

BMC Health System, Inc.

**Report on Federal Awards in Accordance With
OMB Circular A-133
September 30, 2014
EIN 043314093**

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Report on Federal Awards in Accordance With OMB Circular A-133
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**Part I - Financial Statements and
Schedule of Expenditures of Federal Awards**



Independent Auditor's Report

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of BMC Health System, Inc. (the "System"), which comprise the consolidated statement of financial position as of September 30, 2014 and 2013, and the related consolidated statements of operations, changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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



The PricewaterhouseCoopers firm in the Cayman Islands performed audit procedures for the Boston Medical Center Insurance Company (“BMCIC”). Personnel of this firm, excluding United States personnel, do not participate in a continuing education program that satisfies the requirement set forth in Chapter 3, paragraph 3.76 of Government Auditing Standards. However, this firm does participate in continuing education programs applicable in the Cayman Islands.

Further, the PricewaterhouseCoopers firm in the Cayman Islands does not have an external quality review by an unaffiliated audit organization as required by Chapter 3, paragraph 3.96 of Government Auditing Standards, since no such program is offered by professional organizations in the country. However, this office participates in the PricewaterhouseCoopers worldwide internal control review program, which requires the office to be periodically subjected to an extensive quality control review by partners and managers from other PricewaterhouseCoopers affiliated firms.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the System as of September 30, 2014 and 2013, and the related consolidated statements of operations, changes in net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual entities and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations and cash flows of the individual entities.



Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards for the year ended September 30, 2014 is presented for purposes of additional analysis as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 2015 on our consideration of BMC Health System, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended September 30, 2014. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering BMC Health System, Inc.'s internal control over financial reporting and compliance.

PricewaterhouseCoopers LLP

February 4, 2015

BMC Health System, Inc.
Consolidated Balance Sheets
September 30, 2014 and 2013

<i>(in thousands)</i>	2014	2013
Assets		
Current assets		
Cash and cash equivalents	\$ 276,813	\$ 255,124
Short-term investments	41,549	39,791
Patients accounts receivable, less allowance of \$36,004 and \$27,076 in 2014 and 2013, respectively	85,612	69,209
Other accounts receivable, less allowance of \$6,445 and \$6,751 in 2014 and 2013, respectively	151,361	105,285
Current portion of grants receivable, less allowance of \$480 and \$3,796 in 2014 and 2013, respectively	28,880	25,812
Current portion of estimated receivable for final settlements with third-party payors	36,583	17,284
Inventories	6,201	5,490
Prepaid expenses and other current assets	12,069	7,747
Current portion of funds held by Trustees	8,842	21,720
Total current assets	<u>647,910</u>	<u>547,462</u>
Assets limited as to use		
Board-designated investments	343,704	359,240
Funds held by Trustees	49,725	49,474
Donor-restricted investments	330,761	306,483
Reserve funds	131,610	119,492
Total assets limited as to use	<u>855,800</u>	<u>834,689</u>
Other assets		
Long-term investments	166,055	233,164
Property, plant and equipment, net	713,939	637,834
Grants receivable, less current portion	7,921	18,098
Other noncurrent assets	166,334	176,755
Total assets	<u>\$ 2,557,959</u>	<u>\$ 2,448,002</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 208,368	\$ 170,261
Claims payable	123,852	70,606
Deferred revenue	19,436	18,348
Current portion of long-term debt and capital leases	21,715	17,666
Other current liabilities	21,521	11,022
Total current liabilities	<u>394,892</u>	<u>287,903</u>
Long-term liabilities		
Estimated final settlements with third-party payors	55,764	62,444
Obligations under capital leases	8,262	18,735
Long-term debt	491,000	513,995
Other long-term liabilities	135,863	135,949
Total liabilities	<u>1,085,781</u>	<u>1,019,026</u>
Commitments and contingencies		
Net assets		
Unrestricted	1,111,793	1,092,511
Temporarily restricted	344,125	320,112
Permanently restricted	16,260	16,353
Total net assets	<u>1,472,178</u>	<u>1,428,976</u>
Total liabilities and net assets	<u>\$ 2,557,959</u>	<u>\$ 2,448,002</u>

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

BMC Health System, Inc.
Consolidated Statements of Operations
Years Ended September 30, 2014 and 2013

<i>(in thousands)</i>	2014	2013
Operating revenue		
Net patient service revenue, net of provision for bad debt (\$62,825 in 2014 and \$54,717 in 2013)	\$ 949,547	\$ 895,593
Capitation revenue	1,706,020	1,362,040
Grants and contract revenue	66,973	70,414
Other revenue	76,077	77,933
Net assets released from restrictions for operations	30,074	23,890
Total operating revenue	<u>2,828,691</u>	<u>2,429,870</u>
Operating expenses		
Salaries and wages and fringe benefits	825,664	785,969
Supplies and expenses	1,866,572	1,466,886
Depreciation and amortization	70,641	69,801
Interest expense	16,390	18,169
Research, sponsored programs and community health services	74,352	71,062
Total operating expenses	<u>2,853,619</u>	<u>2,411,887</u>
(Loss) income from operations	<u>(24,928)</u>	<u>17,983</u>
Nonoperating gains (losses), net		
Investment income (including other-than-temporary impairment losses of \$1,171 and \$1,316 in 2014 and 2013, respectively)	41,295	31,835
Fundraising costs and other	<u>(3,277)</u>	<u>(3,147)</u>
Total nonoperating gains, net	<u>38,018</u>	<u>28,688</u>
Excess of revenue over expenses	13,090	46,671
Other changes in unrestricted net assets		
Change in unrealized appreciation on investments	7,967	8,309
Contributed capital asset	4,802	7,406
Net assets released from restrictions for property, plant and equipment	1,613	3,351
Pension related changes other than net periodic pension costs	<u>(8,190)</u>	<u>25,801</u>
Change in unrestricted net assets	19,282	91,538
Unrestricted net assets		
Beginning of year	<u>1,092,511</u>	<u>1,000,973</u>
End of year	<u>\$ 1,111,793</u>	<u>\$ 1,092,511</u>

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

BMC Health System, Inc.
Consolidated Statements of Changes in Net Assets
Years Ended September 30, 2014 and 2013

<i>(in thousands)</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets at September 30, 2012	<u>\$ 1,000,973</u>	<u>\$ 299,103</u>	<u>\$ 16,353</u>	<u>\$ 1,316,429</u>
Increases (decreases) in net assets				
Excess of revenues over expenses	46,671	-	-	46,671
Investment income	-	11,876	-	11,876
Change in net unrealized appreciation on investments	8,309	26,296	-	34,605
Contribution revenue	-	10,078	-	10,078
Net assets released from restrictions for operations	-	(23,890)	-	(23,890)
Net assets released from restrictions for property, plant and equipment	3,351	(3,351)	-	-
Contributed capital asset	7,406	-	-	7,406
Pension related changes other than net periodic pension costs	25,801	-	-	25,801
Total increase in net assets	<u>91,538</u>	<u>21,009</u>	<u>-</u>	<u>112,547</u>
Net assets at September 30, 2013	<u>1,092,511</u>	<u>320,112</u>	<u>16,353</u>	<u>1,428,976</u>
Increases (decreases) in net assets				
Excess of revenues over expenses	13,090	-	-	13,090
Investment income	-	23,373	-	23,373
Change in net unrealized appreciation on investments	7,967	9,204	-	17,171
Contribution revenue	-	23,030	-	23,030
Net assets released from restrictions for operations	-	(30,074)	-	(30,074)
Other changes	-	93	(93)	-
Net assets released from restrictions for property, plant and equipment	1,613	(1,613)	-	-
Contributed capital asset	4,802	-	-	4,802
Pension related changes other than net periodic pension costs	(8,190)	-	-	(8,190)
Total increase (decrease) in net assets	<u>19,282</u>	<u>24,013</u>	<u>(93)</u>	<u>43,202</u>
Net assets at September 30, 2014	<u>\$ 1,111,793</u>	<u>\$ 344,125</u>	<u>\$ 16,260</u>	<u>\$ 1,472,178</u>

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

BMC Health System, Inc.
Consolidated Statements of Cash Flows
Years Ended September 30, 2014 and 2013

<i>(in thousands)</i>	2014	2013
Operating activities		
Change in net assets	\$ 43,202	\$ 112,547
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Accretion of discount on long-term grants	(997)	(1,403)
Depreciation and amortization	70,641	69,801
Restricted contributions	(8,706)	(3,933)
Donated securities received	(588)	(386)
Contribution returned to donor	1,799	-
Equity in net losses of joint ventures	1,509	799
Contributed capital asset	(4,802)	(7,406)
Amortization of bond discount	133	126
Bond premium	-	-
Amortization of bond premium	(444)	(445)
City of Boston lease refinancing	(9,753)	(9,347)
Discount and allowance for contributions receivable	6,149	3,929
Net realized gains and change in unrealized appreciation on investments	(49,263)	(43,273)
Increase in asset retirement obligation	918	956
Provision for bad debts	62,825	54,717
Pension related changes other than net periodic pension costs	8,190	(25,801)
Changes in operating assets and liabilities		
Grants receivable	8,106	10,687
Patient accounts receivable	(79,228)	(48,076)
Other current assets and liabilities	(47,343)	(20,678)
Other noncurrent assets and liabilities	(12,290)	(10,498)
Estimated final settlements with third-party payors	(25,979)	25,015
Claims payable	53,246	(10,632)
Accounts payable and accrued expenses	33,478	(10,134)
Net cash provided by operating activities	<u>50,803</u>	<u>86,565</u>
Investing activities		
Proceeds from sale of investments	391,355	349,920
Investment in forgiveness loan	-	(1,000)
Investment in subsidiaries	(520)	(4,657)
Purchases of investments	(277,664)	(303,586)
Purchase of property, plant and equipment	(141,840)	(74,669)
Net cash used in investing activities	<u>(28,669)</u>	<u>(33,992)</u>
Financing activities		
Proceeds from borrowings	-	42
Proceeds from restricted contributions	8,706	3,933
Proceeds from sale of donated securities	588	386
Contribution returned to donor	(1,799)	-
Repayment of long-term debt and capital leases	(7,940)	(8,145)
Net cash used in financing activities	<u>(445)</u>	<u>(3,784)</u>
Increase in cash and cash equivalents	21,689	48,789
Cash and cash equivalents		
Beginning of year	255,124	206,335
End of year	<u>\$ 276,813</u>	<u>\$ 255,124</u>
Supplemental disclosure of cash flow activities		
Cash paid for interest	\$ 21,166	\$ 21,967
Property, plant and equipment included in accounts payable	10,465	5,312
Conditional asset retirement obligations	585	621
Net fixed assets recognized related to conditional asset retirement obligations	(333)	(335)
Contributed securities	588	386
Gift in kind	500	500
New capital leases	86	27

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

BMC Health System, Inc.

Notes to Consolidated Financial Statements

September 30, 2014 and 2013

1. Organization

Boston Medical Center Corporation (the "Medical Center" or "BMC") was incorporated on July 1, 1996 when all of the assets and liabilities of University Hospital, Inc. (a.k.a. Boston University Medical Center Hospital or "BUMCH") and its subsidiaries were merged with and into the Medical Center. In addition, specific assets and liabilities of Boston City Hospital ("BCH"), Boston Specialty and Rehabilitation Hospital ("BSRH") and Trustees of Health and Hospitals, Inc. ("THH"), as indicated in the Consolidation Agreement, were transferred by the City of Boston (the "City") to the Medical Center. The merger of BUMCH into the Medical Center was accounted for as a pooling of interests, and the consolidation of certain assets and liabilities of BCH, BSRH and THH into the Medical Center was accounted for as a contribution of net assets. Accordingly, the balance sheet includes all the assets, liabilities and net assets of the former BUMCH and only certain assets, liabilities and net assets of the former BCH, BSRH and THH. The contribution of net assets by the City of \$58,700,000 included cash, accounts receivable, inventory and moveable equipment less certain trade accounts payable.

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

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

Faculty was incorporated on October 18, 1994 under the provisions of General Laws, Chapter 180, of The Commonwealth of Massachusetts as a nonprofit organization operated exclusively for clinical, charitable, scientific and educational purposes. The Plans were established as not-for-profit faculty practice plan corporations operating exclusively for the benefit of BMC and Boston University School of Medicine ("BUSM") (collectively, the "Institutions"). Faculty is granted the power to approve the Plans' annual operating budgets, physician compensation plans, and managed care contracts. The Plans' purpose is to provide, coordinate and facilitate the delivery of patient care services and to promote the development of an integrated system of delivery to more efficiently and effectively meet the health care needs of the communities served by the Institutions. The Foundation's financial statements are consolidated into the System.

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

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

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

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

ECMF is a Massachusetts corporation involved in real estate development activities. The Medical Center and the Trustees of Boston University each appoint one-half of ECMF’s directors. ECMF has been fully consolidated with the Medical Center as the Medical Center guarantees 100% of the debt of ECMF.

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

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

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

BMC Integrated Care Services, Inc. arranges delivery of health care services to enrollees or beneficiaries of preferred provider health insurance arrangements, health maintenance organizations, corporate employee benefit plans, prepaid health plans, and other alternative delivery system contracts with medical service providers. BMC Integrated Care Services, Inc. promotes the development of an integrated delivery system to more efficiently and effectively meet the healthcare needs of the community. This delivery system will benefit the community by attracting a continuum of patients with diverse medical problems that will contribute to research, education, clinical care and teaching activities. BMC Integrated Services, Inc. contracts on behalf of the Medical Center, its physicians, and some community health centers. Effective December 1, 2014, the Medical Center replaced Faculty as BMC Integrated Care Services, Inc.’s sole corporate member.

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Notes to Consolidated Financial Statements

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BMC NAB Business Trust was organized in May 2008 as a Massachusetts business trust under Chapter 182 of the General Laws of Massachusetts. The Medical Center is a 90% shareholder of the trust, as well as trustee, and Genesys Research Institute, Inc., a tax-exempt, nonprofit Corporation is a 10% shareholder.

Effective May 30, 2002, the Medical Center and Faculty established BMCIC for purposes of providing professional and general liability insurance to each entity, its physicians and employees. BMCIC was incorporated under the laws of the Cayman Islands and has a Cayman Islands Unrestricted Class B insurer's license. BMCIC is owned 70% by the Medical Center and 30% by Faculty.

2. Summary of Significant Accounting Policies

Basis of Accounting and Principles of Consolidation

The consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements of the System include the accounts of the Medical Center, the Foundation, BMCHP, ECMF, UDF, Gryant, Inc., BMC NAB Business Trust, BMCIC, BMCIC of Vermont, BUAP and BMC Integrated Care Services, Inc. All significant intercompany accounts and transactions have been eliminated.

Cash and Cash Equivalents

Cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less at date of purchase. The System maintains the majority of its cash and cash equivalents accounts at two institutions, \$275,090,000 and \$246,948,000 at September 30, 2014 and 2013, respectively. The System has not experienced any losses associated with deposits at these institutions.

Short-Term Investments

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

Investments

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

The fair value of the System's investments in bonds, notes, and common stock is based on quoted market prices in an active market. At September 30, 2014 and 2013, the System held interests in private investment funds. Interests in private investment funds are generally recorded at fair market value based on the System's ownership share and rights of the investment, unless certain criteria require the investment to be recorded as equity method investments or at cost. Securities for which no such quotations or valuations are readily available, are carried at fair value as estimated by management using values provided by external investment managers. The System believes that these valuations are a reasonable estimate of fair value as of September 30, 2014 and 2013, but are subject to uncertainty and, therefore, may differ from the value that would have

BMC Health System, Inc.

Notes to Consolidated Financial Statements

September 30, 2014 and 2013

been used had a ready market for the investment existed. The System has the ability to liquidate their investments periodically in accordance with the provisions of the respective fund agreements.

Assets Limited as to Use

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

Property, Plant and Equipment

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

Assessment of Long-Lived Assets

The System periodically reviews the carrying value of its long-lived assets (primarily property, plant and equipment) to assess the recoverability of these assets; any impairments would be recognized in operating results, if the reduction in value is considered to be other-than-temporary.

Inventories

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

Third-Party Liabilities for Patient Services

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

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

Deferred Revenue

Deferred revenue consists of amounts received in advance of the contract period. Certain advances are received from the Commonwealth of Massachusetts (the "Commonwealth") related to grants. Advances received related to grants were \$19,080,000 and \$17,798,000 as of September 30, 2014 and 2013, respectively. Also included in deferred revenue is a rebate received in advance. The System recorded deferred revenue related to the rebate of \$356,000 and \$550,000 for the years ended September 30, 2014 and 2013, respectively.

BMC Health System, Inc.

Notes to Consolidated Financial Statements

September 30, 2014 and 2013

Health Care Cost Recognition

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

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

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

Premium Deficiency

BMCHP recognizes a premium deficiency based upon expected premium revenue, medical and administrative expense levels, and remaining contractual obligations under BMCHP's historical experience. As of September 30, 2014 and 2013, the premium deficiency reserve totals approximately \$16,395,000 and \$8,280,000, respectively, and is included in other current liabilities on the balance sheet.

Net Assets

Permanently restricted net assets include only the historical dollar amount of gifts, which are required by donors to be held in perpetuity. Temporarily restricted net assets include gifts, grants, investment income, including realized gains and losses, and the change in unrealized appreciation on investments, which can be expended but for which restrictions have not yet been met. Such restrictions include purpose restrictions, time restrictions and restrictions imposed by law on the use of capital appreciation on donor restricted funds.

Realized gains and losses are classified as unrestricted net assets unless they are restricted by the donor or the law. Unless permanently restricted by the donor, realized and unrealized net gains on permanently restricted gifts are classified as temporarily restricted until appropriated for spending by the System in accordance with policies established by the System and the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") enacted by the Commonwealth in July 2009. Unrestricted net assets include all the remaining net assets of the System. See Note 11 for further information on the composition of restricted net assets.

Gifts and Grants

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

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

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

Self-Insurance Reserves

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

Professional Liability Insurance

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

Statements of Operations

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

The statement of operations includes the excess of revenues over expenses. Changes in unrestricted net assets which, consistent with industry practice are excluded from the excess of revenues over expenses, include the change in unrealized 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 net asset transfers from BMCHP to the Medical Center. Additionally, changes in unrestricted net assets include a contributed capital asset related to the BCD and FGH building transfers in fiscal year 2014 and 2013, respectively.

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

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During fiscal year 2013, the Medical Center received favorable settlements from Medicaid, Medicare and the Health Safety Net Fund ("HSN") related to prior years. Changes include Medicaid Pay for Performance payments for \$1,000,000, Medicare prior period cost report settlements for \$5,500,000 and HSN settlements for hospital-based physician free care payments for \$20,200,000.

Favorable changes in prior year estimates from third-party payors recorded in the years ended September 30, 2014 and 2013 amounted to approximately \$32,449,000 and \$26,766,000, respectively.

Net Patient Service Revenue

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

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

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

The Plans are required to fund their share (from risk contracts) of any deficits in excess of the amounts withheld under this master contract. Surplus amounts in excess of amounts withheld have been recorded and retained by BMC Integrated Care Services, Inc. A surplus of \$86,000 and \$236,000 was earned for years ended June 30, 2014 and 2013, respectively.

Capitation Revenue

Membership capitation payments are generally for a period of one month, are due monthly for the current month with the exception of Well Sense which is paid three months in arrears for the current month and reported as earned during the period of coverage. Capitation payments received prior to the coverage period are recorded as deferred revenue. MassHealth remits monthly membership payments based on estimated enrollments. Such estimates are subsequently adjusted on a periodic basis based on actual membership. Gross capitation receivables from MassHealth, the Connector and Well Sense amounted to approximately \$69,040,000 and \$26,102,000 at September 30, 2014 and 2013, respectively.

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Other Revenue

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

Charity Care

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

The System provided free care of \$85,731,000 and \$109,420,000 in 2014 and 2013, 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 Commonwealth 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 Commonwealth Care Connector or face financial penalties. Many of the System's patients that were previously uninsured are now enrolled in various health insurance plans in an effort to comply with the Commonwealth's healthcare reform mandate.

Through the Commonwealth's Health Safety Net Office ("HSNO"), the Medical Center receives reimbursement for a significant portion of the charity care it provides. The amounts received were \$66,065,000 and \$63,091,000 for the years ended September 30, 2014 and 2013, respectively.

Use of Estimates

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

Fair Value of Financial Instruments

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

Income Taxes

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

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

Adoption of New Accounting Guidance

In July 2011, the FASB issued Health Care Entities: *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts* for certain health care entities. Under the new guidance, bad debts relating to patient service revenue will be separately disclosed in the statement of operations and reported as a component of net patient service revenue. Bad debts associated with activities other than patient service revenue will continue to be reported as an operating expense. The standard is effective for fiscal years after December 15, 2012. The System adopted the provisions of ASU 2011-7 during the year ended September 30, 2013.

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

Reclassification

Certain amounts from the 2013 financial statements have been reclassified to conform with the 2014 presentation.

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3. Investments and Assets Limited as to Use

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

(in thousands)	2014		2013	
	At Fair Value	Cost	At Fair Value	Cost
Cash and cash equivalents	\$ 5,098	\$ 5,104	\$ 5,241	\$ 5,246
Bonds and U.S. Treasury Notes	175,497	167,009	172,123	165,244
Private investment funds	300,267	244,527	335,229	292,759
Mutual funds	239,669	198,739	221,125	184,098
Marketable equity securities	149,468	111,913	140,837	104,785
Money market mutual funds	80,831	81,030	120,526	120,512
Asset-backed securities	9,456	9,547	9,502	9,573
	<u>960,286</u>	<u>817,869</u>	<u>1,004,583</u>	<u>882,217</u>
Funds held by trustees	<u>58,567</u>	<u>58,722</u>	<u>71,194</u>	<u>71,364</u>
	<u>\$ 1,018,853</u>	<u>\$ 876,591</u>	<u>\$ 1,075,777</u>	<u>\$ 953,581</u>

At September 30, 2014 and 2013, the System recorded certain private investment funds of \$53,393,000 and \$53,587,000 using the cost method. For the private investment funds reflected in the balance sheet at cost, the difference (unrecorded net unrealized appreciation) between the value reported by the investment managers and the cost for these investments was \$7,139,000 and \$11,078,000 as of September 30, 2014 and 2013, respectively. Included in private investment funds (as described in the American Institute of Certified Public Accountants document, *A Practice Aid for Auditors Alternative Investments - Audit Considerations*) are alternative investment vehicles including commingled funds with an estimated fair value of approximately \$300,267,000 and \$335,229,000 at September 30, 2014 and 2013, respectively.

BMCHP is required by its contract with MassHealth to maintain a reinsurance reserve fund in an amount based on monthly enrollment. The reserve funds of BMCHP amounted to \$19,859,000 and \$12,994,000 at September 30, 2014 and 2013, respectively.

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

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

<i>(in thousands)</i>	2014	2013
Unrestricted		
Dividends and interest	\$ 26,490	\$ 28,771
Net realized gains on investments	14,805	3,064
Change in net unrealized appreciation on investments	<u>7,967</u>	<u>8,309</u>
	<u>49,262</u>	<u>40,144</u>
Temporarily restricted		
Dividends and interest	6,086	6,272
Net realized gains on investments	17,287	5,604
Change in net unrealized appreciation on investments	<u>9,204</u>	<u>26,296</u>
	<u>32,577</u>	<u>38,172</u>
	<u>\$ 81,839</u>	<u>\$ 78,316</u>

Unrealized gains related to BMCIC of \$2,895,000 and \$10,146,000 as of September 30, 2014 and 2013, respectively, were used to offset the deposit liability for net unrealized holdings (gains) losses on available for sale securities.

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

4. Fair Value Measurements

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

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

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

Level 1 Observable inputs such as quoted prices in active markets;

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Level 2 Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

Level 3 Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

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

Market Approach

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

Cost Approach

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

Income Approach

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

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

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

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

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The following table summarizes fair value measurements at September 30, 2013 for financial assets measured at fair value on a recurring basis.

<i>(in thousands)</i>	Level 1	Level 2	Level 3	Total
Investments				
Cash and cash equivalents	\$ 5,241	\$ -	\$ -	\$ 5,241
Bonds and U.S. Treasury Notes	1,500	170,623	-	172,123
Private investment funds	-	335,229	-	335,229
Mutual funds	121,080	100,045	-	221,125
Marketable equity securities	140,837	-	-	140,837
Money market mutual funds	120,526	-	-	120,526
Asset-backed securities	-	9,502	-	9,502
	<u>\$ 389,184</u>	<u>\$ 615,399</u>	<u>\$ -</u>	<u>\$ 1,004,583</u>
Funds held by trustee				
U.S. government securities	\$ 35,228	\$ -	\$ -	\$ 35,228
Money market mutual funds	35,966	-	-	35,966
	<u>\$ 71,194</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 71,194</u>

The System had no transfers from Level 2 to Level 1 in fiscal year 2014 and 2013, respectively.

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

Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers, and brokers.

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

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

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

<i>(in thousands)</i>	Investments Asset Value		
	Net Asset Value	Redemption Frequency	Notice Period
Investment Type			
Private investment funds	\$ 300,267	Bi-Monthly-Monthly	3 - 45 days
Bonds and U.S. Treasury Notes	173,997	Daily-Monthly	2 - 30 days
Mutual funds	107,200	Daily-Monthly	2 - 6 days
Asset-backed securities	9,456	Daily-Monthly	4 - 30 days
	<u>\$ 590,920</u>		

The following table presents liquidity information for the financial instruments carried at net asset value at September 30, 2013.

<i>(in thousands)</i>	Investments Asset Value		
	Net Asset Value	Redemption Frequency	Notice Period
Investment Type			
Private investment funds	\$ 335,229	Bi-Monthly-Monthly	3 - 45 days
Bonds and U.S. Treasury Notes	170,623	Daily-Monthly	2 - 30 days
Mutual funds	100,045	Daily-Monthly	2 - 6 days
Asset-backed securities	9,502	Daily-Monthly	4 - 30 days
	<u>\$ 615,399</u>		

There were no unfunded commitments as of September 30, 2014.

Externally managed marketable investments with fair value below cost are considered to be other-than-temporarily impaired and accordingly, the unrealized depreciation is recognized as realized losses through a write-down in the cost basis of these investments. All other investments are periodically reviewed for impairment to determine if such declines are other-than-temporary. Management's review is based upon the percentage and period of time that the investment is below cost as well as other qualitative considerations. A similar write down is recorded when the impairment on these investments has been judged to be other-than-temporary. During 2014 and 2013, the Medical Center reported recognized losses of approximately \$1,171,000 and \$1,316,000, respectively, relating to declines in fair value of investments that were determined by management to be other-than-temporary.

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5. Contributions Receivable

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

Unconditional promises expected to be collected in:

<i>(in thousands)</i>	2014	2013
Less than one year	\$ 5,584	\$ 4,344
One year to five years	16,969	7,598
More than five years	1,250	2,000
	<u>23,803</u>	<u>13,942</u>
Less: Discounts and allowance for uncollectible accounts	<u>(6,149)</u>	<u>(3,929)</u>
Net contributions receivable	<u>\$ 17,654</u>	<u>\$ 10,013</u>

Included in total gross contributions receivable is a single donor in the amount of \$9,000,000. The original contribution from the donor in 2008 was \$15,000,000, of which \$6,000,000 was paid. Discount rates used to calculate the present value of contributions receivable ranged from 2.40%-6.00%, depending upon the anticipated pledge fulfillment date.

6. Property, Plant and Equipment

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

<i>(in thousands)</i>	Useful Life	2014	2013
Land		\$ 11,292	\$ 11,292
Land improvements	5 - 40 years	775	775
Buildings	15 - 45 years	203,490	190,914
Building and leasehold improvements	5 - 40 years	572,453	553,842
Fixed equipment	5 - 25 years	44,825	44,871
Major movable equipment	3 - 20 years	399,686	372,284
Leased buildings and equipment	15 - 20 years	118,913	119,300
Construction in progress		154,914	70,761
		<u>1,506,348</u>	<u>1,364,039</u>
Accumulated depreciation and amortization		<u>(792,409)</u>	<u>(726,205)</u>
Property, plant and equipment, net		<u>\$ 713,939</u>	<u>\$ 637,834</u>

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

Depreciation expense amounted to \$59,479,000 and \$58,443,000 for the years ended September 30, 2014 and 2013, respectively. Amortization expense amounted to \$11,162,000 and \$11,358,000 for the years ended September 30, 2014 and 2013, respectively.

Fully depreciated property, plant and equipment with an original cost of \$958,000 and \$76,315,000 was disposed of during the year ended September 30, 2014 and 2013, respectively.

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

As of September 30, 2014 and 2013, assets under capital lease agreements amounted to approximately \$118,913,000 and \$119,300,000, respectively, with accumulated amortization of \$98,124,000 and \$86,962,000, respectively. Amortization expense is included with depreciation and amortization expense in the statement of operations.

The System has capitalized interest in the amount of \$45,330,000 and \$44,589,000 for the years ended September 30, 2014 and 2013, respectively.

7. Other Noncurrent Assets

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

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

In 2005, the Medical Center was the beneficiary of an allocation of NMTC that was awarded to Affirmative Investments, Inc. These NMTC and federal historic tax credits were used as part of a financing package to reduce the cash required by the Medical Center to rehabilitate the BCD building. The financing required the Medical Center to loan approximately \$5,800,000 and \$6,100,000 to a third party relating to project costs of \$16,000,000 to perform building improvements on the BCD building. The \$5,800,000 was recorded as a note receivable at September 30, 2013. The note receivable was considered permanent financing and was forgiven once the Medical Center took ownership in 2014. The \$6,100,000 was repaid to the Medical Center by a third party and the interest was forgiven once the Medical Center took ownership of the BCD building. The loans had an interest rate of 5.12% and accrued interest of \$0 and \$1,768,000 as of September 30, 2014 and 2013, respectively. On May 1, 2012, the Medical Center purchased Gryant, Inc.'s interest in the BCD building for \$300,000. On June 21, 2013, Gryant, Inc. transferred \$297,000 (\$300,000 less bank fees) to the Medical Center and the Medical Center reduced its interest in BCD. As of September 30, 2014 and 2013, the Medical Center recorded \$0 and \$1,303,000 as an investment in BCD.

The Medical Center entered into four put and call option agreements in connection with the redevelopment of the BCD building. On October 1, 2012 the Medical Center executed the put option agreement for BCD to Sovereign. The Medical Center paid Sovereign \$1,455,000 for Sovereign's 99.9% interest in Affirmative NMTC Fund I LLC (the "Fund"). The Medical Center also executed its put option agreements with Affirmative, which is the remaining 0.01% interest in the Fund and with Antique BCD, LLC. After the puts were exercised, the Medical Center had 99.99% interest and control over the BCD Building. As of September 30, 2014, the Medical Center has one outstanding put with Affirmative New Markets LLC. In fiscal year 2014, the BCD Building and all

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other assets and liabilities were transferred from Gryant, Inc. to the Medical Center. The BCD building was recorded on the Medical Center's books at its net book value of \$17,097,000. The lease between the Medical Center and Antique BCD, LLC was terminated as a result of the transaction. The Medical Center forgave its note and interest receivable and wrote down its investment in BCD, lease payable and all assets and liabilities transferred from Gryant, Inc., excluding the building, to zero. The entire transaction resulted in a contribution of a capital asset of \$4,802,000 from Sovereign to the Medical Center, which is recorded as a change in net assets.

During 2006, the Medical Center loaned approximately \$11,600,000 and \$9,000,000 to a third party relating to project costs of \$21,000,000 to perform building improvements on the Medical Center's FGH Building. These loans are part of a second financing package that utilizes new market tax credits to reduce the cash required by the Medical Center to rehabilitate the facility. The \$11,654,000 loan was recorded as other noncurrent assets at September 30, 2012. The loan was considered permanent financing and was forgiven when the Medical Center took ownership in 2013. The loan had an interest rate of 3.5% and was recorded as notes receivable with accrued interest of \$116,000 as of September 30, 2012. At September 30, 2013, this loan was forgiven. The \$9,000,000 was repaid to the Medical Center by a third party in fiscal year 2010. On July 24, 2012, the Medical Center purchased Gryant Inc.'s interest in the FGH Building for \$150,000.

The Medical Center entered into four put and call option agreements in connection with the redevelopment of the FGH Building. On March 1, 2013, the Medical Center executed the put option agreement for FGH to Sovereign and Affirmative, LLC. The Medical Center paid a total of \$1,652,000 to Sovereign and Affirmative, LLC for their combined 100% interest in the Affirmative NMTC Fund II, LLC (the "Fund"). After the put option agreements were exercised, the Medical Center had 100% interest and control over the FGH building. The FGH Building and all other assets and liabilities were transferred from Gryant, Inc. to the Medical Center. The FGH building was recorded on the Medical Center's books at its net book value of \$17,849,000. The lease between the Medical Center and Affirmative LLC was terminated as a result of the transaction. The Medical Center forgave its note and interest receivable and wrote down its investment in FGH, lease payable and all assets and liabilities transferred from Gryant, Inc., excluding the building, to zero. The entire transaction resulted in a contribution of a capital asset of \$7,406,000, from Sovereign to the Medical Center, which is recorded as a change in net assets.

During 2008, the Medical Center loaned \$53,667,000 to a third party relating to project costs of \$190,110,000 for the demolition of 91 East Concord Street and for the design, construction, and equipping of the Shapiro Ambulatory Care Center. The loan is part of a financing package that utilizes \$70,000,000 of new markets tax credits to reduce cash required by the Medical Center to construct this new facility. The loan is recorded as other noncurrent assets as of September 30, 2014 and 2013 and will be reclassified to property, plant and equipment once the Medical Center takes ownership at the end of the lease period. The loan has an interest rate of 3.85%, and has been recorded as notes receivable as of September 30, 2014 and 2013 with accrued interest of \$11,494,000 and \$9,570,000, respectively. The loan from the Medical Center was combined with a third-party capital contribution in the amount of \$16,333,000 in an investment fund totaling \$70,000,000. The total amount in the investment fund was used to make a "qualified equity investment" into community development entities ("CDEs"). The CDEs, in turn, are required to make a series of loans totaling \$68,900,000 to the BMC NAB Business Trust for the construction of the facility.

Included in the capital contribution was a low interest loan in the amount of \$2,917,000 which must be repaid by the BMC NAB Business Trust at the end of this loan period.

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As part of this financing transaction, there is a provision for an assignment of all loans to the Medical Center on the seventh anniversary of the transaction. As a financial incentive to trigger the assignment of all the loans, the loans will have a \$5,000,000 principal payment due at the end of the seven years.

At September 30, 2009, the outstanding loans, except the low interest loan in the amount of \$2,917,000 which will be paid in full by the BMC NAB Business Trust, were assigned to and recorded as a liability to the Medical Center. The Medical Center thus became the sole lender to the BMC NAB Business Trust. The Medical Center will have the option to terminate the business trust lease and the loans, eliminating the ownership structures created for the NMTC transaction.

In November and December 2008, the Medical Center closed on a second and third round of NMTC financing for the construction of the Shapiro Ambulatory Care Center. The Medical Center was the beneficiary of an allocation of federal NMTCs in the amounts of \$46,697,000 and \$24,000,000, respectively. In these two financing transactions, the Medical Center provided loans of \$33,582,000 and \$19,517,000 with the capital contribution of \$14,715,000 and \$4,483,000 provided by a third party. These loans of 33,582,000 and \$19,517,000 have an interest rate of 3.0% and have accrued interest of \$4,375,000 and \$2,490,000, respectively, as of September 30, 2014. In the second round of NMTC financing, the Medical Center also entered into an additional loan in the amount of \$472,000 with an interest rate of 3.00%. Accrued interest of \$67,000 and \$51,000 related to this loan has been recorded as of September 30, 2014 and 2013, respectively. All loans are recorded as notes receivable as of September 30, 2014 and 2013. These funds also became equity investments into CDEs. The CDEs, in turn, are required to make a series of loans to the BMC NAB Business Trust totaling \$46,234,000 and \$24,000,000 for the construction of the facility.

As part of these financing transactions, the Medical Center has entered into two put and call agreements in connection with the construction of the Shapiro Ambulatory Care Center. The purpose of these agreements is to ensure that the Medical Center retains control of the new building at the end of the NMTC period. If the put options are not exercised by the investors, then the call option may be exercised by the Medical Center during a four-month period following the put option period. If the call option is executed, then the Medical Center must pay the fair market value of the investors' interest.

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8. Long-Term Debt

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

<i>(in thousands)</i>	Interest Rate	2014	2013
Revenue Bonds Series C	3.00 % - 5.25 %	\$ 98,635	\$ 103,870
Revenue Bonds Series B	4.00 % - 5.75 %	243,405	244,040
ECMF Series A Bonds	6.45 %	7,600	8,600
Series O - Tax Exempt (Garage)	Varies	10,229	10,741
Series O - Taxable (Garage)	Varies	3,204	3,364
CDE Loans	0.82 % - 2.00 %	139,135	150,635
		<u>502,208</u>	<u>521,250</u>
Less: Current portion of long-term debt		(11,175)	(7,533)
Revenue Bonds Series B discount		(6,590)	(6,723)
Revenue Bonds Series C premium		6,557	7,001
		<u>\$ 491,000</u>	<u>\$ 513,995</u>

In July 2012, the Medical Center refunded the Massachusetts Development Finance Agency ("Mass Development") Revenue Bonds, Boston Medical Center Issue, Series A (1998) Bonds ("Series A Bonds") through the sale of \$108,950,000 MassDevelopment, Series C Revenue 2012 Bonds ("Series C Revenue Bonds"). The principal amount outstanding of the Series A Bonds was \$119,970,000. The interest rate on the Series C Revenue Bonds ranges from 3.00% to 5.25% based on the bonds' maturities. Principal and sinking fund payments will be made annually between 2013 and 2029 and range from \$5,080,000 and \$8,060,000.

In July 2008, the Medical Center issued through the Authority \$245,175,000 Series B Revenue Bonds. The bonds were issued to finance the cost of demolition of 91 East Concord Street, the design, construction and equipping of the Shapiro Ambulatory Care Center, the design and construction of a two-story addition to the Menino Pavilion, and routine capital expenditures. The interest rate on the Series B Revenue Bonds varies from 4.00% to 5.75% based on the bonds' maturities. Principal and sinking fund payments will be made annually between 2013 and 2038 and range from \$545,000 to \$26,430,000.

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

The Medical Center is currently the sole member of the Obligated Group. The column entitled "Medical Center" in the supplemental consolidating information of the consolidated financial statements represent the Obligated Group and three financially immaterial affiliates that are not members of the Obligated Group (UDF, ECMF and BMC Integrated Care Services, Inc.).

The Amended and Restated Master Trust Indenture covers the obligations of Series B Revenue Bonds, Series C Revenue Bonds and Series O Pool Loans.

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

In October 2012, the Medical Center entered into a Line of Credit for short-term borrowings with a bank under which up to \$25 million may be borrowed on such terms as outlined by the Amended and Restated Line of Credit Agreement. This Agreement will be renewed annually but can be withdrawn at the bank's option. The Medical Center has pledged certain board designated accounts to secure the line of credit. The assets of these accounts will collateralize borrowings against the line of credit. The Medical Center has not borrowed against the line of credit as of September 30, 2014.

Included in the Medical Center's debt is approximately \$13,433,000 of the Authority's variable rate demand bonds ("VRDBs"), Capital Asset Program Issue 2009 Series O-1 and O-2 (a refinancing of the Authority's Series M loans issued in 2005). The Medical Center has entered into irrevocable letters of credit ("LOCs") with a financial institution to secure bond repayment and interest obligations associated with its VRDBs. RBS Citizens, N.A. provides LOCs totaling \$14,981,000. There are no drawings under the LOCs as of September 30, 2014. The LOC supporting the Series O-1 and O-2 will expire on December 31, 2017. RBS Citizens provided a Federal Home Loan Bank wrap (AAA rated) for the two Letters of Credit. The term and payment schedule for the loans did not change. The interest rates at September 30, 2014 were 0.28% and 0.07% for the tax-exempt and taxable loans, respectively.

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

BMC NAB Business Trust has \$139,135,000 in CDE loans as of September 30, 2014 and 2013 related to financing for the construction of the Shapiro Ambulatory Care Center. The interest rates on the CDE loans range from 0.82% to 2.0%. Currently, interest-only payments are being made annually on the CDE loans. One CDE loan with a principal balance of \$2,917,000 must be repaid in May 2015. Beginning in November 2015, principal and interest are due for all other CDE loans related to the first round of new market tax credit ("NMTC") financing. In May 2019, principal and interest payments are due for CDE loans related to the second and third rounds of NMTC financing.

Gryant, Inc. had \$11,500,000 in loans as of September 30, 2013 related to financing for the rehabilitation of the BCD Building. The interest rate on the BCD loan was 4.6%. The loan was forgiven when the Medical Center took ownership of the BCD building in fiscal year 2014.

The Medical Center has a liquidity covenant which requires minimum liquidity of \$50,000,000 be maintained in certain board designated accounts as security for the LOCs.

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

<i>(in thousands)</i>	September 30,	
	2014	2013
Construction fund	\$ 9,043	\$ 21,809
Debt service fund	6,995	6,724
Debt service reserve funds	35,293	35,385
Accrued interest receivable	429	469
Workers' compensation reserve fund	6,470	6,470
Other held funds	337	337
	<u>\$ 58,567</u>	<u>\$ 71,194</u>

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

Maturities of long-term debt are as follows:

<i>(in thousands)</i>	
Years Ending September 30,	
2015	\$ 11,175
2016	10,479
2017	11,064
2018	11,796
2019	15,825
Thereafter	441,869
	<u>\$ 502,208</u>

The estimated fair value of long-term debt was approximately \$531,001,000 and \$528,518,000 at September 30, 2014 and 2013, respectively. The fair value of the long-term debt was determined by discounting the future cash flows of each instrument at rates that reflect rates currently observed in publicly traded debt markets for debt of similar terms to organizations with comparable credit risk. The inputs to the assumptions used to determine the estimated fair value are based on observable inputs and are classified as Level 2. For variable rate debt, the carrying value is equal to the fair value.

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9. Obligations Under Capital Leases

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

<i>(in thousands)</i>	2014	2013
City of Boston (forgivable)	\$ 18,098	\$ 27,851
City of Boston	589	919
Other	115	98
Less: Current portion (forgivable)	(10,177)	(9,753)
Less: Current portion	<u>(363)</u>	<u>(380)</u>
	<u>\$ 8,262</u>	<u>\$ 18,735</u>

Effective with the merger on July 1, 1996, the Medical Center entered into a 50-year capital lease with the Public Health Commission ("PHC"), a division of the City of Boston, for all the real property previously owned by BCH. The lease payments for the first 25 years are equal to the debt service payments required on the City of Boston Revenue Refunding Bonds, Boston City Hospital (FHA insured mortgage) Series B (the "1993 Bonds"). The lease payments for the second 25 years will be determined at that time based upon several factors. In conjunction with the lease execution, the City of Boston agreed to provide the Medical Center with Base Assistance Grant payments (Note 14) which are expected to equal the Medical Center's payments on the first 25 years of the lease. The lease payments during the first 25 years are only required if the Medical Center receives the Base Assistance Grant payments from the City of Boston. The interest rate on the lease was 6.2%.

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

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

(in thousands)

Years Ending September 30,		
2015		\$ 363
2016		303
2017		19
2018		19
2019		19
Thereafter		<u>20</u>
Total minimum lease payments		743
Less: Amount representing interest		<u>(39)</u>
Present value of minimum lease payments		704
Less: Current portion		<u>(363)</u>
		<u>\$ 341</u>

10. Operating Lease Commitments

The System amortizes deferred rent on a straight-line basis over the term of the lease. At September 30, 2014 and 2013 approximately \$485,000 and \$485,000, respectively, of amortization had been recorded as an offset to rent expense and at September 30, 2014 approximately \$485,000 and \$2,597,000 remains deferred as a current and noncurrent liability, respectively.

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

	Lease Obligations
<i>(in thousands)</i>	
Years Ending September 30,	
2015	\$ 13,052
2016	12,690
2017	8,876
2018	7,263
2019	7,128
Thereafter	<u>11,052</u>
	<u>\$ 60,061</u>

The System records rent expense on a straight-line basis over the life of the lease and records accrued rent as the difference between rent expense and actual payments made. As of September 30, 2014 and 2013, the accumulated difference between rent expense and amounts paid amounted to \$5,135,000 and \$3,370,000, respectively, and is included in accounts payable and accrued expenses and long-term liabilities on the balance sheet.

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11. Restricted Net Assets

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

<i>(in thousands)</i>	2014	2013
Temporarily restricted		
Accumulated realized and unrealized gains	\$ 246,088	\$ 219,597
City of Boston Grants (Note 14)	18,098	27,851
Funds for the purchase of equipment and capital improvements	49,365	31,802
Other restricted purposes	<u>30,574</u>	<u>40,862</u>
	<u>\$ 344,125</u>	<u>\$ 320,112</u>
Permanently restricted		
Investments to be held in perpetuity	\$ 16,260	\$ 16,353

12. Endowments

The Medical Center's endowment consists of approximately 205 donor-restricted funds established for a variety of purposes. As required by generally accepted accounting principles, net assets associated with endowment funds, are classified and reported as restricted or unrestricted based on the existence or absence of donor-imposed restrictions.

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

As of September 30, 2014, the Medical Center did not have board-designated funds included in the endowment. The endowment net asset composition by type of fund consisted of the following:

<i>(in thousands)</i>	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 196,468	\$ 16,260	\$ 212,728
	<u>\$ 196,468</u>	<u>\$ 16,260</u>	<u>\$ 212,728</u>

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

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

As of September 30, 2013, the Medical Center did not have board-designated funds included in the endowment. The endowment net asset composition by type of fund consisted of the following:

<i>(in thousands)</i>	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	<u>\$ 183,302</u>	<u>\$ 16,353</u>	<u>\$ 199,655</u>
	<u>\$ 183,302</u>	<u>\$ 16,353</u>	<u>\$ 199,655</u>

Changes in endowment net assets for the year ended September 30, 2013, consisted of the following:

<i>(in thousands)</i>	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at September 30, 2012	<u>\$ 162,727</u>	<u>\$ 16,353</u>	<u>\$ 179,080</u>
Investment return			
Investment income	9,059	-	9,059
Net unrealized appreciation	<u>19,284</u>	<u>-</u>	<u>19,284</u>
Total investment return	<u>28,343</u>	<u>-</u>	<u>28,343</u>
Appropriation of endowment assets for expenditures	(7,768)	-	(7,768)
	<u>(7,768)</u>	<u>-</u>	<u>(7,768)</u>
Endowment net assets at September 30, 2013	<u>\$ 183,302</u>	<u>\$ 16,353</u>	<u>\$ 199,655</u>

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13. Third-Party Reimbursement

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

Medicare

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

Medicaid

The Commonwealth's MassHealth ("Office of Medicaid") utilizes a prospective payment system for acute hospital services provided to Medicaid beneficiaries. The Office of Medicaid pays the System a fixed amount per discharge for inpatient services, prospectively determined flat rates based on diagnoses and procedures performed for most outpatient services, and fixed fees for certain other outpatient services.

Uncompensated Care

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

14. Grant Payments

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

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

The net present value of the "in-kind" rent receivable is \$18,098,000 and \$27,851,000 and is included in the grants receivable and temporarily restricted net assets on the balance sheet at September 30, 2014 and 2013, respectively. The "in-kind" rent receivable has been discounted using a rate of 4.26%. The accretion of the discount on the "in-kind" receivable is approximately \$997,000 and \$1,403,000 for the years ended September 30, 2014 and 2013, respectively, and is included in contribution revenue of temporarily restricted net assets in the statement of changes in net assets.

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15. Benefit Plans Available to Employees

The Medical Center has a Tax Sheltered Annuity Plan (the "TSA Plan") which is a deferred compensation plan. Participation in the TSA Plan is voluntary. The Medical Center also has a contributory 403(b) plan. The Medical Center's contributions under these plans amounted to \$16,716,000 and \$16,390,000 for the years ended September 30, 2014 and 2013, respectively.

Certain retired Medical Center employees have postretirement medical and life insurance benefits covered under the Welfare Benefits Plan ("the Plan"). The Plan was frozen effective with the merger on July 1, 1996. Current employees and employees retiring after July 1, 1996 are not covered by the Plan. The accrued benefit cost amounted to \$133,000 and \$155,000 as of September 30, 2014 and 2013, respectively. The net periodic benefit cost recorded on the Plan amounted to \$(25,000) and \$(31,000) for the years ended September 30, 2014 and 2013, respectively.

BMCHP has a defined contribution retirement plan ("DC Plan") under Section 401(k) of the Internal Revenue Code established effective August 1, 2001. The DC Plan covers all eligible employees at BMCHP who choose to participate, and requires BMCHP to match employees' contributions up to specified limitations. Participants are 100% vested in their deferred contributions, and rollover contribution accounts immediately plus actual earnings thereon. The matching employer contribution is based on a discretionary formula and vests over a four year period. BMCHP contributions under this DC Plan were \$1,622,000 and \$1,443,000 in 2014 and 2013, respectively.

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

<i>(in thousands)</i>	2014	2013
Accumulated benefit obligation	\$ 137,121	\$ 117,939
Change in projected benefit obligation		
Projected benefit obligation at beginning of year	\$ 130,032	\$ 139,747
Service cost	4,868	5,970
Interest cost	6,097	5,191
Actuarial loss (gain)	11,119	(18,781)
Benefits paid	(2,444)	(2,095)
Projected benefit obligation at end of year	<u>\$ 149,672</u>	<u>\$ 130,032</u>
Change in plan assets		
Fair value of plan assets at beginning of year	\$ 101,075	\$ 86,939
Actual return on plan assets	9,835	9,431
Employer contributions	6,800	6,800
Benefits paid	(2,444)	(2,095)
Fair value of plan assets at end of year	<u>\$ 115,266</u>	<u>\$ 101,075</u>
Reconciliation of funded status		
Projected benefit obligation	\$ 149,672	\$ 130,032
Fair value of plan assets	115,266	101,075
Funded status	<u>(34,406)</u>	<u>(28,957)</u>
Amounts recognized in the balance sheet included within other long-term liabilities	<u>\$ (34,406)</u>	<u>\$ (28,957)</u>

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The components of net periodic benefit cost for the years ended September 30, 2014 and 2013 are as follows:

<i>(in thousands)</i>	2014	2013
Service cost	\$ 4,868	\$ 5,970
Interest cost	6,097	5,191
Expected return on plan assets	(7,237)	(6,272)
Amortization of prior service cost	1	1
Amortization of net loss	360	3,906
Net periodic benefit cost	<u>\$ 4,089</u>	<u>\$ 8,796</u>

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

Discount rate	4.75 %	3.75 %
Long-term rate of return	7.00 %	7.00 %
Rate of compensation increase	4.00 %	3.00 %

Weighted average assumptions used to determine the benefit obligations

Discount rate	4.14 %	4.75 %
Rate of compensation increase	3.50 %	4.00 %

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

New net actuarial loss (gain)	\$ 8,521	\$ (21,939)
Amortization of prior service cost	(1)	(1)
Amortization of net loss	(360)	(3,906)
	<u>\$ 8,160</u>	<u>\$ (25,846)</u>

Amounts recognized in unrestricted net assets

Net prior service cost	\$ -	\$ 1
Net actuarial loss	23,478	15,317
	<u>\$ 23,478</u>	<u>\$ 15,318</u>

The amounts expected to be recognized as amortization of prior net service cost and amortization of net loss, respectively, and as components of net periodic cost in the upcoming year are \$0 and \$1,460,000.

Pension Plan Assets

The Pension Plan weighted average asset allocation as of the measurement dates September 30, 2014 and 2013, respectively, is as follows:

Asset category	Target Allocation Fiscal Year Ending September 30, 2014	Percentage of Plan Assets at September 30,	
		2014	2013
Equity securities	60 %	63 %	64 %
Debt securities	30	26	20
Other	10	11	16
	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

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

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

The fair value of pension plan assets as of September 30, 2013 is disclosed in the table below.

<i>(in thousands)</i>	Level 1	Level 2	Level 3	Total
Investments				
Cash and cash equivalents	\$ 2,938	\$ -	\$ -	\$ 2,938
Fixed income	5,942	13,840	-	19,782
Equities	9,906	54,592	-	64,498
Commodities	13,857	-	-	13,857
	<u>\$ 32,643</u>	<u>\$ 68,432</u>	<u>\$ -</u>	<u>\$ 101,075</u>

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

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

BMC Health System, Inc.
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Cash Flows

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

Expected contributions for fiscal year ending September 30, 2015

Expected employer contributions \$ 6,800,000

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

2015	\$ 4,209,000
2016	4,703,000
2017	5,579,000
2018	6,347,000
2019	7,150,000
2020 - 2023	49,325,000

The Medical Center contributed \$6,800,000 and \$6,800,000 to the Pension Plan for each of the years ended September 30, 2014 and 2013, respectively. The Medical Center plans to make any necessary contributions during the upcoming fiscal year 2015 to ensure the Pension Plan continues to be adequately funded during the current market conditions.

16. Concentration of Credit Risk

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

The mix of receivables from patients and third-party payors at September 30, 2014 and 2013 was as follows:

	2014	2013
Medicare	17 %	18 %
Medicaid	25	26
HMOs	32	27
Self-Pay	5	8
Commercial	9	5
Blue Cross	3	8
Commonwealth Care	4	5
Other	5	3
	<u>100 %</u>	<u>100 %</u>

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

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

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

The System records an allowance for doubtful accounts (credit losses) for the following other accounts receivable balances at September 30, 2013:

<i>(in thousands)</i>	Receivable Balance	Allowance for Doubtful Accounts
FICA reimbursement for resident payments	\$ 886	\$ -
Other hospitals and health centers	6,525	2,987
New market tax credits	17,309	-
Outside contracts	15,901	1,989
Contributions receivable	4,344	1,570
Capitation receivable	26,102	-
Reinsurance receivable	4,286	-
Other	36,683	205
	<u>\$ 112,036</u>	<u>\$ 6,751</u>

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

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

BMC Health System, Inc.
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Changes in the allowance for doubtful accounts for the years ended September 30, 2014 and 2013 were as follows:

<i>(in thousands)</i>	2014	2013
Beginning balances at September 30, 2013	\$ 6,751	\$ 6,005
Recoveries	(1,162)	(95)
Net charge-offs	671	522
New reserves	185	319
Ending balances at September 30, 2014	<u>\$ 6,445</u>	<u>\$ 6,751</u>

17. Net Patient Service Revenue and Allowance for Doubtful Accounts

Net patient service revenue before the provision for bad debts for the year ended September 30, 2014 and 2013 is summarized as follows:

Patient	\$ 318,076	\$ 334,453
Third-party payers	1,669,381	1,505,239
Less: Contractual allowances	(975,085)	(889,382)
Less: Provision for bad debt	(62,825)	(54,717)
Net patient service revenue	<u>\$ 949,547</u>	<u>\$ 895,593</u>

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

Accounts receivable, prior to adjustments for doubtful accounts, is summarized as follows at September 30, 2014 and 2013:

<i>(in thousands)</i>	2014	2013
Patient	\$ 15,160	\$ 5,374
Third-party payers	388,765	330,651
Total	403,925	336,025
Reserve for contractual allowance	(282,309)	(239,740)
Reserve for doubtful accounts	(36,004)	(27,076)
Patient accounts receivable, net	<u>\$ 85,612</u>	<u>\$ 69,209</u>

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

The Foundation and the Medical Center have significant transactions with each other for operating purposes. During the years ended September 30, 2014 and 2013, the Medical Center provided funding of approximately \$93,174,000 and \$107,655,000, 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 \$44,782,000 and \$35,818,000 at September 30, 2014 and 2013, respectively. In addition, the Medical Center owed the Foundation \$53,858,000 and \$38,689,000 at September 30, 2014 and 2013, respectively, and the amounts due are included in the current portion of due to related parties.

BMCHP and the Medical Center have significant transactions with each other for operating purposes. Total revenue earned by the Medical Center from BMCHP related to medical services provided by the Medical Center to BMCHP members was \$133,526,000 and \$118,714,000 for the years ended September 30, 2014 and 2013, respectively, and is included in net patient service revenue. At September 30, 2014 and 2013, BMCHP owed the Medical Center \$0 and \$23,043,000, respectively. In addition, BMCHP owed the Medical Center \$15,902,000 and \$12,540,000 at September 30, 2014 and 2013, respectively, and the amounts due are included in patient accounts receivable. During the years ended September 30, 2014 and 2013, BMCHP approved a net asset transfer of \$0 and \$23,000,000 to BMC, which was eliminated upon consolidation.

The Medical Center and BMCIC have significant transactions with each other for the purpose of providing professional and general liability insurance. Total expenses incurred by the Medical Center related to the insurance provided by BMCIC were \$4,489,000 and \$4,100,000 for the years ending September 30, 2014 and 2013, respectively. The Medical Center has \$36,229,000 and \$31,311,000 of prepaid premiums and retrospective premium credits that were prepaid by the Medical Center to BMCIC at September 30, 2014 and 2013, respectively. The Medical Center and the Foundation recorded an insurance recovery receivable and a professional liability claims payable of \$70,861,000 and \$75,068,000 for the year ended September 30, 2014 and 2013, respectively. The receivable and payable for the Medical Center and Foundation eliminate upon consolidation.

The Medical Center and BMCIC of Vermont have transactions with each other for the purpose of providing insurance coverage for property and for certain liability exposures arising from acts of terrorism under TRIA. All insurance written and claims paid originate with the Medical Center. There were no expenses incurred by the Medical Center related to the insurance provided by BMCIC of Vermont for the years ending September 30, 2014 and 2013, respectively. At September 30, 2014 and 2013, respectively, there were no premiums owed to BMCIC of Vermont as all premiums written were paid prior to year-end.

BUAP and the Medical Center have transactions with each other for operating purposes. During the years ended September 30, 2014 and 2013, respectively, the Medical Center provided funding of approximately \$3,024,000 and \$3,117,000, respectively, to BUAP for professional and support services. The Medical Center has various accounts receivable from BUAP which totaled approximately \$4,294,000 and \$4,411,000 at September 30, 2014 and 2013, respectively.

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The Medical Center is affiliated with several community health centers. At September 30, 2014 and 2013, the Medical Center had loaned a total of \$5,180,000 and \$6,000,000, respectively, to the community health centers. The loans are interest bearing and are forgiven as long as no event of default as defined in the loan documents shall have occurred.

BMCHP and the Foundation have transactions with each other for operating purposes. The total revenue earned by the Foundation from BMCHP related to medical services provided by the Foundation to BMCHP members was \$20,008,000 and \$13,888,000 for the years ended September 30, 2014 and 2013, respectively, and is included in net patient service revenue and supplies and expenses. Also as of September 30, 2014 and 2013, BMCHP owed the Foundation \$949,000 and \$727,000, respectively.

The Medical Center and the BMC NAB Business Trust have significant transactions with each other relating to the construction of the Shapiro Ambulatory Care Center.

Shared Services Agreement

The Plans each entered into a common paymaster agreement with the Medical Center and the Trustees of Boston University ("BU"). Under the terms of the physician practice agreements, faculty physicians and practitioners ("Faculty Members") are employed by the individual Plans. The Faculty serves the benefit of the Medical Center (by providing clinical services) and BUSM (by serving as faculty members of BUSM). Each Plan, with respect to each Faculty Member that the Plan employs, pays BU 27.8% of each Faculty Member's salary up to a \$255,000 base, for reimbursement of fringe benefits and related paymaster fees. If a particular Faculty Member's salary exceeds the base amount of \$255,000, the Plans further pay BU 8.0% on such excess, up to an amount equal to the FICA limit for that particular year, and then 1.8% on any amount in excess of the applicable FICA limit. Additionally, the Plans pay the Medical Center for medical malpractice insurance premiums for each Faculty Member. BMC insures the Faculty members under agreement with BMCIC. The Plans also pay for a portion of administrative salaries and fringe benefits for nonphysician employees of BMC, who provide services to them. These expenses are included in salaries and wages and fringe benefits in the statements of operations.

The Medical Center and BUSM pay a portion of salaries of several physicians of the Foundation, and the Foundation is not responsible for reimbursing either institution. The Foundation also receives from BMC reimbursement for a portion of free care services provided by the Foundation, as well as for teaching and other administrative duties. The Foundation received a total of \$33,730,000 and \$34,425,000 for institutional support from BUSM all of which was recorded in reimbursement of operating expenses for the years ended June 30, 2014 and 2013, respectively. The Foundation received a total of \$97,979,000 and \$101,622,000 for institutional support from BMC for the years ended June 30, 2014 and 2013, respectively. The Foundation also received \$29,640,000 and \$29,458,000 from BMC which was recorded as reimbursement of operating expenses for the years ended June 30, 2014 and 2013, 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, 2014 and 2013, respectively.

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Retirement Plan

BUSM sponsors a defined contribution retirement plan, which covers all Faculty paid under the above described common paymaster agreements. Costs related to Faculty are included in the fringe benefit rates described above. This retirement plan is available to Faculty who have completed two years of service for a Plan, who work at least 50% of full-time schedules and who have appointments or expected assignment durations of at least nine months. BUSM contributes between 5% and 14% of salary to this retirement plan, depending on age, base salary, and an integration level amount adjusted each year by BUSM.

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

19. Claims Payable

BMCHP establishes a claims payable account for insured events which include estimates of future payments of loss and related loss adjustment expenses. The table below shows the changes in the claims payable account for the years ended September 30, 2014 and 2013:

<i>(in thousands)</i>	2014	2013
Accrued at beginning of year	<u>\$ 70,606</u>	<u>\$ 81,238</u>
Incurred services		
Current year	1,646,060	1,289,900
Prior years	<u>2,375</u>	<u>(5,089)</u>
Total incurred	<u>1,648,435</u>	<u>1,284,811</u>
Paid claims		
Current year	1,508,113	1,206,376
Prior years	<u>87,076</u>	<u>89,067</u>
Total paid	<u>1,595,189</u>	<u>1,295,443</u>
Accrued at end of year	<u>\$ 123,852</u>	<u>\$ 70,606</u>

The estimated cost of losses and loss adjustment expenses attributable to insured events of the prior year increased by approximately \$2,375,000 and \$5,089,000 during 2014 and 2013, respectively. Increases or decreases occur as a result of claim settlements during the year and receipt of additional information regarding individual claims. Recent loss development trends are also considered in evaluating the adequacy of the claims payable account.

BMC Health System, Inc.
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September 30, 2014 and 2013

20. Functional Expenses

The total operating expenses of the System by function are as follows for the years ended September 30, 2014 and 2013:

<i>(in thousands)</i>	2014	2013
Patient care	\$ 2,409,897	\$ 1,986,740
Medical education	68,892	67,092
Research, sponsored programs and community health services	74,352	71,062
General and administrative	300,478	286,993
	<u>\$ 2,853,619</u>	<u>\$ 2,411,887</u>

21. Governmental Subsidies

On December 20, 2011, CMS approved a three-year Massachusetts Medicaid Waiver extension for the period of July 1, 2011 through June 30, 2014 that included Delivery System Transformation Initiative (“DSTI”) potential funding of \$103,553,000 annually for BMC. These initiatives are designed as incentive payments to support investments in health care delivery systems that will support payment reform, and transition away from fee-for-service payments toward alternative payment arrangements that reward high-quality, efficient, and integrated systems of care. CMS has identified four categories for which funding authority is available. Participating hospitals must select a minimum number of projects from each category as outlined in the Master DSTI Plan. The four categories are: (1) development of a fully integrated delivery system; (2) improved health outcomes and quality; (3) ability to respond to statewide transformation to value-based purchasing and to accept alternatives to fee-for-service payments; and (4) population-focused improvements. The Medical Center has submitted a DSTI Plan with detailed projects to be implemented consistent with the categories outlined. CMS finalized the approval of the Medical Center’s DSTI plan on June 20, 2012. The Medical Center has recorded \$103,553,000 in each of the fiscal year 2014 and 2013, respectively.

Other Safety Net Care Pool Supplemental Payments

The Medical Center receives additional supplemental payments from the State under the Special Terms and Conditions of the MassHealth Medicaid Section 1115 Demonstration, the Corporation meets the criteria for qualification for Public Service Hospital Safety Net Care Payments. The Medical Center has recorded \$52,000,000 for years ending September 30, 2014 and 2013.

22. Commitments and Contingencies

The System is subject to complaints, claims and litigation which have arisen in the normal course of business. In addition, the System is subject to compliance with laws and regulations of various governmental agencies. Recently, governmental review of compliance with these laws and regulations has increased in the healthcare industry, resulting in fines and penalties for noncompliance by individual health care providers.

BMC Health System, Inc.

Notes to Consolidated Financial Statements

September 30, 2014 and 2013

In September 2009, a class action alleging wage and hour violations was filed against BMC. Management believes the case is similar to claims brought against many other hospitals nationally. In May 2014, the parties agreed to a settlement capped at \$1.5 million, including attorney's fees and costs. In November 2014, the United States District Court for the District of Massachusetts granted final approval of the settlement. The District Court's approval deviated from the parties' proposed approval order only with regards to Plaintiff's attorney's fees (the District Court ordered lower fees). Plaintiffs have until mid-December 2014 to appeal the District Court's approval.

In July 2012, BMC, together with Boston University Affiliated Physicians, Inc., Boston University Medical Center Radiologists, Inc. and Trustees of Boston University (collectively, "BMC/BU" Defendants), were served with a lawsuit by plaintiffs Neurografix, Neurography Institute Medical Associates, Inc. and Image-Based Surgicenter Corporation, filed in the United States District Court for the District of Massachusetts. The complaint alleges that the BMC/BU Defendants infringed a patent held by the Plaintiffs through BMC's purchase and use of MRIs and other equipment manufactured by Philips, General Electric and BrainLab. The action was consolidated with similar suits and stayed (suspended) pending resolution of Plaintiffs' claims against the equipment manufacturers. Philips is indemnifying the BMC/BU defendants per BMC's contract with Philips. In October 2014, a settlement was reached between the Plaintiffs and Philips. Based on that settlement, Plaintiffs are expected to dismiss their action against the BMC/BU Defendants shortly.

23. Self Insurance

Professional and General Liability

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

The System estimates that the expected claims liabilities at September 30, 2014 and 2013, on an undiscounted basis, are approximately \$75,877,000 and \$77,858,000, respectively.

Excess Liability Coverage

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

BMC Health System, Inc.
Notes to Consolidated Financial Statements
September 30, 2014 and 2013

24. National Emerging Infectious Diseases Laboratory (“NEIDL”)

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

In 2011, Boston Medical Center and Boston University agreed to contribution repayment terms whereas Boston University owes Boston Medical Center the total principal of \$29,064,000. Boston University will make five annual payments of \$5,813,000 plus 2% interest on the outstanding balance due. The remaining balance owed to the Medical Center is \$11,722,000 and \$17,584,000 as of September 30, 2014 and 2013, respectively, and is included in other accounts receivable and other noncurrent assets on the balance sheet.

25. Subsequent Events

The System has assessed the impact of subsequent events through February 4, 2015, the date the audited financial statements were available for issuance, and have concluded that other than the note below, there were no such events that require adjustment to the audited financial statements or disclosure in the notes to the consolidated financial statements.

On December 18, 2014, BMC closed on the sale of three parcels to a for-profit entity. BMC will continue to lease and occupy a portion of the buildings that are included in the parcel for varying amounts of time, consistent with clinical and administrative needs, while it completes its campus redesign construction project. Additionally, the for-profit entity signed an agreement to purchase the Newton Pavilion and the Health Services Building in three years when construction is expected to be completed. At that time, all services in the Newton Pavilion will be relocated to the Menino Pavilion and the Yawkey Ambulatory Care Center.

In October 2014, BMC signed a purchase and sale agreement to sell the Newton Pavilion and the Health Services Building in three years to a for-profit entity. A portion of both of the Series B and Series C Revenue Bonds’ proceeds were allocated to the Newton Pavilion and the Health Services Building. The eventual sale to a for-profit entity will cause the bonds to be taxable retrospectively to the date of issuance without remedial action. The portion of the bonds allocated to the Newton Pavilion were defeased as of January 23, 2015 to maintain the tax exempt status of Series B and Series C.

On December 23, 2014 BMC closed on a \$95.0 million secured non-revolving credit loan with Citizens Bank, N.A. The proceeds of the non-revolving loan were used solely for the purpose of defeasing the bonds allocable to the Newton Pavilion. BMC expects to repay the non-revolving loan from the proceeds of the sale of the Newton Pavilion.

Supplemental Consolidating Information

BMC Health System, Inc.

Consolidating Balance Sheet

September 30, 2014

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

BMC Health System, Inc.

Consolidating Balance Sheet

September 30, 2013

<i>(in thousands)</i>	BMC Health System, Inc.	Medical Center	BMCHP	Foundation	BMCIC and BMCIC of Vermont	NAB	Gryant	BUAP	Eliminations	Consolidated BMC Health System, Inc.
Assets										
Current assets										
Cash and cash equivalents	\$ -	\$ 139,834	\$ 35,032	\$ 77,978	\$ 367	\$ 71	\$ 108	\$ 1,734	\$ -	\$ 255,124
Short-term investments	-	-	39,791	-	-	-	-	-	-	39,791
Patients accounts receivable, less allowance of \$27,076 in 2013	-	67,210	-	14,780	-	-	-	486	(13,267)	69,209
Other accounts receivable, less allowance of \$6,751 in 2013	-	39,038	49,578	2,694	4,286	509	457	364	8,359	105,285
Current portion of grants receivable, less allowance of \$3,796 in 2013	-	25,812	-	-	-	-	-	-	-	25,812
Current portion of estimated receivable for final settlements with third-party payors	-	17,284	-	-	-	-	-	-	-	17,284
Current portion due from related parties	-	100,774	-	38,477	520	11,966	-	-	(151,737)	-
Inventories	-	5,490	-	-	-	-	-	-	-	5,490
Prepaid expenses and other current assets	-	7,147	278	250	639	-	-	49	(616)	7,747
Insurance recoveries receivable	-	35,282	-	39,786	-	-	-	-	(75,068)	-
Current portion of funds held by Trustees	-	21,720	-	-	-	-	-	-	-	21,720
Total current assets	-	459,591	124,679	173,965	5,812	12,546	565	2,633	(232,329)	547,462
Assets limited as to use										
Board-designated investments	-	359,240	-	-	-	-	-	-	-	359,240
Funds held by Trustee	-	49,474	-	-	-	-	-	-	-	49,474
Donor-restricted investments	-	306,483	-	-	-	-	-	-	-	306,483
Reserve funds	-	-	17,793	-	101,699	-	-	-	-	119,492
Total assets limited as to use	-	715,197	17,793	-	101,699	-	-	-	-	834,689
Other assets										
Long-term investments	-	-	206,437	26,727	-	-	-	-	-	233,164
Property, plant and equipment, net	-	456,347	7,174	5,014	-	151,016	17,530	753	-	637,834
Grants receivable, less current portion	-	18,098	-	-	-	-	-	-	-	18,098
Due from related parties	-	30,570	-	-	-	-	-	-	(30,570)	-
Other noncurrent assets	-	182,650	-	346	-	-	-	-	(6,241)	176,755
Total assets	\$ -	\$ 1,862,453	\$ 356,083	\$ 206,052	\$ 107,511	\$ 163,562	\$ 18,095	\$ 3,386	\$ (269,140)	\$ 2,448,002
Liabilities and Net Assets										
Current liabilities										
Accounts payable and accrued expenses	\$ -	\$ 127,955	\$ 14,737	\$ 16,818	\$ 50	\$ 1,113	\$ 1,544	\$ 460	\$ 7,584	\$ 170,261
Claims payable	-	-	83,873	-	-	-	-	-	(13,267)	70,606
Deferred revenue	-	18,348	-	-	616	-	-	-	(616)	18,348
Current portion of due to related parties	-	51,174	23,043	34,340	-	6,191	-	4,902	(119,650)	-
Current portion of long-term debt and capital leases	-	17,616	-	50	-	-	-	-	-	17,666
Professional liability claims	-	35,282	-	39,786	-	-	-	-	(75,068)	-
Other current liabilities	-	-	11,022	-	-	-	-	-	-	11,022
Total current liabilities	-	250,375	132,675	90,994	666	7,304	1,544	5,362	(201,017)	287,903
Other liabilities										
Estimated final settlements with third-party payors	-	62,444	-	-	-	-	-	-	-	62,444
Obligations under capital leases	-	18,687	-	48	-	-	-	-	-	18,735
Due to related parties	-	-	-	-	31,312	30,570	-	-	(61,882)	-
Long-term debt	-	363,360	-	-	-	139,135	11,500	-	-	513,995
Other long-term liabilities	-	59,870	1,011	-	75,068	-	-	-	-	135,949
Total liabilities	-	754,736	133,686	91,042	107,046	177,009	13,044	5,362	(262,899)	1,019,026
Commitments and contingencies										
Net assets										
Unrestricted	-	771,252	222,397	115,010	465	(13,447)	5,051	(1,976)	(6,241)	1,092,511
Temporarily restricted	-	320,112	-	-	-	-	-	-	-	320,112
Permanently restricted	-	16,353	-	-	-	-	-	-	-	16,353
Total net assets	-	1,107,717	222,397	115,010	465	(13,447)	5,051	(1,976)	(6,241)	1,428,976
Total liabilities and net assets	\$ -	\$ 1,862,453	\$ 356,083	\$ 206,052	\$ 107,511	\$ 163,562	\$ 18,095	\$ 3,386	\$ (269,140)	\$ 2,448,002

BMC Health System, Inc.

Consolidating Statement of Operations

Year Ended September 30, 2014

(in thousands)

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

BMC Health System, Inc.

Consolidating Statement of Operations

Year Ended September 30, 2013

<i>(in thousands)</i>	BMC Health System, Inc.	Medical Center	BMCHP	Foundation	BMCIC and BMCIC of Vermont	NAB	Gryant	BUAP	Eliminations	Consolidated BMC Health System, Inc.
Operating revenue										
Net patient service revenue, net of provision for bad debt (\$54,717 in 2013)	\$ -	\$ 893,584	\$ -	\$ 130,947	\$ -	\$ -	\$ -	\$ 3,664	\$ (132,602)	\$ 895,593
Capitation revenue	-	-	1,362,040	-	-	-	-	-	-	1,362,040
Grants and contract revenue	-	82,185	-	-	-	-	-	-	(11,771)	70,414
Institutional support	-	-	-	101,622	-	-	-	3,117	(104,739)	-
Other revenue	-	12,412	6,237	88,515	-	3,609	822	856	(34,518)	77,933
Net assets released from restrictions for operations	-	23,890	-	-	-	-	-	-	-	23,890
Total operating revenue	-	1,012,071	1,368,277	321,084	-	3,609	822	7,637	(283,630)	2,429,870
Operating expenses										
Salaries and wages and fringe benefits	-	482,941	47,057	250,534	(130)	-	-	5,567	-	785,969
Supplies and expenses	-	243,181	1,312,902	52,489	11	107	997	2,253	(145,054)	1,466,886
Institutional support	-	110,772	-	-	-	-	-	-	(110,772)	-
Depreciation and amortization	-	59,232	2,859	1,224	-	5,568	728	190	-	69,801
Interest expense	-	13,716	-	5	-	3,509	939	-	-	18,169
Research, sponsored programs and community health services	-	95,257	-	-	-	-	-	-	(24,195)	71,062
Total operating expenses	-	1,005,099	1,362,818	304,252	(119)	9,184	2,664	8,010	(280,021)	2,411,887
Income (loss) from operations	-	6,972	5,459	16,832	119	(5,575)	(1,842)	(373)	(3,609)	17,983
Nonoperating gains (losses), net										
Income from investments (including other-than-temporary impairment losses of \$1,316 in 2013)	-	16,641	10,709	1,000	(129)	-	-	5	3,609	31,835
Fundraising costs and other	-	(3,570)	-	423	-	-	-	-	-	(3,147)
Total nonoperating gains (losses), net	-	13,071	10,709	1,423	(129)	-	-	5	3,609	28,688
Excess (deficiency) of revenue over expenses	-	20,043	16,168	18,255	(10)	(5,575)	(1,842)	(368)	-	46,671
Other changes in unrestricted net assets										
Change in unrealized appreciation (depreciation) on investments	-	7,588	(494)	1,215	-	-	-	-	-	8,309
Net asset transfer to affiliate	-	23,000	(23,000)	-	-	-	-	-	-	-
Contributed capital asset	-	3,846	-	-	-	-	1,300	-	2,260	7,406
Net assets released from restrictions for property, plant and equipment	-	3,351	-	-	-	-	-	-	-	3,351
Pension-related changes other than net periodic pension costs	-	25,801	-	-	-	-	-	-	-	25,801
Change in unrestricted net assets	\$ -	\$ 83,629	\$ (7,326)	\$ 19,470	\$ (10)	\$ (5,575)	\$ (542)	\$ (368)	\$ 2,260	\$ 91,538

BMC Health System, Inc.

Schedule of Expenditures of Federal Awards

September 30, 2014

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Number	Total Federal Expenditures
Research and Development Cluster			
Department of Health and Human Services			
Centers for Disease Control and Prevention (Pass Through from National Environmental Education Foundation)	93.070	UE1 EH000761-01	\$ 6,000
Centers for Disease Control and Prevention (Pass Through from Harvard University)	93.070	112468.5056066	6,490
CFDA subtotal			<u>12,490</u>
Substance Abuse and Mental Health Services Administration (Pass Through from Boston Public Health Commission)	93.104	FY11 009103, FY13011709	20,245
Substance Abuse and Mental Health Services Administration (Pass Through from Boston Public Health Commission)	93.104	FY13011492	11,757
CFDA subtotal			<u>32,002</u>
Health Resources Services Administration	93.110		963,446
Health Resources Services Administration (Pass Through from University of New Hampshire)	93.110	14-070	41,413
Health Resources Services Administration (Pass Through from Children's Hospital of Philadelphia)	93.110	PO# 960589RSUB	4,000
Health Resources Services Administration (Pass Through from American Academy of Pediatrics)	93.110	6636-99951-731100, Sub # 731101BU	59,826
CFDA subtotal			<u>1,068,685</u>
National Institute of Environmental Health Sciences (Pass Through from University of California, Berkeley)	93.113	00008405	5,534
National Institute of Environmental Health Sciences (Pass Through from Tulane University Health Sciences Center)	93.113	TUL-HSC-429-12/13, TUL-HSC-548-14/15	14,801
National Institute of Environmental Health Sciences (Pass Through from Tufts University)	93.113	P01 ES011624	(53,565)
CFDA subtotal			<u>(33,230)</u>
National Institute of Dental and Craniofacial Research National Institute of Dental and Craniofacial Research (Pass Through from University of Washington)	93.121		1,166,891
CFDA subtotal		747040	<u>107,465</u>
Health Resources Services Administration Maternal and Child Health Bureau (Pass Through from Dimock Community Health Center)	93.153		319,635
CFDA subtotal		B9682	<u>(541)</u>
National Centers for Complimentary and Alternative Medicine National Centers for Complimentary and Alternative Medicine (Pass Through from Hynalgesics, LLC)	93.213		508,839
National Centers for Complimentary and Alternative Medicine (Pass Through from Duke University)	93.213	R43 AT006296-01A1	6,134
CFDA subtotal		203-3149, 2033785	<u>21,869</u>
Agency for Healthcare Research & Quality Agency for Healthcare Research & Quality (Pass Through from Indiana University)	93.226		536,842
CFDA subtotal		R01 HS020640-01A1	<u>704,320</u>
National Institute on Allergy and Infectious Diseases (Pass Through from Social & Scientific Systems Inc.)	93.242	BRS-IMPCT-S-11-00004-001413	11,940
National Institute on Allergy and Infectious Diseases (Pass Through from Johns Hopkins University)	93.242	PO# 2001620926, PO# 2001620927	2,588
National Institute on Mental Health (Pass Through from Northshore University)	93.242	EH13-344-S1	14,299
National Institute on Mental Health (Pass Through from Northeastern University)	93.242	500247-78050, 500247-78051	1,261,969
National Institutes of Health (Pass Through from University of Massachusetts)	93.242	R01 MH51705-07	4,358
CFDA subtotal			<u>15,396</u>
Substance Abuse and Mental Health Services Administration Substance Abuse and Mental Health Services Administration (Pass Through from University of California, San Francisco)	93.243		1,313,094
Substance Abuse and Mental Health Services Administration (Pass Through from University of California, San Francisco)	93.243	5737sc	(321)
Substance Abuse and Mental Health Services Administration (Pass Through from Boston Public Health Commission)	93.243	7429sc	(2,307)
CFDA subtotal		RFA-SM-09-002	<u>58,183</u>
National Institute on Alcohol Abuse and Alcoholism	93.273		135,895
National Institute on Alcohol Abuse and Alcoholism (Pass Through from University of California, San Francisco)	93.273	U01 AA020776	<u>191,450</u>
National Institute on Alcohol Abuse and Alcoholism (Pass Through from Research Foundation of State University of New York)	93.273	R750129	2,501,294
National Institute on Alcohol Abuse and Alcoholism (Pass Through from Research Foundation of State University of New York)	93.273	R772949	11,331
CFDA subtotal			<u>(313)</u>
National Institute of Drug Abuse	93.279		2,528,156
National Institute of Drug Abuse (Pass Through from University of California, Los Angeles)	93.279	2000GQM779	3,852,351
National Institute of Drug Abuse (Pass Through from University of British Columbia)	93.279	R25 DA030756	28,418
National Institute of Drug Abuse (Pass Through from Tufts Medical Center)	93.279	5007570-SERV	3,185
National Institute of Drug Abuse (Pass Through from Rhode Island Hospital)	93.279	701-7137021	49,183
National Institute of Drug Abuse (Pass Through from McLean Hospital)	93.279	U10 DA015831	3,880
National Institute of Drug Abuse (Pass Through from Butler Hospital)	93.279	9006-8332	564,043
National Institute of Drug Abuse (Pass Through from Butler Hospital)	93.279	9189-8332	116,384
National Institute of Drug Abuse (Pass Through from Albert Einstein College of Medicine)	93.279	310487	19,499
CFDA subtotal			<u>84,291</u>
Centers for Disease Control and Prevention Centers for Disease Control and Prevention (Pass Through from Commonwealth of Massachusetts - Department of Public Health)	93.283	INTF3406MM3900817012	4,721,234
CFDA subtotal			<u>(470)</u>
			<u>222,813</u>
			<u>222,343</u>

The accompanying notes are an integral part of the schedule.

BMC Health System, Inc.

Schedule of Expenditures of Federal Awards

September 30, 2014

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Number	Total Federal Expenditures
Research and Development Cluster			
National Institute of Biomedical Imaging and Bioengineering (Pass Through from Trustees of Boston University)	93.286	4500000390	\$ (33,039)
National Institute of Biomedical Imaging and Bioengineering (Pass Through from Trustees of Boston University)	93.286	4500001602	292
CFDA subtotal			<u>(32,747)</u>
National Cancer Institute	93.393		163,236
National Cancer Institute (Pass Through from Georgetown University)	93.393	RX 4442-003-BMC	17,429
National Cancer Institute (Pass Through from Emory University)	93.393	T001958	15,842
CFDA subtotal			<u>196,507</u>
National Cancer Institute	93.394		945,471
National Cancer Institute (Pass Through from Trustees of Boston University)	93.394	4500001500	22,951
National Cancer Institute (Pass Through from Riverside Research)	93.394	NYO.G00386P.011627.02	59,462
National Cancer Institute (Pass Through from Northwestern University)	93.394	SP0010241-PROJ0007116	347,171
National Cancer Institute (Pass Through from Northwestern University)	93.394	SP0010884-PROJ0006527	62,905
National Cancer Institute (Pass Through from Northwestern University)	93.394	SP0014771-PROJ0006515	439,058
National Cancer Institute (Pass Through from Nanocytomics, LLC.)	93.394	R42 CA168055-02	99,089
National Cancer Institute (Pass Through from Baylor College of Medicine)	93.394	101573601	122,209
CFDA subtotal			<u>2,098,316</u>
National Cancer Institute	93.395		509,137
National Cancer Institute (Pass Through from University of Michigan)	93.395	F033553	18,107
National Cancer Institute (Pass Through from Radiation Therapy Oncology Group)	93.395	U10 CA021661	1,053
National Cancer Institute (Pass Through from Oregon Health and Science University)	93.395	1004031_BostonMC	56,582
National Cancer Institute (Pass Through from Northwestern University)	93.395	CNV0060702-PROJ0006524	254,398
National Cancer Institute (Pass Through from EMMES Corporation)	93.395	PO 1568 GNA643	195,165
National Cancer Institute (Pass Through from Eastern Cooperative Oncology Group (ECOG))	93.395	PSABMCP00	57,378
National Cancer Institute (Pass Through from Duke Clinical Research Institute)	93.395	U10 CA076001	12,493
National Cancer Institute (Pass Through from American College of Radiology)	93.395	U10 CA037422-25	77,089
CFDA subtotal			<u>1,181,402</u>
National Cancer Institute	93.396		640,144
National Cancer Institute (Pass Through from Massachusetts General Hospital)	93.396	223690	152,026
CFDA subtotal			<u>792,170</u>
National Cancer Institute	93.399		628,885
National Cancer Institute (Pass Through from American College of Radiology)	93.399	U10 CA037422-25	48,209
CFDA subtotal			<u>677,094</u>
National Heart, Blood, and Lung Institute (Pass Through from Trustees of Boston University) - ARRA	93.701	RA 207578 NGQ	(26,159)
National Heart, Blood, and Lung Institute (Pass Through from Trustees of Boston University) - ARRA	93.701	RA 207636 NGQ	(3,094)
National Heart, Blood, and Lung Institute - ARRA	93.701		2
National Institute of Arthritis and Musculoskeletal and Skin Diseases (Pass Through from Brigham and Women's Hospital) - ARRA	93.701	105126	768
National Institute of Child Health and Human Development - ARRA	93.701		(2,700)
National Institute of Diabetes, Digestive, and Kidney Diseases - ARRA	93.701		(11,549)
National Institute on Aging (Pass Through from Tufts University) - ARRA	93.701	SU00119, SU00143	12,924
National Institute on Allergy and Infectious Diseases (Pass Through from Trustees of Boston University) - ARRA	93.701	RA 208223 NGQ	(1,401)
National Library of Medicine - ARRA	93.701		(276)
CFDA subtotal			<u>(31,485)</u>
National Heart, Blood, and Lung Institute	93.837		3,065,395
National Heart, Blood, and Lung Institute (Pass Through from Yale University)	93.837	R01 HL115295-02	1,024
National Heart, Blood, and Lung Institute (Pass Through from New York University)	93.837	U01 HL105907-01	1,393
National Heart, Blood, and Lung Institute (Pass Through from Massachusetts General Hospital)	93.837	218586	3,333
National Heart, Blood, and Lung Institute (Pass Through from Duke University)	93.837	SITE#199	4,291
National Heart, Blood, and Lung Institute (Pass Through from Children's Hospital)	93.837	RSTFD0000543748	138,615
National Heart, Blood, and Lung Institute (Pass Through from Brigham and Women's Hospital)	93.837	109786	157,699
National Heart, Blood, and Lung Institute (Pass Through from Beth Israel Deaconess Medical Center)	93.837	R01 HL094555-04	226
CFDA subtotal			<u>3,371,976</u>
National Heart, Blood, and Lung Institute	93.839		494,907
National Heart, Blood, and Lung Institute (Pass Through from Trustees of Boston University)	93.839	9500300183, 9500301373, 4500001288, B136	513,562
CFDA subtotal			<u>1,008,469</u>
National Institute of Arthritis and Musculoskeletal and Skin Diseases	93.846		407,202
National Institute of Arthritis and Musculoskeletal and Skin Diseases (Pass Through from University of North Carolina)	93.846	5-33634	10,661
National Institute of Arthritis and Musculoskeletal and Skin Diseases (Pass Through from Brigham and Women's Hospital)	93.846	108331	59,377
National Institutes of Health (Pass Through from Trustees of Boston University)	93.846	GC203549NGC	(4,026)
CFDA subtotal			<u>473,214</u>

The accompanying notes are an integral part of the schedule.

BMC Health System, Inc.

Schedule of Expenditures of Federal Awards

September 30, 2014

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Number	Total Federal Expenditures
Research and Development Cluster			
National Institute of Diabetes, Digestive, and Kidney Diseases	93.847		\$ 6,037,196
National Institute of Diabetes, Digestive, and Kidney Diseases (Pass Through from University of Texas Southwestern Medical Center)	93.847	GMO140909/RGC0000000437	61,728
National Institute of Diabetes, Digestive, and Kidney Diseases (Pass Through from University of Pennsylvania)	93.847	558751, 559138	165,228
National Institute of Diabetes, Digestive, and Kidney Diseases (Pass Through from Tufts University)	93.847	HS2691	(1,906)
National Institute of Diabetes, Digestive, and Kidney Diseases (Pass Through from Trustees of Boston University)	93.847	450001297	27,784
National Institute of Diabetes, Digestive, and Kidney Diseases (Pass Through from Trustees of Boston University)	93.847	45400001571	1,923
National Institute of Diabetes, Digestive, and Kidney Diseases (Pass Through from Massachusetts General Hospital)	93.847	218335	2,763
CFDA subtotal			<u>6,294,716</u>
National Institute of Neurological Disorders and Stroke	93.853		3,461,928
National Institute of Neurological Disorders and Stroke (Pass Through from University of Washington)	93.853	752240	4,556
National Institute of Neurological Disorders and Stroke (Pass Through from University of Rochester)	93.853	5-25498	26,944
National Institute of Neurological Disorders and Stroke (Pass Through from Massachusetts General Hospital)	93.853	221100	16,594
National Institute of Neurological Disorders and Stroke (Pass Through from Massachusetts General Hospital)	93.853	221902	5,292
National Institute of Neurological Disorders and Stroke (Pass Through from Massachusetts General Hospital)	93.853	U01 NS052592-05	1,877
National Institute of Neurological Disorders and Stroke (Pass Through from EMMES Corporation)	93.853	U01 NS062835	10,483
CFDA subtotal			<u>3,527,674</u>
National Institute on Allergy and Infectious Diseases	93.855		3,923,264
National Institute on Allergy and Infectious Diseases (Pass Through from University of California, San Francisco)	93.855	7388sc	21,186
National Institute on Allergy and Infectious Diseases (Pass Through from University of Massachusetts Worcester)	93.855	6125216/RFS2011110, 6137069/RFS2012075, 6144058/RFS2013029, WA00131221/RFS2014039	170,204
National Institute on Allergy and Infectious Diseases (Pass Through from University of Massachusetts Worcester)	93.855	6137068/RFS2012072, 6144057/RFS2013026, WAD0130931/RFS2014036	359,141
National Institute on Allergy and Infectious Diseases (Pass Through from Trustees of Boston University)	93.855	9500301733,9500300686, 9500303677 4500001388, 4500001048	757,658
National Institute on Allergy and Infectious Diseases (Pass Through from Social & Scientific Systems Inc.) - ARRA	93.855	CRB-DCR01-S-09-00305, TO#4	1,024
National Institute on Allergy and Infectious Diseases (Pass Through from Social & Scientific Systems Inc.)	93.855	BRS-ACURE-S-11-000396-001665	(2,952)
National Institute on Allergy and Infectious Diseases (Pass Through from Massachusetts General Hospital)	93.855	U01 AI069472	210,496
National Institute on Allergy and Infectious Diseases (Pass Through from Johns Hopkins University)	93.855	2001356080	26,929
National Institute on Allergy and Infectious Diseases (Pass Through from Johns Hopkins University)	93.855	HHSN 272200900050C	892,625
National Institute on Allergy and Infectious Diseases (Pass Through from Johns Hopkins University)	93.855	PO# 2001620926, PO# 2001620927	7,773
National Institute on Allergy and Infectious Diseases (Pass Through from Johns Hopkins University)	93.855	UM1 AI068632	119,022
National Institute on Allergy and Infectious Diseases (Pass Through from Institute for Clinical Research, Inc.)	93.855	M56-BU-071-1101-3	41,894
National Institute on Allergy and Infectious Diseases (Pass Through from Harvard University)	93.855	149047.0921, 149047.5023652.1021	(46,623)
National Institute on Allergy and Infectious Diseases (Pass Through from Harvard Pilgrim Health Care (HPHC))	93.855	PH000259A, PH000391A	179,348
CFDA subtotal			<u>6,660,989</u>
National Institute of Child Health and Human Development	93.865		599,868
National Institute of Child Health and Human Development (Pass Through from New England Research Institute (NERI))	93.865	R44-HD063173	60,886
National Institute of Child Health and Human Development (Pass Through from Johns Hopkins University)	93.865	R01 HD041702-10	19,301
National Institute of Child Health and Human Development (Pass Through from Brigham and Women's Hospital)	93.865	104321	601
CFDA subtotal			<u>680,656</u>
National Institute on Aging	93.866		751,753
National Institute on Aging (Pass Through from Vanderbilt University Medical Center)	93.866	VUMC43215	24,762
National Institute on Aging (Pass Through from University of Pennsylvania)	93.866	557804	(23,510)
National Institute on Aging (Pass Through from University of Pennsylvania)	93.866	558836	(72,272)
National Institute on Aging (Pass Through from National Bureau of Economic Research)	93.866	33-4029-00-8-BMC	2,242
National Institute on Aging (Pass Through from National Bureau of Economic Research)	93.866	33-4121-02-3-BMC	37,593
National Institute on Aging (Pass Through from Hebrew Rehabilitation Center)	93.866	10.10.90053	24,367
National Institute on Aging (Pass Through from California Pacific Medical Center Research Institute)	93.866	2803227-S143	303,114
National Institute on Aging (Pass Through from Brigham and Women's Hospital)	93.866	R01 AG037547	77,460
CFDA subtotal			<u>1,125,509</u>
National Eye Institute	93.867		206,207
National Eye Institute (Pass Through from Jaeb Center for Health Research)	93.867	U10 EY011751-13	26,453
CFDA subtotal			<u>232,660</u>
Department of Health and Human Services (Pass Through from Commonwealth of Massachusetts - Department of Public Health)	93.889	INTF6207PP1204215503, INTF6207PP1204215592	91,070
Office of the Assistant Secretary for Preparedness and Response (Pass Through from Commonwealth of Massachusetts - Department of Public Health)	93.889	INTF6207J50303516454, INTF6207J50303516535	107,441
CFDA subtotal			<u>198,511</u>

The accompanying notes are an integral part of the schedule.

BMC Health System, Inc.

Schedule of Expenditures of Federal Awards

September 30, 2014

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Number	Total Federal Expenditures
Research and Development Cluster			
Health Resources Services Administration (Pass Through from Boston Public Health Commission)	93.914	6-H89-HA-00011-16	\$ 55,893
Health Resources Services Administration (Pass Through from Boston Public Health Commission)	93.914	PO21201941	54,625
CFDA subtotal			<u>110,518</u>
Centers for Disease Control and Prevention Centers for Disease Control and Prevention (Pass Through from WESTAT)	93	8625.09-S01	253,719
Centers for Disease Control and Prevention (Pass Through from Lesotho Ministry of Health)	93	NA	44,795
Centers for Disease Control and Prevention (Pass Through from Johns Hopkins University)	93	PO# 2001374022	50,871
Department of Health and Human Services (Pass Through from Social & Scientific Systems Inc.) - ARRA	93	CRB-SSS-S-11-001698	131
Department of Health and Human Services (Pass Through from Social & Scientific Systems Inc.)	93	CRB-SSS-S-11-001712	(2,966)
Health Resources Services Administration (Pass Through from National Initiative for Children's Health)	93	9254	79,725
National Cancer Institute (Pass Through from Oregon Health and Science University)	93	SWOG/NCI	1,290
National Cancer Institute (Pass Through from Northwestern University)	93	60023477 BMC	148,809
National Cancer Institute (Pass Through from Leidos Biomedical Research Inc.) - ARRA	93	11XS1007T1	272,082
National Cancer Institute (Pass Through from Leidos Biomedical Research Inc.) - ARRA	93	13XS114ST01	(10,282)
National Heart, Blood, and Lung Institute (Pass Through from Trustees of Boston University)	93	4500001381	571,932
National Heart, Blood, and Lung Institute (Pass Through from Trustees of Boston University)	93	RA 208201 NGO, 9500301533, 4500001380	441,786
National Heart, Blood, and Lung Institute (Pass Through from NERJ)	93	N01-HC-45207	198
National Heart, Blood, and Lung Institute (Pass Through from Dimagi, Inc.)	93	PHS-2011-1	7,721
National Institute of Child Health and Human Development (Pass Through from WESTAT)	93	6101-S069	24,821
National Institute of Child Health and Human Development (Pass Through from Fast Track Drugs and Biologics)	93	HHSN275200900005C, HHSN2752014000011	415,697
National Institute of Diabetes, Digestive, and Kidney Diseases (Pass Through from Children's Hospital)	93	PO# 0000533418, 0000592757	1,012,076
National Institute of Drug Abuse	93		<u>107,335</u>
CFDA subtotal			<u>3,619,398</u>
Administration on Aging	93.048		21,500
Health Resources Services Administration	93.117		700,149
Health Resources Services Administration (Pass Through from George Washington University)	93.129	14-M27	6,072
Centers for Disease Control and Prevention (Pass Through from Commonwealth of Massachusetts - Department of Public Health)	93.136	INTF3416HH2706811003	109,442
Health Resources Services Administration	93.156		843,949
Centers for Disease Control and Prevention	93.185		10,582
Health Resources Services Administration	93.186		322,815
Health Resources Services Administration	93.191		(107,924)
Office of Public Health and Science (Pass Through from ABCD)	93.217	FPHPA016027-01-00	30,274
Agency for Healthcare Research & Quality	93.225		313,433
Department of Health and Human Services	93.297		521,220
National Institute on Minority Health and Health Disparities	93.307		779,660
National Institute of Nursing Research (Pass Through from Tufts University)	93.361	HS3522	87,216
Health Resources Services Administration - ARRA	93.403		447,520
Health Resources Services Administration	93.510		747,832
Administration for Children & Families	93.551		501,606
Administration for Children & Families (Pass Through from Commonwealth of Massachusetts - Department of Public Health)	93.566	5189999DMM3-13	129,093
Administration for Children & Families	93.604		452,571
Centers for Medicare and Medicaid (Pass Through from Health Resources in Action)	93.610	1C1CMS331039-01-00, 1C1CMS331039-03-00	197,587
Administration for Children & Families (Pass Through from L.U.K. Crisis Center, Inc.)	93.652	09CO1057/01	64,295
Administration for Children & Families (Pass Through from Center for the Study of Social Policy)	93.670	100313, 100313270	25,987
Agency for Healthcare Research & Quality (Pass Through from New York University) - ARRA	93.715	PO# M000038557	(9,863)
Department of Health and Human Services (Pass Through from Massachusetts Technology Collaborative) - ARRA	93.718	90RC0016/01	22,668
National Heart, Blood, and Lung Institute	93.838		353,846
National Institute of Child Health and Human Development (Pass Through from Children's Hospital)	93.856	260718	(495,499)
National Institute of General Medical Sciences	93.859		466,105
Health Resources Services Administration	93.887		(1,222)
Health Resources Services Administration (Pass Through from Commonwealth of Massachusetts - Department of Public Health)	93.917	INTF4943MM3200120006	1,197,828
Health Resources Services Administration (Pass Through from Boston Public Health Commission)	93.926	FY13 011240, FY14 012947	113,498
Centers for Disease Control and Prevention	93.939		368,105
Department of Health and Human Services (Pass Through from Commonwealth of Massachusetts - Department of Public Health)	93.940	MEDICALSERVICESM2M00	5,825
Department of Health and Human Services (Pass Through from Commonwealth of Massachusetts - Department of Public Health)	93.943	INTF4942MM3100119035	982,853
Substance Abuse and Mental Health Services Administration (Pass Through from Commonwealth of Massachusetts - Department of Mental Health)	93.982	SCDMH821011080490000	(48,460)
National Institutes of Health - Fogarty International Center	93.989		191,610
Department of Health and Human Services (Pass Through from Commonwealth of Massachusetts - Department of Public Health)	93.994	INTF3105M03901424004	104,849
Department of Health and Human Services			<u>54,545,345</u>

The accompanying notes are an integral part of the schedule.

BMC Health System, Inc.

Schedule of Expenditures of Federal Awards

September 30, 2014

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Number	Total Federal Expenditures
Research and Development Cluster			
Department of Agriculture			
US Department of Agriculture	10.310		\$ 67,026
US Department of Agriculture (Pass Through from University of Kentucky)	10	3048108673-12-656	31,962
US Department of Agriculture (Pass Through from University of Kentucky)	10	3048109631-13-213	107,461
Department of Agriculture			<u>206,449</u>
Department of Defense			
Department of Defense	12.420		(20,482)
Department of Defense (Pass Through from Northeastern University)	12.420	599462-78050	828
Department of Defense (Pass Through from Johns Hopkins University)	12.420	W81XWH0920108	1,382
Department of Defense (Pass Through from Center for Integration of Medicine and Innovative Technology (CIMIT))	12.420	W81XWH09-3-001	(325)
Department of Defense			<u>(18,597)</u>
Department of Housing and Urban Development			
Department of Housing and Urban Development (Pass Through from Commonwealth of Massachusetts - Department of Neighbourhood Development)	14.231	36190-13, 36190-14	27,780
Department of Housing and Urban Development (Pass Through from Justice Resource Institute)	14.241	MA-H11-0007	9,628
Department of Housing and Urban Development	14.506		65,741
Department of Housing and Urban Development	14.914		173,153
Department of Housing and Urban Development (Pass Through from Commonwealth of Massachusetts - Department of Public Health)	14	INTF3056H78706811018	76,165
Department of Housing and Urban Development			<u>352,467</u>
Department of Justice			
National Institute of Justice	16.560		79,975
National Institute of Justice (Pass Through from Trustees of Boston University)	16.560	4500001518	23,604
Department of Justice (Pass Through from Commonwealth of Massachusetts - Office for Victim Assistance(MOVA))	16.575	2014MBECBMC100000000	39,196
Department of Justice (Pass Through from Commonwealth of Massachusetts - MOVA)	16.575	AEAP 2014-RF-GXK002	72,126
Department of Justice (Pass Through from Commonwealth of Massachusetts - MOVA)	16.575	CTVWAVOCA 2008BMC1, CTVWAVOCA 2009BMC1	13
Department of Justice (Pass Through from Commonwealth of Massachusetts - MOVA)	16.575	VOCA2013BMC100000000, VOCA2015BMC1CIVRT000	133,628
Department of Justice (Pass Through from Commonwealth of Massachusetts - MOVA)	16.575	VOCA2013BMC100000000, VOCA2015BMC1CIVTV0000	126,389
Department of Justice (Pass Through from Commonwealth of Massachusetts - MOVA)	16.575	VOCA2013BMC100000000, VOCA2015BMC1DIVP00000	80,392
Department of Justice (Pass Through from Executive Office of Public Safety and Security)	16.588	SCEPS3001VAVA13BMC1DM	29,859
Department of Justice (Pass Through from Boston Police Department)	16.745	2010-MO-BX-0011	(62,834)
Department of Justice (Pass Through from Brandeis University)	16.751	401974	433
Department of Justice (Pass Through from Boston Public Health Commission)	16	FY14013511A	42,621
Department of Justice			<u>565,402</u>
National Science Foundation			
National Science Foundation (Pass Through from Northwestern University)	47.041	60034711 BMC	40,410
National Science Foundation (Pass Through from Northwestern University)	47.041	SP0006581-PROJ0006964	79,466
National Science Foundation (Pass Through from Northeastern University)	47.041	501964	17,726
National Institute on Allergy and Infectious Diseases (Pass Through from US Civilian Research and Development Foundation)	47.079	OISE-14-60704-1	7,722
National Science Foundation (Pass Through from US Civilian Research and Development Foundation)	47.079	USB1-31150-XX-13	136,789
National Science Foundation			<u>282,113</u>
US Department of Veterans Affairs			
US Department of Veterans Affairs	64		56,432
US Department of Veterans Affairs			<u>56,432</u>
US Department of Education			
US Department of Education	84.133		(19,364)
US Department of Education (Pass Through from Trustees of Boston University)	84.133B	4500001253	23,163
National Institute on Disability and Rehabilitation Research (Pass Through from Trustees of Boston University)	84.133N	H-133N12002	44,749
US Department of Education			<u>48,548</u>
Federal Emergency Management Agency			
Federal Emergency Management Agency (Pass Through from Massachusetts Emergency Management Agency)	97	BLIZZARD FUND	54,945
Federal Emergency Management Agency			<u>54,945</u>
Total Research and Development Cluster			<u>56,093,104</u>
Aging Cluster			
Administration on Aging (Pass Through from City of Boston)	93.044	PO BOSTN-0000649028	15,161
Total Aging Cluster			<u>15,161</u>
JAG Program Cluster			
Department of Justice (Pass Through from HarborCOV, Inc.)	16.738	2010-DJ-BX-0422	30,070
Total JAG Program Cluster			<u>30,070</u>
Other Programs			
Department of Agriculture (Pass Through from Greater Boston Food Bank)	10.569		99,281
Department of Agriculture			<u>99,281</u>
Total Other Programs			<u>99,281</u>
Total Federal Expenditures			<u>\$ 56,237,616</u>

The accompanying notes are an integral part of the schedule.

BMC Health System, Inc.
Notes to Schedule of Expenditures of Federal Awards
September 30, 2014

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant awards received directly from the federal government and awards passed through from other primary recipients using the accrual basis of accounting. The purpose of this schedule is to present a summary of those activities of BMC Health System, Inc. (the "System") for the year ended September 30, 2014 which have been financed by the United States government (federal awards). For the purpose of this Schedule, federal awards include all federal assistance entered into directly between the System and the federal government and subawards from nonfederal organizations made under federally sponsored agreements. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*. Negative amounts on the Schedule of Expenditures of Federal Awards represent adjustments in the normal course of business to expenditures reported in the prior year. CFDA and pass-through numbers are included when available.

2. Subrecipients

Certain federal funds are passed through to subrecipient organizations in the research and development cluster by the System. Expenditures incurred by these subrecipients and reimbursed by the System totaled \$9,612,712 for the year ended September 30, 2014 and are presented in the Schedule of Expenditures of Federal Awards.

Program Name	CFDA #	Amount
Department of Agriculture	10	\$ 105,590
Asthma Interventions in Public and Assisted Multifamily Housing	14.914	106,432
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	31,480
Office of International and Integrative Activities	47.079	10,130
Special Programs for the Aging_Title IV_and Title II_Discretionary Projects	93.048	43,082
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104	8,062
Maternal and Child Health Federal Consolidated Programs	93.110	141,750
Oral Diseases and Disorders Research	93.121	198,891
Geriatric Training for Physicians, Dentists and Behavioral/Mental Health Professionals	93.156	358,857
Immunization Research, Demonstration, Public Information and Education_Training and Clinical Skills Improvement Projects	93.185	3,549
Research and Training in Complementary and Alternative Medicine	93.213	11,790
Mental Health Research Grants	93.242	14,347
Alcohol Research Programs	93.273	343,828
Drug Abuse and Addiction Research Programs	93.279	1,342,563
Teenage Pregnancy Prevention Program	93.297	169,804
Minority Health and Health Disparities Research	93.307	88,986
Cancer Cause and Prevention Research	93.393	40,577
Cancer Detection and Diagnosis Research	93.394	261,682
Cancer Treatment Research	93.395	251,027
Cancer Control	93.399	46,984
Abandoned Infants	93.551	12,500
Assistance for Torture Victims	93.604	4,919
Cardiovascular Diseases Research	93.837	513,648
Lung Diseases Research	93.838	31,901
Blood Diseases and Resources Research	93.839	288,301
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	1,585,348
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	2,353,218
Allergy, Immunology and Transplantation Research	93.855	679,690
Child Health and Human Development Extramural Research	93.865	124,737
Aging Research	93.866	340,072
International Research and Research Training	93.989	2,469
Department of Health and Human Services	93	96,498
Total Subrecipients		<u>\$ 9,612,712</u>

BMC Health System, Inc.
Notes to Schedule of Expenditures of Federal Awards
September 30, 2014

3. Noncash Assistance

In 2014 \$99,281 of U.S. Department of Agriculture (USDA) product was received from the Greater Boston Food Bank (CFDA #10.569) and distributed to program participants through the Boston Medical Center Food Bank.

Part II - Reports on Internal Controls and Compliance



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, except as noted in the 6th and 7th paragraphs below, the consolidated financial statements of BMC Health System, Inc. (the "System"), which comprise the consolidated statement of financial position as of September 30, 2014, and the related consolidated statement of operations, change in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated February 4, 2015.

Internal Control Over Financial Reporting

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

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

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



Compliance and Other Matters

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

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

Further, the PricewaterhouseCoopers firm in the Cayman Islands does not have an external quality review by an unaffiliated audit organization as required by Chapter 3, paragraph 3.96 of *Government Auditing Standards*, since no such program is offered by professional organizations in the country. However, this office participates in the PricewaterhouseCoopers worldwide internal control review program, which requires the office to be periodically subjected to an extensive quality control review by partners and managers from other PricewaterhouseCoopers affiliated firms.

Purpose of this Report

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

PricewaterhouseCoopers LLP

February 4, 2015



**Independent Auditor's Report on Compliance with Requirements
That Could Have a Direct and Material Effect on Each Major Program and on Internal
Control Over Compliance in Accordance with OMB Circular A-133**

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

Report on Compliance for Each Major Federal Program

We have audited BMC Health System, Inc. (the "System") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of System's major federal programs for the year ended September 30, 2014. The System's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the System's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the System's complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2014.



Report on Internal Control Over Compliance

Management of the System is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered System's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

PricewaterhouseCoopers LLP

February 4, 2015

Part III - Findings

BMC Health System, Inc.
Summary of Status of Prior Year Findings
September 30, 2014

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