method of accounting) and funds held by trustee are classified within Level 1 or Level 2 of the fair value hierarchy as they are valued using quoted market prices, broker or dealer quotations, or other observable pricing sources.

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The following table summarizes fair value measurements at September 30, 2015 for financial assets measured at fair value on a recurring basis.

<i>(in thousands)</i>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Investments</b>				
Cash and cash equivalents	\$ 10,306	\$ -	\$ -	\$ 10,306
Bonds and U.S. Treasury Notes	81,801	92,050	-	173,851
Private investment funds	-	214,365	-	214,365
Mutual funds	162,384	102,873	-	265,257
Marketable equity securities	134,496	5,647	-	140,143
Money market mutual funds	85,753	-	-	85,753
Asset-backed securities	-	9,262	-	9,262
	<u>\$ 474,740</u>	<u>\$ 424,197</u>	<u>\$ -</u>	<u>\$ 898,937</u>
<b>Funds held by trustee</b>				
Cash and cash equivalents	\$ 8,855	\$ -	\$ -	\$ 8,855
U.S. government securities	135,904	-	-	135,904
Money market mutual funds	15,379	-	-	15,379
	<u>\$ 160,138</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 160,138</u>

The following table summarizes fair value measurements at September 30, 2014 for financial assets measured at fair value on a recurring basis.

<i>(in thousands)</i>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Investments</b>				
Cash and cash equivalents	\$ 5,098	\$ -	\$ -	\$ 5,098
Bonds and U.S. Treasury Notes	1,500	173,997	-	175,497
Private investment funds	-	300,267	-	300,267
Mutual funds	132,469	107,200	-	239,669
Marketable equity securities	149,468	-	-	149,468
Money market mutual funds	80,831	-	-	80,831
Asset-backed securities	-	9,456	-	9,456
	<u>\$ 369,366</u>	<u>\$ 590,920</u>	<u>\$ -</u>	<u>\$ 960,286</u>
<b>Funds held by trustee</b>				
U.S. government securities	\$ 35,142	\$ -	\$ -	\$ 35,142
Money market mutual funds	23,425	-	-	23,425
	<u>\$ 58,567</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 58,567</u>

There were transfers of \$5,647,000 from Level 1 to Level 2 in 2015 due to observable market data there were no longer available for the securities. There were transfers of \$80,301,000 from Level 2 to Level 1 in 2015 due to observable market data that became available for the securities.

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The following is a description of the System's valuation methodologies for assets and liabilities measured at fair value. Fair value for Level 1 is based upon quoted prices in active markets that the System has the ability to access for identical assets and liabilities. Market price data is generally obtained from exchange or dealer markets. The System does not adjust the price for such assets and liabilities.

Fair value for 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.

Fair value for Level 3 is based on valuation techniques that use significant inputs that are unobservable as they trade infrequently or not at all.

The System's investments in bonds and U.S. Treasury Notes and private equity funds are fair value based on most current net asset value ("NAV").

The following table presents liquidity information for the financial instruments carried at net asset value at September 30, 2015.

<i>(in thousands)</i>	<b>Investments Asset Value</b>		
	<b>Net Asset Value</b>	<b>Redemption Frequency</b>	<b>Notice Period</b>
<b>Investment Type</b>			
Private investment funds	\$ 214,365	Bi-Monthly-Monthly	3 - 45 days
Mutual funds	49,940	Daily-Monthly	2 - 6 days
	<u>\$ 264,305</u>		

The following table presents liquidity information for the financial instruments carried at net asset value at September 30, 2014.

<i>(in thousands)</i>	<b>Investments Asset Value</b>		
	<b>Net Asset Value</b>	<b>Redemption Frequency</b>	<b>Notice Period</b>
<b>Investment Type</b>			
Private investment funds	\$ 300,267	Bi-Monthly-Monthly	3 - 45 days
Mutual funds	51,839	Daily-Monthly	2 - 6 days
	<u>\$ 352,106</u>		

There were no unfunded commitments as of September 30, 2015.

**BMC Health System, Inc.**  
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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 2015 and 2014, the Medical Center reported recognized losses of approximately \$3,022,000 and \$1,171,000, 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 sheet. Contributions receivable, net, are summarized as follows as of September 30:

Unconditional promises expected to be collected in:

<i>(in thousands)</i>	<b>2015</b>	<b>2014</b>
Less than one year	\$ 7,005	\$ 5,584
One year to five years	21,547	16,969
More than five years	<u>1,436</u>	<u>1,250</u>
	29,988	23,803
Less: Discounts and allowance for uncollectible accounts	<u>(7,630)</u>	<u>(6,149)</u>
Net contributions receivable	<u>\$ 22,358</u>	<u>\$ 17,654</u>

Included in total gross contributions receivable is a single donor in the amount of \$7,500,000 and \$9,000,000 for the years ended September 30, 2015 and 2014, respectively. The original contribution from the donor in 2008 was \$15,000,000, of which \$7,500,000 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 System consists of the following at September 30:

<i>(in thousands)</i>	<b>Useful Life</b>	<b>2015</b>	<b>2014</b>
Land		\$ 6,302	\$ 11,292
Land improvements	5 - 40 years	775	775
Buildings	15 - 45 years	197,138	203,490
Building and leasehold improvements	5 - 40 years	616,555	572,453
Fixed equipment	5 - 25 years	44,825	44,825
Major movable equipment	3 - 20 years	529,357	399,686
Leased buildings and equipment	15 - 20 years	119,073	118,913
Construction in progress		162,465	154,914
		<u>1,676,490</u>	<u>1,506,348</u>
Accumulated depreciation and amortization		<u>(866,452)</u>	<u>(792,409)</u>
Property, plant and equipment, net		<u>\$ 810,038</u>	<u>\$ 713,939</u>

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

Depreciation expense amounted to \$68,860,000 and \$59,479,000 for the years ended September 30, 2015 and 2014, respectively. Amortization expense amounted to \$11,160,000 and \$11,162,000 for the years ended September 30, 2015 and 2014, respectively.

Fully depreciated property, plant and equipment with an original cost of \$639,000 and \$958,000 was disposed of during the year ended September 30, 2015 and 2014, 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, 2015 and 2014, assets under capital lease agreements amounted to approximately \$119,073,000 and \$118,913,000, respectively, with accumulated amortization of \$109,284,000 and \$98,124,000, respectively. Amortization expense is included with depreciation and amortization expense in the statement of operations.

The System has capitalized interest in the amount of \$52,107,000 and \$45,330,000 for the years ended September 30, 2015 and 2014, respectively.

On December 18, 2014, the System closed on the sale of three parcels of land to an unrelated, for-profit entity for \$80,100,000. The System will continue to lease and occupy a portion 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 liability of \$50,092,000 was recorded. At the end of the lease term, the remaining capital asset and liability will be written down and a gain 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.

# **BMC Health System, Inc.**

## **Notes to Consolidated Financial Statements**

### **September 30, 2015 and 2014**

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Additionally, the System signed an agreement with the same unrelated, for-profit entity to purchase the Newton Pavilion (including the Health Services Building) in 2017 when construction is expected to be completed. At that time, all services in the Newton Pavilion will be relocated to the Menino Pavilion and the Yawkey Ambulatory Care Center. A deposit of \$6,000,000 was received and recorded as a long term liability.

#### **7. Other Noncurrent Assets**

Other noncurrent assets consist of the Medical Center's investments in Medical Research Realty Trust, the 650 Albany Street Trust, Biosquare Realty Trust, NEIDL (Note 24), notes receivable and unamortized bond issuance expenses. The investments in Medical Research Realty Trust, 650 Albany Street Trust, Biosquare Realty Trust, and NEIDL are recorded utilizing the equity method of accounting. Unamortized bond issuance expenses are amortized over the life of the related bonds.

The Medical Center has financed the cost of renovating one existing structure and for new construction of a third 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.

In 2005, the Medical Center was the beneficiary of an allocation of NMTC that was awarded to Affirmative Investments, Inc. These NMTC and federal historic tax credits were used as part of a financing package to reduce the cash required by the Medical Center to rehabilitate the BCD building. The financing required the Medical Center to loan approximately \$5,800,000 and \$6,100,000 to a third party relating to project costs of \$16,000,000 to perform building improvements on the BCD building. The \$5,800,000 was recorded as a note receivable at September 30, 2013. The note receivable was considered permanent financing and was forgiven once the Medical Center took ownership in 2014. The \$6,100,000 was repaid to the Medical Center by a third party and the interest was forgiven once the Medical Center took ownership of the BCD building.

The Medical Center entered into four put and call option agreements in connection with the redevelopment of the BCD building. On October 1, 2012 the Medical Center executed the put option agreement for BCD to Sovereign. The Medical Center paid Sovereign \$1,455,000 for Sovereign's 99.9% interest in Affirmative NMTC Fund I LLC (the "Fund"). The Medical Center also executed its put option agreements with Affirmative, which is the remaining 0.01% interest in the Fund and with Antique BCD, LLC. After the puts were exercised, the Medical Center had 99.99% interest and control over the BCD Building. As of September 30, 2015, the Medical Center has one outstanding put with Affirmative New Markets LLC. In fiscal year 2014, the BCD Building and all other assets and liabilities were transferred from Gryant, Inc. to the Medical Center. The BCD building was recorded on the Medical Center's books at its net book value of \$17,097,000. The lease between the Medical Center and Antique BCD, LLC was terminated as a result of the transaction. The Medical Center forgave its note and interest receivable and wrote down its investment in BCD, lease payable and all assets and liabilities transferred from Gryant, Inc., excluding the building, to zero. The entire transaction resulted in a contribution of a capital asset of \$4,802,000 from Sovereign to the Medical Center, which is recorded as a change in net assets.

## **BMC Health System, Inc.**

### **Notes to Consolidated Financial Statements**

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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. The loan has an interest rate of 3.85%, with accrued interest of \$0 and \$11,494,000 at September 30, 2015 and 2014, respectively. As part of this financing transaction, there is a provision for an assignment of all CDE loans to the Medical Center to satisfy the note receivable. As a financial incentive to trigger the assignment of all the loans, the loan had a \$5,000,000 principal payment due in May 2015.

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. These loans of \$33,582,000 and \$19,517,000 have an interest rate of 3.0% and have accrued interest of \$4,951,000 and \$2,933,000, respectively, as of September 30, 2015. 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%. Accrued interest of \$75,000 and \$67,000 related to this loan has been recorded as of September 30, 2015 and 2014, respectively. All loans are recorded as notes receivable as of September 30, 2015 and 2014. These funds also became equity 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.

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. If the put options are not exercised by the investors, then the call option may be exercised by the Medical Center during a four-month period following the put option period. If the call option is executed, then the Medical Center must pay the fair market value of the investors' interest.

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**8. Long-Term Debt**

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

<i>(in thousands)</i>	<b>Interest Rate</b>	<b>2015</b>	<b>2014</b>
Revenue Bonds Series B	4.00 % - 5.75 %	\$ 217,060	\$ 243,405
Revenue Bonds Series C	3.00 % - 5.25 %	45,380	98,635
Revenue Bond Series D	4.00 % - 5.00 %	158,155	-
ECMF Series A Bonds	6.45 %	6,500	7,600
Series O - Tax Exempt (Garage)	Varies	9,689	10,229
Series O - Taxable (Garage)	Varies	3,035	3,204
CDE Loans	1.60 % - 2.00 %	70,235	139,135
Citizens Bank Non-Revolving Credit Loan	varies	79,270	-
		<u>589,324</u>	<u>502,208</u>
Less: Current portion of long-term debt		(5,569)	(11,175)
Revenue Bonds Series B discount		(6,450)	(6,590)
Revenue Bonds Series C premium		6,112	6,557
Revenue Bonds Series D premium		7,994	-
		<u>\$ 591,411</u>	<u>\$ 491,000</u>

In April 2015, the Medical Center issued through the Massachusetts Development Finance Agency (“MassDevelopment”) \$158,155,000 Series D 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, BMC signed a purchase and sale agreement to sell the Newton Pavilion (including the Health Services Building) in 2017 to an unrelated, for-profit entity. On December 18, 2014, BMC closed on the sale of 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.

In December 2014, BMC closed on a \$95,000,000 secured non-revolving credit loan with Citizens Bank, N.A. The proceeds of the non-revolving 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 July 2012, the Medical Center refunded the Massachusetts Health and Education Facilities (“Authority”) Revenue Bonds, Boston Medical Center Issue, Series A (1998) Bonds (“Series A Bonds”) through the sale of \$108,950,000 MassDevelopment, Series C 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%

# **BMC Health System, Inc.**

## **Notes to Consolidated Financial Statements**

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based on the bonds' maturities. Principal and sinking fund payments will be made annually between 2013 and 2029 and range from \$2,720,000 and \$4,070,000.

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. Principal and sinking fund payments will be made annually between 2016 and 2038 and range from \$875,000 to \$23,665,000.

The Medical Center has granted a mortgage on the Newton Pavilion and Health Services building and a negative pledge 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 represent the Obligated Group and three financially immaterial affiliates that are not members of the Obligated Group (UDF, ECMF and BMC Integrated Care Services, Inc.).

The Amended and Restated Master Trust Indenture covers the obligations of Series B Revenue Bonds, Series C Revenue Bonds, Series D 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 \$1,000,000 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, 2015.

Included in the Medical Center's debt is approximately \$12,724,000 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 \$14,981,000. There are no drawings under the LOCs as of September 30, 2015. The LOC supporting the Series O-1 and O-2 will expire on December 31, 2017. 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

**BMC Health System, Inc.**  
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did not change. The interest rates at September 30, 2015 were 0.03% for the tax-exempt and taxable loans.

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.

BMC NAB Business Trust has \$70,235,000 and \$139,135,000 in CDE loans as of September 30, 2015 and 2014, respectively, related to financing for the construction of the Shapiro Ambulatory Care Center. The interest rates on the CDE loans range from 1.6% to 2.0%. Currently, interest-only payments are being made annually on the CDE loans. One CDE loan with a principal balance of \$2,917,000 was repaid in May 2015. The remainder of the CDE loans related to the first round of new market tax credits ("NMTC") were transferred to the Medical Center and terminated in May 2015 as part of the unwind of the first round of NMTC (Note 7). Interest payments are due bi-annually for CDE loans related to the second and third rounds of NMTC financing in November and May. In May 2019, principal and interest payments are due relating to the second and third rounds of NMTC financing.

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 B Revenue Bonds, the Series C Revenue Bonds, the Series D 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 financial statements.

<i>(in thousands)</i>	<b>September 30,</b>	
	<b>2015</b>	<b>2014</b>
Construction fund	\$ 101,818	\$ 9,043
Debt service fund	8,228	6,995
Debt service reserve funds	43,152	35,293
Accrued interest receivable	135	429
Workers' compensation reserve fund	6,470	6,470
Other held funds	335	337
	<u>\$ 160,138</u>	<u>\$ 58,567</u>

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

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Maturities of long-term debt are as follows:

*(in thousands)*

<b>Years Ending September 30,</b>	
2016	\$ 5,569
2017	6,118
2018	6,608
2019	89,725
2020	10,018
Thereafter	471,286
	<u>\$ 589,324</u>

The estimated fair value of long-term debt was approximately \$618,683,000 and \$531,001,000 at September 30, 2015 and 2014, respectively. The fair value of long-term debt is based on input assumptions classified as Level 2 using the Income Approach. For variable rate debt, the carrying value is equal to the fair value.

**9. Obligations Under Capital Leases**

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

*(in thousands)*

	<b>2015</b>	<b>2014</b>
Doctors Office Building	\$ 37,497	\$ -
Gambro Building	11,657	-
City of Boston (forgivable)	7,921	18,098
City of Boston	266	589
Other	300	115
Less: Current portion (forgivable)	(7,921)	(10,177)
Less: Current portion	(350)	(363)
	<u>\$ 49,370</u>	<u>\$ 8,262</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. The lease payments for the first 25 years are equal to the debt service payments required on the City of Boston Revenue Refunding Bonds, Boston City Hospital (FHA insured mortgage) Series B (the "1993 Bonds"). The lease payments for the second 25 years will be determined at that time based upon several factors. In conjunction with the lease execution, the City of Boston agreed to provide the Medical Center with Base Assistance Grant payments (Note 14) which are expected to equal the Medical Center's payments on the first 25 years of the lease. The lease payments during the first 25 years are only required if the Medical Center receives the Base Assistance Grant payments from the City of Boston. The interest rate on the lease was 6.2%.

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On May 1, 2012, the City of Boston refinanced its 2002 Bonds through the issuance of General Obligation Bonds, 2012 Series C (the "2012 Bonds"). In conjunction with the refinancing, the Medical Center and PHC amended the lease agreement to reflect a reduction in monthly payments so that the Medical Center's obligation was equal to the debt service payment for the City of Boston's General Obligation debt. As the Medical Center continues to occupy the space and pays rent that is less than fair market value, the execution of this amendment resulted in a forgivable capital leased asset between the City of Boston and the Medical Center. The execution of the forgivable capital leased asset resulted in a reduction of the existing asset of \$8,887,000 and a reduction in the obligation of \$18,060,000. A gain of \$9,211,000 was recorded on the amendment of the agreement due to a difference in amortization methods. The capital asset, the forgivable obligation and the gain will be amortized over the remainder of the lease term (through June 2016). The amended agreement also terminates the Medical Center's Base Assistance Grant receivable payments from the City of Boston.

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

*(in thousands)*

<b>Years Ending September 30,</b>	
2016	\$ 350
2017	77
2018	73
2019	60
2020	24
Thereafter	<u>-</u>
Total minimum lease payments	584
Less: Amount representing interest	<u>(18)</u>
Present value of minimum lease payments	566
Less: Current portion	<u>(350)</u>
	<u>\$ 216</u>

In conjunction with the sale of the Gambro and Doctor's office building (Note 6), the 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, 2015 is \$49,154,000.

**10. Operating Lease Commitments**

The System amortizes deferred rent on a straight-line basis over the term of the lease. At September 30, 2015 and 2014 approximately \$485,000 and \$485,000, respectively, of amortization had been recorded as an offset to rent expense and at September 30, 2015 approximately \$2,448,000 and \$40,000 remains deferred as a current and noncurrent liability, respectively.

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

<i>(in thousands)</i>	<b>Lease Obligations</b>
<b>Years Ending September 30,</b>	
2016	\$ 13,240
2017	9,024
2018	7,525
2019	7,445
2020	5,729
Thereafter	5,927
	<u>\$ 48,890</u>

The 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. As of September 30, 2015 and 2014, the accumulated difference between rent expense and amounts paid amounted to \$2,377,000 and \$2,923,000, respectively, and is included in accounts payable and accrued expenses and 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>	<b>2015</b>	<b>2014</b>
<b>Temporarily restricted</b>		
Accumulated realized and unrealized gains	\$ 244,757	\$ 246,088
City of Boston Grants (Note 14)	7,921	18,098
Funds for the purchase of equipment and capital improvements	52,710	49,365
Other restricted purposes	9,163	30,574
	<u>\$ 314,551</u>	<u>\$ 344,125</u>
<b>Permanently restricted</b>		
Investments to be held in perpetuity	\$ 16,260	\$ 16,260

**12. Endowments**

The Medical Center's endowment consists of approximately 215 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.

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The Medical Center 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 Medical Center classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Medical Center in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Medical Center 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, 2015, 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>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	<u>\$ 175,010</u>	<u>\$ 16,260</u>	<u>\$ 191,270</u>
	<u>\$ 175,010</u>	<u>\$ 16,260</u>	<u>\$ 191,270</u>

Changes in endowment net assets for the year ended September 30, 2015, consisted of the following:

<i>(in thousands)</i>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Endowment net assets at September 30, 2014</b>	<u>\$ 196,468</u>	<u>\$ 16,260</u>	<u>\$ 212,728</u>
Investment return			
Investment income	27,391		27,391
Net unrealized depreciation	<u>(26,221)</u>		<u>(26,221)</u>
Total investment return	<u>1,170</u>	<u>-</u>	<u>1,170</u>
Appropriation of endowment assets for expenditures	<u>(22,628)</u>		<u>(22,628)</u>
	<u>(22,628)</u>	<u>-</u>	<u>(22,628)</u>
<b>Endowment net assets at September 30, 2015</b>	<u>\$ 175,010</u>	<u>\$ 16,260</u>	<u>\$ 191,270</u>

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As of September 30, 2014, 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>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	<u>\$ 196,468</u>	<u>\$ 16,260</u>	<u>\$ 212,728</u>
	<u>\$ 196,468</u>	<u>\$ 16,260</u>	<u>\$ 212,728</u>

Changes in endowment net assets for the year ended September 30, 2014, consisted of the following:

<i>(in thousands)</i>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Endowment net assets at September 30, 2013</b>	<u>\$ 183,302</u>	<u>\$ 16,353</u>	<u>\$ 199,655</u>
Investment return			
Investment income	15,496	-	15,496
Net unrealized appreciation	<u>6,462</u>	<u>-</u>	<u>6,462</u>
Total investment return	<u>21,958</u>	<u>-</u>	<u>21,958</u>
Appropriation of endowment assets for expenditures	(8,792)	-	(8,792)
Other changes	<u>-</u>	<u>(93)</u>	<u>(93)</u>
	<u>(8,792)</u>	<u>(93)</u>	<u>(8,885)</u>
<b>Endowment net assets at September 30, 2014</b>	<u>\$ 196,468</u>	<u>\$ 16,260</u>	<u>\$ 212,728</u>

**13. Third-Party Reimbursement**

The 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 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 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.

# **BMC Health System, Inc.**

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#### **Uncompensated Care**

The 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 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 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 System.

#### **14. Grant Payments**

In connection with the establishment of the Medical Center, the City of Boston agreed to provide Base Assistance Grant payments to capitalize the Medical Center and promote the development of an urban healthcare system in the City of Boston.

On May 1, 2012 the City of Boston refinanced its 2002 Bonds through the issuance of General Obligation Bonds, 2012 Series C. In conjunction with the refinancing, the City of Boston terminated the agreement to provide the Base Assistance Grant to the Medical Center, as the FHA mortgage is no longer outstanding. As the Medical Center continues to occupy the space and pays rent that is less than fair market value, the execution of this amendment resulted in an "in-kind" rent receivable between the City of Boston and the Medical Center.

The net present value of the "in-kind" rent receivable is \$7,921,000 and \$18,098,000 and is included in the grants receivable and temporarily restricted net assets on the balance sheet at September 30, 2015 and 2014, respectively. The "in-kind" rent receivable has been discounted using a rate of 4.26%. The accretion of the discount on the "in-kind" receivable is approximately \$574,000 and \$997,000 for the years ended September 30, 2015 and 2014, respectively, and is included in contribution revenue of temporarily restricted net assets in the statement of changes in net assets.

#### **15. Benefit Plans Available to Employees**

The Medical Center has a Tax Sheltered Annuity Plan (the "TSA Plan") which is a deferred compensation plan. Participation in the TSA Plan is voluntary. The Medical Center also has a contributory 403(b) plan. The Medical Center's contributions under these plans amounted to \$17,079,000 and \$16,716,000 for the years ended September 30, 2015 and 2014, respectively.

Certain retired Medical Center employees have postretirement medical and life insurance benefits covered under the Welfare Benefits Plan ("the Plan"). The Plan was frozen effective with the merger on July 1, 1996. Current employees and employees retiring after July 1, 1996 are not covered by the Plan. The accrued benefit cost amounted to \$141,000 and \$133,000 as of September 30, 2015 and 2014, respectively. The net periodic benefit cost recorded on the Plan amounted to \$(21,000) and \$(25,000) for the years ended September 30, 2015 and 2014, 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 choose to participate, 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

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contribution is based on a discretionary formula and vests over a four year period. BMCHP contributions under this DC Plan were \$1,798,000 and \$1,622,000 in 2015 and 2014, respectively.

The Medical Center maintains a defined benefit pension plan (the "Pension Plan"), effective July 1, 1996, for certain former employees of BCH with a measurement date of September 30. The covered group consists of employees who either had a nonforfeitable right to a retirement benefit under the former BCH defined benefit pension plan or would have earned one with service through September 30, 1997. The Pension Plan provides benefits based on an employee's average compensation and years of service reduced by a 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>	<b>2015</b>	<b>2014</b>
Accumulated benefit obligation	\$ 139,095	\$ 137,121
<b>Change in projected benefit obligation</b>		
Projected benefit obligation at beginning of year	\$ 149,672	\$ 130,032
Service cost	5,010	4,868
Interest cost	6,112	6,097
Actuarial (gain) loss	(5,037)	11,119
Benefits paid	(3,325)	(2,444)
Projected benefit obligation at end of year	<u>\$ 152,432</u>	<u>\$ 149,672</u>
<b>Change in plan assets</b>		
Fair value of plan assets at beginning of year	\$ 115,266	\$ 101,075
Actual (loss) return on plan assets	(2,571)	9,835
Employer contributions	6,800	6,800
Benefits paid	(3,325)	(2,444)
Fair value of plan assets at end of year	<u>\$ 116,170</u>	<u>\$ 115,266</u>
<b>Reconciliation of funded status</b>		
Projected benefit obligation	\$ 152,432	\$ 149,672
Fair value of plan assets	116,170	115,266
Funded status	<u>(36,262)</u>	<u>(34,406)</u>
Amounts recognized in the balance sheet included within other long-term liabilities	<u>\$ (36,262)</u>	<u>\$ (34,406)</u>

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The components of net periodic benefit cost for the years ended September 30, 2015 and 2014 are as follows:

<i>(in thousands)</i>	<b>2015</b>	<b>2014</b>
Service cost	\$ 5,010	\$ 4,868
Interest cost	6,112	6,097
Expected return on plan assets	(8,205)	(7,237)
Amortization of prior service cost	-	1
Amortization of net loss	1,460	360
Net periodic benefit cost	<u>\$ 4,377</u>	<u>\$ 4,089</u>

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

Discount rate	4.14 %	4.75 %
Long-term rate of return	7.00 %	7.00 %
Rate of compensation increase	3.50 %	4.00 %

**Weighted average assumptions used to determine the benefit obligations**

Discount rate	4.23 %	4.14 %
Rate of compensation increase	3.50 %	3.50 %

**Other changes in plan assets and benefit obligations recognized in unrestricted net assets**

New net actuarial loss	\$ 5,740	\$ 8,521
Amortization of prior service cost	-	(1)
Amortization of net loss	(1,460)	(360)
	<u>\$ 4,280</u>	<u>\$ 8,160</u>

**Amounts recognized in unrestricted net assets**

Net actuarial loss	<u>\$ 27,758</u>	<u>\$ 23,478</u>
	<u>\$ 27,758</u>	<u>\$ 23,478</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 \$1,738,000 and \$1,460,000.

**Pension Plan Assets**

The Pension Plan weighted average asset allocation as of the measurement dates September 30, 2015 and 2014, respectively, is as follows:

<b>Asset category</b>	<b>Target Allocation Fiscal Year Ending September 30, 2015</b>	<b>Percentage of Plan Assets at September 30,</b>	
		<b>2015</b>	<b>2014</b>
Equity securities	63 %	61 %	63 %
Debt securities	26	28	26
Other	11	11	11
	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

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The fair value of pension plan assets as of September 30, 2015 is disclosed in the table below.

<i>(in thousands)</i>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Investments</b>				
Cash and cash equivalents	\$ 1,975	\$ -	\$ -	1,975
Fixed income	9,665	22,969	-	32,634
Equities	8,167	62,262	-	70,429
Commodities	11,132	-	-	11,132
	<u>\$ 30,939</u>	<u>\$ 85,231</u>	<u>\$ -</u>	<u>\$ 116,170</u>

The fair value of pension plan assets as of September 30, 2014 is disclosed in the table below.

<i>(in thousands)</i>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Investments</b>				
Cash and cash equivalents	\$ 1,849	\$ -	\$ -	\$ 1,849
Fixed income	1,122	28,162	-	29,284
Equities	7,747	65,086	-	72,833
Commodities	11,300	-	-	11,300
	<u>\$ 22,018</u>	<u>\$ 93,248</u>	<u>\$ -</u>	<u>\$ 115,266</u>

There were transfers of \$8,496,000 from Level 2 to Level 1 in 2015 due to observable market data that became available for the securities.

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 BMC Health System, Inc.'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 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. There was also an update in the mortality assumption to the latest published pension mortality table, RP-2014 with MP-2015.

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**Cash Flows**

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

**Expected contributions for fiscal year ending September 30, 2016**

Expected employer contributions \$ 6,800,000

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

2016	\$ 4,339,000
2017	4,969,000
2018	5,642,000
2019	6,234,000
2020	6,806,000
2021 - 2024	42,744,000

The Medical Center contributed \$6,800,000 and \$6,800,000 to the Pension Plan for each of the years ended September 30, 2015 and 2014, respectively. The Medical Center plans to make any necessary contributions during the upcoming fiscal year 2016 to ensure the Pension Plan continues to be adequately funded during the current market conditions.

**16. Concentration of Credit Risk**

The System provides health care services to residents within its geographic location. The 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, 2015 and 2014 was as follows:

	<b>2015</b>	<b>2014</b>
Medicare	16 %	17 %
Medicaid	29	25
HMOs	26	32
Self-Pay	6	5
Commercial	8	9
Blue Cross	3	3
Commonwealth Care	1	4
Other	11	5
	<u>100 %</u>	<u>100 %</u>

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

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The System records allowances for doubtful accounts (credit losses) for the following other accounts receivable balances at September 30, 2015:

<i>(in thousands)</i>	<b>Receivable Balance</b>	<b>Allowance for Doubtful Accounts</b>
Other hospitals and health centers	\$ 7,524	\$ 2,251
New market tax credits	14,989	-
Outside contracts	12,406	1,329
Contributions receivable	7,005	695
Capitation receivable	67,690	-
CMS DSTI receivable (Note 21)	103,553	-
Other	44,888	139
	<u>\$ 258,055</u>	<u>\$ 4,414</u>

The System records an allowance for doubtful accounts (credit losses) for the following other accounts receivable balances at September 30, 2014:

<i>(in thousands)</i>	<b>Receivable Balance</b>	<b>Allowance for Doubtful Accounts</b>
Other hospitals and health centers	\$ 5,598	\$ 2,949
New market tax credits	23,425	-
Outside contracts	12,754	2,023
Contributions receivable	5,584	1,429
Capitation receivable	69,040	-
Reinsurance receivable	3,029	-
Other	38,376	44
	<u>\$ 157,806</u>	<u>\$ 6,445</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, 2015 and 2014 were as follows:

<i>(in thousands)</i>	<b>2015</b>	<b>2014</b>
<b>Beginning balances at September 30, 2014</b>	\$ 6,445	\$ 6,751
Recoveries	(1,778)	(1,162)
Net charge-offs	(500)	671
New reserves	247	185
<b>Ending balances at September 30, 2015</b>	<u>\$ 4,414</u>	<u>\$ 6,445</u>

**17. 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, 2015 and 2014 is summarized as follows:

<i>(in thousands)</i>	<b>2015</b>	<b>2014</b>
Patient	\$ 62,240	\$ 62,877
Third-party payers	1,000,624	949,495
Less: Provision for bad debt	<u>(53,591)</u>	<u>(62,825)</u>
Net patient service revenue	<u>\$ 1,009,273</u>	<u>\$ 949,547</u>

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the 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 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, 2015 and 2014:

<i>(in thousands)</i>	<b>2015</b>	<b>2014</b>
Patient	\$ 17,300	\$ 15,160
Third-party payers	<u>353,952</u>	<u>388,765</u>
Total	371,252	403,925
Reserve for contractual allowance	(256,975)	(282,309)
Reserve for doubtful accounts	<u>(35,012)</u>	<u>(36,004)</u>
Patient accounts receivable, net	<u>\$ 79,265</u>	<u>\$ 85,612</u>

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**18. Related Party Transactions**

The Foundation and the Medical Center have significant transactions with each other for operating purposes. During the years ended September 30, 2015 and 2014, the Medical Center provided funding of approximately \$88,178,000 and \$93,174,000, 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 \$60,287,000 and \$44,782,000 at September 30, 2015 and 2014, respectively. In addition, the Medical Center owed the Foundation \$32,904,000 and \$53,858,000 at September 30, 2015 and 2014, 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 \$114,621,000 and \$133,526,000 for the years ended September 30, 2015 and 2014, respectively, and is included in net patient service revenue. In addition, BMCHP owed the Medical Center \$11,298,000 and \$15,902,000 at September 30, 2015 and 2014, respectively, and the amounts due are included in patient accounts receivable. The Medical Center approved a net asset transfer of \$7,300,000 and \$0 to BMCHP for the years ending September 30, 2015 and 2014, respectively.

The System and the Medical Center have significant transactions with each other for system-wide purposes. At September 30, 2015 and 2014, the System owed the Medical Center \$6,056,000 and \$0, respectively for operating related activities. At September 30, 2015 and 2014, the Medical Center owed the System \$30,949,000 and \$0, respectively, for System operating related activities. The Medical Center approved a net asset transfer of \$12,000,000 and \$0 to the System for the years ending September 30, 2015 and 2014, respectively, for purposes related to replacing the electronic medical record system the Medical Center currently hosts and supports for community health centers.

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 \$4,505,000 and \$4,489,000 for the years ending September 30, 2015 and 2014, respectively. The Medical Center has \$24,642,000 and \$36,229,000 of prepaid premiums and retrospective premium credits that were prepaid by the Medical Center to BMCIC at September 30, 2015 and 2014, respectively. The Medical Center and the Foundation recorded an insurance recovery receivable and a professional liability claims payable of \$75,136,000 and \$70,861,000 for the year ended September 30, 2015 and 2014, 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 insurance coverage for property and for certain liability exposures arising from acts of terrorism under TRIA. All insurance written and claims paid originate with 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, 2015 and 2014, respectively. At September 30, 2015 and 2014, respectively, there were no premiums owed to BMCIC of Vermont as all premiums written were paid prior to year-end.

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BUAP and the Medical Center have transactions with each other for operating purposes. During the years ended September 30, 2015 and 2014, respectively, the Medical Center provided funding of approximately \$2,155,000 and \$3,024,000, respectively, to BUAP for professional and support services. The Medical Center has various accounts receivable from BUAP which totaled approximately \$4,040,000 and \$4,294,000 at September 30, 2015 and 2014, respectively.

The Medical Center is affiliated with several community health centers. At September 30, 2015 and 2014, the Medical Center had loaned a total of \$4,360,000 and \$5,180,000, 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 \$18,807,000 and \$20,008,000 for the years ended September 30, 2015 and 2014, respectively, and is included in net patient service revenue and supplies and other expenses. Also as of September 30, 2015 and 2014, BMCHP owed the Foundation \$515,000 and \$949,000, respectively.

The System and the Foundation have significant transactions with each other for operating purposes. At September 30, 2015 and 2014, the System owed the Foundation \$3,198,000 and \$0, respectively, for operating expenses. The Foundation approved a net asset transfer of \$49,398,000 and \$0 to the System for the years ending September 30, 2015 and 2014, respectively, for its management and oversight.

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.

**Shared Services Agreement**

The Plans each entered into a common paymaster agreement with the Medical Center and the Trustees of Boston University ("BU"). Under the terms of the physician practice agreements, faculty physicians and practitioners ("Faculty Members") are employed by the individual Plans. The Faculty serves the benefit of the Medical Center (by providing clinical services) and BUSM (by serving as faculty members of BUSM). Each Plan, with respect to each Faculty Member that the Plan employs, pays BU 29.2% of each Faculty Member's salary up to a \$265,000 base, for reimbursement of fringe benefits and related paymaster fees. If a particular Faculty Member's salary exceeds the base amount of \$265,000, the Plans further pay BU 8.0% on such excess, up to an amount equal to the FICA limit for that particular year, and then 1.8% on any amount in excess of the applicable FICA limit. Additionally, the Plans pay the Medical Center for medical malpractice insurance premiums for each Faculty Member. BMC 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 BMC, 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.

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The Medical Center 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 BMC 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 \$32,066,000 and \$33,730,000 for institutional support from BUSM all of which was recorded in reimbursement of operating expenses for the years ended June 30, 2015 and 2014, respectively. The Foundation received a total of \$88,670,000 and \$97,979,000 for institutional support from BMC for the years ended June 30, 2015 and 2014, respectively. The Foundation also received \$30,825,000 and \$29,640,000 from BMC which was recorded as reimbursement of operating expenses for the years ended June 30, 2015 and 2014, 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, 2015 and 2014, respectively.

**Retirement Plan**

BUSM sponsors a defined contribution retirement plan, which covers all Faculty paid under the above described 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.

The Medical Center sponsors a defined contribution retirement plan which covers all employees, including administrative employees of the Foundation. This retirement plan is available to regular employees who have completed 1,000 hours of service within one-year period. BMC contributes between 3% and 8% of salary to this retirement plan, depending on years of service.

**19. Claims Payable**

BMCHP 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, 2015 and 2014:

<i>(in thousands)</i>	<b>2015</b>	<b>2014</b>
<b>Accrued at beginning of year</b>	\$ 123,852	\$ 70,606
Incurred services		
Current year	1,524,531	1,646,060
Prior years	(16,529)	2,375
Total incurred	<u>1,508,002</u>	<u>1,648,435</u>
Paid claims		
Current year	1,393,103	1,508,113
Prior years	124,091	87,076
Total paid	<u>1,517,194</u>	<u>1,595,189</u>
<b>Accrued at end of year</b>	<u>\$ 114,660</u>	<u>\$ 123,852</u>

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The estimated cost of losses and loss adjustment expenses attributable to insured events of the prior year decreased by approximately \$16,529,000 and increased by \$2,375,000 during 2015 and 2014, 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.

**20. Functional Expenses**

The total operating expenses of the System by function are as follows for the years ended September 30, 2015 and 2014:

<i>(in thousands)</i>	<b>2015</b>	<b>2014</b>
Patient care	\$ 2,342,027	\$ 2,409,897
Medical education	71,935	68,892
Research, sponsored programs and community health services	77,021	74,352
General and administrative	<u>324,992</u>	<u>300,478</u>
	<u>\$ 2,815,975</u>	<u>\$ 2,853,619</u>

**21. Governmental Subsidies**

On October 30, 2014, Centers for Medicare and Medicaid Services (“CMS”) approved a five-year 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 \$113,908,667 annually for the Medical Center for three years through June 30, 2017. These initiatives are designed as incentive payments to support investment in health care delivery systems that will support payment reform, and transition away from fee-for-service payments toward alternative payment arrangements that reward high-quality, efficient, and integrated systems of care. Participating hospitals must select a minimum number of projects from each category as outlined in the Master DSTI Plan. The 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 \$103,553,000 in fiscal year 2015 and 2014, respectively.

**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, 2015 and 2014.

**22. Commitments and Contingencies**

The 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 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 System’s financial statements.

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**23. 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.

The System estimates that the expected claims liabilities at September 30, 2015 and 2014, on an undiscounted basis, are approximately \$81,038,000 and \$75,877,000, respectively.

**Excess Liability Coverage**

The 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 System of their primary obligation with respect to losses incurred. The System would be liable for claims ceded to reinsurers in the event such reinsurers are unable to meet their obligations.

**24. National Emerging Infectious Diseases Laboratory ("NEIDL")**

In September 2003, Boston University received an award from the National Institutes of Health ("NIH") for the construction of a biocontainment facility to be located on Boston University's Medical Campus. This laboratory will be used by Boston University and the Medical Center, as well as other organizations, to support the federal government's bio-defense efforts. As part of this award, NIH will provide \$140,990,000 of the construction costs of the facility. Boston University and Boston Medical Center each provided \$27,927,000 toward construction, and received a 50% equity interest in the venture. As such, both parties will share equally in the future operating activities of the laboratory. The NIH reimbursement was recorded as an increase to temporarily restricted net assets. On May 1, 2010, Boston Medical Center issued a letter notifying Boston University that the Medical Center elected to withdraw from further participation in the NEIDL at Boston University Medical Campus effective as of May 1, 2011. As a result of the withdrawal, the Medical Center reversed the investment and temporarily restricted net assets recorded in previous periods.

In 2011, Boston Medical Center and Boston University agreed to contribution repayment terms whereas Boston University owes Boston Medical Center the total principal of \$29,064,000. Boston University will make five annual payments of \$5,813,000 plus 2% interest on the outstanding balance due. The remaining balance owed to the Medical Center is \$5,861,000 and \$11,722,000 as of September 30, 2015 and 2014, respectively, and is included in other accounts receivable and other noncurrent assets on the balance sheet.

**BMC Health System, Inc.**  
**Notes to Consolidated Financial Statements**  
**September 30, 2015 and 2014**

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**25. Subsequent Events**

The System has assessed the impact of subsequent events through February 3, 2016, the date the audited financial statements were issued, and have concluded that other than the note below, there were no such events that require adjustment to the audited financial statements or disclosure in the notes to the consolidated financial statements.

In November 2015 and December 2015, the Medical Center took the steps necessary, under the terms of the NMTC financing for the Shapiro Ambulatory Care Center, for the outstanding loans to be assigned to the Medical Center and for the Medical Center to become the sole lender to the NAB Business Trust. As of December 31, 2015, the Medical Center discharged the loans from the Medical Center to the NAB Trust.

## **Supplemental Consolidating Information**

# BMC Health System, Inc.

## Consolidating Balance Sheet

### September 30, 2015

<i>(in thousands)</i>	BMC Health System, Inc.	Medical Center	BMCHP	Foundation	BMCIC and BMCIC of Vermont	NAB	BUAP	Boston Accountable Care Organization	Eliminations	Consolidated BMC Health System, Inc.
<b>Assets</b>										
<b>Current assets</b>										
Cash and cash equivalents	\$ 28,396	\$ 82,673	\$ 156,674	\$ 48,723	\$ 588	\$ 982	\$ 1,955	\$ -	\$ -	\$ 319,991
Short-term investments	-	-	38,486	-	-	-	-	-	-	38,486
Patients accounts receivable, less allowance of \$35,012 in 2015	-	75,575	-	15,064	-	-	439	-	(11,813)	79,265
Other accounts receivable, less allowance of \$4,414 in 2015	-	142,779	75,099	2,739	2,681	509	283	62	29,489	253,641
Current portion of grants receivable, less allowance of \$586 in 2015	-	28,959	-	-	-	-	-	-	-	28,959
Current portion of estimated receivable for final settlements with third-party payors	-	11,962	-	-	-	-	-	-	-	11,962
Current portion due from related parties	30,948	120,140	29	20,160	-	14,375	220	749	(186,621)	-
Inventories	-	8,316	-	-	-	-	-	-	-	8,316
Prepaid expenses and other current assets	-	18,530	-	378	602	-	-	-	(568)	18,942
Insurance recoveries receivable	-	37,568	-	37,568	-	-	-	-	(75,136)	-
Current portion of funds held by trustees	-	65,000	-	-	-	-	-	-	-	65,000
<b>Total current assets</b>	<b>59,344</b>	<b>591,502</b>	<b>270,288</b>	<b>124,632</b>	<b>3,871</b>	<b>15,866</b>	<b>2,897</b>	<b>811</b>	<b>(244,649)</b>	<b>824,562</b>
<b>Assets limited as to use</b>										
Board-designated investments	-	314,940	-	-	-	-	-	-	-	314,940
Funds held by Trustee	-	95,138	-	-	-	-	-	-	-	95,138
Donor-restricted investments	-	305,907	-	-	-	-	-	-	-	305,907
Reserve funds	-	-	18,825	-	103,279	-	-	-	-	122,104
<b>Total assets limited as to use</b>	<b>-</b>	<b>715,985</b>	<b>18,825</b>	<b>-</b>	<b>103,279</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>838,089</b>
<b>Other assets</b>										
Long-term investments	-	-	134,756	37,473	-	-	-	-	-	172,229
Property, plant and equipment, net	-	660,062	5,651	4,141	-	139,881	303	-	-	810,038
Grants receivable, less current portion	-	-	-	-	-	-	-	-	-	-
Due from related parties	-	30,570	-	-	-	-	-	-	(30,570)	-
Other noncurrent assets	4,666	171,659	-	104	-	-	-	-	(63,458)	112,971
<b>Total assets</b>	<b>\$ 64,010</b>	<b>\$ 2,169,778</b>	<b>\$ 429,520</b>	<b>\$ 166,350</b>	<b>\$ 107,150</b>	<b>\$ 155,747</b>	<b>\$ 3,200</b>	<b>\$ 811</b>	<b>\$ (338,677)</b>	<b>\$ 2,757,889</b>
<b>Liabilities and Net Assets</b>										
<b>Current liabilities</b>										
Accounts payable and accrued expenses	\$ -	\$ 160,983	\$ 65,277	\$ 23,127	\$ 53	\$ 508	\$ 409	\$ 1,103	\$ 28,028	\$ 279,488
Claims payable	-	-	126,719	-	-	-	-	-	(12,059)	114,660
Deferred revenue	-	19,890	-	-	568	-	-	-	(568)	19,890
Current portion of due to related parties	-	78,256	-	36,798	6,309	18,392	4,210	-	(143,965)	-
Current portion of long-term debt and capital leases	-	13,756	-	84	-	-	-	-	-	13,840
Professional liability claims	-	37,568	-	37,568	-	-	-	-	(75,136)	-
Other current liabilities	-	-	13,567	-	-	-	-	-	(89)	13,478
<b>Total current liabilities</b>	<b>-</b>	<b>310,453</b>	<b>205,563</b>	<b>97,577</b>	<b>6,930</b>	<b>18,900</b>	<b>4,619</b>	<b>1,103</b>	<b>(203,789)</b>	<b>441,356</b>
<b>Other liabilities</b>										
Estimated final settlements with third-party payors	-	57,787	-	-	-	-	-	-	-	57,787
Obligations under capital leases	-	49,154	-	216	-	-	-	-	-	49,370
Due to related parties	9,861	-	-	5,971	24,642	30,570	-	386	(71,430)	-
Long-term debt	-	521,176	-	-	-	70,235	-	-	-	591,411
Other long-term liabilities	-	65,148	40	-	75,137	61,412	-	-	(61,412)	140,325
<b>Total liabilities</b>	<b>9,861</b>	<b>1,003,718</b>	<b>205,603</b>	<b>103,764</b>	<b>106,709</b>	<b>181,117</b>	<b>4,619</b>	<b>1,489</b>	<b>(336,631)</b>	<b>1,280,249</b>
<b>Commitments and contingencies</b>										
<b>Net assets</b>										
Unrestricted	54,149	835,249	223,917	62,586	441	(25,370)	(1,419)	(678)	(2,046)	1,146,829
Temporarily restricted	-	314,551	-	-	-	-	-	-	-	314,551
Permanently restricted	-	16,260	-	-	-	-	-	-	-	16,260
<b>Total net assets</b>	<b>54,149</b>	<b>1,166,060</b>	<b>223,917</b>	<b>62,586</b>	<b>441</b>	<b>(25,370)</b>	<b>(1,419)</b>	<b>(678)</b>	<b>(2,046)</b>	<b>1,477,640</b>
<b>Total liabilities and net assets</b>	<b>\$ 64,010</b>	<b>\$ 2,169,778</b>	<b>\$ 429,520</b>	<b>\$ 166,350</b>	<b>\$ 107,150</b>	<b>\$ 155,747</b>	<b>\$ 3,200</b>	<b>\$ 811</b>	<b>\$ (338,677)</b>	<b>\$ 2,757,889</b>

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

# BMC Health System, Inc.

## Consolidating Balance Sheet

### September 30, 2014

<i>(in thousands)</i>	BMC Health System, Inc.	Medical Center	BMCHP	Foundation	BMCIC and BMCIC of Vermont	NAB	BCD Building, LLC	BUAP	Eliminations	Consolidated BMC Health System, Inc.
<b>Assets</b>										
<b>Current assets</b>										
Cash and cash equivalents	\$ -	\$ 126,020	\$ 73,952	\$ 74,574	\$ 370	\$ 76	\$ -	\$ 1,821	\$ -	\$ 276,813
Short-term investments	-	-	41,549	-	-	-	-	-	-	41,549
Patients accounts receivable, less allowance of \$36,004 in 2014	-	87,124	-	14,941	-	-	-	398	(16,851)	85,612
Other accounts receivable, less allowance of \$6,445 in 2014	-	40,768	86,575	2,425	3,029	509	-	319	17,736	151,361
Current portion of grants receivable, less allowance of \$480 in 2014	-	28,880	-	-	-	-	-	-	-	28,880
Current portion of estimated receivable for final settlements with third-party payors	-	36,583	-	-	-	-	-	-	-	36,583
Current portion due from related parties	-	98,774	13	47,201	-	15,574	-	-	(161,562)	-
Inventories	-	6,201	-	-	-	-	-	-	-	6,201
Prepaid expenses and other current assets	-	11,838	-	185	617	-	-	8	(579)	12,069
Insurance recoveries receivable	-	34,013	-	36,848	-	-	-	-	(70,861)	-
Current portion of funds held by Trustees	-	8,842	-	-	-	-	-	-	-	8,842
<b>Total current assets</b>	<b>-</b>	<b>479,043</b>	<b>202,089</b>	<b>176,174</b>	<b>4,016</b>	<b>16,159</b>	<b>-</b>	<b>2,546</b>	<b>(232,117)</b>	<b>647,910</b>
<b>Assets limited as to use</b>										
Board-designated investments	-	343,704	-	-	-	-	-	-	-	343,704
Funds held by Trustee	-	49,725	-	-	-	-	-	-	-	49,725
Donor-restricted investments	-	330,761	-	-	-	-	-	-	-	330,761
Reserve funds	-	-	23,805	-	107,805	-	-	-	-	131,610
<b>Total assets limited as to use</b>	<b>-</b>	<b>724,190</b>	<b>23,805</b>	<b>-</b>	<b>107,805</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>855,800</b>
<b>Other assets</b>										
Long-term investments	-	-	133,716	32,339	-	-	-	-	-	166,055
Property, plant and equipment, net	-	556,070	7,499	4,462	-	145,449	-	459	-	713,939
Grants receivable, less current portion	-	7,921	-	-	-	-	-	-	-	7,921
Due from related parties	-	30,570	-	-	-	-	-	-	(30,570)	-
Other noncurrent assets	-	168,320	-	74	-	-	-	-	(2,060)	166,334
<b>Total assets</b>	<b>\$ -</b>	<b>\$ 1,966,114</b>	<b>\$ 367,109</b>	<b>\$ 213,049</b>	<b>\$ 111,821</b>	<b>\$ 161,608</b>	<b>\$ -</b>	<b>\$ 3,005</b>	<b>\$ (264,747)</b>	<b>\$ 2,557,959</b>
<b>Liabilities and Net Assets</b>										
<b>Current liabilities</b>										
Accounts payable and accrued expenses	\$ -	\$ 151,372	\$ 25,397	\$ 18,167	\$ 46	\$ 1,113	\$ -	\$ 348	\$ 11,925	\$ 208,368
Claims payable	-	-	140,730	-	-	-	-	-	(16,878)	123,852
Deferred revenue	-	19,436	-	-	579	-	-	-	(579)	19,436
Current portion of due to related parties	-	69,445	-	32,197	3,651	9,818	-	4,411	(119,522)	-
Current portion of long-term debt and capital leases	-	18,758	-	40	-	2,917	-	-	-	21,715
Professional liability claims	-	34,013	-	36,848	-	-	-	-	(70,861)	-
Other current liabilities	-	-	21,494	-	-	-	-	-	27	21,521
<b>Total current liabilities</b>	<b>-</b>	<b>293,024</b>	<b>187,621</b>	<b>87,252</b>	<b>4,276</b>	<b>13,848</b>	<b>-</b>	<b>4,759</b>	<b>(195,888)</b>	<b>394,892</b>
<b>Other liabilities</b>										
Estimated final settlements with third-party payors	-	55,764	-	-	-	-	-	-	-	55,764
Obligations under capital leases	-	8,187	-	75	-	-	-	-	-	8,262
Due to related parties	-	-	-	-	36,229	30,570	-	-	(66,799)	-
Long-term debt	-	354,782	-	-	-	136,218	-	-	-	491,000
Other long-term liabilities	-	64,476	526	-	70,861	-	-	-	-	135,863
<b>Total liabilities</b>	<b>-</b>	<b>776,233</b>	<b>188,147</b>	<b>87,327</b>	<b>111,366</b>	<b>180,636</b>	<b>-</b>	<b>4,759</b>	<b>(262,687)</b>	<b>1,085,781</b>
<b>Commitments and contingencies</b>										
<b>Net assets</b>										
Unrestricted	-	829,496	178,962	125,722	455	(19,028)	-	(1,754)	(2,060)	1,111,793
Temporarily restricted	-	344,125	-	-	-	-	-	-	-	344,125
Permanently restricted	-	16,260	-	-	-	-	-	-	-	16,260
<b>Total net assets</b>	<b>-</b>	<b>1,189,881</b>	<b>178,962</b>	<b>125,722</b>	<b>455</b>	<b>(19,028)</b>	<b>-</b>	<b>(1,754)</b>	<b>(2,060)</b>	<b>1,472,178</b>
<b>Total liabilities and net assets</b>	<b>\$ -</b>	<b>\$ 1,966,114</b>	<b>\$ 367,109</b>	<b>\$ 213,049</b>	<b>\$ 111,821</b>	<b>\$ 161,608</b>	<b>\$ -</b>	<b>\$ 3,005</b>	<b>\$ (264,747)</b>	<b>\$ 2,557,959</b>

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

**BMC Health System, Inc.**  
**Consolidating Statement of Operations**  
**Year Ended September 30, 2015**

<i>(in thousands)</i>	BMC Health System, Inc.	Medical Center	BMCHP	Foundation	BMCIC and BMCIC of Vermont	NAB	BUAP	Boston Accountable Care Organization	Eliminations	Consolidated BMC Health System, Inc.
<b>Operating revenue</b>										
Net patient service revenue, net of provision for bad debt (\$53,591 in 2015)	\$ -	\$ 1,004,689	\$ -	\$ 135,606	\$ -	\$ -	\$ 2,406	\$ -	\$ (133,428)	\$ 1,009,273
Capitation revenue	-	-	1,637,629	-	-	-	-	-	-	1,637,629
Grants and contract revenue	-	84,266	-	-	-	-	-	-	(11,981)	72,285
Institutional support	-	-	-	88,659	-	-	2,155	270	(91,084)	-
Other revenue	-	10,823	11,263	89,517	-	3,372	1,238	90	(36,970)	79,333
Net assets released from restrictions for operations	-	33,184	-	-	-	-	-	-	-	33,184
<b>Total operating revenue</b>	<b>-</b>	<b>1,132,962</b>	<b>1,648,892</b>	<b>313,782</b>	<b>-</b>	<b>3,372</b>	<b>5,799</b>	<b>360</b>	<b>(273,463)</b>	<b>2,831,704</b>
<b>Operating expenses</b>										
Salaries and wages and fringe benefits	2,631	515,094	59,998	266,221	-	-	4,037	104	-	848,085
Supplies and expenses	5,578	341,693	1,546,467	55,523	3,046	874	1,244	233	(154,128)	1,800,530
Institutional support	608	90,333	-	-	-	-	-	-	(90,941)	-
Depreciation and amortization	-	69,132	3,869	1,264	-	5,567	188	-	-	80,020
Interest expense	-	7,039	-	7	-	3,273	-	-	-	10,319
Research, sponsored programs and community health services	-	102,043	-	-	-	-	-	-	(25,022)	77,021
<b>Total operating expenses</b>	<b>8,817</b>	<b>1,125,334</b>	<b>1,610,334</b>	<b>323,015</b>	<b>3,046</b>	<b>9,714</b>	<b>5,469</b>	<b>337</b>	<b>(270,091)</b>	<b>2,815,975</b>
<b>Income (loss) from operations</b>	<b>(8,817)</b>	<b>7,628</b>	<b>38,558</b>	<b>(9,233)</b>	<b>(3,046)</b>	<b>(6,342)</b>	<b>330</b>	<b>23</b>	<b>(3,372)</b>	<b>15,729</b>
<b>Nonoperating gains (losses), net</b>										
Income from investments (including other-than-temporary impairment losses of \$3,022 in 2015)	51	25,488	2,770	1,494	3,032	-	5	-	3,372	36,212
Gain on sale of real estate	-	14,478	-	-	-	-	-	-	-	14,478
Loss on defeasance of debt	-	(13,436)	-	-	-	-	-	-	-	(13,436)
Fundraising costs and other	-	(4,825)	-	(9,534)	-	14	-	-	-	(14,345)
<b>Total nonoperating gains, net</b>	<b>51</b>	<b>21,705</b>	<b>2,770</b>	<b>(8,040)</b>	<b>3,032</b>	<b>14</b>	<b>5</b>	<b>-</b>	<b>3,372</b>	<b>22,909</b>
<b>Excess (deficiency) of revenue over expenses</b>	<b>(8,766)</b>	<b>29,333</b>	<b>41,328</b>	<b>(17,273)</b>	<b>(14)</b>	<b>(6,328)</b>	<b>335</b>	<b>23</b>	<b>-</b>	<b>38,638</b>
<b>Other changes in unrestricted net assets</b>										
Change in unrealized (depreciation) appreciation on investments	-	(18,951)	(3,673)	(69)	-	-	-	-	-	(22,693)
Net asset transfer to Health System	61,398	(12,000)	-	(49,398)	-	-	-	-	-	-
Net asset transfer to BMCHP	-	(7,300)	7,300	-	-	-	-	-	-	-
Other changes	-	701	-	-	-	-	-	(701)	-	-
Net assets released from restrictions for property, plant and equipment	-	23,420	-	-	-	-	-	-	-	23,420
Pension-related changes other than net periodic pension costs	-	(4,329)	-	-	-	-	-	-	-	(4,329)
Donated services (to)/from affiliates	1,517	(5,121)	-	3,604	-	-	-	-	-	-
<b>Change in unrestricted net assets</b>	<b>\$ 54,149</b>	<b>\$ 5,753</b>	<b>\$ 44,955</b>	<b>\$ (63,136)</b>	<b>\$ (14)</b>	<b>\$ (6,328)</b>	<b>\$ 335</b>	<b>\$ (678)</b>	<b>\$ -</b>	<b>\$ 35,036</b>

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

# BMC Health System, Inc.

## Consolidating Statement of Operations

### Year Ended September 30, 2014

(in thousands)

	BMC Health System, Inc.	Medical Center	BMCHP	Foundation	BMCIC and BMCIC of Vermont	NAB	BCD Building, LLC	BUAP	Eliminations	Consolidated BMC Health System, Inc.
<b>Operating revenue</b>										
Net patient service revenue, net of provision for bad debt (\$62,825 in 2014)	\$ -	\$ 964,265	\$ -	\$ 135,167	\$ -	\$ -	\$ -	\$ 3,649	\$ (153,534)	\$ 949,547
Capitation revenue	-	-	1,706,020	-	-	-	-	-	-	1,706,020
Grants and contract revenue	-	78,784	-	-	-	-	-	173	(11,984)	66,973
Institutional support	-	-	-	97,979	-	-	-	3,024	(101,003)	-
Other revenue	-	9,482	10,316	86,730	-	3,609	610	704	(35,374)	76,077
Net assets released from restrictions for operations	-	30,074	-	-	-	-	-	-	-	30,074
Total operating revenue	-	1,082,605	1,716,336	319,876	-	3,609	610	7,550	(301,895)	2,828,691
<b>Operating expenses</b>										
Salaries and wages and fringe benefits	-	506,548	50,489	259,369	4,238	-	-	5,020	-	825,664
Supplies and expenses	-	276,089	1,714,285	52,410	11	113	138	2,018	(178,492)	1,866,572
Institutional support	-	96,198	-	-	-	-	-	-	(96,198)	-
Depreciation and amortization	-	60,006	3,064	1,274	-	5,568	434	295	-	70,641
Interest expense	-	12,299	-	4	-	3,509	578	-	-	16,390
Research, sponsored programs and community health services	-	97,948	-	-	-	-	-	-	(23,596)	74,352
Total operating expenses	-	1,049,088	1,767,838	313,057	4,249	9,190	1,150	7,333	(298,286)	2,853,619
Income (loss) from operations	-	33,517	(51,502)	6,819	(4,249)	(5,581)	(540)	217	(3,609)	(24,928)
<b>Nonoperating gains (losses), net</b>										
Income from investments (including other-than-temporary impairment losses of \$1,171 in 2014)	-	25,401	5,737	2,304	4,239	-	-	5	3,609	41,295
Fundraising costs and other	-	(3,415)	-	138	-	-	-	-	-	(3,277)
Total nonoperating gains, net	-	21,986	5,737	2,442	4,239	-	-	5	3,609	38,018
Excess (deficiency) of revenue over expenses	-	55,503	(45,765)	9,261	(10)	(5,581)	(540)	222	-	13,090
<b>Other changes in unrestricted net assets</b>										
Change in unrealized appreciation on investments	-	4,186	2,330	1,451	-	-	-	-	-	7,967
Net asset transfer to affiliate	-	-	-	-	-	-	-	-	-	-
Other changes	-	(2,500)	-	-	-	-	-	-	2,500	-
Contributed capital asset	-	7,632	-	-	-	-	(4,511)	-	1,681	4,802
Net assets released from restrictions for property, plant and equipment	-	1,613	-	-	-	-	-	-	-	1,613
Pension-related changes other than net periodic pension costs	-	(8,190)	-	-	-	-	-	-	-	(8,190)
Change in unrestricted net assets	\$ -	\$ 58,244	\$ (43,435)	\$ 10,712	\$ (10)	\$ (5,581)	\$ (5,051)	\$ 222	\$ 4,181	\$ 19,282

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

**BMC Health System, Inc.**  
**Notes to Supplemental Consolidating Information**  
**September 30, 2015 and 2014**

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**1. Basis of Presentation**

The accompanying supplemental consolidating information includes the consolidating balance sheets and the consolidating statement of operations of the individual entities of BMC Health System, Inc. All intercompany accounts and transactions between entities have been eliminated. 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, 2015

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass Through Number	Total Federal Expenditures
<b>Research and Development Cluster</b>			
<b>Department of Health and Human Services</b>			
Substance Abuse and Mental Health Services Administration (Pass Through from Boston Public Health Commission)	93.104	FY13011492	\$ (625)
Substance Abuse and Mental Health Services Administration (Pass Through from Boston Public Health Commission)	93.104	FY13011709	(980)
CFDA subtotal			<u>(1,605)</u>
Health Resources Services Administration	93.110		340,656
Health Resources Services Administration (Pass Through from American Academy of Pediatrics)	93.110	6636-99951-731100, Sub # 731101BU	54,891
Health Resources Services Administration (Pass Through from Johns Hopkins University)	93.110	118525	<u>150,289</u>
CFDA subtotal			<u>545,836</u>
National Institute of Environmental Health Sciences (Pass Through from Tufts University)	93.113	P01 ES011624	258
National Institute of Environmental Health Sciences (Pass Through from Tulane University Health Sciences Center)	93.113	TUL-HSC-548-14/15	15,254
National Institute of Environmental Health Sciences (Pass Through from University of California, Berkeley)	93.113	00008405	<u>20,656</u>
CFDA subtotal			<u>36,168</u>
National Institute of Dental and Craniofacial Research	93.121		1,276,223
National Institute of Dental and Craniofacial Research (Pass Through from University of Washington)	93.121	747040	<u>93,356</u>
CFDA subtotal			<u>1,369,579</u>
Centers for Disease Control and Prevention (Pass Through from Commonwealth of Massachusetts - Department of Public Health)	93.136	INTF3416HH2706811003	2,497
Centers for Disease Control and Prevention (Pass Through from Rhode Island Hospital)	93.136	701-713-7039	<u>25,649</u>
CFDA subtotal			<u>28,146</u>
National Centers for Complimentary and Alternative Medicine	93.213		924,305
National Centers for Complimentary and Alternative Medicine (Pass Through from Duke University)	93.213	203-3149, 2033785	53,572
National Centers for Complimentary and Alternative Medicine (Pass Through from Hypnalgescics, LLC)	93.213	1R43 AT006296-01A1	<u>5,405</u>
CFDA subtotal			<u>983,282</u>
Agency for Healthcare Research & Quality	93.226		657,113
Agency for Healthcare Research & Quality (Pass Through from Indiana University)	93.226	1R01HS020640-01A1	<u>9,975</u>
CFDA subtotal			<u>667,088</u>
National Institute on Mental Health	93.242		840,011
National Institute on Mental Health (Pass Through from Northeastern University)	93.242	500247-78051	33,974
National Institute on Mental Health (Pass Through from Northshore University Hospital)	93.242	EH13-344-S1	<u>17,691</u>
CFDA subtotal			<u>891,676</u>
Substance Abuse and Mental Health Services Administration (Pass Through from Boston Public Health Commission)	93.243	RFA-SM-09-002	3,632
Substance Abuse and Mental Health Services Administration (Pass Through from University of California, San Francisco)	93.243	7429sc	<u>113,295</u>
CFDA subtotal			<u>116,927</u>
National Institute on Alcohol Abuse and Alcoholism	93.273		2,364,690
National Institute on Alcohol Abuse and Alcoholism (Pass Through from University of California, San Francisco)	93.273	7902sc	<u>19,655</u>
CFDA subtotal			<u>2,384,345</u>
National Institute of Drug Abuse	93.279		3,568,911
National Institute of Drug Abuse (Pass Through from Albert Einstein College of Medicine)	93.279	310487	78,752
National Institute of Drug Abuse (Pass Through from Butler Hospital)	93.279	9006-8332	171,729
National Institute of Drug Abuse (Pass Through from Cambridge Health Alliance)	93.279	R01DA034952	16,665
National Institute of Drug Abuse (Pass Through from Cornell University)	93.279	14111560-03	34,784
National Institute of Drug Abuse (Pass Through from McLean Hospital)	93.279	5U10 DA015831-12, U01DA015831	323,527
National Institute of Drug Abuse (Pass Through from Rhode Island Hospital)	93.279	701-7137021	56,680
National Institute of Drug Abuse (Pass Through from Tufts Medical Center)	93.279	5007570-SERV	69,320
National Institute of Drug Abuse (Pass Through from University of British Columbia)	93.279	R25 DA030756	21,680
National Institute of Drug Abuse (Pass Through from University of California, Los Angeles)	93.279	2000GQM779	<u>28,980</u>
CFDA subtotal			<u>4,371,028</u>
National Institute on Minority Health and Health Disparities	93.307		1,358,978
National Institute on Minority Health and Health Disparities (Pass Through from Tufts Medical Center)	93.307	5011778-SERV	<u>140,501</u>
CFDA subtotal			<u>1,499,479</u>

The accompanying notes are an integral part of the schedule.

# BMC Health System, Inc.

## Schedule of Expenditures of Federal Awards

### September 30, 2015

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass Through Number	Total Federal Expenditures
National Cancer Institute	93.393		\$ 35,866
National Cancer Institute (Pass Through from Emory University)	93.393	T001958	14,944
CFDA subtotal			<u>50,810</u>
National Cancer Institute	93.394		1,446,586
National Cancer Institute (Pass Through from Baylor College of Medicine)	93.394	101573601	250,882
National Cancer Institute (Pass Through from Nanocytomics, LLC.)	93.394	4 R42 CA168055-02	277,816
National Cancer Institute (Pass Through from Northwestern University)	93.394	SP0010241-PROJ0007116	255,937
National Cancer Institute (Pass Through from Northwestern University)	93.394	SP0010884-PROJ0006527	1,596
National Cancer Institute (Pass Through from Northwestern University)	93.394	SP0014771-PROJ0006515	154,577
National Cancer Institute (Pass Through from Northwestern University)	93.394	SP0028253-PROJ0007361	37,326
National Cancer Institute (Pass Through from Riverside Research)	93.394	NYO.G00386P.011627.02	21,798
National Cancer Institute (Pass Through from Trustees of Boston University)	93.394	4500001500	108,301
National Cancer Institute (Pass Through from University of Texas Health Science Center - San Antonio)	93.394	157050	194,192
CFDA subtotal			<u>2,749,011</u>
National Cancer Institute	93.395		361,520
National Cancer Institute (Pass Through from American College of Radiology)	93.395	U10CA37422-25	(15,418)
National Cancer Institute (Pass Through from Duke Clinical Research Institute)	93.395	U10 CA076001	20,259
National Cancer Institute (Pass Through from Eastern Cooperative Oncology Group (ECOG))	93.395	PSABMCP00	(48,066)
National Cancer Institute (Pass Through from EMMES Corporation)	93.395	2U01CA121947-04	96,376
National Cancer Institute (Pass Through from EMMES Corporation)	93.395	PO 1568 G NA643	(4,890)
National Cancer Institute (Pass Through from EMMES Corporation)	93.395	PO 1568 GNA 643	30,406
National Cancer Institute (Pass Through from NRG Oncology Foundation, Inc.)	93.395	BMC/Kachnic - NCORP-01	14,592
National Cancer Institute (Pass Through from Oregon Health and Science University)	93.395	9009627_BMC	86,878
National Institutes of Health (Pass Through from NSABP Foundation)	93.395	3TFED39-091	13,677
CFDA subtotal			<u>555,334</u>
National Cancer Institute	93.396		766,280
National Cancer Institute (Pass Through from Massachusetts General Hospital)	93.396	223690	141,350
CFDA subtotal			<u>907,630</u>
National Cancer Institute	93.399		208,406
National Cancer Institute (Pass Through from South West Oncology Group)	93.399	CA37429	84,374
CFDA subtotal			<u>292,780</u>
Centers for Medicare and Medicaid	93.610		1,011,426
Centers for Medicare and Medicaid (Pass Through from Health Resources in Action)	93.610	1C1CMS331039-03-00	133,082
CFDA subtotal			<u>1,144,508</u>
National Heart, Blood, and Lung Institute	93.837		1,838,031
National Heart, Blood, and Lung Institute (Pass Through from Brigham and Women's Hospital)	93.837	109786	170,387
National Heart, Blood, and Lung Institute (Pass Through from Children's Hospital)	93.837	RSTFD0000543748, RSTFD0000598832	147,743
National Heart, Blood, and Lung Institute (Pass Through from Massachusetts General Hospital)	93.837	218586	55,429
National Heart, Blood, and Lung Institute (Pass Through from Massachusetts General Hospital)	93.837	U01HL023336	784
National Heart, Blood, and Lung Institute (Pass Through from New England Medical Research Inst, Inc)	93.837	U01HL107407	3,267
National Heart, Blood, and Lung Institute (Pass Through from New York University)	93.837	001215	34
National Heart, Blood, and Lung Institute (Pass Through from New York University)	93.837	1U01HL105907-01	5,789
National Heart, Blood, and Lung Institute (Pass Through from Yale University)	93.837	5R01HL115295-04	(1,024)
CFDA subtotal			<u>2,220,440</u>
National Heart, Blood, and Lung Institute	93.839		548,073
National Heart, Blood, and Lung Institute (Pass Through from Trustees of Boston University)	93.839	9500300183, 4500001288, 4500001584	630,920
CFDA subtotal			<u>1,178,993</u>

The accompanying notes are an integral part of the schedule.

# BMC Health System, Inc.

## Schedule of Expenditures of Federal Awards

### September 30, 2015

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass Through Number	Total Federal Expenditures
National Institute of Arthritis and Musculoskeletal and Skin Diseases	93.846		\$ 112,500
National Institute of Arthritis and Musculoskeletal and Skin Diseases (Pass Through from Brigham and Women's Hospital)	93.846	108331	49,491
National Institute of Arthritis and Musculoskeletal and Skin Diseases (Pass Through from Johns Hopkins University)	93.846	1R01AR064066-01	77
National Institute of Arthritis and Musculoskeletal and Skin Diseases (Pass Through from University of Massachusetts Worcester)	93.846	WA00303719/RFS2015153	3,386
National Institute of Arthritis and Musculoskeletal and Skin Diseases (Pass Through from University of Arizona)	93.846	244231	45,663
National Institute of Arthritis and Musculoskeletal and Skin Diseases (Pass Through from University of North Carolina)	93.846	5-33634	<u>8,477</u>
CFDA subtotal			<u>219,594</u>
National Institute of Diabetes, Digestive, and Kidney Diseases	93.847		6,530,289
National Institute of Diabetes, Digestive, and Kidney Diseases (Pass Through from Massachusetts General Hospital)	93.847	222010	12,496
National Institute of Diabetes, Digestive, and Kidney Diseases (Pass Through from The Scripps Research Institute)	93.847	PO # 5-52019, PO # 5-52327	96,009
National Institute of Diabetes, Digestive, and Kidney Diseases (Pass Through from Trustees of Boston University)	93.847	450001297	4,853
National Institute of Diabetes, Digestive, and Kidney Diseases (Pass Through from Trustees of Boston University)	93.847	45400001778	29,192
National Institute of Diabetes, Digestive, and Kidney Diseases (Pass Through from University of California, Los Angeles)	93.847	1555 G SA664	16,015
National Institute of Diabetes, Digestive, and Kidney Diseases (Pass Through from University of Pennsylvania)	93.847	559138	(316)
National Institute of Diabetes, Digestive, and Kidney Diseases (Pass Through from Trustees of Boston University)	93.847	4500001795	<u>33,000</u>
CFDA subtotal			<u>6,721,538</u>
National Institute of Neurological Disorders and Stroke	93.853		2,692,222
National Institute of Neurological Disorders and Stroke (Pass Through from EMMES Corporation)	93.853	U01 NS062835	2,621
National Institute of Neurological Disorders and Stroke (Pass Through from Massachusetts General Hospital)	93.853	221100	(1)
National Institute of Neurological Disorders and Stroke (Pass Through from Massachusetts General Hospital)	93.853	221902	(4,242)
National Institute of Neurological Disorders and Stroke (Pass Through from Massachusetts General Hospital)	93.853	223334	8,407
National Institute of Neurological Disorders and Stroke (Pass Through from Northwestern University)	93.853	60036745 BUMC	1,520
National Institute of Neurological Disorders and Stroke (Pass Through from University of Rochester)	93.853	5-25498	(5,188)
National Institute of Neurological Disorders and Stroke (Pass Through from University of Washington)	93.853	752240, UWSC7761	<u>40,834</u>
CFDA subtotal			<u>2,736,173</u>
National Institute on Allergy and Infectious Diseases	93.855		6,446,570
National Institute on Allergy and Infectious Diseases (Pass Through from Harvard Pilgrim Health Care (HPHC))	93.855	PH000391A	125,883
National Institute on Allergy and Infectious Diseases (Pass Through from Institute for Clinical Research, Inc.)	93.855	M56-BU-071-1101-3	12,867
National Institute on Allergy and Infectious Diseases (Pass Through from Johns Hopkins University)	93.855	2001356080	18,595
National Institute on Allergy and Infectious Diseases (Pass Through from Johns Hopkins University)	93.855	5 UM1 AI068632-09	181,963
National Institute on Allergy and Infectious Diseases (Pass Through from Johns Hopkins University)	93.855	HHSN272200900050C	528,115
National Institute on Allergy and Infectious Diseases (Pass Through from Massachusetts General Hospital)	93.855	3U01 AI069472-07S1	4,830
National Institute on Allergy and Infectious Diseases (Pass Through from Merck & Co.)	93.855	PO 2002249257	49,073
National Institute on Allergy and Infectious Diseases (Pass Through from North Carolina State University)	93.855	2006-1094-2	302
National Institute on Allergy and Infectious Diseases (Pass Through from Trustees of Boston University)	93.855	4500001388, 4500001714	290,594
National Institute on Allergy and Infectious Diseases (Pass Through from Trustees of Boston University)	93.855	9500301733	149,945
National Institute on Allergy and Infectious Diseases (Pass Through from Trustees of Boston University)	93.855	9500301733, 4500001048, 4500001712	158,149
National Institute on Allergy and Infectious Diseases (Pass Through from Trustees of Boston University)	93.855	9500303677	181,984
National Institute on Allergy and Infectious Diseases (Pass Through from University of Massachusetts Worcester)	93.855	WA00131221/RFS2014039	1,190

The accompanying notes are an integral part of the schedule.

# BMC Health System, Inc.

## Schedule of Expenditures of Federal Awards

### September 30, 2015

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass Through Number	Total Federal Expenditures
National Institute on Allergy and Infectious Diseases (Pass Through from University of Massachusetts Worcester)	93.855	WAD0130931/RFS2014036	\$ (47,838)
National Institute on Allergy and Infectious Diseases (Pass Through from University of California, San Francisco)	93.855	7388sc	19,956
CFDA subtotal			<u>8,122,178</u>
National Institute of Child Health and Human Development	93.865		804,310
National Institute of Child Health and Human Development (Pass Through from New England Research Institute (NERI))	93.865	R44-HD063173	64,180
CFDA subtotal			<u>868,490</u>
National Institute on Aging	93.866		1,507,022
National Institute on Aging (Pass Through from Brigham and Women's Hospital)	93.866	109595	39,393
National Institute on Aging (Pass Through from California Pacific Medical Center Research Institute)	93.866	2803227-S143	347,149
National Institute on Aging (Pass Through from University of North Carolina)	93.866	5050163	43,045
National Institute on Aging (Pass Through from Vanderbilt University Medical Center)	93.866	VUMC 52540	38,282
National Institute on Aging (Pass Through from Vanderbilt University Medical Center)	93.866	VUMC43215	40,710
National Institute on Aging (Pass Through from University of Massachusetts Worcester)	93.866	WA00234377/RFS2015081	14,074
CFDA subtotal			<u>2,029,675</u>
National Eye Institute	93.867		146,805
National Eye Institute (Pass Through from Case Western Reserve University)	93.867	RES509733	19,905
National Eye Institute (Pass Through from Jaeb Center for Health Research)	93.867	U10EY11751	5,555
CFDA subtotal			<u>172,265</u>
Department of Health and Human Services (Pass Through from Commonwealth of Mass - Department of Public Health)	93.889	INTF6207PP1204215592	975
Office of the Assistant Secretary for Preparedness and Response (Pass Through from Commonwealth of Mass - Department of Public Health)	93.889	INTF6207J50303516454	1,904
Office of the Assistant Secretary for Preparedness and Response (Pass Through from Commonwealth of Mass - Department of Public Health)	93.889	INTF6207J50303516535	(9,430)
CFDA subtotal			<u>(6,551)</u>
Health Resources Services Administration (Pass Through from Boston Public Health Commission)	93.914	6-H89-HA-00011-16	53,841
Health Resources Services Administration (Pass Through from Boston Public Health Commission)	93.914	PO21201941	48,715
CFDA subtotal			<u>102,556</u>
Centers for Disease Control and Prevention	93		552,311
Centers for Disease Control and Prevention (Pass Through from Johns Hopkins University)	93	PO# 2001374022	103
Centers for Disease Control and Prevention (Pass Through from Lesotho Ministry of Health)	93	PEPFAR	(21,720)
Centers for Disease Control and Prevention (Pass Through from WESTAT)	93	8625.09-S01	69,629
Department of Health and Human Services (Pass Through from Booz Allen Hamilton, Inc.)	93	NA	10,854
Health Resources Services Administration (Pass Through from National Initiative for Children's Health)	93	9254	658
Health Resources Services Administration (Pass Through from National Initiative for Children's Health)	93	9295	57,488
National Cancer Institute (Pass Through from Leidos Biomedical Research Inc.) - ARRA	93	11XS1007T1	200,578
National Cancer Institute (Pass Through from Northwestern University)	93	60023477 BMC	(46,402)
National Cancer Institute (Pass Through from Oregon Health and Science University)	93	SWOG/NCI	446
National Heart, Blood, and Lung Institute (Pass Through from Trustees of Boston University)	93	9500240818, 9500301533, 4500001381	312,408
National Heart, Blood, and Lung Institute (Pass Through from Trustees of Boston University)	93	RA 208201 NGO, 9500301533, 4500001380	458,297
National Institute of Child Health and Human Development (Pass Through from Fast Track Drugs and Biologics)	93	HHSN2752014000011	18,702
National Institute of Child Health and Human Development (Pass Through from WESTAT)	93	6101-S069	204,321
National Institute of Diabetes, Digestive, and Kidney Diseases (Pass Through from Children's Hospital)	93	PO#0000533418+0000592757	616,684
National Institute of Drug Abuse	93		42,995
National Institute on Alcohol Abuse and Alcoholism (Pass Through from Fast Track Drugs and Biologics)	93	HHSN27500003-1061-NCIG6-BMC	167,258
National Institutes of Health (Pass Through from Dimagi, Inc.)	93	HHSN268201400046C	330,177
Office of the Assistant Secretary for Preparedness and Response (Pass Through from Commonwealth of Massachusetts- DPH)	93	HHSN268201400046C	321,182
Substance Abuse and Mental Health Services Administration (Pass Through from American Psychiatric Association)	93	INTF6207PP1204215664	37,452
CFDA subtotal			<u>9,279</u>
			<u>3,342,700</u>

The accompanying notes are an integral part of the schedule.

# BMC Health System, Inc.

## Schedule of Expenditures of Federal Awards

### September 30, 2015

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass Through Number	Total Federal Expenditures
Administration on Aging	93.048		(21,823)
Centers for Disease Control and Prevention (Pass Through from National Environmental Education Foundation)	93.070	1UE1 EH000761-01	2,500
Centers for Disease Control and Prevention (Pass Through from Harvard School of Public Health)	93.084	116532-5085651	87,261
Health Resources Services Administration	93.117		413,500
Health Resources Services Administration (Pass Through from George Washington University)	93.129	14-M27	28,846
Health Resources Services Administration	93.153		318,146
Health Resources Services Administration	93.156		942,242
National Institute of Deafness and Other Communication Disorders	93.173		48,602
Centers for Disease Control and Prevention	93.185		(1,225)
Health Resources Services Administration	93.186		447,896
Office of Public Health and Science (Pass Through from ABCD)	93.217	FHPHA016027-01-00	26,411
Agency for Healthcare Research & Quality	93.225		352,166
Centers for Disease Control and Prevention (Pass Through from Commonwealth of Mass - Department of Public Health)	93.283	INTF3406MM3900817012	229,378
National Institute of Biomedical Imaging and Bioengineering (Pass Through from Trustees of Boston University)	93.286	4500001602	85,939
Department of Health and Human Services	93.297		584,417
National Institute of Nursing Research (Pass Through from Tufts University)	93.361	HS3522	21,491
Health Resources Services Administration - ARRA	93.403		895,441
Health Resources Services Administration	93.510		865,395
Administration for Children & Families	93.551		460,331
Administration for Children & Families (Pass Through from Commonwealth of Massachusetts - Department of Public Health)	93.566	5189999DMM3-13	115,771
Administration for Children & Families	93.604		360,982
Administration for Children & Families (Pass Through from L.U.K. Crisis Center, Inc.)	93.652	09CO1057/01	69,191
National Institute on Aging (Pass Through from Tufts University) - ARRA	93.701	SU00143	1,924
Department of Health and Human Services (Pass Through from Massachusetts Technology Collaborative) - ARRA	93.718	90RC0016/01	14,541
Centers for Disease Control and Prevention (Pass Through from American Academy of Pediatrics)	93.733	772100-BMC	58,602
National Heart, Blood, and Lung Institute	93.838		406,342
National Institute of General Medical Sciences	93.859		319,797
Health Resources Services Administration (Pass Through from Commonwealth of Mass - Department of Public Health)	93.917	INTF4943MM3200120006-2014-CT, INTF4943MM3200120006-2015-CT, INTF4943MM3200120006-2016-CT	1,319,426
Health Resources Services Administration (Pass Through from Boston Public Health Commission)	93.926	FY14 012947	79,606
Centers for Disease Control and Prevention	93.939		305,901
Department of Health and Human Services (Pass Through from Commonwealth of Mass - Department of Public Health)	93.940	MEDICALSERVICESM2M00	(1,887)
Department of Health and Human Services (Pass Through from Commonwealth of Massachusetts - Department of Public Health)	93.943	INTF4942MM3100119035-2013-CT, INTF4942MM3100119035-2015-CT, INTF4942MM3100119035-2016-CT	1,004,048
National Institutes of Health - Fogarty International Center	93.989		336,865
Department of Health and Human Services (Pass Through from Commonwealth of Massachusetts - Department of Public Health)	93.994	INTF3105M03901424004-2013	115,081
Department of Health and Human Services			<u>56,593,177</u>
<b>Department of Agriculture</b>			
US Department of Agriculture	10.310		2,414
US Department of Agriculture (Pass Through from University of Kentucky)	10	3048109631-13-213	130,341
Department of Agriculture			<u>132,755</u>
<b>Department of Defense</b>			
Department of Defense (Pass Through from Johns Hopkins University)	12.420	8487	416
Department of Defense (Pass Through from Johns Hopkins University)	12.420	W81XWH0920108 PO#2000851840	392
Department of Defense (Pass Through from Johns Hopkins University)	12.420	W81XWH1020090	4,479
Department of Defense			<u>5,287</u>
<b>Department of Housing and Urban Development</b>			
Department of Housing and Urban Development (Pass Through from Commonwealth of Massachusetts - Department of Neighborhood Development)	14.231	36190-13, 38431-14	24,486
Department of Housing and Urban Development (Pass Through from Justice Resource Institute)	14.241	MA-H11-0007	3,581
Department of Housing and Urban Development	14.506		68,361
Department of Housing and Urban Development	14.914		86,075
Department of Housing and Urban Development			<u>182,503</u>

The accompanying notes are an integral part of the schedule.

# BMC Health System, Inc.

## Schedule of Expenditures of Federal Awards

### September 30, 2015

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass Through Number	Total Federal Expenditures
<b>Department of Justice</b>			
National Institute of Justice	16.560		\$ 235,099
National Institute of Justice (Pass Through from Trustees of Boston University)	16.560	4500001518	44,969
National Institute of Justice (Pass Through from Trustees of Boston University)	16.560	4500001765	19,773
CFDA subtotal			<u>299,841</u>
Department of Justice (Pass Through from Commonwealth of Massachusetts - Massachusetts Office for Victim Assistance)	16.575	2014MBECBMC1000000000	47,145
Department of Justice (Pass Through from Commonwealth of Massachusetts - Massachusetts Office for Victim Assistance)	16.575	2015AEAPBMCIRC000000	946,396
Department of Justice (Pass Through from Commonwealth of Massachusetts - Massachusetts Office for Victim Assistance)	16.575	VOCA2013BMCI00000000, VOCA2015BMCI00000000	163,767
Department of Justice (Pass Through from Commonwealth of Massachusetts - Massachusetts Office for Victim Assistance)	16.575	VOCA2015BMCI00000000, VOCA2016BMCI00000000	133,493
Department of Justice (Pass Through from Commonwealth of Massachusetts - Massachusetts Office for Victim Assistance)	16.575	VOCA2015BMCIDVP000000, VOCA2016BMCIDVP000000	74,583
CFDA subtotal			<u>1,365,384</u>
Department of Justice (Pass Through from Boston Police Department)	16	38743-14	120,369
Department of Justice (Pass Through from Boston Public Health Commission)	16	FY14013511A	32,506
CFDA subtotal			<u>152,875</u>
Department of Justice (Pass Through from Executive Office of Public Safety and Security)	16.588	SCEPS3001VAWA13BMCDM, SCEPS3001VAWA14BMCDM, SCEPS3001VAWA15BMCDM	64,054
Department of Justice			<u>1,882,154</u>
<b>National Science Foundation</b>			
National Science Foundation (Pass Through from Northeastern University)	47.041	501964	19,403
National Science Foundation (Pass Through from Northwestern University)	47.041	60034711 BMC	35,105
National Science Foundation (Pass Through from Northwestern University)	47.041	SP0006581-PROJ0006964	1,317
CFDA subtotal			<u>55,825</u>
National Institute on Allergy and Infectious Diseases (Pass Through from US Civilian Research and Development Foundation)	47.079	OISE-14-60704-1	52,011
National Science Foundation (Pass Through from US Civilian Research and Development Foundation)	47.079	USB1-31150-XX-13	271,420
CFDA subtotal			<u>323,431</u>
National Science Foundation			<u>379,256</u>
<b>US Department of Veterans Affairs</b>			
US Department of Veterans Affairs	64		(2)
US Department of Veterans Affairs			<u>(2)</u>
<b>US Department of Education</b>			
US Department of Education (Pass Through from Trustees of Boston University)	84.133B	4500001253	11,210
US Department of Education			11,210
Total Research and Development Cluster			<u>59,186,340</u>
<b>Aging Cluster</b>			
Administration on Aging (Pass Through from City of Boston)	93.044	PO BOSTN-0000649028; award # 6B-15	14,316
Total Aging Cluster			<u>14,316</u>
<b>CCDF Cluster</b>			
Administration for Children & Families (Pass Through from Commonwealth of Massachusetts - Department of Early Education and Care)	93.596	62408018240	38
			<u>38</u>
<b>Food Distribution Cluster</b>			
<b>Department of Agriculture</b>			
(Pass Through from Greater Boston Food Bank)	10.569		64,633
Department of Agriculture			64,633
Total Food Distribution Cluster			<u>64,633</u>
Total Federal Expenditures			<u>\$ 59,265,327</u>

The accompanying notes are an integral part of the schedule.

**BMC Health System, Inc.**  
**Notes to Schedule of Expenditures of Federal Awards**  
**September 30, 2015**

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**1. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant awards received directly from the federal government and 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. (the "System") for the year ended September 30, 2015 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 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*. Negative amounts on the Schedule of Expenditures of Federal Awards 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. Subrecipients**

Certain federal funds are passed through to subrecipient organizations in the research and development cluster by the System. Expenditures incurred by these subrecipients and reimbursed by the System totaled \$12,185,756 for the year ended September 30, 2015 and are presented in the Schedule of Expenditures of Federal Awards.

<b>Program Name</b>	<b>CDFA #</b>	<b>Amount</b>
Department of Agriculture	10	\$ 46,191
Asthma Interventions in Public and Assisted Multifamily Housing	14.914	58,122
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	161,413
Crime Victim Assistance	16.575	131,695
Office of International and Integrative Activities	47.079	75,509
Maternal and Child Health Federal Consolidated Programs	93.110	59,676
Oral Diseases and Disorders Research	93.121	326,693
Geriatric Training for Physicians, Dentists and Behavioral/Mental Health Professionals	93.156	438,195
Research and Training in Complementary and Alternative Medicine	93.213	167,374
Research on Healthcare Costs, Quality and Outcomes	93.226	79,887
Mental Health Research Grants	93.242	25,890
Alcohol Research Programs	93.273	312,968
Drug Abuse and Addiction Research Programs	93.279	939,745
Teenage Pregnancy Prevention Program	93.297	280,563
Minority Health and Health Disparities Research	93.307	95,825
Cancer Cause and Prevention Research	93.393	9,378
Cancer Detection and Diagnosis Research	93.394	933,811
Cancer Treatment Research	93.395	173,610
Cancer Control	93.399	10,422
Abandoned Infants	93.551	12,500
Health Care Innovation Awards	93.610	451,470
Cardiovascular Diseases Research	93.837	461,638
Lung Diseases Research	93.838	28,386
Blood Diseases and Resources Research	93.839	286,661
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	1,222,691
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	1,729,719
Allergy, Immunology and Transplantation Research	93.855	2,674,082
Child Health and Human Development Extramural Research	93.865	64,603
Aging Research	93.866	761,067
International Research and Research Training	93.989	23,929
Department of Health and Human Services	93	142,043
Total Subrecipients		<u>\$ 12,185,756</u>

**BMC Health System, Inc.**  
**Notes to Schedule of Expenditures of Federal Awards**  
**September 30, 2015**

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**3. Noncash Assistance**

In 2015 \$64,633 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 non-cash assistance amount represents the fair value of the product at the time of receipt.

## **Part II - Reports on Internal Controls and Compliance**



**Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements Performed in Accordance with  
*Government Auditing Standards***

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 6<sup>th</sup> and 7<sup>th</sup> paragraphs below, the consolidated financial statements of BMC Health System, Inc. (the "System"), which comprise the consolidated statement of financial position as of September 30, 2015, and the related consolidated statement of operations, change in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated February 3, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered the System's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 BMC Health System, Inc.'s consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The PricewaterhouseCoopers firm in the Cayman Islands performed audit procedures for the Boston Medical Center Insurance Company ("BMCIC"). 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 3.96 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.

### **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  
February 3, 2016



**Independent Auditor's Report 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 OMB Circular A-133**

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 "System") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of System's major federal programs for the year ended September 30, 2015. The 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 requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 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 System's compliance.

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

In our opinion, the System's 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, 2015.



## Report on Internal Control Over Compliance

Management of the 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 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 OMB Circular A-133, 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 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*PricewaterhouseCoopers LLP*

Boston, Massachusetts  
February 3, 2016

## **Part III - Findings**



**BMC Health System, Inc.**  
**Summary of Status of Prior Year Findings**  
**September 30, 2015**

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There are no findings from prior years that require an update in this report.