



## **BMC HEALTH SYSTEM, INC.**

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

Year Ended September 30, 2019

(With Independent Auditors' Reports Thereon)

**BMC HEALTH SYSTEM, INC.**

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

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

**Exhibit I**

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

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

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

We have audited BMC Health System, Inc. and its subsidiaries (the Health System) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on the Health System's major federal program for the year ended September 30, 2019. The Health System's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

*Management's Responsibility*

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

*Auditors' Responsibility*

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

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

*Opinion on the Major Federal Program*

In our opinion, the Health System complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2019.

**Report on Internal Control over Compliance**

Management of the Health System is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Health System's internal control over compliance with the types of

requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Health System's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2019-002 and 2019-003, that we consider to be significant deficiencies.

The Health System's response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of current year findings and questioned costs. The Health System is also responsible for preparing a corrective action plan to address each audit finding included in our auditors' report. The Health System's response and corrective action plan were not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response or the corrective action plan.

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

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

We have audited the consolidated financial statements of the Health System as of and for the year ended September 30, 2019, and have issued our report thereon dated February 12, 2020, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the



**Exhibit I**

United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*KPMG LLP*

May 18, 2020



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

**Exhibit II**

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

The Board of Trustees  
BMC Health System, Inc.:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of BMC Health System, Inc. (the Health System), which comprise the consolidated statement of financial position as of September 30, 2019, and the related consolidated statements of operations and changes in net assets without donor restrictions, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated February 12, 2020.

*Internal Control Over Financial Reporting*

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses we did identify a deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2019-001 to be a material weakness.

*Compliance and Other Matters*

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



## Exhibit II

### *Health System's Response to Finding*

The Health System's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Health System's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the response.

### *Purpose of this Report*

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

*KPMG LLP*

Boston, Massachusetts  
February 12, 2020

**Exhibit III****BMC HEALTH SYSTEM, INC.**

Schedule of Findings and Questioned Costs  
Year ended September 30, 2019

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

Type of auditors' report issued on whether consolidated financial statements were prepared in accordance with U.S. GAAP:  
Internal control over financial reporting:

Unmodified

- Material weakness(es) identified?  Yes  No
  - Significant deficiency(ies) identified that are not considered to be material weakness(es)?  Yes  X None reported
- Noncompliance material to the financial statements noted?  Yes  X No

*Federal Awards*

Internal control over major programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of The Uniform Guidance?  Yes  No

Identification of major programs:

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

Dollar threshold used to distinguish between Type A and Type B programs: \$1,883,914

Auditee qualified as low-risk auditee:  Yes  No

**BMC HEALTH SYSTEM, INC.**

Schedule of Findings and Questioned Costs

Year ended September 30, 2019

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

**Finding 2019-001**

*Requirement*

*Financial Accounting Standards Board Accounting Standards Codification No. 840* addresses the accounting for leases, and includes guidance for a lessor's classification of a lease involving both land and buildings. It provides that, if a transaction would otherwise qualify as a sales-type lease but does not transfer title from the lessor to the lessee by the end of the lease term, the lessor would classify and account for the lease as an operating lease.

*Finding*

Boston Medical Center (BMC), a subsidiary of BMC Health System, Inc. initially classified a ground lease transaction as a sale of the property instead of deferring the consideration provided by the lessee and recognizing the proceeds as rental income over the term of the related ground lease.

*Cause*

A comprehensive summary of key terms of the transaction was not documented and thus not used to evaluate the accounting treatment upon supervisory review.

*Effect*

The effect of not documenting a summary of the key terms of the transaction resulted in a misunderstanding of the transaction's underlying terms, which in turn resulted in the recognition of a gain on the sale of the building rather than a deferral of the consideration provided by the lessee and subsequent recognition as rental income over the term of the related ground lease.

*Recommendation*

We recommend that BMC develop and implement a formal policy, which requires all significant and/or unusual transactions over a specified threshold to be summarized by the departments involved in the negotiation of the transaction (e.g. finance, legal, property management, etc.) so that critical terms and supporting documents are identified and can be evaluated for proper accounting treatment by the appropriate finance department resources.

*Questioned Costs*

None.

*View of Responsible Officials and Corrective Actions*

Management agrees with KPMG's assessment and recommendation. Management is currently developing a process and policy with all stakeholders involved that will ensure appropriate controls around the accounting of significant real estate transactions going forward. Management has agreed to share this

**Exhibit III**

**BMC HEALTH SYSTEM, INC.**

Schedule of Findings and Questioned Costs

Year ended September 30, 2019

remediation plan and final policy at its next Audit and Compliance Committee meeting to ensure the process is complete.

*Responsible Official(s)*

Senior Vice President and Chief Financial Officer

Vice President of Finance

*Implementation Date*

January 31, 2020

**BMC HEALTH SYSTEM, INC.**

Schedule of Findings and Questioned Costs

Year ended September 30, 2019

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

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

**R&D Cluster**

**Federal Award Numbers:** Various

**Award Year:** 2019

**Finding Reference:** 2019-002

**Activities Allowed or Unallowed and Allowable Costs/Cost Principles and Special Tests – Key Personnel**

**Type of Finding:** Significant Deficiency

**Prior Year Finding:** No

**Statistically Valid Sample:** No

*Requirement*

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

The Consolidated Appropriations Act, 2017, restricts the amount of direct salary for individuals working on NIH grants, cooperative agreement awards, and extramural research and development contracts. The salary limitation rate, determined twice a year, applies to any individual whose salary is charged directly to awards from these agencies. The rates in effect during fiscal year 2019 were \$189,600 for the period October 1, 2018 through January 5, 2019 and \$192,300 for the period January 6, 2019 through September 30, 2019. The limitation is not on the number of dollars that can be charged to an NIH grant. Rather, it is on the monthly pay rate that can be charged to an NIH grant.

The non-Federal entity may change the staffing mix and level of involvement within limits specified by agency policy or in the award, but may be required to obtain Federal awarding agency approval of changes in key personnel (as identified in the award, which may differ from the non-Federal entity's designation in the application/proposal) and changes in the principal investigator's/project director's time commitment/level of participation in the project. For grants and cooperative agreements, this may include not only a change in the principal investigator or project director but also the disengagement from the project for more than 3 months, or a 25 percent reduction in time devoted to the project, by the approved project director or principal investigator (OMB Circular A-110 §§\_25(c)(2) and (3)/2 CFR sections 200.308(c)(1) (ii) and (iii)). For cost-reimbursement contracts under the FAR, specific key personnel requirements are included in the contract (or task order).

In accordance with 2 CFR section 200.303(a), non-Federal entities must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in "Standards for

**BMC HEALTH SYSTEM, INC.**

Schedule of Findings and Questioned Costs

Year ended September 30, 2019

Internal Control in the Federal Government" issued by the Comptroller General of the United States or the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

*Finding*

BMC is responsible for maintaining accurate records of personnel time and effort to substantiate salary and wage costs associated with its federal and other sponsored projects, including BMC affiliates that participate in such federally sponsored programs. Due to the integrated nature of certain aspects of its operations, BMC has implemented various control activities to ensure it remains in compliance with the above requirements, which include:

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

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

In connection with our payroll allowability procedures, we tested 50 transactions and identified 3 instances in which BMC affiliated personnel did not initially fill out their effort certifications accurately and which required a recertification to support the effort and cost share charged. In each of these instances, the recertification occurred several months after the initial certification was prepared.

In connection with our key personnel work, we tested 40 such employee certifications and noted 3 instances in which BMC affiliated personnel did not initially fill out their effort certifications accurately and which required a recertification to support the effort and cost share charged. In each of these instances, the recertification occurred several months after the initial certification was prepared.

*Cause*

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

*Effect*

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

*Recommendation*

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

**Exhibit III**

**BMC HEALTH SYSTEM, INC.**

Schedule of Findings and Questioned Costs

Year ended September 30, 2019

*Questioned Costs*

None.

*View of Responsible Officials and Corrective Actions*

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

*Responsible Official(s)*

Sr. Director of Research Operations  
Director of Grants and Contracts

*Implementation Date*

Fall 2020

**BMC HEALTH SYSTEM, INC.**

Schedule of Findings and Questioned Costs

Year ended September 30, 2019

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

**R&D Cluster**

**Federal Award Numbers:** Various

**Award Year:** 2019

**Finding Reference:** 2019-003

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

**Type of Finding:** Significant Deficiency

**Prior Year Finding:** Yes, 2018-01

**Statistically Valid Sample:** 2019

*Requirement*

Transfers of costs between cost centers or research projects are commonly used to properly state or correct the financial records (such as transfers of costs between projects when costs were initially charged to the wrong project and the non-Federal entity's control system found the error) and for other valid reasons.

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

*Finding*

BMC has developed various control activities to ensure compliance with the above requirements, which include: When requesting a cost transfer, the following documentation should be sent to the appropriate Research Financial Analyst (RFA):

- A description of how the error occurred;
- An Administration/Program written transfer request with the appropriate documentation and signature of Administrator (see Expense & Payroll Transfer Request Form);
- Documentation supporting the fact that the new activity can and should accept the charge.

During our testwork, we noted this control was not yet implemented for payroll cost transfers. During our compliance testing, we observed adequate documentation to demonstrate the reasonableness of transfers that were selected for testing and thus we identified no questioned costs.

*Cause*

The controls listed above have not been implemented in fiscal 2019 for payroll cost transfers.

**Exhibit III**

**BMC HEALTH SYSTEM, INC.**

Schedule of Findings and Questioned Costs

Year ended September 30, 2019

*Effect*

Payroll transfers may be unallowable charges to the federal grant.

*Recommendation*

We recommend BMC follow its policies and procedures to ensure any required adjustments to payroll distribution are adequately documented and done timely and approved by Research Finance.

*Questioned Costs*

None.

*View of Responsible Officials and Corrective Actions*

Research Operations completed an engagement with our internal audit team (EY) to have them explore the overall exposure of late payroll cost transfers and areas of improvement in our policies in December 2019.

Ongoing discussions with the Human Resources Information Systems team, in conjunction with the above report made them aware of the need to reconfigure the cost allocation approval process in the Workday payroll system in a way that will include research finance in the approval process for all research HR allocation approvals. As of November 2019, the research finance team Director is inserted into the approval role, allowing BMC to enforce the timeliness and documentation required of allocation and transfers, noted in policies already in place.

Additional trainings to all research finance staff began February 2020.

*Responsible Official(s)*

Sr. Director Research Operations  
Manager Research Operations  
Director of Accounting  
Manager HRIS

*Implementation Date*

November 2019

**BMC HEALTH SYSTEM, INC.**

Consolidated Financial Statements

September 30, 2019

(With Independent Auditors' Report Thereon)



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

**Exhibit IV**

### **Independent Auditors' Report**

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

We have audited the accompanying consolidated financial statements of BMC Health System, Inc. and its subsidiaries (the Health System), which comprise the consolidated balance sheets as of September 30, 2019 and 2018, and the related consolidated statements of operations and changes in net assets without donor restrictions, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

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

#### *Auditors' Responsibility*

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

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

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

#### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of BMC Health System, Inc. and its subsidiaries as of September 30, 2019 and 2018, and the results of their operations, their changes in net assets, and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



## Exhibit IV

### *Emphasis of matters*

As discussed in note 2(z) to the consolidated financial statements, in 2019, the Health System adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* and ASU 2018-08, *Clarifying the Scope and Accounting for Contributions Received and Contributions Made*. Our opinion is not modified with respect to these matters.

### *Other Matter – Supplemental Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying 2019 supplementary information on pages 52, 54, 56, 58 and 60, is presented for purposes of additional analysis and is not a required part of the 2019 consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

### *Other Reporting Requires by Government Auditing Standards*

In accordance with the Government Auditing Standards, we have also issued our report dated February 12, 2020 on our considerations of the Health System's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Health System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Health System's internal control over financial reporting and compliance.

*KPMG LLP*

Boston, Massachusetts  
February 12, 2020

**BMC HEALTH SYSTEM, INC.**

Consolidated Balance Sheets

September 30, 2019 and 2018

(In thousands)

	<b>Assets</b>	<b>2019</b>	<b>2018</b>
<b>Current assets:</b>			
Cash and cash equivalents	\$ 321,782	559,643	
Short-term investments	2,671	—	
Patient accounts receivable, less allowance of \$0 and \$52,624 in 2019 and 2018, respectively	111,500	85,764	
Other accounts receivable, less allowance of \$1,568 and \$3,350 in 2019 and 2018, respectively	284,675	195,441	
Current portion of grants receivable	17,585	15,962	
Current portion of estimated receivable for final settlements with third-party payors	3,941	3,941	
Inventories	12,714	13,568	
Prepaid expenses and other current assets	19,165	40,965	
Current portion of funds held by trustees	—	23,161	
<b>Total current assets</b>	<b>774,033</b>	<b>938,445</b>	
<b>Assets limited as to use:</b>			
Board-designated investments	394,247	376,419	
Funds held by trustees	40,593	38,765	
Donor-restricted investments	330,615	332,656	
Reserve funds	100,186	107,863	
<b>Total assets limited as to use</b>	<b>865,641</b>	<b>855,703</b>	
<b>Other assets:</b>			
Long-term investments	259,851	255,870	
Property, plant and equipment, net	1,115,384	1,028,583	
Other noncurrent assets	44,729	41,011	
<b>Total assets</b>	<b>\$ 3,059,638</b>	<b>3,119,612</b>	
<b>Liabilities and Net Assets</b>			
<b>Current liabilities:</b>			
Accounts payable and accrued expenses	\$ 283,257	368,872	
Claims payable	144,079	131,893	
Deferred revenue	23,713	28,297	
Current portion of long-term debt and capital leases	8,067	86,996	
Premium deficiency reserve	11,048	—	
Other current liabilities	12,098	9,546	
<b>Total current liabilities</b>	<b>482,262</b>	<b>625,604</b>	
<b>Long-term liabilities:</b>			
Estimated third party settlements	56,341	49,738	
Obligations under capital leases	43,253	45,035	
Long-term debt	622,157	631,847	
Other long-term liabilities	212,448	134,228	
<b>Total liabilities</b>	<b>1,416,461</b>	<b>1,486,452</b>	
<b>Commitments and contingencies</b>			
<b>Net assets:</b>			
Without donor restrictions	1,305,051	1,291,016	
With donor restrictions	338,126	342,144	
<b>Total net assets</b>	<b>1,643,177</b>	<b>1,633,160</b>	
<b>Total liabilities and net assets</b>	<b>\$ 3,059,638</b>	<b>3,119,612</b>	

See accompanying notes to consolidated financial statements.

**BMC HEALTH SYSTEM, INC.**

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

Years ended September 30, 2019 and 2018

(In thousands)

	<b>2019</b>	<b>2018</b>
<b>Operating revenue:</b>		
Net patient service revenue	\$ 1,088,916	1,123,787
Provision for bad debt	—	81,144
Net patient service revenue, net of provision for bad debt	<u>1,088,916</u>	<u>1,042,643</u>
Capitation revenue	2,629,817	2,059,944
Grants and contract revenue	118,643	108,635
Other revenue	263,011	201,271
Net assets released from restrictions for operations	<u>21,352</u>	<u>18,351</u>
Total operating revenue	<u>4,121,739</u>	<u>3,430,844</u>
<b>Operating expenses:</b>		
Salaries, wages and fringe benefits	1,057,807	1,008,427
Medical costs, supplies and other expenses	2,869,927	2,223,835
Depreciation and amortization	100,519	98,207
Interest expense	21,639	25,113
Research, sponsored programs and community health services	<u>85,737</u>	<u>74,709</u>
Total operating expenses	<u>4,135,629</u>	<u>3,430,291</u>
(Loss) income from operations	<u>(13,890)</u>	<u>553</u>
<b>Nonoperating gains (losses), net:</b>		
Investment income (including other-than-temporary impairment losses of \$403 and \$978 in 2019 and 2018, respectively)	56,010	34,969
Other	<u>(12)</u>	<u>(9,856)</u>
Total nonoperating gains, net	<u>55,998</u>	<u>25,113</u>
Excess of revenue over expenses	42,108	25,666
<b>Other changes in net assets without donor restrictions:</b>		
Change in unrealized (depreciation) on investments	(15,485)	(12,990)
Other changes	—	(12)
Net assets released from restrictions for property, plant and equipment	13,609	29,194
Pension related changes other than net periodic pension costs	<u>(26,197)</u>	<u>8,120</u>
Change in net assets without donor restrictions	14,035	49,978
<b>Net assets without donor restrictions:</b>		
Beginning of year	<u>1,291,016</u>	<u>1,241,038</u>
End of year	<u>\$ 1,305,051</u>	<u>1,291,016</u>

See accompanying notes to consolidated financial statements.

**BMC HEALTH SYSTEM, INC.**

## Consolidated Statements of Changes in Net Assets

Years ended September 30, 2019 and 2018

(In thousands)

	<b>Without donor restrictions</b>	<b>With donor restrictions</b>	<b>Total</b>
Net assets as of September 30, 2017	\$ 1,241,038	338,819	1,579,857
Increases (decreases) in net assets:			
Excess of revenues over expenses	25,666	—	25,666
Investment income	—	20,235	20,235
Change in net unrealized (depreciation) appreciation on investments	(12,990)	5,576	(7,414)
Other changes	(12)	—	(12)
Contribution revenue	—	25,059	25,059
Net assets released from restrictions for operations	—	(18,351)	(18,351)
Net assets released from restrictions for property, plant and equipment	29,194	(29,194)	—
Pension related changes other than net periodic pension costs	8,120	—	8,120
Total increase in net assets	<u>49,978</u>	<u>3,325</u>	<u>53,303</u>
Net assets as of September 30, 2018	<u>1,291,016</u>	<u>342,144</u>	<u>1,633,160</u>
Increases (decreases) in net assets:			
Excess of revenues over expenses	42,108	—	42,108
Investment income	—	54,429	54,429
Change in net unrealized (depreciation) on investments	(15,485)	(49,596)	(65,081)
Contribution revenue	—	26,110	26,110
Net assets released from restrictions for operations	—	(21,352)	(21,352)
Net assets released from restrictions for property, plant and equipment	13,609	(13,609)	—
Pension related changes other than net periodic pension costs	(26,197)	—	(26,197)
Total increase (decrease) in net assets	<u>14,035</u>	<u>(4,018)</u>	<u>10,017</u>
Net assets as of September 30, 2019	<u>\$ 1,305,051</u>	<u>338,126</u>	<u>1,643,177</u>

See accompanying notes to consolidated financial statements.

**BMC HEALTH SYSTEM, INC.**

## Consolidated Statements of Cash Flows

Years ended September 30, 2019 and 2018

(In thousands)

	<b>2019</b>	<b>2018</b>
<b>Operating activities:</b>		
Change in net assets	\$ 10,017	53,303
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	100,519	98,207
Restricted contributions	(11,848)	(16,251)
Donated securities received	(1,340)	(1,230)
Return on investment of joint venture	(63)	(1,318)
Bond premium/discount	—	708
Amortization of bond discount/premium and issuance costs	(1,699)	(1,700)
Discount and provision for bad debt on contributions receivable	2,303	6,776
Net realized gains and change in unrealized (appreciation) on investments	(20,785)	(17,992)
Decrease in asset retirement obligation	(6,647)	86
Provision for bad debts	—	81,144
Pension related changes other than net periodic pension costs	26,197	(8,120)
Changes in operating assets and liabilities:		
Grants receivable	(1,623)	709
Patient accounts receivable	(25,736)	(70,488)
Other current assets and liabilities	(70,685)	(15,323)
Other noncurrent assets and liabilities	49,610	7,787
Estimated final settlements with third-party payors	6,603	(1,888)
Claims payable	12,186	9,293
Increase in premium deficiency reserve	11,048	—
Accounts payable and accrued expenses	<u>(68,354)</u>	<u>93,821</u>
Net cash provided by operating activities	<u>9,703</u>	<u>217,524</u>
<b>Investing activities:</b>		
Proceeds from sale of investments	523,782	237,325
Proceeds from sale of funds held by Trustees	87,601	79,514
Purchases of investments	(534,940)	(145,439)
Purchases of funds held by Trustees	(43,912)	(84,323)
Refund of building deposit	—	(8,388)
Purchase of property, plant and equipment	(205,609)	(147,485)
Loss from disposal of assets	1,028	—
Net cash used in investing activities	<u>(172,050)</u>	<u>(68,796)</u>
<b>Financing activities:</b>		
Proceeds from borrowings	—	148,500
Debt issuance costs	—	(524)
Proceeds from restricted contributions	11,848	16,251
Proceeds from sale of donated securities	1,340	1,230
Repayment of long-term debt and capital leases	<u>(88,702)</u>	<u>(5,902)</u>
Net cash (used in) provided by financing activities	<u>(75,514)</u>	<u>159,555</u>
(Decrease) increase in cash and cash equivalents	<u>(237,861)</u>	<u>308,283</u>
<b>Cash and cash equivalents:</b>		
Beginning of year	559,643	251,360
End of year	<u>\$ 321,782</u>	<u>559,643</u>
<b>Supplemental disclosure of cash flow activities:</b>		
Cash paid for interest	\$ 28,499	28,021
Property, plant and equipment included in accounts payable	5,728	22,989
Conditional asset retirement obligations	(6,447)	86
Net fixed assets recognized related to conditional asset retirement obligations	(1,010)	(258)
Contributed securities	(1,340)	1,230
Gift in-kind	500	500

See accompanying notes to consolidated financial statements.

**BMC HEALTH SYSTEM, INC.**

## Notes to Consolidated Financial Statements

September 30, 2019 and 2018

**(1) Organization**

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

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

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

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

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

BMCHP is also an HMO insurer licensed by the New Hampshire Insurance Department and operates under the name Well Sense Health Plan (Well Sense) in New Hampshire. Well Sense is one of three managed care organizations (MCOs) serving the New Hampshire Medicaid program. BMCHP also offers Qualified Health Plans (QHP) primarily through the Massachusetts Health Connector, as well as a fully integrated geriatric model of care under the Massachusetts Senior Care Options (SCO) program. SCO is a Medicare Advantage Dual Eligible Special Needs Plan (D-SNP) that is jointly administered by MassHealth and CMS, and eligible individuals, age 65 and older, receive both Medicaid and Medicare benefits.

**BMC HEALTH SYSTEM, INC.**

## Notes to Consolidated Financial Statements

September 30, 2019 and 2018

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

In October 2017, EOHHS selected BMCHP as one of two MCOs to serve the Massachusetts MCO program.

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

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

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

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

BUAP is a tax exempt, nonprofit Massachusetts corporation that employs physicians in Boston, Massachusetts, to provide health care services, perform medical and clinical research, and provide health and medical education programs. BUAP also had a location in Norwood, Massachusetts, until it closed that location effective February 1, 2019. The Medical Center is BUAP's sole corporate member.

## BMC HEALTH SYSTEM, INC.

### Notes to Consolidated Financial Statements

September 30, 2019 and 2018

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

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

NAB was a Massachusetts business trust organized in May 2008. The Medical Center was a 90% shareholder of the trust, as well as trustee, and Genesys Research Institute, Inc., a tax-exempt, nonprofit corporation was a 10% shareholder. NAB was established to finance the Shapiro Ambulatory Care Center using the New Market Tax Credit (NMTC) Program, a program that provides incentives for private sector investors to provide capital to entities that create economic growth in distressed areas. In fiscal year 2015, all loans associated with the NMTC agreements were paid and the NMTC structure was terminated. In fiscal year 2019, the Medical Center purchased Genesys Research Institute's ownership interest. The leases between the Medical Center and NAB were canceled, and the trust was terminated. The Shapiro building was transferred to the Medical Center.

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

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

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

##### **(a) Basis of Accounting and Principles of Consolidation**

The consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) consistent with Accounting Standard Codification (ASC) No. 954, *Healthcare Entities*. The consolidated financial statements of the Health System Corporation include the accounts of the Medical Center, the Foundation, BMCHP, ECMF, UDF, NAB, BMCIC, BMCIC of Vermont, BUAP, BMCICS and BACO. All significant intercompany accounts and transactions have been eliminated in consolidation.

##### **(b) Cash and Cash Equivalents**

Cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less at date of purchase. The Health System maintains its cash and cash equivalents accounts at six and five institutions at September 30, 2019 and 2018, respectively. The Health System monitors the credit worthiness of the institutions and has not experienced any losses associated with deposits at these institutions.

##### **(c) Short-Term Investments**

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

**BMC HEALTH SYSTEM, INC.**

## Notes to Consolidated Financial Statements

September 30, 2019 and 2018

**(d) Investments**

Investments in equity securities with readily determinable fair values and all investments in debt securities (marketable investments) are measured at fair value in the consolidated balance sheets primarily based on quoted market prices. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the excess (deficiency) of revenues over expenses unless the income or loss is restricted by donor or law. The change in unrealized appreciation (depreciation) on available-for-sale investments is recorded as other changes in net assets without donor restrictions in the consolidated statements of operations and changes in net assets, unless their use is restricted by explicit donor-imposed stipulations or law, in which case they are reported in the appropriate restricted class of net assets.

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

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

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

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

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

The Health System periodically reviews the carrying value of its long-lived assets (primarily property, plant and equipment) to assess the recoverability of these assets; any impairments would be recognized in operating results if the reduction in value is considered to be other-than-temporary. There were no impairments recorded as of September 30, 2019 and 2018.

**(h) Inventories**

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

**(i) Deferred Revenue**

Deferred revenue consists primarily of amounts received in advance of the contract period. Certain advances are received from the Commonwealth related to grants. Advances received related to grants were \$23,713,000 and \$28,297,000 as of September 30, 2019 and 2018, respectively.

**BMC HEALTH SYSTEM, INC.**

## Notes to Consolidated Financial Statements

September 30, 2019 and 2018

In addition, in conjunction with the MassHealth ACO contract commencing in fiscal year 2018, the Health System was a participant in the Massachusetts Delivery System Reform Incentive Payment (DSRIP) program. The goal of the program funding is to incentivize ACOs to create infrastructure that would prepare them to manage both the costs of care and outcomes of their members in a way that results in integrated and coordinated care, while moderating the state's cost trends. The state provided start-up funding for program expenses based on an approved budget by the Health Plan on behalf of the ACO of which it is a member. The Health System recognizes the revenue under this program as expenses are incurred. As of September 2019 and 2018, the Health System recognized revenue of \$13,376,000 and \$18,074,000, respectively, which is included in grants and contract revenue in the accompanying consolidated statement of operations and changes in net assets without donor restrictions, and recorded deferred revenue of \$638,000 and \$3,424,000, respectively, related to the DSRIP program.

***(j) Health Care Cost Recognition***

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

The cost of contracted health care services is accrued in the period in which services are provided to a member based in part on estimates. The estimated liability for medical and hospital claims payable is actuarially determined based on an analysis of historical claims experience, modified for changes in enrollment, inflation and benefit coverage. The liability for claims payable represents the anticipated cost of claims incurred but unpaid at the balance sheet date. The estimates for claims payable may be more or less than the amounts ultimately paid when claims are settled. Such changes in estimates are reflected in the current period consolidated statement of operations and changes in net assets without donor restrictions. BMCHP also records an accrual for loss adjustment expenses, which relates to the estimated costs to process claims, which have been incurred but not reported.

BMCHP self-insures for a significant portion of its claims. However, from October 2016 through September 2018, BMCHP obtained reinsurance coverage for its MassHealth business through its affiliate BMCIC of Vermont. Premium payments to this affiliate amounted to \$0 and \$351,224 for the years ended September 30, 2019 and 2018, respectively. Effective September 14, 2018, BMCHP terminated its reinsurance coverage with BMCIC of Vermont. BMCHP no longer maintains reinsurance coverage for its MassHealth business.

***(k) Premium Deficiency***

BMCHP recognizes a premium deficiency based upon expected premium revenue, medical and administrative expense levels, and remaining contractual obligations under BMCHP's historical experience. As of September 30, 2019 and 2018, BMCHP had \$11,048,000 and \$0, respectively, for premium deficiency reserves on its consolidated balance sheets. During fiscal years ended September 30, 2019 and 2018, BMCHP recovered no premium deficiency reserve through its consolidated statements of operations and change in net assets.

## BMC HEALTH SYSTEM, INC.

### Notes to Consolidated Financial Statements

September 30, 2019 and 2018

#### **(l) Affordable Care Act Reserves**

In 2014, the ACA introduced the provisions of the risk adjustment program. This program assesses the actuarial risk of the insurance pool within each health plan as compared to the average of all health plans in the state. During calendar year 2017, the administration of the risk adjustment program transitioned to the Centers for Medicare and Medicaid Services (CMS), while in prior years, the program was administered by the Massachusetts Health Connector (Connector). Under the federal provisions of the ACA, BMCHP recorded a payable of \$20,035,000 and \$48,092,000 as of September 30, 2019 and 2018, respectively.

BMCHP recorded a receivable for Cost Sharing Reduction reconciliations. The estimated amount due from both CMS and the Massachusetts Health Connector for Cost Sharing Reduction reconciliations as of September 30, 2019 and 2018 is \$7,428,000 and \$4,126,000 respectively.

#### **(m) Net Assets**

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

- Without donor restriction – Net assets that are not subject to donor stipulations restricting their use but may be designated for specific purposes by the System or may be limited by contractual agreements with outside parties.
- With donor restrictions – Net assets with donor restrictions includes gifts that are required by donors to be held in perpetuity, as well as, gifts, grants, investment income, including realized gains and losses, and the change in unrealized appreciation on investments, which can be expended but for which restrictions have not yet been met. The restrictions include purpose restrictions, time restrictions and restrictions imposed by law on the use of capital appreciation on donor-restricted funds. Contributions for capital items are released from restriction on the date that the related assets are put into service.

#### **(n) 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 or construct long-lived assets are reported as additions to net assets with donor restrictions and are then reported as additions to net assets without donor restrictions when the assets are placed into service and are excluded from the excess (deficiency) of revenues over expenses.

Unconditional promises to give cash and other assets to the Health System are reported at fair value on the date the promise is received. The contributions are net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets or as net assets without donor restrictions if no such conditions exist. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, the net assets subject to donor restrictions are reclassified to net assets without restrictions and reported in the statements of operations as net assets released from restriction.

**BMC HEALTH SYSTEM, INC.**

## Notes to Consolidated Financial Statements

September 30, 2019 and 2018

Grants and sponsored program revenue are recognized as revenues without donor restrictions as the related expenditures are incurred. The Health System recognizes indirect revenue at provisional rates, which are subject to audit, for U.S. Government grants and contracts and negotiated rates for other grants and similar grant-based contracts.

**(o) Self-Insurance Reserves**

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

**(p) Professional Liability Insurance**

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

**(q) Statements of Operations**

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

The consolidated statements of operations and changes in net assets without donor restrictions includes the excess of revenues over expenses. Other changes in net assets without donor restrictions which, consistent with U.S. GAAP, are excluded from the excess of revenues over expenses, include the change in unrealized appreciation on investments, contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets), pension related changes other than net periodic pension costs and other changes.

**(r) Net Patient Service Revenue**

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

**BMC HEALTH SYSTEM, INC.**

## Notes to Consolidated Financial Statements

September 30, 2019 and 2018

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

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

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

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

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

(i) *Medicare*

Reimbursement for services provided to inpatients and outpatients covered by the federal government's Medicare program, who have elected not to enter a Medicare health maintenance

**BMC HEALTH SYSTEM, INC.**

## Notes to Consolidated Financial Statements

September 30, 2019 and 2018

organization for services varies according to patient classification systems that are based on clinical, diagnostic, and other factors.

(ii) *Medicaid*

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

(iii) *Uncompensated Care*

The Health System is partially reimbursed for uncompensated care services, defined as charity care and bad debt associated with emergency services, through the statewide Health Safety Net Office, administered by the Commonwealth. Following the merger of BUMCH and BCH on July 1, 1996, the Health System has continued the historical mission and commitment of BCH to the public health needs of all residents of the City of Boston to provide accessible health care services to all in need of care, regardless of status or ability to pay.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation, as well as significant regulatory action, and, in the normal course of business, the Health System is subject to contractual reviews and audits, including audits initiated by the Medicare Recovery Audit Contractor program. As a result, there is at least a reasonable possibility that recorded estimates will change in the near term. The Health System believes it is in compliance with applicable laws and regulations governing the Medicare and Medicaid programs and the adequate provisions have been made for any adjustments that may result from final settlements.

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

Under the terms of contractual agreements, certain elements of third-party reimbursement are subject to negotiation, audit and/or final determination by third-party payors. The accompanying consolidated financial statements include certain estimates of final settlements. In accordance with ASC 606, the Health System considers compensation that will be subject to negotiation or ultimately determined at a later date as variable consideration and therefore recognizes as revenue only amounts to which it is entitled and to the extent it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Third-party settlement receivables or liabilities are created when there are amounts the Health System believes may be received later or subject to pay back in the future. Variances between estimated and final settlements are included in net patient service revenue on the statement of operations in the year in which the settlement or change in estimate occurs.

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

**BMC HEALTH SYSTEM, INC.**

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

During fiscal year 2018, the Medical Center recognized net favorable settlements from Medicare, Medicaid, BMCHP, Blue Cross and other payors related to prior years of approximately \$9,000,000.

***(t) Charity and Uncompensated Care***

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

The Health System provided free care of \$106,900,000 and \$73,166,000 in 2019 and 2018, respectively. Such costs have been estimated based on the ratio of expenses (excluding bad debt expense) to establish patient service charges. Under healthcare reform, all documented Massachusetts citizens who were once eligible for charity care are now required to be enrolled in one of the subsidized Connector Care insurance products. Those patients who are over 300% of the federal poverty guidelines are now required to buy into an affordable insurance product either offered by their employer or the Connector Care or face financial penalties. Many of the Health System's patients that were previously uninsured are now enrolled in various health insurance plans in an effort to comply with the Commonwealth's healthcare reform mandate.

The Commonwealth's Health Safety Net Program is a program to raise funds for hospitals that provide a disproportionate share of uncompensated care as compared to other providers. The program is mostly funded through an assessment levied against hospitals and insurance companies based on their commercial/managed care business. The Medical Center assessment and contribution into the pool was \$3,909,000 in 2019 and \$3,400,000 in 2018. The total amount paid to Medical Center through the Health Safety Net Pool, net of program shortfall allocations, was \$66,500,000 in 2019 and \$69,300,000 in 2018. These receipts cover services for Medical, Professional, Dental and Retail Pharmacy.

***(u) Capitation Revenue***

Capitation/premium payments are generally for a period of one month, are received monthly for the current month, with the exception of Well Sense, which is paid three months in arrears and reported as earned during the period of coverage. Capitation payments received prior to the coverage period are recorded as deferred revenue. All BMCHP product lines receive monthly payments based on current enrollment, as well as retroactive payment adjustments relating to membership retro additions or terminations. Additional revenue relating to services provided outside the capitation rate, such as maternity, are recognized when earned but paid in arrears.

Also included in capitation revenue are certain risk sharing amounts under BMCHP's contracts with MassHealth and the New Hampshire DHHS under which capitation revenue can be increased or decreased based upon actual gain or loss on the particular component of risk adjusted capitation rate payment. Gross capitation receivables due from the Commonwealth of Massachusetts amounted to approximately \$114,245,000 and \$59,689,000 as of September 30, 2019 and 2018, respectively. Gross capitation receivables due from CMS amounted to approximately \$1,214,000 and \$1,077,000 as of

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September 30, 2019 and 2018, respectively. Gross capitation receivables due from the State of New Hampshire amounted to approximately \$70,588,000 and \$72,226,000 as of September 30, 2019 and 2018, respectively. Capitation receivables are recorded as other accounts receivable in the consolidated balance sheets (see note 16). Additionally, estimated Risk Share receivable (payable) to New Hampshire amounted to \$5,508,000 and \$(16,228,000) as of September 30, 2019 and 2018, respectively, and is included in accounts payable and accrued expenses in the consolidated balance sheets.

**(v) Other Revenue**

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

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

The Plans are required to fund their share (from risk contracts) of any deficits in excess of the amounts withheld under this master contract. Surplus amounts in excess of amounts withheld have been recorded and retained by BACO and BMCICS. A surplus of \$927,000 and \$123,000 was earned for the years ended June 30, 2019 and 2018, respectively.

**(w) Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates are made in the area of patient accounts receivable, risk share receivables, accruals for settlements with third-party payors, professional liability claims payable, claims payable, accrued expenses, alternative investment, pension obligations and conditional asset retirement obligations. Actual results could differ from those estimates.

**(x) Income Taxes**

The Health System Corporation, the Medical Center, BMCHP, UDF, ECMF, BUAP, Faculty and the Plans, BACO, BMCICS, and BMCIC of Vermont are all nonprofit corporations that have been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. The shareholders of NAB, before it was terminated were nonprofit, tax-exempt corporations. The Health System recognized income tax positions when it is more-likely-than-not that the position will be sustainable based on the merits of the position. Management has concluded that there are no material uncertain tax positions that need to be recorded as of September 30, 2019 and 2018. The Health System annually assesses whether it must recognize an unrelated business income tax expense

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## Notes to Consolidated Financial Statements

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(UBIT). The amounts recognized as UBIT expense were not material to the Health System's consolidated operations or changes in net assets for the years ended September 30, 2019 and 2018.

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

**(y) Reclassifications**

Certain amounts reported in the comparative 2018 consolidated financial statements have been reclassified to conform to the 2019 presentation.

**(z) Recent Accounting Pronouncements****(i) Not-for-Profit Financial Statement Presentation**

During 2018, the Health System adopted ASU No. 2016-14 – *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This guidance is intended to improve the net asset classification requirements and the information presented in the combined financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. The main provisions of this guidance include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service; and recognition of underwater endowment funds as a reduction in net assets with donor restrictions. The guidance also enhances disclosure for board designated amounts, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classification.

A summary of the net assets reclassifications driven by the adoption of ASU 2016-14 as of September 30, 2018 follows:

<b>Net assets classifications</b>	<b>ASU 2016-14 classifications</b>		
	<b>Without donor restrictions</b> (In thousands)	<b>With donor restrictions</b>	<b>Total net assets</b>
As previously presented:			
Unrestricted	\$ 1,291,016	—	1,291,016
Temporarily restricted	—	305,054	305,054
Permanently restricted	—	37,090	37,090
Net assets, as reclassified	\$ <u>1,291,016</u>	<u>342,144</u>	<u>1,633,160</u>

Additional disclosure requirements that resulted from the adoption are found in notes 3 and 15.

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(ii) *Revenue from Contracts with Customers*

The Health System adopted ASU No. 2014-09 – *Revenue from Contracts with Customers (Topic 606)* in 2019, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance, and requires significantly expanded disclosures about revenue recognition. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance in ASU No. 2014-09, including subsequent amendments was effective for the Health System as of October 1, 2018.

The Health System adopted ASU No. 2014-09 using the modified retrospective method of transition. The System's process for implementation began with a preliminary evaluation of ASU 2014-09 and considered subsequent interpretations by the FASB Transition Resource Group for Revenue Recognition and the America Institute of Certified Public Accountants. The Health System performed an analysis of revenue streams and transactions under ASU 2014-09. For net patient service revenue, the Health System performed an analysis related to the application of the portfolio approach as a practical expedient to group patient contracts with similar characteristics, such that revenue for a given portfolio would not be materially different than if it were evaluated on a contract-by-contract basis. Upon adoption, the majority of what was historically classified as provision for uncollectible accounts and presented as a reduction to net patient service revenue on the consolidated statements of operations and changes in net assets is treated as a price concession that reduces the transaction price, which is reported as net patient service revenue. The new standard also requires enhanced disclosures related to the disaggregation of revenue and significant judgments made in measurement and recognition. The cumulative impact of adopting ASU No. 2014-09 was not material to total revenues, excess of revenues over expenses or net assets without donor restrictions.

(iii) *Contributions*

The Health System adopted ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which was intended to clarify and improve the scope and the accounting guidance for contributions received and contributions made by not-for-profit entities. The ASU provides that a contribution is considered conditional on the basis of whether an agreement includes a barrier that must be overcome. Conditional contributions received are accounted for as a liability or are unrecognized initially, that is, until the barriers to entitlement are overcome, at which point the transaction is recognized as unconditional and classified as either net assets with restrictions or net assets without restrictions. The adoption of this standard was not material to the Health System's consolidated financial statements.

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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:

	2019		2018	
	At fair value	Cost	At fair value	Cost
(In thousands)				
Assets limited as to use:				
Cash and cash equivalents	\$ 23,729	23,729	1,249	1,247
Bonds and U.S. Treasury notes	277,485	269,196	195,962	194,189
Private investment funds	469,925	430,379	503,824	414,484
Mutual funds	101,880	103,226	152,827	157,287
Marketable equity securities	113,657	94,912	185,988	143,694
Money market mutual funds	2,056	2,056	5,450	5,485
Asset-backed securities	74,587	74,442	10,828	11,138
Private debt and equity	24,251	25,004	16,680	17,135
Total	1,087,570	1,022,944	1,072,808	944,659
Funds held by trustees	40,593	40,469	61,926	62,375
	<hr/> \$ 1,128,163	<hr/> 1,063,413	<hr/> 1,134,734	<hr/> 1,007,034

Included in private investment funds are alternative investment vehicles, including commingled funds, with an estimated fair value of approximately \$469,925,000 and \$503,824,000 as of September 30, 2019 and 2018, respectively.

As of September 30, 2019 the cash and cash equivalents balance includes \$19,000,000 for one in transit transaction that was invested in October 2019 for private investment funds.

BMCHP is required by its contract with MassHealth to maintain a deposit account with the state for reserve purposes. The cash reserves were \$1,056,000 and \$2,067,000 as of September 30, 2019 and 2018, respectively, and are included in assets whose use is limited.

In connection with its licensure with the Massachusetts Division of Insurance, BMCHP has placed on deposit with the Commonwealth a cash equivalent fund holding of \$1,000,000. In addition, for licensure in New Hampshire, BMCHP has purchased and placed on deposit a \$500,000 U.S. Treasury note with an amortized cost of \$500,000. Both security deposits are also included in assets limited as to use as of September 30, 2019 and 2018, respectively.

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

	2019	2018
	(In thousands)	
<b>Net assets without donor restrictions:</b>		
Dividends and interest	\$ 20,547	19,666
Net realized gains on investments	35,463	15,303
Change in net unrealized (depreciation) appreciation on investments	<u>(15,485)</u>	<u>(12,990)</u>
	<u>40,525</u>	<u>21,979</u>
<b>Net assets with donor restrictions:</b>		
Dividends and interest	4,026	4,407
Net realized gains on investments	50,403	15,828
Change in net unrealized (depreciation) appreciation on investments	<u>(49,596)</u>	<u>5,576</u>
	<u>4,833</u>	<u>25,811</u>
	<u>\$ 45,358</u>	<u>47,790</u>

Unrealized gains (losses) related to BMCIC of \$2,575,000 and \$106,000 as of September 30, 2019 and 2018, 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. U.S. GAAP provides a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value.

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

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

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

As of September 30, 2019 and 2018, the Health System also held interests in private investment funds. Private investment funds include commingled funds, common collective funds, funds of funds and other alternative investments. Certain private investment funds include vehicles whereby fund managers actively provide investment information such that certain investments are determined to have a readily determinable fair value (RDFV) and are categorized as a Level 1 investments, while others have a RDFV though are priced by fund managers less frequently are categorized as level 2 investments. Certain other private investment funds listed under Net Asset Value (NAV) category below qualify as investment companies under U.S. GAAP and follow the accounting and reporting guidance applicable to investment companies. There is no active market for these funds, and therefore, the Health System is permitted, as a practical expedient under U.S. GAAP, to estimate the fair value of the investment based on the NAV based on the Health System's ownership share or units held.

The Health System believes that these valuations are a reasonable estimate of fair value as of September 30, 2019 and 2018, but are subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investment existed. The Health System has the ability to liquidate its investments periodically in accordance with the provisions of the respective fund agreements.

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The following table presents the financial instruments carried at fair value and is intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position as of September 30, 2019:

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

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

	Level 1	Level 2	Level 3 (In thousands)	Net asset value	Total
<b>Investments:</b>					
Cash and cash equivalents	\$ 1,249	—	—	—	1,249
Bonds and U.S. Treasury notes	53,395	142,567	—	—	195,962
Private investment funds	320,808	92,873	—	90,143	503,824
Mutual funds	152,827	—	—	—	152,827
Marketable equity securities	185,988	—	—	—	185,988
Money market mutual funds	4,464	986	—	—	5,450
Asset-backed securities	—	10,828	—	—	10,828
Private debt and equity	—	—	—	16,680	16,680
	<u>\$ 718,731</u>	<u>247,254</u>	<u>—</u>	<u>106,823</u>	<u>1,072,808</u>
<b>Funds held by trustee:</b>					
U.S. government securities	\$ 19,835	—	—	—	19,835
Money market mutual funds	42,091	—	—	—	42,091
	<u>\$ 61,926</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>61,926</u>

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There were no transfers between Levels 1 through 3 or NAV, as a result of changes in the approach to fair value measurements during 2019 and 2018.

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

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

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

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

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

There were no unfunded commitments as of September 30, 2019 and 2018.

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

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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 2019 and 2018, the Health System reported recognized losses of approximately \$403,000 and \$978,000, respectively, relating to declines in fair value of investments that were determined by management to be other-than-temporary.

**(5) Contributions Receivable**

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

Unconditional promises expected to be collected in:

	<b>2019</b>	<b>2018</b>
	(In thousands)	
Less than one year	\$ 13,477	15,456
One year to five years	15,066	19,342
More than five years	800	1,917
	<hr/> 29,343	<hr/> 36,715
Less discounts and allowance for uncollectible accounts	<hr/> (2,303)	<hr/> (6,776)
Contributions receivable, net	<hr/> <hr/> \$ 27,040	<hr/> <hr/> 29,939

Included in total gross contributions receivable are two contributions from single donors in the amount of \$15,000,000 and \$17,000,000 for the years ended September 30, 2019 and 2018, respectively. The original contribution from one of the donors was in 2018 for \$25,000,000, of which \$15,000,000 was paid through 2019. The original contribution from the other donor was in 2019 for \$5,000,000, which is expected to be paid between fiscal year 2020 and 2023. The discount rate used to calculate the present value of contributions receivable ranged from 3.47%–4.00%, depending upon the anticipated pledge fulfillment, valued at the date of the pledge.

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**(6) Liquidity**

As of September 30, 2019 consolidated financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, scheduled principal payments on debt, and capital construction costs not financed with debt, were as follows:

		<b>2019</b>
Financial assets:		
Cash and cash equivalents	\$ 321,782	
Short-term investments	2,671	
Patient accounts receivable, net	111,500	
Other current receivables, net	284,675	
Board designated investments	381,960	
Funds functioning as endowment available for operations	<u>19,852</u>	
Total financial assets available within one year	<u>\$ 1,122,440</u>	

The Health System's revenues and related operating activities are generally not seasonal in nature. Funds functioning as endowments are made available for operations based on the Health System's endowment spending policy by action of the Health System's board. In addition, the Health System has access to unused lines of credit aggregating approximately \$100,000,000 that may be used for operations. Board designated funds may be made available for operations by action of the board if they are not subject to third-party restrictions or otherwise not available within one year.

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

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

	<b>Useful life</b>	<b>2019</b> (In thousands)	<b>2018</b>
Land	5–40 years	\$ 18,302	6,302
Land improvements	15–45 years	775	775
Buildings	5–40 years	476,627	197,139
Building and leasehold improvements	5–25 years	874,716	1,000,873
Fixed equipment	3–20 years	43,338	44,580
Major movable equipment	15–20 years	727,060	693,652
Leased buildings and equipment		119,673	119,912
Construction in progress		25,635	88,643
		2,286,126	2,151,876
Accumulated depreciation and amortization		(1,170,742)	(1,123,293)
Property, plant and equipment, net		\$ 1,115,384	1,028,583

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

Depreciation expense amounted to \$100,202,000 and \$97,900,000 for the years ended September 30, 2019 and 2018, respectively. Amortization expense amounted to \$317,000 and \$307,000 for the years ended September 30, 2019 and 2018, respectively.

Fully depreciated property, plant and equipment with an original cost of \$1,010,000 and \$427,000 was disposed of during the year ended September 30, 2019 and 2018, respectively.

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

As of September 30, 2019 and 2018, assets under capital lease agreements amounted to approximately \$119,673,000 and \$119,912,000, respectively, with accumulated amortization of \$118,441,000 and \$118,362,000, respectively. Amortization expense is included with depreciation and amortization expense in the consolidated statements of operations and changes in net assets without donor restrictions.

The Health System has capitalized interest in the amount of \$63,255,000 and \$66,170,000 as of September 30, 2019 and 2018, respectively.

On December 18, 2014, the Medical Center entered into two real estate transaction with a for-profit entity. The Medical Center sold the Gambro building for \$12,000,000. The Medical Center leased back certain space in this building, consistent with clinical and administrative needs. The transaction was accounted for as a failed sales-lease-back and therefore the building remained on the Medical Center's books and the sale proceeds were recognized as a capital lease obligation of \$11,670,000 (note 10). The Medical Center

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also entered into a ground lease transaction for the Doctor's Office Building for an upfront payment of \$39,500,000. The Medical Center also leased back certain space in this building, consistent with clinical and administrative needs. As a result, the building remained on the Medical Center's books and the sales proceeds were recognized as a capital lease obligation of \$38,422,000 (note 10).

On November 16, 2018, the Medical Center executed a ground lease for its Newton Pavilion (including the Health Services Building) with the Commonwealth of Massachusetts, acting through its Division of Capital Asset Management and Maintenance on behalf of the Commonwealth of Massachusetts Department of Public Health, for \$77,500,000, with net proceeds from sale of \$77,325,000. The Medical Center recorded \$69,825,000 as a deferred lease liability, which is included in long-term liabilities, and will recognize the rental income over the term of the lease (99 years). The lease also included a \$7,500,000 option to develop land on a parcel of the ground lease, which the Medical Center recorded as a long term liability.

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

Following the substantial completion of campus redesign, the Medical Center re-evaluated its assets and remediation liabilities under FIN 47. In September 2019, the Medical Center disposed of FIN 47 assets with an original cost of \$6,434,000 and remaining book value of \$1,010,000.

**(8) Other Noncurrent Assets**

Other noncurrent assets primarily consist investments in joint ventures, deferred rent (see note 11) and long term pledges (see footnote 5) as of September 2019. The joint ventures are recorded utilizing the equity method of accounting.

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**(9) Long-Term Debt**

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

	Interest rate	2019	2018
		(In thousands)	
Revenue Bonds Series C	3.00–5.25%	\$ 32,920	36,265
Revenue Bonds Series D	4.00–5.00%	158,155	158,155
Revenue Bonds Series E	2.00–5.00%	174,765	175,200
Revenue Bonds Series F	4.00–5.00%	41,955	43,500
Taxable Bonds Series 2016	0.05%	75,000	75,000
Taxable Bonds Series 2017	3.91–4.58%	105,000	105,000
ECMF Series A Bonds	6.00%	1,500	2,900
Series O – Tax Exempt (Garage)	Varies	7,105	7,782
Series O – Taxable (Garage)	Varies	2,212	2,423
Citizens Bank Non-Revolving Credit Loan	Varies	—	79,270
		598,612	685,495
Less current portion of long-term debt		(7,991)	(86,883)
Revenue Bonds Series C premium		4,334	4,779
Revenue Bonds Series D premium		6,919	7,188
Revenue Bonds Series E premium		22,791	24,006
Revenue Bonds Series F premium		1,417	1,464
Revenue Bonds Series 2016 discount		(341)	(392)
Revenue Bonds Series 2017 discount		(748)	(773)
Revenue Bonds issuance costs		(2,836)	(3,037)
		\$ 622,157	631,847
Long-term debt, less current portion			

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

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

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

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

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

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

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

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

In December 2014, the Medical Center closed on a \$95,000,000 secured nonrevolving credit loan with Citizens Bank, N.A. The proceeds of the nonrevolving loan were used solely for the purpose of defeasing the bonds allocable to Newton Pavilion (including the Health Services Building). In January 2015, the Medical Center prepaid \$15,730,000 in principal of the loan. In March 2017, the Medical Center entered into a floating to fixed rate interest rate swap for the purpose of hedging interest rate risk on the nonrevolving loan. In November 2018, the Medical Center paid off the remaining balance of \$79,270,000 for the Citizens Bank Non-Revolving Credit Loan.

In July 2012, the Medical Center refunded the Authority's tax-exempt Revenue Bonds, Boston Medical Center Issue, Series A (1998) Bonds (Series A Bonds) through the sale of \$108,950,000 MassDevelopment, Series C tax-exempt Revenue 2012 Bonds (Series C Revenue Bonds). The principal amount outstanding of the Series A Bonds was \$119,970,000. The interest rate on the Series C Revenue Bonds ranges from 3.00% to 5.25% based on the bonds' maturities. Principal and sinking fund payments will be made annually between 2017 and 2029 and range from \$2,720,000 and \$4,070,000. In connection with the sales of the three parcels (note 7), the Medical Center defeased the allocable portion of the outstanding bonds in January 2015, to avoid potential negative tax consequences. Only a portion of the Series C Revenue Bonds remains outstanding as of September 30, 2019 and 2018. The Medical Center granted a mortgage on the Newton Pavilion and Health Services Building and a leasehold mortgage on the restricted property of the Menino Pavilion and the Yawkey Ambulatory Care Center pursuant to the Amended and Restated Master Trust Indenture. On November 15, 2018, BMC executed a ground lease agreement for the Massachusetts Department of Public Health to lease the Newton Pavilion and Health Services building. With the disposition of the property and transfer of beds to the restricted property, the

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Newton Pavilion and Health Services Building were released from the mortgage in accordance with the requirements of the Master Trust Indenture. The Master Trust Indenture maintains the financial covenant requiring the Medical Center to maintain an annual debt service coverage ratio of at least 1.10 to 1.

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

In October 2012, the Medical Center entered into a Line of Credit for short-term borrowings with Citizen's Bank under which up to \$25,000,000 may be borrowed on such terms as outlined by the Amended and Restated Line of Credit Agreement. In June 2018, The Medical Center amended the Line of Credit agreement to increase up to \$50,000,000, which may be borrowed at any time. In June 2019, the Medical Center amended the Line of Credit agreement to increase up to \$100,000,000, which may be borrowed at any time. 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, 2019 and 2018.

Included in the Medical Center's debt is approximately \$10,205,000 of the Authority's variable rate demand bonds (VRDBs), Capital Asset Program Issue 2009 Series O-1 and O-2 (a refinancing of the Authority's Series M loans issued in 2005). The Medical Center has entered into irrevocable letters of credit (LOCs) with a financial institution to secure bond repayment and interest obligations associated with its VRDBs. RBS Citizens, N.A. provides LOCs totaling \$10,941,000. There are no drawings under the LOCs as of September 30, 2019 and 2018. The LOC supporting the Series O-1 and O-2 will expire on July 1, 2020. RBS Citizens provided a Federal Home Loan Bank wrap (AAA rated) for the two Letters of Credit. The term and payment schedule for the loans did not change. The interest rates at September 30, 2019 were 1.36% and 2.19% for the tax exempt and taxable loan, respectively. The interest rates at September 30, 2018 were 1.54% and 2.22% for the tax exempt and taxable loan, respectively.

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

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

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The Medical Center has escrowed the following funds with bond trustees under the Series C Revenue Bonds, the Series D Revenue Bonds, the Series 2016 Taxable Bonds, the Series E Revenue Bonds, Series F Revenue bonds, Series 2017 taxable bonds, the ECMF Series A Bonds, and Series O Bonds. In addition, these amounts include funds for the self-insured workers' compensation program and funds designated by management for pension and other employee benefit purposes. These funds are included in assets limited as to use in the consolidated financial statements.

	September 30	
	2019	2018
	(In thousands)	
Construction fund	\$ 75	23,228
Debt service fund	9,570	9,049
Debt service reserve funds	20,348	20,426
Accrued interest receivable	67	78
Workers' compensation reserve fund	10,310	8,920
Other held funds	223	225
	\$ 40,593	61,926

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

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

Years ending September 30:	
2020	\$ 7,991
2021	7,718
2022	7,248
2023	7,606
2024	7,983
Thereafter	560,066
	\$ 598,612

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**(10) Obligations under Capital Leases**

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

	<b>2019</b>	<b>2018</b>
	(In thousands)	
Doctor's office building	\$ 31,565	33,271
Gambro building	11,657	11,657
Other	107	220
Less:		
Current portion	(76)	(113)
	\$ 43,253	45,035

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

The Health System recorded the proceeds from a real estate transaction involving the Gambro building and Doctor's Office building as a capital lease liability of \$50,092,000. Accordingly, the payments on the capital lease are not included in the below future minimum payment schedule and are allocated to interest and lease expense and the remaining amount as a reduction in the liability. The remaining capital lease liability at September 30, 2019 and 2018 is \$43,222,000 and \$44,928,000, respectively.

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

Years ending September 30 (thousands):	
2020	\$ 76
2021	29
2022	2
Total minimum lease payments	107
Less amount representing interest	(3)
Present value of minimum lease payments	104
Less current portion	(76)
	\$ 28

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## Notes to Consolidated Financial Statements

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**(11) Operating Lease Commitments**

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

	<b>Lease obligations</b> <hr/> (In thousands)
Years ending September 30:	
2020	\$ 13,670
2021	12,277
2022	9,740
2023	8,053
2024	8,051
Thereafter	21,097
	\$ 72,888

The Health System records rent expense on a straight-line basis over the life of the lease and records accrued rent as the difference between rent expense and actual payments made. The Health System recorded rent expense of approximately \$22,694,000 and \$21,920,000 for the years ended September 30, 2019 and 2018, respectively. As of September 30, 2019 and 2018, the accumulated difference between rent expense and amounts paid amounted to \$5,343,000 and \$4,849,000, respectively, and is included in accounts payable and accrued expenses and other long-term liabilities on the consolidated balance sheets.

The Health System amortizes deferred rent on a straight-line basis over the term of the lease. As of September 30, 2019 and 2018 approximately \$495,000 and \$929,000, respectively, of amortization had been recorded as an offset to rent expense, which is included in medical costs, supplies and other expenses in the consolidated statements of operations and changes in net assets without donor restrictions as of September 30, 2019 and 2018.

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## Notes to Consolidated Financial Statements

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**(12) Donor Restricted Net Assets**

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

	<b>2019</b>	<b>2018</b>
	(In thousands)	
Net assets with donor restrictions:		
Research	\$ 150,451	153,273
Buildings and capital	89,288	91,111
Hospital programs	75,674	77,799
Other restricted purposes	<u>22,713</u>	<u>19,961</u>
Total with donor restriction net assets	<u>\$ 338,126</u>	<u>342,144</u>

**(13) Endowments**

The Health System's endowment consists of approximately 265 donor-restricted funds established for a variety of purposes. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported as with or without donor restrictions based on the existence or absence of donor-imposed restrictions.

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

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As of September 30, 2019 and 2018, the Heath System did not have board-designated funds included in the endowment. The endowment net asset composition by type of fund consisted of the following:

<b>September 30, 2019</b>	<b>Original gift (former Perm)</b>	<b>Accumulated gains and losses, net</b> (In thousands)	<b>Total</b>
Donor-restricted endowment funds	\$ 37,235	216,326	253,561
	<u>\$ 37,235</u>	<u>216,326</u>	<u>253,561</u>
<b>September 30, 2018</b>	<b>Original gift (former Perm)</b>	<b>Accumulated gains and losses, net</b> (In thousands)	<b>Total</b>
Donor-restricted endowment funds	\$ 37,090	213,497	250,587
	<u>\$ 37,090</u>	<u>213,497</u>	<u>250,587</u>

Changes in endowment net assets for the years ended September 30, 2019 and 2018, consisted of the following:

	<b>2019</b>	<b>2018</b>
Endowment net assets at the beginning of year	\$ 250,587	242,703
Investment return:		
Investment income	49,816	12,456
Net unrealized (depreciation) appreciation	<u>(38,763)</u>	<u>7,057</u>
Total investment return	11,053	19,513
Contributions	145	210
Appropriation of endowment assets for expenditures	<u>(8,224)</u>	<u>(11,839)</u>
	2,974	7,884
Endowment net assets at the end of year	<u>\$ 253,561</u>	<u>250,587</u>

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

The Medical Center has three defined contribution retirement plans under Section 403(b) of the Internal Revenue code. The plans are also offered to Medical Center employees who hold administrative positions at the Foundation. Participation in the Plans is voluntary. The Medical Center offers contributions in two of the plans, one based on years of service and one a flat percentage. The contributions under these plans

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amounted to \$21,399,000 and \$20,101,000 for the years ended September 30, 2019 and 2018, respectively.

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

University Hospital provided postretirement medical and life insurance benefits to retirees. These benefits were grandfathered to employees who terminated employment prior to January 1, 1994. Employees who terminated on or before December 31, 1993 were offered a life insurance benefit; employees who terminated on or before July 31, 1993 and had 20 years of services were granted medical benefits. The cost of medical benefits was capped at \$185.00 per month per participant. The accrued benefit costs under this plan are not material to the Health System as of September 30, 2019 and 2018.

BMCHP has a defined contribution retirement plan (DC Plan) under Section 401(k) of the Internal Revenue Code, established effective August 1, 2001. The DC Plan covers all eligible employees at BMCHP who do not opt out of participation, and requires BMCHP to match employees' contributions up to specified limitations. Participants are 100% vested in their deferred contributions, and rollover contribution accounts immediately plus actual earnings thereon. The matching employer contribution is based on a discretionary formula and vests over a four year period. BMCHP contributions under this DC Plan were \$2,194,000 and \$2,205,240 in 2019 and 2018, respectively.

BMCHP also offers a nonqualified supplemental executive retirement plan to certain key executives. BMCHP's contribution is 8% of each eligible executive's Plan Year base salary. The Plans have a three year vesting schedule. Contributions made in a particular plan year are 100% vested three years later. BMCHP's contribution for these plans was \$43,000 and \$110,400 in the years ended September 30, 2019 and 2018, respectively.

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The Medical Center maintains a defined benefit pension plan (the Pension Plan), effective July 1, 1996, for certain former employees of BCH with a measurement date of September 30. The covered group consists of employees who either had a nonforfeitable right to a retirement benefit under the former BCH defined benefit pension plan or would have earned one with service through September 30, 1997. The Pension Plan provides benefits based on an employee's average compensation and years of service reduced by a percentage of their Social Security benefit. The Pension Plan's provisions have been set based on a collective bargaining agreement effective July 1, 1996, and a formal document was signed on June 30, 1997. Contributions to the Plan are made in amounts sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974. The City is responsible for the past service cost of former BCH employees.

	<b>2019</b>	<b>2018</b>
	(In thousands)	
Accumulated benefit obligation	\$ 195,087	166,661
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 166,661	170,959
Service cost	3,380	4,227
Interest cost	6,816	6,210
Actuarial gain	24,720	(9,088)
Benefits paid	<u>(6,490)</u>	<u>(5,647)</u>
Projected benefit obligation at end of year	<u>\$ 195,087</u>	<u>166,661</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 155,544	145,742
Actual return on plan assets	9,463	8,649
Employer contributions	15,000	6,800
Benefits paid	<u>(6,490)</u>	<u>(5,647)</u>
Fair value of plan assets at end of year	<u>\$ 173,517</u>	<u>155,544</u>
	<b>2019</b>	<b>2018</b>
	(In thousands)	
Reconciliation of funded status:		
Projected benefit obligation	\$ 195,087	166,661
Fair value of plan assets	<u>173,517</u>	<u>155,544</u>
Funded status	<u>(21,570)</u>	<u>(11,117)</u>
Amounts recognized in the consolidated balance sheet included within other long-term liabilities	<u>\$ (21,570)</u>	<u>(11,117)</u>

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The components of net periodic benefit cost for the years ended September 30, 2019 and 2018 are as follows:

	<b>2019</b>	<b>2018</b>
	(In thousands)	
Service cost	\$ 3,380	4,228
Interest cost	6,816	6,210
Expected return on plan assets	(10,941)	(10,292)
Amortization of net loss	—	674
<b>Net periodic (benefit) cost</b>	<b>\$ (745)</b>	<b>820</b>
Weighted average assumptions used to determine the net periodic cost for the period just ended:		
Discount rate	4.17 %	3.69 %
Long-term rate of return	7.00	7.00
Rate of compensation increase	3.00	3.00
Weighted average assumptions used to determine the benefit obligations:		
Discount rate	3.04 %	4.17 %
Rate of compensation increase	3.00	3.00
Other changes in plan assets and benefit obligations recognized in unrestricted net assets:		
New net actuarial loss	\$ 26,197	(7,446)
Amortization of net loss	—	(674)
	<b>\$ 26,197</b>	<b>(8,120)</b>
Amounts recognized in unrestricted net assets:		
Net actuarial loss	\$ 39,571	13,374
	<b>\$ 39,571</b>	<b>13,374</b>

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

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*Pension Plan Assets*

The Pension Plan weighted average asset allocation as of the measurement dates September 30, 2019 and 2018, respectively, is as follows:

	<b>Target allocation fiscal year ending September 30, 2019</b>	<b>Percentage of plan assets at September 30</b>	
		<b>2019</b>	<b>2018</b>
<b>Asset category:</b>			
Equity securities	50 %	47 %	64 %
Debt securities	38	30	32
Other	12	23	4
	<b>100 %</b>	<b>100 %</b>	<b>100 %</b>

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

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

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

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

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

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

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

An experience study was completed reviewing actual plan experience from 2007-2014. The study was the basis for the retirement and termination rates. The pension mortality table used in the analysis was RP-2014 with MP-2018.

*Cash Flows*

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

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

2020	\$ 7,422,000
2021	8,088,000
2022	8,869,000
2023	9,600,000
2024	10,207,000
2025–2029	58,555,000

- The Medical Center contributed \$15,000,000 to the Pension Plan for year ended September 30, 2019. The Medical Center expects to contribute \$0 to the Pension Plan in 2020.

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**(15) Net Patient Service Revenue**

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

	2019		2018	
Medicare and Medicare Managed Care	\$ 369,377	32 %	\$ 335,633	30 %
MassHealth	369,579	32	521,746	47
Commercial carriers	333,146	29	175,590	16
No fault and worker's compensation	6,846	1	19,709	2
Self pay and other	74,945	6	56,448	5
	<u>\$ 1,153,893</u>	<u>100 %</u>	<u>\$ 1,109,126</u>	<u>100 %</u>

For both 2019 and 2018, the chart above excludes state supplemental funding and does not reflect the impact of intercompany eliminations.

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

The System's primary geographic areas are Boston and surrounding metro-area at the BMC, BUMG, and BUAP locations. The composition of patient care service revenue based lines of business and method of reimbursement for the years ended September 30, 2019 and 2018 are as follows:

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

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

**Method of reimbursement:**

Fee for service	\$ 982,247	170,230	1,416	1,153,893
State supplemental funds				
and other	149,712	—	—	149,712
Eliminations	<u>(187,047)</u>	<u>(27,642)</u>	—	<u>(214,689)</u>
	<u>\$ 944,912</u>	<u>142,588</u>	<u>1,416</u>	<u>1,088,916</u>

**BMC HEALTH SYSTEM, INC.**  
 Notes to Consolidated Financial Statements  
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	2018			
	<b>BMC</b>	<b>BUMG</b>	<b>BUAP</b>	<b>Total</b>
<b>Service lines:</b>				
Hospital – inpatient	\$ 457,184	—	—	457,184
Hospital – outpatient	479,133	—	—	479,133
Physician services	—	170,634	2,176	172,810
Eliminations	<u>(197,600)</u>	<u>(25,188)</u>	—	<u>(222,788)</u>
	<u>\$ 738,717</u>	<u>145,446</u>	<u>2,176</u>	<u>886,339</u>

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

**Method of reimbursement:**

Fee for service	\$ 936,316	170,634	2,176	1,109,126
State supplemental funds				
and other	156,305	—	—	156,305
Eliminations	<u>(197,600)</u>	<u>(25,188)</u>	—	<u>(222,788)</u>
	<u>\$ 895,021</u>	<u>145,446</u>	<u>2,176</u>	<u>1,042,643</u>

Healthcare services are generally recognized as the services are transferred over time. In addition to the above, other operating revenues and gains includes revenue recognized for various other Health System activities, primarily retail pharmacy of approximately \$153,478,000 and \$143,915,000 in 2019 and 2018, respectively, which is recognized on a point in time basis. Also included in other operating revenues are parking, cafeteria, and rental income.

Cost reports supporting third party service revenue have been audited and finalized through September 30, 2016 by the designated intermediaries. Cost reports through 2017 and 2018 have been filed. The 2017 Medicare cost report is under desk review but has not been finalized. The 2017 cost report has not been audited. A provision for the estimated settlements for all open years has been recorded as of September 30, 2019 and 2018. In the opinion of management, no material adjustments are expected to result from the audit of 2017 through 2018 cost reports. The System has classified a portion of the accrual for estimated third-party payor settlements as other long-term liabilities because such amounts, by their nature or by virtue of regulations or legislation, will not be settled within one year.

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Accounts receivable, prior to reserves established, is summarized as follows as of September 30, 2019 and 2018:

	<b>2019</b>	<b>2018</b>
	(In thousands)	
Patient	\$ 46,544	55,183
Third-party payors	<u>468,762</u>	<u>502,563</u>
Total	515,306	557,746
Implicit and explicit price concessions	(403,806)	—
Reserve for contractual allowance	—	(419,358)
Allowance for doubtful accounts	<u>—</u>	<u>(52,624)</u>
Patient accounts receivable, net	<u>\$ 111,500</u>	<u>85,764</u>

For the year ended September 30, 2018, prior to the adoption of ASC 606, accounts receivable were reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable for the determination of an allowance for doubtful accounts, the Health System analyzed past collection history and trends to estimate the appropriate allowance for doubtful accounts and provision for bad debts.

**(16) Concentration of Credit Risk**

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

The mix of receivables from patients and third-party payers as of September 30, 2019 and 2018 was as follows (BMCHP has been grouped under Medicaid and makes up approximately 53% of the Medicaid receivable):

	<b>2019</b>	<b>2018</b>
Medicare	26 %	25 %
Medicaid	46	40
HMOs	6	10
Self-Pay	1	6
Commercial	11	10
Blue Cross	7	5
Commonwealth Care	2	1
Other	<u>1</u>	<u>3</u>
	<b><u>100 %</u></b>	<b><u>100 %</u></b>

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

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

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

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

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

	<b>Receivable balance</b>	<b>Discounts and allowances</b>	<b>Net receivable</b>
		(In thousands)	
Other hospitals and health centers	\$ 3,184	1,356	1,828
Outside contracts	6,206	1,071	5,135
Contributions receivable	15,456	2,351	13,105
Capitation receivable	146,072	—	146,072
HSN supplemental receivable	2,882	—	2,882
Pharmacy and other	<u>26,691</u>	<u>272</u>	<u>26,419</u>
	<u>\$ 200,491</u>	<u>5,050</u>	<u>195,441</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

**BMC HEALTH SYSTEM, INC.**

## Notes to Consolidated Financial Statements

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doubtful accounts. The level of the allowance is adjusted based upon the results of management's analysis.

**(17) Related Party Transactions**

The Foundation and the Medical Center have significant transactions with each other for operating purposes. During the years ended September 30, 2019 and 2018, the Medical Center provided approximately \$104,469,000 and \$95,973,000, 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 \$33,201,000 and \$26,598,000 as of September 30, 2019 and 2018, respectively. In addition, the Medical Center owed the Foundation \$2,408,000 and \$4,358,000 as of September 30, 2019 and 2018, respectively, and the amounts due are included in the current portion of due to related parties.

BMCHP and the Medical Center have significant transactions with each other for operating purposes. Total revenue earned by the Medical Center for medical services and pharmacy services provided to BMCHP members was \$381,227,000 and \$298,613,000 for the years ended September 30, 2019 and 2018, respectively, and is included in net patient service revenue. In addition, BMCHP owed the Medical Center \$26,728,000 and \$23,053,000 as of September 30, 2019 and 2018, respectively, and the amounts due are included in the Medical Center's patient accounts receivable and in BMCHP's claims payable. In addition, effective November 2016, BMCHP and the Medical Center entered into a ten-year sublease agreement to lease space in Charlestown, MA. The base annual rent under the agreement was \$4,090,000 for the entire sublease period. Rent payments commenced on January 1, 2017.

The Health System Corporation and the Medical Center have significant transactions with each other for system-wide purposes. As of September 30, 2019 and 2018, the Health System Corporation owed the Medical Center \$13,770,000 and \$9,166,000, respectively for operating related activities. As of September 30, 2019 and 2018, the Medical Center owed the Health System Corporation \$4,333,000 and \$296,000, respectively, for Health System Corporation's operating related activities. In addition, the Medical Center transferred \$16,000,000 of net assets to the Health System.

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 \$2,832,000 and \$4,118,000 for the years ended September 30, 2019 and 2018, respectively. The Medical Center has \$34,065,000 and \$29,995,000 of prepaid premiums and retrospective premium credits that were prepaid by the Medical Center to BMCIC as of September 30, 2019 and 2018, respectively. The Medical Center and the Foundation recorded a combined insurance recovery receivable and a professional liability claims payable of \$86,248,000 and \$86,562,000 for the years ended September 30, 2019 and 2018, respectively.

BUAP and the Medical Center have transactions with each other for operating purposes. During the years ended September 30, 2019 and 2018, respectively, the Medical Center provided funding of approximately \$1,966,000 and \$1,791,000, respectively, to BUAP for professional and support services. The Medical Center has various accounts receivable from BUAP which totaled approximately \$1,162,000 and \$3,967,000 as of September 30, 2019 and 2018, respectively.

**BMC HEALTH SYSTEM, INC.**

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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 \$27,748,000 and \$32,840,000 for the years ended September 30, 2019 and 2018, respectively, and is included in net patient service revenue and supplies and other expenses. Also as of September 30, 2019 and 2018, BMCHP owed the Foundation \$2,056,000 and \$1,764,000, respectively.

The Health System Corporation and the Foundation have transactions with each other for operating purposes. As of September 30, 2019, the Health System Corporation owed the Foundation \$722,000 respectively, for operating expenses. As of September 30, 2018, the Foundation owed the Health System Corporation \$97,000, respectively, for operating expenses.

The Health System Corporation provided institutional support to BACO to fund contract losses. For the years ended September 30, 2019 and 2018, the Health System Corporation provided support of \$0 and \$1,220,000, respectively

The Medical Center and the BMC NAB Business Trust had significant transactions with each other relating to the construction of the Shapiro Ambulatory Care Center. In December 2015, in conjunction with the unwind of the final NMTC, the transactions between NAB and the Medical Center were limited to lease transactions for the land and building. In fiscal year 2019, the NAB Trust was terminated, the leases between the Medical Center and NAB were canceled, and the Shapiro building, with a remaining book value of \$122,500,000, was transferred to the Medical Center, and a net gain of \$5,900,000 was recorded on the Health System.

The Medical Center transferred \$9,100,000 and \$4,300,000 of net assets to BACO during years ended September 2019 and 2018, respectively.

#### *Shared Services Agreement*

Faculty physicians and practitioners (Faculty Members) are employed by the individual Plans. Faculty members serve the benefit of the Medical Center (by providing clinical services) and BUSM (by serving as faculty members of BUSM). The Plans have each entered into a common paymaster agreement with the Medical Center and the Trustees of Boston University (BU). For 2018 and 2019, each Plan, with respect to each Faculty Member that the Plan employs, pays BU 26.0% of each Faculty Member's salary up to the applicable FICA limit. If a particular Faculty Member's salary exceeds the FICA limit, the Plans further pay BU 12.3% on the excess up to an amount equal to the applicable Retirement cap for that year and then 1.45% on any amount in excess of the Retirement cap. Additionally, the Plans pay the Medical Center for medical malpractice insurance premiums for each Faculty Member. The Medical Center insures the Faculty Members under agreement with BMCIC. The Plans also pay for a portion of administrative salaries and fringe benefits for nonphysician employees of the Medical Center who provide services to them. These expenses are included in salaries and wages and fringe benefits in the consolidated statements of operations and changes in net assets without donor restrictions.

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

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## Notes to Consolidated Financial Statements

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respectively. The Foundation received a total of \$550,000 and \$467,000 in research support from BUSM for the years ended June 30, 2018 and 2017. The Foundation received a total of \$99,150,000 and \$106,434,000 for institutional support from the Medical Center for the years ended June 30, 2018 and 2017, respectively. The Foundation also received \$33,212,000 and \$34,110,000 from the Medical Center which was recorded as reimbursement of operating expenses for the years ended June 30, 2018 and 2017, respectively. The Foundation received \$4,072,000 and \$5,926,000 from the Health System Corporation, which was recorded as reimbursement of operating expenses for the years ended June 30, 2018 and 2017, respectively.

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

**(18) Claims Payable**

In conjunction with the BMCHP health plan programs, the Health System establishes a claims payable account for insured events. The table below shows the changes in the claims payable account for the years ended September 30, 2019 and 2018:

	<b>2019</b>	<b>2018</b>
	(In thousands)	
Accrued at beginning of year	\$ 131,893	122,600
Incurred services:		
Current year	2,469,338	1,945,548
Prior years	<u>9,037</u>	<u>(41,923)</u>
Total incurred	<u>2,478,375</u>	<u>1,903,625</u>
Paid claims:		
Current year	2,301,262	1,795,631
Prior years	<u>164,927</u>	<u>98,701</u>
Total paid	<u>2,466,189</u>	<u>1,894,332</u>
Accrued at end of year	<u>\$ 144,079</u>	<u>131,893</u>

Claims expense of \$2,478,375,000 and \$1,903,625,000 for 2019 and 2018, respectively is included in the medical cost, supplies and other expenses line item on the consolidated statement of operations and changes in net assets without donor restrictions. Health claims paid by BMCHP to BMC are eliminated in the Health System's accompanying consolidated financial statements. Claims payable as of September 30, 2019 and 2018 were \$144,079,000 and \$131,893,000, respectively. As of September 30, 2019 and 2018, \$9,037,000 and (\$41,923,000) had been expensed (recouped) for incurred claims attributable to services rendered to insured as of September 30, 2019, and September 30, 2018, respectively. Favorable/unfavorable development is generally a result of ongoing analysis of recent loss development trends and therefore, estimates are increased or decreased accordingly. The September 30, 2018 prior year favorable amount of \$(41,923,000) includes \$25,217,000 of pharmacy rebates for the fiscal year recognized as a

**BMC HEALTH SYSTEM, INC.**

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component of claims expense in 2019 and 2018 but recognized as other revenue in the 2017 consolidated financial statements as well claims loss and loss adjustment expense that were recognized in claims expense in 2017 but as administrative expense in 2019 and 2018.

**(19) Functional Expenses**

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

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

	2019						
	Patient services	Medical education	Research	Mgmt and general	Fundraising efforts	Eliminations	Total
Operating expenses:							
Salaries	\$ 681,512	36,183	8,562	205,461	4,182	(32,098)	903,802
Employee benefits	106,920	9,552	2,260	34,169	1,104	—	154,005
Medical costs	2,488,756	—	—	—	—	(408,975)	2,079,781
Supplies	92,154	—	62	19,275	—	(26,317)	85,174
Purchased services	44,973	61	2,811	51,924	2,527	—	102,296
Depreciation and amortization	60,240	—	5,301	34,978	—	—	100,519
Interest	15	—	—	21,624	—	—	21,639
Other expenses	470,552	2,129	9,961	225,800	669	(106,435)	602,676
Research, sponsored, and community health services	—	—	85,737	—	—	—	85,737
Operating expenses	<u>\$ 3,945,122</u>	<u>47,925</u>	<u>114,694</u>	<u>593,231</u>	<u>8,482</u>	<u>(573,825)</u>	<u>4,135,629</u>

Expenses by functional classification for the year ended September 30, 2018 consisted of the following; Patient care \$2,269,855; Medical education \$35,637; Research sponsored programs and community health services \$81,529; Retail Pharmacy and other \$201,943; and General and administrative \$841,327.

**(20) Governmental Subsidies**

In recognition of the role that safety net hospitals play in serving a large proportion of Medicaid and uninsured individuals in the Commonwealth, EOHHS has secured Centers for Medicare and Medicaid Services (CMS) approval of a Section 1115 demonstration in which \$882,000,000 will be available in safety net provider supplemental payments to eligible hospitals between State FY 2018 and 2022, subject to hospitals' compliance with program requirements. There are a total of 14 hospitals that were eligible for these funds, of which the Medical Center's portion for fiscal year 2019 payments was \$91,808,000 as compared to the prior year DSTI payment \$97,902,000.

The Medical Center received additional payments for both Delivery System Reform Incentive Payments (DSRIP) and a DSTI Glide path. The Glide Path dollars assist the Medical Center in the transition from the old system to the new system, and the DSRIP payments assist as the Medical Center moves into the new ACO payment models that have been set forth by the State. The State recognizes that the hospital must

**BMC HEALTH SYSTEM, INC.**

## Notes to Consolidated Financial Statements

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make necessary investments in order to achieve downstream cost savings. The sum of these payments were \$37,904,000 in 2019 and \$38,402,000 in 2018.

**(21) Commitments and Contingencies**

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

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

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

**BMC HEALTH SYSTEM, INC.**

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*Reinsurance and Excess Liability Coverage*

The Health System has reinsurance coverage of \$40,000,000 for professional and general liability losses per individual claim, and for annual aggregate professional and general liability losses on a claims-made basis. The Health System has excess liability coverage of 20,000,000 for Employment Practices liability on a claims-made basis. The existence of this reinsurance and excess coverage does not relieve the Health System of their primary obligation with respect to losses incurred. The Health System would be liable for claims ceded to reinsurers in the event such reinsurers are unable to meet their obligations.

The Health System provided \$96,400,000 and \$96,756,000 for expected claims liabilities as of September 30, 2019 and 2018, respectively.

**(23) Subsequent Events**

The Health System has assessed the impact of subsequent events through February 12, 2020, the date the audited financial statements were issued, and have concluded that other than the notes below, there were no such events that require adjustment to the audited consolidated financial statements or disclosure in the notes to the consolidated financial statements.

In Fiscal year 2020, the Medical Center transferred \$125,000,000 of net assets to the Health Plan. The Board of Trustees approved the transfer.

**SUPPLEMENTAL CONSOLIDATING INFORMATION**

**BMC HEALTH SYSTEM, INC.**  
**Consolidating Supplemental Balance Sheet**  
September 30, 2019  
(In thousands)

Assets	The Health System Corporation	Medical Center	BMCHP	Foundation	BMCIC and BMCIC of Vermont	BACO	All other entities	Eliminations	The Health System
Current assets:									
Cash and cash equivalents	\$ 4,994	198,651	54,185	39,862	10,821	7,163	6,106	—	321,782
Short-term investments			2,671						2,671
Patients accounts receivable, less allowance of \$0 in 2019	—	118,007	—	22,136	—		141	(28,784)	111,500
Other accounts receivable, less allowance of \$1,568 in 2019	1,227	52,237	219,923	3,914	2,817	8,770	2,136	(6,349)	284,675
Current portion of grants receivable	—	17,585	—	—	—	—	—	—	17,585
Current portion of estimated receivable for final settlements with third-party payors	—	3,941	—	—	—	—	—	—	3,941
Current portion due from related parties	6,539	72,628	—	2,979	10,805	13,184	309	(106,444)	—
Inventories	—	12,714	—	—	—	—	—	—	12,714
Prepaid expenses and other current assets	12,980	4,525	1,348	293	650	—	16	(647)	19,165
Insurance recoveries receivable	—	35,793	—	50,455	—	—	—	(86,248)	—
Current portion of funds held by Trustees	—	—	—	—	—	—	—	—	—
Total current assets	<u>25,740</u>	<u>516,081</u>	<u>278,127</u>	<u>119,639</u>	<u>25,093</u>	<u>29,117</u>	<u>8,708</u>	<u>(228,472)</u>	<u>774,033</u>
Assets limited as to use:									
Board-designated investments	—	394,247	—	—	—	—	—	—	394,247
Funds held by Trustees	—	40,057	—	—	—	—	536	—	40,593
Donor-restricted investments	—	330,615	—	—	—	—	—	—	330,615
Reserve funds	—	—	2,556	—	97,630	—	—	—	100,186
Total assets limited as to use	<u>—</u>	<u>764,919</u>	<u>2,556</u>	<u>—</u>	<u>97,630</u>	<u>—</u>	<u>536</u>	<u>—</u>	<u>865,641</u>
Other assets:									
Long-term investments	—	410	211,446	47,995	—	—	—	—	259,851
Property, plant and equipment, net	336	1,098,661	9,240	2,544	—	—	4,603	—	1,115,384
Other noncurrent assets	—	47,911	—	43	—	—	—	(3,225)	44,729
Total assets	<u>\$ 26,076</u>	<u>2,427,982</u>	<u>501,369</u>	<u>170,221</u>	<u>122,723</u>	<u>29,117</u>	<u>13,847</u>	<u>(231,697)</u>	<u>3,059,638</u>
<b>Liabilities and Net Assets</b>									
Current liabilities:									
Accounts payable and accrued expenses	\$ 5,567	164,526	87,089	16,874	70	—	3,626	5,505	283,257
Claims payable	—	—	172,713	—	—	—	—	(28,634)	144,079
Deferred revenue	638	23,075	—	—	647	—	—	(647)	23,713
Current portion of due to related parties	738	27,396	2,014	26,704	—	17,153	4,233	(78,238)	—
Current portion of long-term debt and capital leases	—	6,491	—	76	—	—	1,500	—	8,067
Professional liability claims	—	35,793	—	50,455	—	—	—	(86,248)	—
Premium deficiency reserve	—	—	11,048	—	—	—	—	—	11,048
Other current liabilities	—	—	6,994	—	—	4,935	3,669	(3,500)	12,098
Total current liabilities	<u>6,943</u>	<u>257,281</u>	<u>279,858</u>	<u>94,109</u>	<u>717</u>	<u>22,088</u>	<u>13,028</u>	<u>(191,762)</u>	<u>482,262</u>
Long-term liabilities:									
Estimated final settlements with third-party payors	—	55,755	—	—	—	586	—	—	56,341
Obligations under capital leases	—	43,222	—	31	—	—	—	—	43,253
Due to related parties	—	—	—	942	37,373	—	—	(38,315)	—
Long-term debt	—	622,184	—	—	—	—	(27)	—	622,157
Other long-term liabilities	—	122,072	—	5,937	84,439	—	—	—	212,448
Total liabilities	<u>6,943</u>	<u>1,100,514</u>	<u>279,858</u>	<u>101,019</u>	<u>122,529</u>	<u>22,674</u>	<u>13,001</u>	<u>(230,077)</u>	<u>1,416,461</u>
Commitments and contingencies									
Net assets:									
Without donor restrictions	19,133	989,342	221,511	69,202	194	6,443	846	(1,620)	1,305,051
With donor restrictions	—	338,126	—	—	—	—	—	—	338,126
Total net assets	<u>19,133</u>	<u>1,327,468</u>	<u>221,511</u>	<u>69,202</u>	<u>194</u>	<u>6,443</u>	<u>846</u>	<u>(1,620)</u>	<u>1,643,177</u>
Total liabilities and net assets	<u>\$ 26,076</u>	<u>2,427,982</u>	<u>501,369</u>	<u>170,221</u>	<u>122,723</u>	<u>29,117</u>	<u>13,847</u>	<u>(231,697)</u>	<u>3,059,638</u>

See accompanying independent auditors' report.

BMC HEALTH SYSTEM, INC.									
Consolidating Supplemental Balance Sheet									
	September 30, 2018								
	(In thousands)								
Assets	The Health System Corporation	Medical Center	BMCHP	Foundation	BMCIC and BMCIC of Vermont	BACO	All other entities	Eliminations	The Health System
Current assets:									
Cash and cash equivalents	\$ 28,590	306,902	141,887	66,183	6,691	4,299	5,091	—	559,643
Short-term investments	—	—	—	—	—	—	—	—	—
Patients accounts receivable, less allowance of \$52,624 in 2018	—	88,444	—	21,302	—	—	280	(24,262)	85,764
Other accounts receivable, less allowance of \$3,350 in 2018	—	44,621	146,072	3,934	2,556	213	100	(2,055)	195,441
Current portion of grants receivable	—	15,962	—	—	—	—	—	—	15,962
Current portion of estimated receivable for final settlements with third-party payors	—	3,941	—	—	—	—	—	—	3,941
Current portion due from related parties	1,440	71,458	12,407	3,263	8,491	4,300	4,919	(106,278)	—
Inventories	—	13,568	—	—	—	—	—	—	13,568
Prepaid expenses and other current assets	45	33,957	6,525	357	585	—	40	(544)	40,965
Insurance recoveries receivable	—	37,222	—	49,340	—	—	—	(86,562)	—
Current portion of funds held by Trustees	—	23,161	—	—	—	—	—	—	23,161
Total current assets	30,075	639,236	306,891	144,379	18,323	8,812	10,430	(219,701)	938,445
Assets limited as to use:									
Board-designated investments	—	376,419	—	—	—	—	—	—	376,419
Funds held by Trustees	—	38,235	—	—	—	—	530	—	38,765
Donor-restricted investments	—	332,656	—	—	—	—	—	—	332,656
Reserve funds	—	—	3,568	—	104,295	—	—	—	107,863
Total assets limited as to use	—	747,310	3,568	—	104,295	—	530	—	855,703
Other assets:									
Long-term investments	—	337	210,424	45,109	—	—	—	—	255,870
Property, plant and equipment, net	388	884,319	9,146	2,605	—	—	132,125	—	1,028,583
Other noncurrent assets	—	209,173	—	43	—	—	—	(168,205)	41,011
Total assets	\$ 30,463	2,480,375	530,029	192,136	122,618	8,812	143,085	(387,906)	3,119,612
Liabilities and Net Assets									
Current liabilities:									
Accounts payable and accrued expenses	\$ 659	190,452	132,155	17,241	79	2,924	3,057	22,305	368,872
Claims payable	—	—	156,155	—	—	—	—	(24,262)	131,893
Deferred revenue	3,424	24,873	—	—	544	—	—	(544)	28,297
Current portion of due to related parties	9,264	31,962	—	50,906	387	953	7,276	(100,748)	—
Current portion of long-term debt and capital leases	—	85,483	—	113	—	—	1,400	—	86,996
Professional liability claims	—	37,222	—	49,340	—	—	—	(86,562)	—
Premium deficiency reserve	—	—	—	—	—	—	—	—	—
Other current liabilities	—	—	3,734	—	7	2,609	3,196	—	9,546
Total current liabilities	13,347	369,992	292,044	117,600	1,017	6,486	14,929	(189,811)	625,604
Long-term liabilities:									
Estimated final settlements with third-party payors	—	49,132	—	—	—	606	—	—	49,738
Obligations under capital leases	—	44,928	—	107	—	—	—	—	45,035
Due to related parties	—	—	—	967	30,257	—	—	(31,224)	—
Long-term debt	—	630,402	—	—	—	—	1,445	—	631,847
Other long-term liabilities	—	41,855	—	5,811	86,562	—	165,251	(165,251)	134,228
Total liabilities	13,347	1,136,309	292,044	124,485	117,836	7,092	181,625	(386,286)	1,486,452
Commitments and contingencies									
Net assets:									
Without donor restrictions	17,116	1,001,922	237,985	67,651	4,782	1,720	(38,540)	(1,620)	1,291,016
With donor restrictions	—	342,144	—	—	—	—	—	—	342,144
Total net assets	17,116	1,344,066	237,985	67,651	4,782	1,720	(38,540)	(1,620)	1,633,160
Total liabilities and net assets	\$ 30,463	2,480,375	530,029	192,136	122,618	8,812	143,085	(387,906)	3,119,612

See accompanying independent auditors' report.

## BMC HEALTH SYSTEM, INC.

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

Year ended September 30, 2019

(In thousands)

	The Health System Corporation	Medical Center	BMCHP	Foundation	BMCIC and BMCIC of Vermont	BACO	All other entities	Eliminations	The Health System
<b>Operating revenue:</b>									
Net patient service revenue	\$ —	1,131,959	—	170,230	—	—	1,416	(214,689)	1,088,916
Provision for bed debt	—	—	—	—	—	—	—	—	—
Net patient service revenue, net of provision for bad debt	—	1,131,959	—	170,230	—	—	1,416	(214,689)	1,088,916
Capitation revenue	—	—	2,629,817	—	—	—	—	—	2,629,817
Grants and contract revenue	13,376	105,267	—	—	—	—	—	—	118,643
Institutional support	—	—	—	95,877	—	—	1,966	(97,843)	—
Other revenue	—	403,265	4,577	99,480	—	15,347	3,592	(263,250)	263,011
Net assets released from restrictions for operations	—	21,352	—	—	—	—	—	—	21,352
Total operating revenue	13,376	1,661,843	2,634,394	365,587	—	15,347	6,974	(575,782)	4,121,739
<b>Operating expenses:</b>									
Salaries, wages and fringe benefits	12,013	680,623	71,275	320,420	—	1,827	3,747	(32,098)	1,057,807
Medical costs, supplies and other expenses	11,508	666,014	2,589,948	53,301	7,172	18,489	(41,213)	(435,292)	2,869,927
Institutional support	—	106,435	—	—	—	—	—	(106,435)	—
Depreciation and amortization	52	90,975	3,784	724	—	—	4,984	—	100,519
Interest expense	—	21,440	—	15	—	—	184	—	21,639
Research, sponsored programs and community health services	—	85,737	—	—	—	—	—	—	85,737
Total operating expenses	23,573	1,651,224	2,665,007	374,460	7,172	20,316	(32,298)	(573,825)	4,135,629
Income (loss) from operations	(10,197)	10,619	(30,613)	(8,873)	(7,172)	(4,969)	39,272	(1,957)	(13,890)
<b>Nonoperating gains (losses), net:</b>									
Income from investments (including other-than-temporary impairment losses of \$403 in 2019)	257	26,101	25,665	1,158	2,584	34	28	183	56,010
Other	—	—	—	4	—	—	(16)	—	(12)
Total nonoperating gains, net	257	26,101	25,665	1,162	2,584	34	12	183	55,998
Excess (deficiency) of revenue over expenses	(9,940)	36,720	(4,948)	(7,711)	(4,588)	(4,935)	39,284	(1,774)	42,108
<b>Other changes in unrestricted net assets:</b>									
Change in unrealized appreciation (depreciation) on investments	—	(4,769)	(12,467)	1,751	—	—	—	—	(15,485)
Net asset transfer to affiliate	16,000	(25,100)	—	—	—	9,100	—	—	—
Net assets released from restrictions for property, plant and equipment	—	13,609	—	—	—	—	—	—	13,609
Pension-related changes other than net periodic pension costs	—	(26,197)	—	—	—	—	—	—	(26,197)
Donated services from/(to) affiliates	(4,043)	(6,843)	941	7,511	—	558	102	1,774	—
Change in net assets without donor restrictions	2,017	(12,580)	(16,474)	1,551	(4,588)	4,723	39,386	—	14,035
<b>Net assets without donor restriction:</b>									
Beginning of year	17,116	1,001,922	237,985	67,651	4,782	1,720	(38,540)	(1,620)	1,291,016
End of year	\$ 19,133	989,342	221,511	69,202	194	6,443	846	(1,620)	1,305,051

See accompanying independent auditors' report.

## BMC HEALTH SYSTEM, INC.

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

Year ended September 30, 2018

(In thousands)

	The Health System Corporation	Medical Center	BMCHP	Foundation	BMCIC and BMCIC of Vermont	BACO	All other entities	Eliminations	The Health System
<b>Operating revenue:</b>									
Net patient service revenue	\$ —	1,150,633	—	193,699	—	—	2,243	(222,788)	1,123,787
Provision for bed debt	—	(58,012)	—	(23,065)	—	—	(67)	—	(81,144)
Net patient service revenue, net of provision for bad debt	—	1,092,621	—	170,634	—	—	2,176	(222,788)	1,042,643
Capitation revenue	—	—	2,061,595	—	—	—	—	(1,651)	2,059,944
Grants and contract revenue	18,074	90,561	—	—	—	—	—	—	108,635
Institutional support	—	—	—	99,150	—	1,220	1,791	(102,161)	—
Other revenue	—	279,909	1,652	95,957	5,279	(545)	3,129	(184,110)	201,271
Net assets released from restrictions for operations	—	18,351	—	—	—	—	—	—	18,351
<b>Total operating revenue</b>	<b>18,074</b>	<b>1,481,442</b>	<b>2,063,247</b>	<b>365,741</b>	<b>5,279</b>	<b>675</b>	<b>7,096</b>	<b>(510,710)</b>	<b>3,430,844</b>
<b>Operating expenses:</b>									
Salaries, wages and fringe benefits	13,093	630,674	75,547	313,986	—	2,136	5,163	(32,172)	1,008,427
Medical costs, supplies and other expenses	21,663	526,586	1,994,201	54,310	3,662	779	1,988	(379,354)	2,223,835
Institutional support	(889)	99,873	—	—	—	—	—	(98,984)	—
Depreciation and amortization	1,918	86,520	3,694	780	—	—	5,295	—	98,207
Interest expense	—	24,833	—	9	—	—	271	—	25,113
Research, sponsored programs and community health services	—	74,709	—	—	—	—	—	—	74,709
<b>Total operating expenses</b>	<b>35,785</b>	<b>1,443,195</b>	<b>2,073,442</b>	<b>369,085</b>	<b>3,662</b>	<b>2,915</b>	<b>12,717</b>	<b>(510,510)</b>	<b>3,430,291</b>
<b>Income (loss) from operations</b>	<b>(17,711)</b>	<b>38,247</b>	<b>(10,195)</b>	<b>(3,344)</b>	<b>1,617</b>	<b>(2,240)</b>	<b>(5,621)</b>	<b>(200)</b>	<b>553</b>
<b>Nonoperating gains (losses), net:</b>									
Income from investments (including other-than-temporary impairment losses of \$978 in 2018)	219	17,124	13,344	1,420	2,646	—	16	200	34,969
Other	—	(5,950)	—	(3,906)	—	—	—	—	(9,856)
<b>Total nonoperating gains, net</b>	<b>219</b>	<b>11,174</b>	<b>13,344</b>	<b>(2,486)</b>	<b>2,646</b>	<b>—</b>	<b>16</b>	<b>200</b>	<b>25,113</b>
<b>Excess (deficiency) of revenue over expenses</b>	<b>(17,492)</b>	<b>49,421</b>	<b>3,149</b>	<b>(5,830)</b>	<b>4,263</b>	<b>(2,240)</b>	<b>(5,605)</b>	<b>—</b>	<b>25,666</b>
<b>Other changes in unrestricted net assets:</b>									
Change in unrealized appreciation (depreciation) on investments	—	(2,844)	(10,129)	1,418	(1,435)	—	—	—	(12,990)
Net asset transfer to Affiliate	—	2,000	10,000	—	(20,000)	4,300	3,700	—	—
Other changes	—	206	—	—	—	—	(218)	—	(12)
Net assets released from restrictions for property, plant and equipment	—	29,194	—	—	—	—	—	—	29,194
Pension-related changes other than net periodic pension costs	—	8,120	—	—	—	—	—	—	8,120
Donated services from/(to) affiliates	1,898	(7,734)	—	5,191	—	530	115	—	—
<b>Change in net assets without donor restrictions</b>	<b>(15,594)</b>	<b>78,363</b>	<b>3,020</b>	<b>779</b>	<b>(17,172)</b>	<b>2,590</b>	<b>(2,008)</b>	<b>—</b>	<b>49,978</b>
<b>Net assets without donor restriction:</b>									
Beginning of year	32,710	923,471	234,965	66,872	21,954	(870)	(36,444)	(1,620)	1,241,038
End of year	\$ 17,116	1,001,834	237,985	67,651	4,782	1,720	(38,452)	(1,620)	1,291,016

See accompanying independent auditors' report.

## BMC HEALTH SYSTEM, INC.

## Consolidating Supplemental Statement of Cash Flows

Year ended September 30, 2019

(In thousands)

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

See accompanying independent auditors' report.

**BMC HEALTH SYSTEM, INC.**  
**Consolidating Supplemental Statement of Cash Flows**  
Year ended September 30, 2018  
(In thousands)

	The Health System Corporation	Medical Center	BMCHP	Foundation	BMCIC and BMCIC of Vermont	BACO	All other entities	Eliminations	The Health System
<b>Operating activities:</b>									
Change in net assets	\$ (15,594)	81,470	3,020	779	(17,172)	2,590	(1,790)	—	53,303
Adjustments to reconcile change in net assets to net cash provided by operating activities:									
Depreciation and amortization	1,918	86,520	3,694	780	—	—	5,295	—	98,207
Restricted contributions	—	(16,251)	—	—	—	—	—	—	(16,251)
Donated securities received	—	(1,230)	—	—	—	—	—	—	(1,230)
Return on investment of joint venture	—	(1,318)	—	—	—	—	—	—	(1,318)
Bond premium/discount	—	708	—	—	—	—	—	—	708
Amortization of bond discount/premium and issuance costs	—	(1,727)	—	—	—	—	27	—	(1,700)
Discount and provision for bad debt on contributions receivable	—	6,776	—	—	—	—	—	—	6,776
Net realized gains and change in unrealized (appreciation) on investments	—	(26,289)	10,130	(1,833)	—	—	—	—	(17,992)
Increase in asset retirement obligation	—	86	—	—	—	—	—	—	86
Provision for bad debts	—	58,012	—	23,065	—	—	67	—	81,144
Pension related changes other than net periodic pension costs	—	(8,120)	—	—	—	—	—	—	(8,120)
Changes in operating assets and liabilities:									
Grants receivable	—	709	—	—	—	—	—	—	709
Patient accounts receivable	—	(48,887)	—	(27,642)	—	—	(116)	6,157	(70,488)
Other current assets and liabilities	6,262	(20,318)	(7,579)	(125)	—	2,973	3,167	297	(15,323)
Other noncurrent assets and liabilities	8,183	5,377	—	149	(4,755)	—	(3,188)	2,021	7,787
Due to/from Related parties	5,895	50,369	(13,492)	20,521	(20,527)	(7,083)	(8,471)	(27,212)	—
Estimated final settlements with third-party payors	—	(2,494)	—	—	—	606	—	—	(1,888)
Claims payable	—	—	15,505	—	—	—	—	(6,212)	9,293
(Decrease) increase in premium deficiency reserve	—	—	—	—	—	—	—	—	—
Accounts payable and accrued expenses	(2,021)	25,693	49,196	(4,665)	13	853	(197)	24,949	93,821
Net cash provided by (used in) operating activities	4,643	189,086	60,474	11,029	(42,441)	(61)	(5,206)	—	217,524
<b>Investing activities:</b>									
Proceeds from sale of investments	—	53,901	144,118	17,871	21,435	—	—	—	237,325
Proceeds from sale of funds held by Trustees	—	59,334	—	—	18,609	—	1,571	—	79,514
Purchases of investments	—	(36,548)	(86,141)	(22,684)	(66)	—	—	—	(145,439)
Purchases of funds held by Trustees	—	(82,780)	—	—	—	—	(1,543)	—	(84,323)
Refund of East Newton building deposit	—	(8,388)	—	—	—	—	—	—	(8,388)
Purchase of property, plant and equipment	(1,867)	(144,391)	(647)	(579)	—	—	(1)	—	(147,485)
Net cash used in investing activities	(1,867)	(158,872)	57,330	(5,392)	39,978	—	27	—	(68,796)
<b>Financing activities:</b>									
Proceeds from borrowings	—	148,500	—	—	—	—	—	—	148,500
Debt issuance costs	—	(524)	—	—	—	—	—	—	(524)
Proceeds from restricted contributions	—	16,251	—	—	—	—	—	—	16,251
Proceeds from sale of donated securities	—	1,230	—	—	—	—	—	—	1,230
Repayment of long-term debt and capital leases	—	(4,478)	—	(124)	—	—	(1,300)	—	(5,902)
Net cash provided by financing activities	—	160,979	—	(124)	—	—	(1,300)	—	159,555
Increase (decrease) in cash and cash equivalents	2,776	191,193	117,804	5,513	(2,463)	(61)	(6,479)	—	308,283
<b>Cash and cash equivalents:</b>									
Beginning of year	25,814	115,709	24,083	60,670	9,154	4,360	11,570	—	251,360
End of year	\$ 28,590	306,902	141,887	66,183	6,691	4,299	5,091	—	559,643
<b>Supplemental disclosure of cash flow activities:</b>									
Cash paid for interest	\$ —	28,012	—	9	—	—	—	—	28,021
Property, plant and equipment included in accounts payable	—	22,989	—	—	—	—	—	—	22,989
Conditional asset retirement obligations	—	86	—	—	—	—	—	—	86
Net fixed assets recognized related to conditional asset retirement obligations	—	(258)	—	—	—	—	—	—	(258)
Contributed securities	—	1,230	—	—	—	—	—	—	1,230
Gift in-kind	—	—	—	500	—	—	—	—	500
New capital leases	—	—	—	—	—	—	—	—	—

See accompanying notes to consolidated financial statements.

## Exhibit IV

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

Assets	Division of																			Plastic	Psychiatry	Radiology	Rehab	Radiation	Oncology	Urology	Eliminations	Total
	Surgery	Anesthesia	Cardiac	Dermatology	ER	Evans	Eye	Family	Faculty	Surgery	Neurology	Neurosurgery	OB/GYN	Orthopedic	Otolaryngology	Pediatrics	Pathology	Plastic										
Cash	\$ —	37	—	487	1,078	160	1,335	22	27,661	414	106	20	21	3,442	401	22	1,616	—	2,287	380	—	20	353	—	39,862			
Prepaid accounts receivable, net	—	—	—	247	1,769	5,170	1,216	606	6,044	2,263	81	344	1,023	1,543	391	1,027	503	—	2,053	1,603	—	254	516	—	22,196			
Other receivable, less allowance for doubtful accounts	—	—	—	158	115	410	7	621	588	91	37	364	368	—	81	286	119	—	188	765	—	—	(440)	3,914	—	—		
Due from related parties	—	92	—	143	358	1,482	22	226	1,498	794	342	14	2	41	286	122	273	—	—	—	—	—	11	30	(3,356)	2,979		
Insurance recoveries receivable	—	—	—	—	—	—	—	—	50,455	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	50,455			
Other current assets	—	—	—	58	—	(21)	27	—	180	18	—	1	15	—	3	11	3	—	—	—	—	—	—	—	—	293		
Total current assets	—	129	—	1,323	3,322	7,734	2,609	1,754	79,776	3,598	1,297	743	1,457	5,026	1,142	1,928	2,517	—	4,528	3,367	—	285	902	(3,796)	119,639			
Property and equipment, net	—	—	—	122	8	746	1,074	6	60	—	—	—	—	121	—	40	198	—	17	152	—	—	—	—	—	2,544		
Investments	—	—	—	36	4,723	32,315	—	—	—	—	5,583	—	—	—	375	4,379	25	—	559	—	—	—	—	—	47,995			
Other assets	—	—	—	—	—	—	—	—	—	—	—	7	—	—	—	—	—	—	—	—	—	—	—	—	43			
Total assets	\$ —	129	—	1,481	8,051	40,795	3,683	1,760	85,395	3,658	1,304	743	1,457	5,147	1,517	6,347	2,740	—	5,104	3,519	—	285	902	(3,796)	170,221			
<b>Liabilities and Net Assets</b>																												
Current liabilities:																												
Accounts payable and accrued expenses	\$ —	2	—	126	1,644	4,771	958	564	809	1,143	245	175	145	1,998	288	828	381	—	1,872	791	—	104	30	—	16,874			
Due to related parties	—	127	—	130	56	2,405	414	106	22,516	140	376	140	302	156	69	333	116	—	2,230	256	—	161	7	(3,356)	26,704			
Professional liability claims payable	—	—	—	—	—	—	39	—	—	37	—	—	—	—	—	—	—	—	—	—	—	—	—	—	76			
Current portion of long term capital lease obligations	—	—	—	—	—	—	—	—	50,455	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	50,455			
Total current liabilities	—	129	—	256	1,700	7,176	1,411	670	73,780	1,320	621	315	447	2,154	357	1,161	497	—	4,102	1,047	—	285	37	(3,356)	94,109			
Long term capital lease obligations, net of current portion	—	—	—	—	—	—	23	—	—	8	—	—	—	—	—	—	—	—	—	—	—	—	—	—	31			
Long term portion of due to related parties	—	—	—	—	—	—	942	440	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(440)	942		
Long term professional liability claims payable	—	—	—	—	—	—	—	—	5,937	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	5,937			
Net assets without donor restrictions	—	—	—	1,225	6,351	32,677	1,809	1,090	5,678	2,330	683	428	1,010	2,993	1,160	5,186	2,243	—	1,002	2,472	—	—	865	—	69,202			
Total liabilities and net assets	\$ —	129	—	1,481	8,051	40,795	3,683	1,760	85,395	3,658	1,304	743	1,457	5,147	1,517	6,347	2,740	—	5,104	3,519	—	285	902	(3,796)	170,221			

See accompanying independent auditors' report.

## Exhibit IV

**BMC HEALTH SYSTEM, INC.**  
 Boston University Medical Group Consolidating Supplemental Balance Sheets  
 June 30, 2018  
 (In thousands)

Assets																					Total				
	Division of Surgery	Anesthesia	Cardiac	Dermatology	ER	Evans	Eye	Family	Faculty	Surgery	Neurology	Neurosurgery	OB/GYN	Orthopedic	Otolaryngology	Pediatrics	Pathology	Plastic Surgery	Psychiatry	Radiology	Rehab	Radiation Oncology	Urology	Eliminations	Total
Cash	\$ —	—	—	396	1,417	1,145	1,388	31	50,362	1,328	502	22	22	2,836	823	249	1,606	—	1,959	1,619	—	23	455	—	66,183
Patient accounts receivable	—	—	—	679	2,520	6,344	1,343	981	—	2,903	832	517	1,487	1,865	1,148	1,967	764	—	2,275	2,122	—	198	523	—	28,468
Patient allowance for doubtful accounts	—	—	—	(134)	(839)	(1,313)	(245)	(322)	—	(742)	(164)	(195)	(257)	(483)	(433)	(533)	(345)	—	(358)	(651)	—	(29)	(113)	—	(7,166)
Total patient accounts receivable, less allowance for doubtful accounts	—	—	—	545	1,681	5,031	1,098	649	—	2,161	668	322	1,230	1,382	715	1,434	419	—	1,917	1,471	—	169	410	—	21,302
Other receivables	—	—	—	243	204	540	8	1,125	43	78	88	703	242	—	10	351	102	—	270	194	—	—	—	(143)	4,058
Nonpatient allowance for doubtful accounts	—	—	—	—	(3)	(41)	—	(2)	—	(1)	(45)	(20)	1	—	—	—	—	—	(13)	—	—	—	—	—	(124)
Total other receivables, less allowance for doubtful accounts	—	—	—	243	201	499	8	1,123	43	77	43	683	243	—	10	351	102	—	257	194	—	—	(143)	3,934	
Due from related parties	—	—	—	227	522	2,722	54	124	345	65	255	—	49	160	—	441	261	—	75	366	—	60	(2,453)	3,263	
Insurance recoveries receivable	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	49,340
Other current assets	—	—	—	98	—	101	30	—	48	16	—	—	15	—	2	12	17	—	—	18	—	—	—	—	357
Total current assets	—	—	—	1,509	3,821	9,498	2,578	1,927	100,138	3,647	1,468	1,027	1,559	4,378	1,550	2,487	2,405	—	4,208	3,668	—	192	925	(2,606)	144,379
Property and equipment, net	—	—	—	144	11	1,004	875	19	—	105	—	—	—	139	—	67	—	21	25	—	—	—	—	—	2,605
Investments	—	—	—	46	4,433	30,393	—	—	—	5,230	—	—	—	—	351	4,108	25	—	523	—	—	—	—	—	45,109
Other assets	—	—	—	—	—	—	—	—	—	36	7	—	—	—	—	—	—	—	—	—	—	—	—	—	43
Total assets	\$ —	—	—	1,699	8,265	40,895	3,453	1,948	105,404	3,752	1,475	1,027	1,559	4,517	1,901	6,652	2,635	—	4,752	3,693	—	192	925	(2,606)	192,136
<b>Liabilities and Net Assets</b>																									
Current liabilities:																									
Accounts payable and accrued expenses	\$ —	—	—	176	2,039	4,913	901	336	944	1,116	125	19	301	1,396	487	1,117	438	—	1,782	1,093	—	23	35	—	17,241
Due to related parties	—	—	—	158	51	5,059	603	155	44,301	225	135	575	181	128	273	194	48	—	1,127	128	—	169	2	(2,606)	50,908
Professional liability claims payable	—	—	—	—	—	—	—	—	49,340	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	49,340
Current portion of long term capital lease obligations	—	—	—	—	—	—	77	—	—	36	—	—	—	—	—	—	—	—	—	—	—	—	—	—	113
Total current liabilities	—	—	—	334	2,090	9,972	1,581	491	94,585	1,377	260	594	482	1,524	760	1,311	486	—	2,909	1,221	—	192	37	(2,606)	117,600
Long term capital lease obligations, net of current portion	—	—	—	—	—	—	62	—	—	45	—	—	—	—	—	—	—	—	—	—	—	—	—	—	107
Long term portion of due to related parties	—	—	—	—	—	—	967	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	967
Long term professional liability claims payable	—	—	—	—	—	—	—	—	—	5,811	—	—	—	—	—	—	—	—	—	—	—	—	—	—	5,811
Net assets without donor restrictions	—	—	—	1,365	6,175	29,956	1,810	1,455	5,008	2,330	1,215	433	1,077	2,993	1,141	5,341	2,149	—	1,843	2,472	—	—	888	—	67,651
Total liabilities and net assets	\$ —	—	—	1,699	8,265	40,895	3,453	1,948	105,404	3,752	1,475	1,027	1,559	4,517	1,901	6,652	2,635	—	4,752	3,693	—	192	925	(2,606)	192,136

See accompanying independent auditors' report.

## Exhibit IV

### BMC HEALTH SYSTEM, INC.

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

	<b>Division of Surgery</b>	<b>Anesthesia</b>	<b>Cardiac</b>	<b>Dermatology</b>	<b>ER</b>	<b>Evans</b>	<b>Eye</b>	<b>Family</b>	<b>Faculty</b>	<b>Surgery</b>	<b>Neurology</b>	<b>Neurosurgery</b>	<b>OB/GYN</b>	<b>Orthopedic</b>	<b>Otolaryngology</b>	<b>Pediatrics</b>	<b>Pathology</b>	<b>Plastic Surgery</b>	<b>Psychiatry</b>	<b>Radiology</b>	<b>Rehab</b>	<b>Radiation Oncology</b>	<b>Urology</b>	<b>Eliminations</b>	<b>Total</b>	
<b>Operating revenue:</b>																										
Net patient service revenue	\$ —	—	—	3,961	11,030	41,516	14,467	4,990	—	11,999	5,415	1,250	9,963	10,672	4,636	10,524	3,378	—	20,535	11,249	—	1,649	2,996	—	170,230	
Institutional support	—	760	—	1,122	4,607	27,688	1,003	3,866	3,737	14,352	2,621	3,546	3,202	3,724	1,709	5,849	3,595	—	7,455	5,783	—	584	674	—	95,877	
Research support	—	—	—	—	—	348	—	—	—	—	—	—	—	—	—	—	—	—	4	—	—	—	—	—	385	
Reimbursement of operating expense	—	144	—	1,346	1,820	45,007	392	2,573	—	3,044	1,357	64	2,547	1,106	1,053	7,136	631	—	3,970	947	—	469	223	—	73,823	
Other revenue	—	—	—	1,508	716	9,459	427	7,581	6,587	—	859	265	160	1,392	689	173	1,652	695	—	878	1,554	—	5	75	(9,363)	25,302
<b>Total operating revenue</b>	<b>—</b>	<b>904</b>	<b>—</b>	<b>7,937</b>	<b>18,173</b>	<b>124,018</b>	<b>16,289</b>	<b>18,990</b>	<b>10,324</b>	<b>30,254</b>	<b>9,655</b>	<b>5,020</b>	<b>17,104</b>	<b>16,191</b>	<b>7,571</b>	<b>25,171</b>	<b>8,299</b>	<b>—</b>	<b>32,842</b>	<b>19,533</b>	<b>—</b>	<b>2,707</b>	<b>3,968</b>	<b>(9,363)</b>	<b>365,587</b>	
<b>Operating expenses:</b>																										
Salaries, wages and fringe benefits	—	867	—	6,599	15,877	112,469	10,596	17,021	13,244	26,396	9,191	4,491	14,287	14,408	6,419	23,223	6,918	—	15,247	16,620	—	2,486	3,543	520	320,420	
Professional outside services	—	11	—	590	1,127	3,810	1,211	384	980	2,053	365	196	538	711	560	1,423	472	—	259	1,784	—	120	234	(4,447)	12,381	
Insurance	—	—	—	54	349	1,048	103	378	148	539	143	183	659	192	118	212	52	—	55	236	—	17	70	—	4,893	
Supplies	—	—	—	212	26	672	3,003	222	21	205	18	5	8	6	34	28	302	—	31	13	—	1	—	—	4,827	
Depreciation and amortization	—	—	—	—	22	3	355	—	178	12	—	14	22	—	1	—	—	—	—	—	—	—	—	—	128	
Provision for bad debts on nonpatient service revenue	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	8	12	—	—	—	—	724	
Interest	—	—	—	—	—	—	—	1	11	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	15	
Other	—	26	—	563	896	4,774	11,185	1,338	3,136	995	445	146	1,678	839	439	682	386	—	18,084	870	—	82	144	(5,436)	31,272	
<b>Total operating expenses</b>	<b>—</b>	<b>904</b>	<b>—</b>	<b>8,070</b>	<b>18,278</b>	<b>123,338</b>	<b>16,289</b>	<b>19,355</b>	<b>17,529</b>	<b>30,249</b>	<b>10,183</b>	<b>5,021</b>	<b>17,171</b>	<b>16,170</b>	<b>7,570</b>	<b>25,586</b>	<b>8,204</b>	<b>—</b>	<b>33,684</b>	<b>19,525</b>	<b>—</b>	<b>2,706</b>	<b>3,991</b>	<b>(9,363)</b>	<b>374,460</b>	
Income (loss) from operations	—	—	—	(133)	(105)	680	—	(365)	(7,205)	5	(528)	(1)	(67)	21	1	(415)	95	—	(842)	8	—	1	(23)	—	(8,873)	
<b>Nonoperating gains (losses):</b>																										
Contributions expense, net	—	—	—	(9)	(10)	118	—	—	—	(5)	(4)	(4)	—	(21)	(6)	(10)	—	—	(35)	(8)	—	—	—	—	6	
Investment income	—	—	—	1	115	761	—	—	148	—	—	—	—	1	10	107	—	—	15	—	—	—	—	—	1,158	
(Loss) on disposal of property	—	—	—	—	—	(1)	—	—	—	—	—	—	—	(1)	—	—	—	—	—	—	—	—	—	—	(21)	
Total nonoperating (losses) gains, net	—	—	—	(8)	105	879	(1)	—	148	(9)	(4)	(4)	—	(21)	4	97	—	—	(20)	(8)	—	—	—	—	1,162	
(Deficit) excess of revenue over expenses	—	—	—	(141)	—	1,559	(1)	(365)	(7,057)	—	(532)	(5)	(67)	—	5	(318)	95	—	(862)	—	—	1	(23)	—	(7,711)	
<b>Other changes in net assets without donor restrictions:</b>																										
Change in unrealized appreciation (depreciation) on investments	—	—	—	—	—	175	1,162	—	—	214	—	—	—	—	15	164	—	—	21	—	—	—	—	—	1,751	
Donated services from affiliates	—	—	—	—	—	—	—	—	7,511	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	7,511	
Increase (decrease) in net assets without donor restrictions	\$ —	—	—	(411)	175	2,721	(1)	(365)	668	—	(532)	(5)	(67)	—	20	(154)	95	—	(841)	—	—	1	(23)	—	1,551	

See accompanying independent auditors' report.

## Exhibit IV

		BMC HEALTH SYSTEM, INC.																										
		Boston University Medical Group Consolidation Supplemental Statements of Operations and Changes in Net Assets without Donor Restrictions																										
		June 30, 2018																										
		(In thousands)																										
Division of Surgery	Anesthesia	Cardiac	Dermatology	ER	Evans	Eye	Family	Faculty	Surgery	Neurology	Neurosurgery	OB/GYN	Orthopedic	Otolaryngology	Pediatrics	Pathology	Plastic Surgery	Psychiatry	Radiology	Rehab	Radiation Oncology	Urology	Eliminations	Total				
Operating revenue:																												
Net patient service revenue	\$ —	—	—	4,716	12,706	45,310	14,127	5,765	—	15,326	6,187	1,875	11,260	11,707	5,746	13,044	4,725	—	24,352	12,374	—	1,237	3,242	—	193,699			
Provision for bad debts on patient service revenue	—	—	—	412	1,252	4,774	635	439	—	2,758	707	377	953	1,209	1,193	1,619	1,597	—	2,496	2,147	—	100	397	—	23,065			
Total net patient service revenue, net of provision for bad debts	—	—	—	4,304	11,454	40,536	13,492	5,326	—	12,568	5,486	1,468	10,307	10,498	4,553	11,425	3,128	—	21,856	10,227	—	1,137	2,845	—	170,634			
Institutional support	—	3,029	—	—	1,093	3,798	27,807	1,407	4,318	4,892	14,485	2,901	2,605	3,420	3,590	1,903	5,394	3,798	—	6,229	6,098	—	501	1,274	—	99,150		
Research support	—	—	—	—	—	543	—	—	—	—	—	—	—	—	—	—	—	—	7	—	—	—	—	556	—	—		
Reimbursement of operating expense	277	188	—	—	1,772	2,147	43,497	278	2,855	—	2,843	848	87	2,483	861	478	6,127	781	—	3,453	455	—	1,174	210	—	70,834		
Other revenue	41	25	—	—	1,586	937	8,781	462	7,194	6,457	909	401	514	1,345	795	220	1,676	646	—	1,026	1,491	—	4	84	(9,991)	24,573		
Total operating revenue	318	3,822	—	—	8,786	18,336	121,134	15,639	19,683	11,349	30,905	9,630	4,084	17,666	15,744	8,363	—	32,561	18,271	—	2,816	4,393	(9,991)	365,741				
Operating expenses:																												
Salaries, wages and fringe benefits	517	1,114	—	—	6,578	15,932	110,214	10,509	17,114	13,566	27,087	8,327	4,311	14,377	13,891	5,987	22,022	6,770	—	12,884	15,581	—	2,513	3,879	813	313,986		
Professional outside services	1	2,678	—	—	518	1,112	3,617	1,038	1,113	562	1,945	450	131	646	709	534	1,527	459	—	237	1,302	—	208	423	(4,366)	14,844		
Insurance	—	—	—	—	90	369	1,366	116	450	167	535	162	207	824	172	225	72	—	50	218	—	15	80	—	5,321			
Supplies	—	1	—	—	246	32	235	260	174	13	147	16	5	12	11	24	254	—	17	6	—	—	—	—	3,907			
Depreciation and amortization	32	4	—	—	41	3	404	152	9	21	44	—	—	15	—	12	37	—	4	2	—	—	—	—	780			
Provision for bad debts on nonpatient service revenue	—	—	—	—	—	1	(4)	—	(8)	12	20	(5)	—	—	—	—	—	—	—	—	—	—	—	7				
Interest	—	—	—	—	—	—	—	—	5	—	4	—	—	—	—	—	—	—	—	—	—	—	—	9				
Other	8	28	—	—	550	887	4,566	1,135	831	2,413	1,154	410	116	1,672	914	380	812	318	—	19,491	729	—	75	180	(6,438)	30,231		
Total operating expenses	568	3,825	—	—	2,983	18,336	120,448	15,638	19,683	16,742	30,905	9,377	4,790	17,626	15,743	7,097	24,622	7,910	—	32,685	17,938	—	2,811	4,562	(9,991)	369,098		
Income (loss) from operations	(240)	(3)	—	—	777	—	886	4	—	(5,393)	—	253	(106)	39	—	1	60	—	—	443	—	(134)	433	—	5	(169)	—	(3,344)
Nonoperating gains (losses):																												
Contributions expense, net	—	—	—	—	(1,554)	(15)	(2,245)	—	(4)	—	(7)	(3)	(5)	—	(26)	(16)	(10)	—	—	(10)	(6)	—	(6)	—	—	(3,906)		
Investment income	—	—	—	—	11	289	664	—	1	117	—	1	—	—	(3)	321	—	—	—	12	—	—	1	—	—	1,420		
Total nonoperating (losses) gains, net	—	—	—	—	(1,543)	274	(1,581)	—	(3)	117	(7)	(2)	(5)	—	(26)	(13)	311	—	—	2	(6)	—	(6)	—	—	(2,486)		
(Deficit) excess of revenue over expenses	(240)	(3)	—	—	(766)	274	(895)	4	(3)	(5,270)	(7)	251	(111)	39	(24)	47	311	443	—	(132)	427	—	—	(169)	—	(5,830)		
Other changes in net assets without donor restrictions:																												
Net asset transfer	(55)	5	—	—	—	—	—	—	50	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—		
Change in unrealized appreciation (depreciation) on investments	—	—	—	—	(36)	1,385	—	—	111	—	—	—	—	(1)	(52)	—	—	—	11	—	—	—	—	—	—	1,418		
Donated services from affiliates	—	—	—	—	—	—	—	—	5,191	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	5,191			
Increase (decrease) in net assets without donor restrictions	\$ (295)	2	—	—	(766)	238	490	4	(3)	76	(7)	251	(111)	39	(24)	46	259	443	—	(121)	427	—	—	—	(169)	—	776	

See accompanying independent auditors' report.

**BMC HEALTH SYSTEM, INC.**

Note to Supplemental Consolidating Information

September 30, 2019 and 2018

**(1) Basis of Presentation**

The accompanying supplemental consolidating information includes the Consolidating Supplemental Balance Sheets, the Consolidating Supplemental Statement of Operations and Changes in Net Assets without Donor Restrictions and the Consolidating Supplemental Statement of Cash Flows of individual entities of the Health System and the Consolidating Supplemental Balance Sheets, the Consolidating Supplemental Statement of Operations and Changes in Net Assets without Donor Restrictions of the Faculty Practice Foundation, Inc. (Faculty), doing business as Boston University Medical Group (BUMG) and its 22 affiliated faculty practice plan corporations (the Plans, and collectively with Faculty known as BUMG). All intercompany accounts and transactions between entities have been eliminated and are shown in the elimination column of the consolidating supplemental schedules. The consolidating information presented is prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America consistent with the consolidated financial statements. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements and is not required as part of the basic financial statements.

**BMC HEALTH SYSTEMS, INC.**  
 Schedule of Expenditures of Federal Awards  
 Year ended September 30, 2019

Federal Program / Pass-through Grantor / Program or Cluster	CFDA	Pass-Through Entity	Direct Award or Pass-Through Entity Number	Passed to Sub-Recipients	Total Expenditures
Research and Development Cluster					
Department of Agriculture					
Agricultural Research Service					
Agricultural Research Basic and Applied Research	10.001	Rutgers The State University of New Jersey	1048	\$ -	13,451
Agricultural Research Service Total				<u>-</u>	<u>13,451</u>
Department of Agriculture Total				<u>-</u>	<u>13,451</u>
Department of Health and Human Services					
Administration for Children and Families					
Family Violence Prevention and Services/Discretionary Assistance for Torture Victims	93.592		Direct	-	377,390
Administration for Children and Families	93.604		Direct	-	365,957
Administration for Children and Families Total	93.RD	Child Trends	HHSP233201500034I	<u>-</u>	<u>29,813</u>
Administration for Children and Families Total				<u>-</u>	<u>773,160</u>
Agency for Healthcare Research and Quality					
National Research Service Awards Health Services Research Training	93.225		Direct	-	333,885
Research on Healthcare Costs, Quality and Outcomes	93.226		Direct	140,086	614,670
Research on Healthcare Costs, Quality and Outcomes	93.226	Harvard Pilgrim Health Care (HPHC)	R01HS018414/AH000531	<u>-</u>	<u>32,178</u>
Research on Healthcare Costs, Quality and Outcomes	93.226	Trustees of Boston University	4500002841	<u>-</u>	<u>52,570</u>
Research on Healthcare Costs, Quality and Outcomes	93.226	University of Massachusetts, Worcester	OSP27392-01	<u>-</u>	<u>29,737</u>
Research on Healthcare Costs, Quality and Outcomes	93.226	University of Utah	10042477-01	<u>-</u>	<u>99,182</u>
Agency for Healthcare Research and Quality Total				<u>140,086</u>	<u>1,162,222</u>
Centers for Disease Control and Prevention					
Prevention of Disease, Disability, and Death by Infectious Diseases	93.084	Harvard School of Public Health	116532-5085651	<u>-</u>	<u>66,080</u>
Injury Prevention and Control Research and State and Community Based Programs	93.136		Direct	142,135	762,275
Injury Prevention and Control Research and State and Community Based Programs	93.136	Commonwealth of Mass - DPH	INTF2400H78500224302	<u>-</u>	<u>297,001</u>
Injury Prevention and Control Research and State and Community Based Programs	93.136	RAND Corporation	9920190044	<u>-</u>	<u>40,776</u>
Injury Prevention and Control Research and State and Community Based Programs	93.136	Rhode Island Department of Health	1450197	<u>14,627</u>	<u>48,923</u>
Injury Prevention and Control Research and State and Community Based Programs	93.136	University of Michigan	3004806994	<u>-</u>	<u>115,677</u>
Strengthening Public Health Systems and Services Through National Partnerships to Improve and Protect the Nation's Health	93.421	American Academy of Pediatrics	851114BMC	<u>-</u>	<u>30,113</u>
Strengthening Public Health Systems and Services Through National Partnerships to Improve and Protect the Nation's Health	93.421	ChangeLab Solutions	MSA0191	<u>-</u>	<u>79,665</u>
Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by the Prevention and Public Health Fund (PPHF)	93.733	American Academy of Pediatrics	772105-BMC	<u>-</u>	<u>21,226</u>
Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by the Prevention and Public Health Fund (PPHF)	93.733	American Academy of Pediatrics	772104-BMC	<u>-</u>	<u>697</u>
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations	93.898	Commonwealth of Mass - DPH	INTF3406MM3190428104	<u>122,817</u>	<u>459,408</u>
Centers for Disease Control and Prevention	93.RD		Direct	<u>-</u>	<u>559,042</u>
Centers for Disease Control and Prevention	93.RD	Antagen Institute for Biomed Research	BMC Agreement ID: 5129	<u>-</u>	<u>39,750</u>
Centers for Disease Control and Prevention Total				<u>279,579</u>	<u>2,520,633</u>
Health Resources and Services Administration					
Maternal and Child Health Federal Consolidated Programs	93.110		Direct	<u>-</u>	<u>689,073</u>
Maternal and Child Health Federal Consolidated Programs	93.110	Johns Hopkins University	2003650297	<u>-</u>	<u>145,094</u>
Maternal and Child Health Federal Consolidated Programs	93.110	University of Massachusetts, Worcester	OSP2018123	<u>-</u>	<u>9,967</u>

**BMC HEALTH SYSTEMS, INC.**  
 Schedule of Expenditures of Federal Awards  
 Year ended September 30, 2019

Federal Program / Pass-through Grantor / Program or Cluster	CFDA	Pass-Through Entity	Direct Award or Pass-Through Entity Number	Passed to Sub-Recipients	Total Expenditures
Health Resources and Services Administration					
Preventive Medicine and Public Health Residency Training Program, Integrative Medicine Program, and National Center for Integrative Primary Healthcare	93.110	University of Massachusetts, Worcester	WA00583864/OSP2017203	\$ -	8,381
National Research Service Award in Primary Care Medicine	93.117		Direct	-	245,191
Sickle Cell Treatment Demonstration Program	93.186		Direct	7,476	396,828
Grants for Primary Care Training and Enhancement	93.365	Johns Hopkins University	005492160	-	75,123
HIV Care Formula Grants	93.884		Direct	104,521	625,871
Primary Care Medicine and Dentistry Clinician Educator Career Development Awards	93.917	Commonwealth of Mass - DPH	INTF4943MM3200120006-2018-CT	-	(6,964)
	93.976		Direct	-	196,079
Health Resources and Services Administration Total				111,997	2,384,643
National Institutes of Health					
Family Smoking Prevention and Tobacco Control Act Regulatory Research	93.077		Direct	-	69,737
Environmental Health	93.113		Direct	-	40,297
Environmental Health	93.113	Trustees of Boston University	4500002463	-	161,153
Environmental Health	93.113	Trustees of Boston University	4500002019	-	264,921
Research Related to Deafness and Communication Disorders	93.173		Direct	-	
Research Related to Deafness and Communication Disorders	93.173	Boston Children's Hospital	PO#GENFD0001682397	-	40,713
Research Related to Deafness and Communication Disorders	93.173	Boston Children's Hospital	PO#GENFD0001491910	-	130,879
Research Related to Deafness and Communication Disorders	93.173	Boston Children's Hospital	PO#00001136626	-	(21,974)
Research Related to Deafness and Communication Disorders	93.173	Georgia State University	SP00013351-02	-	14,415
Research Related to Deafness and Communication Disorders	93.173	University of Michigan	3003754646	-	47,380
Research and Training in Complementary and Integrative Health	93.213		Direct	-	7,045
Research and Training in Complementary and Integrative Health	93.213	Massachusetts General Hospital	230481	-	1,133
Research and Training in Complementary and Integrative Health	93.213	Northwestern University	60047299 BMC	-	31,344
Mental Health Research Grants	93.242		Direct	182,294	1,200,969
Mental Health Research Grants	93.242	Brown University	00001294	-	82,308
Mental Health Research Grants	93.242	Dimagi, Inc.	9R44MH117956-02(SBIR Phase II)	-	120,652
Mental Health Research Grants	93.242	Massachusetts General Hospital	234070	-	35,371
Mental Health Research Grants	93.242	Northshore University Health System	EH13-344-S1	-	916
Mental Health Research Grants	93.242	Northwestern University	60050956 BMC	-	33,323
Mental Health Research Grants	93.242	University of North Carolina	5111488	-	25,188
Mental Health Research Grants	93.242	University of North Carolina	5111487	-	8,703
Alcohol Research Programs	93.273		Direct	849,025	2,154,935
Alcohol Research Programs	93.273	Fast Track Drugs and Biologics	HHSN2750008-1078-NCIG7-BMC	-	4,938
Alcohol Research Programs	93.273	KWJ Engineering	593	-	24,094
Alcohol Research Programs	93.273	The Regents of the University of California	9772sc	-	60,159
Alcohol Research Programs	93.273	Trustees of Boston University	4500002958	-	10,362
Drug Abuse and Addiction Research Programs	93.279		Direct	1,765,085	6,741,280
Drug Abuse and Addiction Research Programs	93.279	Bay State Medical	15-259	-	76,290
Drug Abuse and Addiction Research Programs	93.279	Brigham & Women's Hospital	119805	-	218,081
Drug Abuse and Addiction Research Programs	93.279	Cornell University	182864	-	191,789
Drug Abuse and Addiction Research Programs	93.279	Cornell University	17060914-03	-	(815)
Drug Abuse and Addiction Research Programs	93.279	Cornell University	170239	-	(233)
Drug Abuse and Addiction Research Programs	93.279	Denver Health and Hospital Authority	E4724	-	32,046
Drug Abuse and Addiction Research Programs	93.279	Denver Health and Hospital Authority	A19-0001-S005	-	21,413
Drug Abuse and Addiction Research Programs	93.279	Emocha Mobile Health, Inc.	NA	-	155,068
Drug Abuse and Addiction Research Programs	93.279	Heluna Health, the new PHFE	0526.0102	-	141,462
Drug Abuse and Addiction Research Programs	93.279	Heluna Health, the new PHFE	0526.0101	-	128,076
Drug Abuse and Addiction Research Programs	93.279	Kaiser Foundation Research Inst	2019117046	-	31,945
Drug Abuse and Addiction Research Programs	93.279	Kaiser Foundation Research Inst	2018114449	-	182,986
Drug Abuse and Addiction Research Programs	93.279	McLean Hospital	401108	-	22,926

## BMC HEALTH SYSTEMS, INC.

## Schedule of Expenditures of Federal Awards

Year ended September 30, 2019

Federal Program / Pass-through Grantor / Program or Cluster	CFDA	Pass-Through Entity	Direct Award or Pass-Through Entity Number	Passed to Sub- Recipients	Total Expenditures
Drug Abuse and Addiction Research Programs	93.279	Miriam Hospital	7109993JB	\$ -	6,960
Drug Abuse and Addiction Research Programs	93.279	New York University	17-A0-00-1000021-01	-	133,705
Drug Abuse and Addiction Research Programs	93.279	RAND Corporation	9920180098	-	23,099
Drug Abuse and Addiction Research Programs	93.279	RAND Corporation	9920180074	-	21,847
Drug Abuse and Addiction Research Programs	93.279	Trustees of Boston University	4500003058	-	20,822
Drug Abuse and Addiction Research Programs	93.279	Trustees of Boston University	4500002825	66,192	353,111
Drug Abuse and Addiction Research Programs	93.279	Trustees of Boston University	4500002350	-	14,117
Drug Abuse and Addiction Research Programs	93.279	Trustees of Columbia University	2(GG010654-01)	-	77,891
Drug Abuse and Addiction Research Programs	93.279	University of British Columbia	20R18965-04	-	637
Drug Abuse and Addiction Research Programs	93.279	Weill Cornell Medical College	190191-4	-	25,807
Drug Abuse and Addiction Research Programs	93.279	West Virginia University	17-752-BMC	-	68,936
Minority Health and Health Disparities Research	93.307	Northwestern University	Direct	62,102	1,187,577
Minority Health and Health Disparities Research	93.307	Northwestern University	60051328 BMC	-	122,117
Minority Health and Health Disparities Research	93.307	Northwestern University	60046231 BMC	-	376,462
Minority Health and Health Disparities Research	93.307	Tufts Medical Center	5011778-SERV	-	(2,373)
Trans-NIH Research Support	93.310	Massachusetts General Hospital	232124	-	4,237,523
Trans-NIH Research Support	93.310	Massachusetts General Hospital	229352	-	(13,883)
Trans-NIH Research Support	93.310	University of North Carolina	5108603	-	323,594
National Center for Advancing Translational Sciences	93.350	American BioOptics, LLC	Direct	852,988	1,536,570
National Center for Advancing Translational Sciences	93.350	American BioOptics, LLC	1R44CA199667-01A1	-	203,553
21st Century Cures Act - Beau Biden Cancer Moonshot	93.353	Direct	132,551		366,315
Nursing Research	93.361	Direct	178,815		714,486
Nursing Research	93.361	Regents of the University of Colorado	FY16.342.003	-	15,312
Nursing Research	93.361	Tufts University	HS3522	-	(10,786)
Cancer Cause and Prevention Research	93.393	Northwestern University	SP0045469-PROJ0012695	-	91,032
Cancer Detection and Diagnosis Research	93.394	Nanocytomics, LLC.	Direct	377,254	795,732
Cancer Detection and Diagnosis Research	93.394	Northwestern University	1R44CA206844-01A1	-	(4,275)
Cancer Detection and Diagnosis Research	93.394	Northwestern University	SP0039088-PROJ0011335	-	(6,667)
Cancer Detection and Diagnosis Research	93.394	Northwestern University	SP0031569-PROJ0008430	-	75,742
Cancer Detection and Diagnosis Research	93.394	Northwestern University	SP0028253-PROJ0007361	-	138,927
Cancer Treatment Research	93.395	Northwestern University	Direct	-	(1,157)
Cancer Treatment Research	93.395	NRG Oncology Foundation, Inc.	SP0045578-PROJ0012716	-	193,781
Cancer Treatment Research	93.395	NSABP Foundation	BMC/Kachnic-NCORP-01	-	58,251
Cancer Treatment Research	93.395	University of California, Los Angeles	3TFED39-091	-	(9,013)
Cancer Biology Research	93.396	Massachusetts General Hospital	UCLA Subaward Number 1568 G TA632	-	543,304
Cancer Biology Research	93.396	Trustees of Boston University	Direct	-	307,298
Cancer Biology Research	93.396	Dana Farber Cancer Institute	223690	-	11,113
Cancer Centers Support Grants	93.397	South West Oncology Group	4500002812	-	63,000
Cancer Research Manpower	93.398	Brigham & Women's Hospital	1205201	-	112,353
Cancer Control	93.399	Boston Children's Hospital	Direct	-	119,706
Cardiovascular Diseases Research	93.837	Massachusetts General Hospital	CA37429	-	1,887
Cardiovascular Diseases Research	93.837	New England Medical Research Inst, Inc	Direct	-	870,178
Cardiovascular Diseases Research	93.837	New York University	113286	-	164,918
Cardiovascular Diseases Research	93.837	University of Pittsburgh	GENFD0001569484	-	67,053
Cardiovascular Diseases Research	93.837	University of Pittsburgh	GENFD0001358800	-	(12,815)
Cardiovascular Diseases Research	93.837	Massachusetts General Hospital	U01HL023336	-	(4,870)
Cardiovascular Diseases Research	93.837	Massachusetts General Hospital	230744	-	(4,279)
Cardiovascular Diseases Research	93.837	New England Medical Research Inst, Inc	U01HL107407	-	(13,621)
Cardiovascular Diseases Research	93.837	New York University	001215	-	(586)
Cardiovascular Diseases Research	93.837	University of Pittsburgh	AWD00000108 (132784-1)	-	3,708
Cardiovascular Diseases Research	93.837	University of Pittsburgh	0060162 (131812-2)	-	28,697
Lung Diseases Research	93.838	Direct	-	-	331,156

## BMC HEALTH SYSTEMS, INC.

## Schedule of Expenditures of Federal Awards

Year ended September 30, 2019

Federal Program / Pass-through Grantor / Program or Cluster	CFDA	Pass-Through Entity	Direct Award or Pass-Through Entity Number	Passed to Sub- Recipients	Total Expenditures
Lung Diseases Research	93.838	University of Cincinnati	011283-002	\$ -	22,378
Blood Diseases and Resources Research	93.839	Direct	108,715		931,970
Blood Diseases and Resources Research	93.839	Duke University	A030439	-	35,888
Blood Diseases and Resources Research	93.839	Mount Sinai Medical Center	0255-A901-4609	-	17,932
Blood Diseases and Resources Research	93.839	Rutgers, New Jersey Medical School	0477	-	9,695
Blood Diseases and Resources Research	93.839	Trustees of Boston University	4500002955	-	47,114
Blood Diseases and Resources Research	93.839	Trustees of Boston University	4500002284	-	37,933
Translation and Implementation Science Research for Heart, Lung, Blood Diseases, and Sleep Disorders	93.840	Direct	-		33,383
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	University of Arizona	428238	-	30,464
Arthritis, Musculoskeletal and Skin Diseases Research	93.846	University of Arizona	244231	-	35,956
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	Direct	961,901		3,014,441
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	Kaiser Foundation Research Inst	OOS030228 BMC	-	2,800
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	Massachusetts General Hospital	226449	-	9,847
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	Northern California Institute for Research and Education	SHL2118-05	-	20,626
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	Northwestern University	60040977 BMCC	-	54,756
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	The Regents of the University of California	1555 G VA087	-	20,785
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	Trustees of Boston University	4500002769	-	6,090
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	Direct	95,172		686,036
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	EMMES Corporation	U01 NS062835	-	12,048
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	Massachusetts General Hospital	233251	-	77,182
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	Massachusetts General Hospital	233020	-	3,476
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	Massachusetts General Hospital	226396	-	49,803
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	Northwestern University	60036745 BUMC	-	10,584
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	The Regents of the University of California	9668sc	-	37,900
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	Trustees of Boston University	4500002494	-	14,334
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	University of Cincinnati	010785-133380	-	746
Allergy and Infectious Diseases Research	93.855	Direct	2,052,283		5,452,880
Allergy and Infectious Diseases Research	93.855	Brigham & Women's Hospital	NA	(402)	
Allergy and Infectious Diseases Research	93.855	Institute for Clinical Research, Inc.	M56-BU-071-1101-3	-	-
Allergy and Infectious Diseases Research	93.855	Johns Hopkins University	UM1 AI068632	-	105,412
Allergy and Infectious Diseases Research	93.855	Johns Hopkins University	PO#2003738345	-	33,991
Allergy and Infectious Diseases Research	93.855	Johns Hopkins University	PO# 2003746446	-	35,004
Allergy and Infectious Diseases Research	93.855	Johns Hopkins University	PO# 2003738345	-	89,583
Allergy and Infectious Diseases Research	93.855	Johns Hopkins University	PO 2002532372	-	(1,605)
Allergy and Infectious Diseases Research	93.855	Johns Hopkins University	PO 2002249257	-	24,040
Allergy and Infectious Diseases Research	93.855	Johns Hopkins University	LDR 11	-	22,548
Allergy and Infectious Diseases Research	93.855	Medical University of South Carolina	MUSC18-012-8D160	-	181,739
Allergy and Infectious Diseases Research	93.855	Miriam Hospital	7147106KJ	-	18,643
Allergy and Infectious Diseases Research	93.855	Miriam Hospital	7147105JS	-	140,258
Allergy and Infectious Diseases Research	93.855	Miriam Hospital	7147104AH	-	120,030
Allergy and Infectious Diseases Research	93.855	Miriam Hospital	7147102NL	-	89,841
Allergy and Infectious Diseases Research	93.855	Miriam Hospital	7147101BL	-	34,314
Allergy and Infectious Diseases Research	93.855	Miriam Hospital	7147100JE	-	44,042
Allergy and Infectious Diseases Research	93.855	Miriam Hospital	7109158-AH	-	(69)
Allergy and Infectious Diseases Research	93.855	Miriam Hospital	7109157-NL	-	18,317
Allergy and Infectious Diseases Research	93.855	Miriam Hospital	7109156LA	-	35,029
Allergy and Infectious Diseases Research	93.855	Miriam Hospital	7109156-KSA	-	40,000
Allergy and Infectious Diseases Research	93.855	Miriam Hospital	7109156-BL	-	(3,157)
Allergy and Infectious Diseases Research	93.855	Miriam Hospital	710-9156	-	-
Allergy and Infectious Diseases Research	93.855	Miriam Hospital	7109155-KJ	-	(1,216)
Allergy and Infectious Diseases Research	93.855	Miriam Hospital	7109155-JE	-	(5,150)

## BMC HEALTH SYSTEMS, INC.

## Schedule of Expenditures of Federal Awards

Year ended September 30, 2019

Federal Program / Pass-through Grantor / Program or Cluster	CFDA	Pass-Through Entity	Direct Award or Pass-Through Entity Number	Passed to Sub-Recipients	Total Expenditures
Allergy and Infectious Diseases Research	93.855	Miriam Hospital	7109155JB	\$ -	27,184
Allergy and Infectious Diseases Research	93.855	Miriam Hospital	710-9155	-	561
Allergy and Infectious Diseases Research	93.855	New York University	16-A0-00-007002-01	-	44,792
Allergy and Infectious Diseases Research	93.855	Rutgers The State University of New Jersey	NA	-	28,962
Allergy and Infectious Diseases Research	93.855	Rutgers The State University of New Jersey	0925	-	503,025
Allergy and Infectious Diseases Research	93.855	Rutgers, New Jersey Medical School	0792	-	86,225
Allergy and Infectious Diseases Research	93.855	Trustees of Boston University	4500002465	-	110,130
Allergy and Infectious Diseases Research	93.855	Trustees of Boston University	4500002410	-	12,235
Allergy and Infectious Diseases Research	93.855	Trustees of Boston University	4500002173	-	(13)
Allergy and Infectious Diseases Research	93.855	Trustees of Boston University	4500002134	-	(2)
Allergy and Infectious Diseases Research	93.855	Trustees of Boston University	4500002129	-	20,879
Allergy and Infectious Diseases Research	93.855	University of Alabama	000509701-002	-	99,195
Biomedical Research and Research Training	93.859	BioSensics, LLC	1R43GM123821-01	-	-
Biomedical Research and Research Training	93.859	University of Pittsburgh	0047882(126884-7)	-	12,661
Child Health and Human Development Extramural Research	93.865	Florida State University	Direct	779,276	1,786,020
Child Health and Human Development Extramural Research	93.865	George Washington University	R01949	-	389,216
Child Health and Human Development Extramural Research	93.865	Johns Hopkins University	U10HD036801	-	14,639
Child Health and Human Development Extramural Research	93.865	Johns Hopkins University	2003025892	-	111,176
Child Health and Human Development Extramural Research	93.865	Johns Hopkins University	2002901077	-	115,196
Child Health and Human Development Extramural Research	93.865	University of Maryland, Baltimore	1802614	-	13,376
Child Health and Human Development Extramural Research	93.865	University of North Carolina	5108777	-	5,362
Aging Research	93.866	Brandeis University	Direct	276,969	1,142,955
Aging Research	93.866	California Pacific Med Ctr Res Inst	402461	-	(54)
Aging Research	93.866	Dana Farber Cancer Institute	280201018-S237	-	119,572
Aging Research	93.866	Trustees of Boston University	1201601	-	44,228
Aging Research	93.866	Trustees of Boston University	4500002900	-	41,806
Aging Research	93.866	Trustees of Boston University	4500002831	-	339,762
Aging Research	93.866	Trustees of Boston University	4500002772	-	8,516
Aging Research	93.866	Trustees of Columbia University	1(GG010390-14)	-	64,835
Aging Research	93.866	Tufts University	101001-00001	-	7,976
Aging Research	93.866	University of North Carolina	5050163	-	19,319
Vision Research	93.867	Case Western Reserve University	Direct	-	920,218
Vision Research	93.867	Jaeb Center for Health Research	RE5513027	-	(4,562)
Vision Research	93.867	Jaeb Center for Health Research	U10EY11751	-	(2,438)
Vision Research	93.867	New York University	NA	-	8,053
Vision Research	93.867	New York University	NA	-	(2,234)
International Research and Research Training	93.989	Leidos Biomedical Research Inc.	Direct	102,415	151,346
National Institutes of Health	93.RD	Antagen Biosciences, Inc.	Direct	-	491,768
National Institutes of Health	93.RD	Leidos Biomedical Research Inc.	NA	-	99,966
National Institutes of Health	93.RD	WESTAT	16X153	26,480	301,662
National Institutes of Health	93.RD	WESTAT	6579-S48	-	157,937
National Institutes of Health	93.RD	WESTAT	6101-S069	-	(49,180)
National Institutes of Health Total				8,869,517	45,155,736
Office of Minority Health	93.137	Commonwealth of Mass - DPH	Direct	19,448	401,821
Community Programs to Improve Minority Health Grant Program	93.137		F419020171	-	42,986
Community Programs to Improve Minority Health Grant Program				19,448	444,807
Office of Minority Health Total					

**BMC HEALTH SYSTEMS, INC.**  
 Schedule of Expenditures of Federal Awards  
 Year ended September 30, 2019

Federal Program / Pass-through Grantor / Program or Cluster	CFDA	Pass-Through Entity	Direct Award or Pass-Through Entity Number	Passed to Sub-Recipients	Total Expenditures
Office of the Secretary					
Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities	93.817	Massachusetts General Hospital	233381	\$ -	63,145
Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities	93.817	Commonwealth of Mass - DPH	INTF6207PP1W16052807	_____ -	44,555
Office of the Secretary Total				_____ -	107,700
Department of Health and Human Services Total				9,420,627	52,562,352
Department of Justice					
National Institute of Justice					
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	Johns Hopkins University	PO# 2003750769	_____ -	96,799
National Institute of Justice Total				_____ -	96,799
Department of Justice Total				_____ -	96,799
Executive Office of the President					
Executive Office of the President					
Research and Data Analysis	95.007	University of Baltimore	34	23,006	90,558
Executive Office of the President Total				23,006	90,558
Executive Office of the President Total				23,006	90,558
National Science Foundation					
National Science Foundation					
Engineering Grants	47.041	Northwestern University	SP0048398-PROJ0013652	-	34,176
Mathematical and Physical Sciences	47.049	Trustees of Boston University	4500002711	-	24,067
Computer and Information Science and Engineering	47.070	Northeastern University	502658-78050	-	75,172
Office of International Science and Engineering	47.079	U.S. Civilian Research and Development Foundation	USB1-31150-XX-13	49,391	49,192
Office of International Science and Engineering	47.079	U.S. Civilian Research and Development Foundation	OISE-17-63074-1	-	(297)
Office of International Science and Engineering	47.079	U.S. Civilian Research and Development Foundation	OISE-17-62917-1	-	6
Office of International Science and Engineering	47.079	U.S. Civilian Research and Development Foundation	OISE-17-62909-1	-	1,313
Office of International Science and Engineering	47.079	U.S. Civilian Research and Development Foundation	OISE-16-62055-1	-	(30)
Office of International Science and Engineering	47.079	U.S. Civilian Research and Development Foundation	OISE-15-61407-1	1,935	1,901
National Science Foundation Total				51,326	185,500
National Science Foundation Total				51,326	185,500
Social Security Administration					
Social Security Administration					
Social Security Administration	96.RD	WESTAT	6464-S-MA02-001	_____ -	141,149
Social Security Administration Total				_____ -	141,149
Social Security Administration Total				_____ -	141,149
Research and Development Cluster Total				9,494,959	53,076,358

## BMC HEALTH SYSTEMS, INC.

## Schedule of Expenditures of Federal Awards

Year ended September 30, 2019

Federal Program / Pass-through Grantor / Program or Cluster	CFDA	Pass-Through Entity	Direct Award or Pass-Through Entity Number	Passed to Sub-Recipients	Total Expenditures
Other Programs					
Department of Health and Human Services					
Administration for Children and Families					
Refugee and Entrant Assistance State Administered Programs	93.566	Commonwealth of Mass - DPH	5189999DMM3-13	\$ _____ -	61,161
Administration for Children and Families Total				_____ -	61,161
Centers for Disease Control and Prevention					
Birth Defects and Developmental Disabilities - Prevention and Surveillance	93.073		Direct	48,812	297,200
PPHF: Racial and Ethnic Approaches to Community Health Program financed solely by Public Prevention and Health Funds	93.738	Boston Public Health Commission	FY1701869	-	(330)
HIV Prevention Activities Health Department Based	93.940	Commonwealth of Mass - DPH	INTF4944MM3181926007	-	2,783,948
HIV Prevention Activities Health Department Based	93.940	Commonwealth of Mass - DPH	INTF2400H78500224395	175,663	466,570
Centers for Disease Control and Prevention Total				175,663	3,250,188
Health Resources and Services Administration					
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153		Direct	-	346,360
HIV Emergency Relief Project Grants	93.914	Boston Public Health Commission	PO21201941	-	1,158
HIV Emergency Relief Project Grants	93.914	Boston Public Health Commission	FY18019409A	-	92,956
HIV Emergency Relief Project Grants	93.914	Boston Public Health Commission	FY17018196A	-	127,734
Healthy Start Initiative	93.926	Boston Public Health Commission	FY19020609	-	42,265
Healthy Start Initiative	93.926	Boston Public Health Commission	FY18019610	-	74,689
Maternal and Child Health Services Block Grant to the States	93.994	Commonwealth of Mass - DPH	INTF3105M03901424004-2019	-	119,179
Maternal and Child Health Services Block Grant to the States	93.994	Commonwealth of Mass - DPH	INTF3105M03901424004-2013	-	110
Health Resources and Services Administration Total				-	804,451
Office of Population Affairs					
Family Planning Services	93.217	ABCD	FPHPA16204-01-00	-	(1,103)
Family Planning Services	93.217	ABCD	00-549-2160	-	32,914
Office of Population Affairs Total				-	31,811
Office of the Secretary					
National Bioterrorism Hospital Preparedness Program	93.889, 93.074	Boston Public Health Commission	FY16016396	-	138,866
Office of the Secretary Total				-	138,866
Substance Abuse and Mental Health Services Administration					
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243		Direct	-	413,884
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	American Psychiatric Association	NA	-	8,791
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	Commonwealth of Mass - DPH	INTF2330MM3W16003108	-	41,423
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	Commonwealth of Mass - DPH	INTF2330M04500824100	-	1,015
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	Signature Healthcare Brockton Hospital	BOBAT	-	38,619
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	University of California, San Francisco	9808sc	-	38,607
Opioid STR	93.788	American Academy of Addiction Psychiatry	States-16-13	-	145,264
Opioid STR	93.788	Commonwealth of Mass - DPH	INTF2351M03W19026065	-	272,500
Opioid STR	93.788	Commonwealth of Mass - DPH	INTF2330M04500824114	-	449,003

**BMC HEALTH SYSTEMS, INC.**

## Schedule of Expenditures of Federal Awards

Year ended September 30, 2019

<b>Federal Program / Pass-through Grantor / Program or Cluster</b>	<b>CFDA</b>	<b>Pass-Through Entity</b>	<b>Direct Award or Pass-Through Entity Number</b>	<b>Passed to Sub-Recipients</b>	<b>Total Expenditures</b>
Block Grants for Prevention and Treatment of Substance Abuse	93.959	Commonwealth of Mass - DPH	INTF2351M03183626052	\$ -	987,252
Block Grants for Prevention and Treatment of Substance Abuse	93.959	Commonwealth of Mass - DPH	INTF2351M03183626033	-	110,586
Block Grants for Prevention and Treatment of Substance Abuse	93.959	Commonwealth of Mass - DPH	INTF2330M78500824150	-	463,662
Substance Abuse and Mental Health Services Administration	93.U1	Institute for Health and Recovery	INTF233MM3W18002127	-	258,994
Substance Abuse and Mental Health Services Administration Total				-	3,229,600
Department of Health and Human Services Total				224,475	7,813,277
Department of Housing and Urban Development					
Office of Community Planning and Development					
Emergency Solutions Grant Program	14.231	City of Boston - DND	38431-16	5,000	18,105
Office of Community Planning and Development Total				5,000	18,105
Department of Housing and Urban Development Total				5,000	18,105
Department of Justice					
Office for Victims of Crime					
Crime Victim Assistance	16.575	Massachusetts Trial Court	NA	-	93,823
Crime Victim Assistance	16.575	Commonwealth of Mass - MOVA	VOCA2019BMCICWTV0000	-	330,408
Crime Victim Assistance	16.575	Commonwealth of Mass - MOVA	VOCA2019BMCICVRT0000	-	455,244
Crime Victim Assistance	16.575	Commonwealth of Mass - MOVA	VOCA2018BMCIDV000000	-	242,749
Crime Victim Assistance	16.575	Commonwealth of Mass - MOVA	VOCA2018BMCICWTV0000	-	2,364
Crime Victim Assistance	16.575	Commonwealth of Mass - MOVA	VOCA2018BMCICVRT0000	-	164,740
Crime Victim Assistance	16.575	Commonwealth of Mass - MOVA	VOCA2017BMCICVRT0000	-	1,866
Crime Victim Assistance/Discretionary Grants	16.582		Direct	-	414,442
Office for Victims of Crime Total				-	1,705,636
Violence Against Women Office					
Violence Against Women Formula Grants	16.588	Exec Office of Public Safety & Security	SCEPS3001VAWA18BMCD1	-	122,335
Violence Against Women Office Total				-	122,335
Department of Justice Total				-	1,827,971
Other Programs Total				229,475	9,659,353
<b>Food Distribution Cluster</b>					
<b>Department of Agriculture</b>					
<b>Department of Agriculture</b>					
Emergency Food Assistance Program (Food Commodities)	10.569		Direct	-	45,286
<b>Department of Agriculture Total</b>				-	45,286
<b>Department of Agriculture Total</b>				-	45,286
<b>Food Distribution Cluster Total</b>				-	45,286

**BMC HEALTH SYSTEMS, INC.**

## Schedule of Expenditures of Federal Awards

Year ended September 30, 2019

<b>Federal Program / Pass-through Grantor / Program or Cluster</b>	<b>CFDA</b>	<b>Pass-Through Entity</b>	<b>Direct Award or Pass-Through Entity Number</b>	<b>Passed to Sub- Recipients</b>	<b>Total Expenditures</b>
<b>Aging</b>					
<b>Department of Health and Human Services</b>					
<b>Administration for Community Living</b>					
Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers	93.044	City of Boston	PO# BOSTN-0000674858	\$ -	458
Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers	93.044	City of Boston	4B-19	<u>-</u>	<u>15,681</u>
<b>Administration for Community Living Total</b>				<u>-</u>	<u>16,139</u>
<b>Department of Health and Human Services Total</b>				<u>-</u>	<u>16,139</u>
<b>Aging Total</b>				<u>-</u>	<u>16,139</u>
<b>Total Federal Expenditures</b>				\$ 9,724,434	62,797,136

**BMC HEALTH SYSTEM, INC.**

Notes to Schedule of Expenditure of Federal Awards

Year ended September 30, 2019

**(1) Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Health System under programs of the federal government for the year ended September 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Health System, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Health System.

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

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

**(3) Indirect rate**

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

**(4) Noncash Assistance**

In 2019, \$45,286 of U.S. Department of Agriculture (USDA) was received from the Greater Boston Food Bank (CFDA #10.569) and distributed to program participants through the Boston Medical Center Food Bank. This noncash assistance amount represents the fair value of the product at the time of receipt and is included on the Schedule.

**Boston Medical Center**  
**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**  
**Year Ended September 30, 2019**

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FINDING NUMBER	CFDA NO.	DESCRIPTION	FINDING	Type of Finding	QUESTIONED COST	CURRENT YEAR STATUS
2018-01	93.940 R&D Cluster	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	<p>Boston Medical Center (BMC) is responsible for maintaining accurate records of personnel time and effort to substantiate salary and wage costs associated with its federal and other sponsored projects. BMC has implemented various control activities to ensure compliance with the above requirements, which include: supervisory approval of timesheets; semi-annual employee effort certifications (which are reviewed by the respective Department Research Administrator); and that changes to an employee's time charged to a grant be reviewed by Research Finance prior to further grant accounting</p> <p>During our testwork we noted the following:</p> <ul style="list-style-type: none"> <li>• An instance in which an HIV program employee's timesheet was not approved by supervisor prior to being charged to the grant.</li> <li>• An instance for both the R&amp;D and HIV program in which a time certification was approved over a year after the employee's period of effort.</li> <li>• An instance in which payroll adjustment was processed nine months after the employee's period of effort but was not approved by the Research Finance Department prior to posting to adjustment the grant accounting ledger.</li> <li>• The allocation of an employee's salary is reviewed by programmatic personnel however it is not designed to be reviewed and approved by Research Finance prior to charging such costs to a grant.</li> </ul>	Significant Deficiency	None	<p>Research Operations completed an engagement with our internal audit team (EY) to have them explore the overall exposure of late cost transfers and areas of improvement in our policies on Dec 2019. Ongoing discussions with the Human Resources Information Systems team, in conjunction with the above report made them aware of the need to reconfigure the cost allocation approval process in the Workday payroll system in a way that will include research finance in the approval process for all research HR allocation approvals. As of Nov 2019, the research finance team Director is inserted into the approval role, allowing BMC to enforce the timeliness and documentation required of allocation and transfers, noted in policies already in place.</p>
2018-02	93.940	Activities Allowed or Unallowed and Allowable Costs/Cost Principles	The indirect cost base used to determine the allowable indirect cost charged to the HIV program improperly included lease expenditures, however lease expenses are not allowable costs.	Non-compliance	\$2,400	<p>Resolved. As part of the testing and system configuration for our new financial and general ledger system, research management has been reviewing expense categories to ensure MTDC calculates correctly. The Research Finance Analysts are currently reviewing expenses on all sponsored projects accounts to ensure that only allowable indirect cost categories are incurring an indirect cost allocation and reconciling indirect and direct costs for each account to verify that indirect expenses are accurate.</p>



May 7, 2020

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

### **Management's Views and Corrective Action Plan**

#### **Finding Reference: 2019-01**

Management agrees with KPMG's assessment and recommendation. Management is currently developing a process and policy with all stakeholders involved that will ensure appropriate controls around the accounting of significant real estate transactions going forward. Management has shared this remediation plan and proposed policy revision at its April 23, 2020 Audit and Compliance Committee. The policy is anticipated to be approved at the next Policy Committee Meeting on June 11, 2020.

Responsible Official(s):

- Senior Vice President
- Chief Financial Officer

Sincerely,

A blue ink signature of the name "Julie Joncas".

Julie Joncas  
Hospital Chief Financial Officer



April 27, 2020

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

### **Management's Views and Corrective Action Plan**

#### **Finding Reference: 2019-02**

Management agrees that additional review of effort needs to happen centrally and will implement and document an internal control. Training and re-training of central research administration on effort reporting happened 2/11/2020. Additionally, guidance documents with specific examples of correct effort documentation will be provided to department research leadership. The development of departmental training guides and tools will be rolled out by the Fall of 2020.

Responsible Official(s):

- Senior Director of Research Administration
- Director of Grants and Contracts

Anticipated Completion Date: Fall, 2020

#### **Finding Reference: 2019-03**

Research Operations completed an engagement with our internal audit team (EY) to have them explore the overall exposure of late cost transfers and areas of improvement in our policies on Dec 2019. Ongoing work with the Human Resources Information Systems team, in conjunction with the above report made them aware of the need to reconfigure the cost allocation approval process in the Workday payroll system in a way to include research finance in the approval process for all research HR allocation approvals. As of Nov 2019, the research finance team Director is inserted into the approval role, allowing BMC to enforce the timeliness and documentation required of allocation and transfers, noted in polices already in place.

Additional trainings to all research finance staff began February, 2020.

Responsible Official(s):

- Senior Director of Research Administration
- Manager Research Operations
- Director of Accounting
- Manager HRIS

Anticipated Completion Date: November 2019

Sincerely,



Grace Cashman  
Senior Director, Research Administration