Note: Breakdown of BMC Health System figures showing individual system entities, including Boston Medical Center, is shown on pages 50-55.

BMC Health System, Inc.

Consolidated Financial Statements with Supplemental Consolidating Information Years Ended September 30, 2016 and 2015

BMC Health System, Inc.
Index
September 30, 2016 and 2015

Report of Independent Auditors

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

We have audited the accompanying consolidated financial statements of BMC Health System, Inc. (the "System"), which comprise the consolidated balance sheets as of September 30, 2016 and 2015, and the related consolidated statements of operations, of changes in net assets, and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the System as of September 30, 2016 and 2015, and the results of their operations, their changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP, 101 Seaport Boulevard, Suite 500, Boston, MA 02210
T: (617) 530 5000, F: (617) 530 5001, www.pwc.com/us

Other Matter

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

PricewaterhouseCoopers LLP

January 25, 2017

BMC Health System, Inc.
Consolidated Balance Sheets
September 30, 2016 and 2015

(in thousands)	2016	2015
Assets		
Current assets		
Cash and cash equivalents	$ 364,631	$ 319,991
Short-term investments	41,200	38,486
Patients accounts receivable, less allowance of $33,251 and $35,012 in 2016 and 2015, respectively	88,223	79,265
Other accounts receivable, less allowance of $3,108 and $4,414 in 2016 and 2015, respectively	174,143	253,641
Current portion of grants receivable, less allowance of $541 and $586 in 2016 and 2015, respectively	14,387	28,959
Current portion of estimated receivable for final settlements with third-party payors	8,998	11,962
Inventories	8,277	8,316
Prepaid expenses and other current assets	22,584	18,942
Current portion of funds held by Trustees	38,000	65,000
Total current assets	760,443	824,562
Assets limited as to use		
Board-designated investments	330,691	314,940
Funds held by Trustees	40,850	95,001
Donor-restricted investments	314,363	305,907
Reserve funds	131,448	122,104
Total assets limited as to use	817,352	837,952
Other assets		
Long-term investments	267,335	172,229
Property, plant and equipment, net	905,341	810,038
Other noncurrent assets	57,635	110,350
Total assets	$ 2,808,106	$ 2,755,131
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	$ 305,163	$ 274,600
Claims payable	121,066	114,660
Deferred revenue	23,543	19,890
Current portion of long-term debt and capital leases	5,789	13,840
Premiuim deficiency reserve	28,000	-
Other current liabilities	7,246	13,478
Total current liabilities	490,807	436,468
Long-term liabilities		
Estimated final settlements with third-party payors	52,697	57,787
Obligations under capital leases	48,179	49,370
Long-term debt	579,461	588,653
Other long-term liabilities	171,562	145,213
Total liabilities	1,342,706	1,277,491
Commitments and contingencies		
Net assets		
Unrestricted	1,152,932	1,146,829
Temporarily restricted	296,218	314,551
Permanently restricted	16,250	16,260
Total net assets	1,465,400	1,477,640
Total liabilities and net assets	$ 2,808,106	$ 2,755,131

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

BMC Health System, Inc.
Consolidated Statements of Operations
Years Ended September 30, 2016 and 2015

(in thousands)	**2016**	**2015**
Operating revenue		
Net patient service revenue, net of provision for bad debt ($56,781 in 2016 and $53,591 in 2015)	$ 947,598	$ 904,311
Capitation revenue	1,565,692	1,637,629
Grants and contract revenue	98,531	89,064
Other revenue	218,999	184,295
Net assets released from restrictions for operations	26,840	33,184
Total operating revenue	2,857,660	2,848,483
Operating expenses		
Salaries, wages and fringe benefits	900,241	832,180
Supplies and expenses	1,790,083	1,808,192
Depreciation and amortization	87,707	80,020
Interest expense	24,763	10,319
Research, sponsored programs and community health services	99,915	102,043
Total operating expenses	2,902,709	2,832,754
(Loss) income from operations	(45,049)	15,729
Nonoperating gains (losses), net		
Investment income (including other-than-temporary impairment losses of $752 and $3,022 in 2016 and 2015, respectively)	30,600	36,212
Gain on sale of real estate	315	14,478
Loss on defeasance of debt	(16,187)	(13,436)
Fundraising costs and other	(5,989)	(14,345)
Total nonoperating gains, net	8,739	22,909
(Deficiency) excess of revenue over expenses	(36,310)	38,638
Other changes in unrestricted net assets		
Change in unrealized appreciation (depreciation) on investments	13,810	(22,693)
Net assets released from restrictions for property, plant and equipment	39,113	23,420
Pension related changes other than net periodic pension costs	(10,510)	(4,329)
Change in unrestricted net assets	6,103	35,036
Unrestricted net assets		
Beginning of year	1,146,829	1,111,793
End of year	$ 1,152,932	$ 1,146,829

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, 2016 and 2015

(in thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets at September 30, 2014	$ 1,111,793	$ 344,125	$ 16,260	$ 1,472,178
Increases (decreases) in net assets				
Excess of revenues over expenses	38,638	-	-	38,638
Investment income	-	41,254	-	41,254
Change in net unrealized depreciation on investments	(22,693)	(36,247)	-	(58,940)
Contribution revenue	-	22,023	-	22,023
Net assets released from restrictions for operations	-	(33,184)	-	(33,184)
Net assets released from restrictions for property, plant and equipment	23,420	(23,420)	-	-
Pension related changes other than net periodic pension costs	(4,329)	-	-	(4,329)
Total increase (decrease) in net assets	35,036	(29,574)	-	5,462
Net assets at September 30, 2015	1,146,829	314,551	16,260	1,477,640
Increases (decreases) in net assets				
Deficiency of revenues over expenses	(36,310)	-	-	(36,310)
Investment income	-	8,026	-	8,026
Change in net unrealized appreciation on investments	13,810	17,053	-	30,863
Contribution revenue	-	22,541	(10)	22,531
Net assets released from restrictions for operations	-	(26,840)	-	(26,840)
Net assets released from restrictions for property, plant and equipment	39,113	(39,113)	-	-
Pension related changes other than net periodic pension costs	(10,510)	-	-	(10,510)
Total increase (decrease) in net assets	6,103	(18,333)	(10)	(12,240)
Net assets at September 30, 2016	$ 1,152,932	$ 296,218	$ 16,250	$ 1,465,400

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, 2016 and 2015

(in thousands)	2016	2015
Operating activities		
Change in net assets	$ (12,240)	$ 5,462
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Accretion of discount on long-term grants	(141)	(574)
Depreciation and amortization	87,707	80,020
Restricted contributions	(13,569)	(8,809)
Donated securities received	(1,154)	(1,485)
Equity in net losses of joint ventures	1,307	729
Amortization of bond discount/premium and issuance costs	32,677	7,689
City of Boston lease refinancing	(7,921)	(10,177)
Discount and allowance for contributions receivable	5,883	7,630
Net realized gains and change in unrealized (appreciation) depreciation on investments	(35,042)	8,906
Increase in asset retirement obligation	557	557
Gain on asset retirement obligation	-	(7,115)
Gain on sale of real estate	(315)	(14,478)
Gain on sale of joint venture	(7,382)	-
Loss of defeasance	16,187	13,436
Provision for bad debts	56,781	53,591
Pension related changes other than net periodic pension costs	10,510	4,329
Changes in operating assets and liabilities		
Grants receivable	14,713	8,416
Patient accounts receivable	(65,739)	(47,244)
Other current assets and liabilities	52,034	(127,884)
Other noncurrent assets and liabilities	(4,392)	8,911
Estimated final settlements with third-party payors	(2,126)	26,644
Claims payable	6,406	(9,186)
Increase (decrease) in premium deficiency reserve	28,000	(16,395)
Accounts payable and accrued expenses	37,431	56,321
Net cash provided by operating activities	200,172	39,294
Investing activities		
Proceeds from sale of investments	131,141	286,145
Proceeds from sale of funds held by Trustees	252,086	343,282
Investment in subsidiaries	(1,009)	(1,277)
Purchases of investments	(217,962)	(238,902)
Purchases of funds held by Trustees	(171,301)	(444,185)
Purchase of property, plant and equipment	(189,705)	(176,703)
Proceeds from sale of real estate	-	80,902
Proceeds from sale of joint venture	14,541	-
Net cash used in investing activities	(182,209)	(150,738)
Financing activities		
Proceeds from borrowings	251,345	253,155
Debt issuance costs	(1,023)	-
Proceeds from restricted contributions	13,569	8,809
Proceeds from sale of donated securities	1,154	1,485
Repayment of long-term debt and capital leases	(238,368)	(114,827)
Proceeds from East Newton building deferred sale	-	6,000
Net cash provided by financing activities	26,677	154,622
Increase in cash and cash equivalents	44,640	43,178
Cash and cash equivalents		
Beginning of year	319,991	276,813
End of year	$ 364,631	$ 319,991
Supplemental disclosure of cash flow activities		
Cash paid for interest	$ 27,273	$ 20,929
Property, plant and equipment included in accounts payable	17,097	23,965
Conditional asset retirement obligations	557	557
Net fixed assets recognized related to conditional asset retirement obligations	(257)	(257)
Contributed securities	1,154	1,485
Gift in-kind	500	500
New capital leases	173	50,344

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

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. The Medical Center is a tax-exempt, non-profit Massachusetts corporation.

The Medical Center's sole corporate member is BMC Health System, Inc. (the "System"), a tax-exempt, non-profit Massachusetts corporation that oversees the operation of the Medical Center, 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 22 affiliated faculty practice plan corporations (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.("BMCICS"), BMC NAB Business Trust ("NAB"), and Boston Accountable Care Organization, Inc. ("BACO"). The Medical Center and each of its member organizations have fiscal years ending September 30, except the Foundation, ECMF, and BMC Integrated Care Services, Inc., which have a fiscal year ending June 30.

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

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

On April 5, 2006, the Massachusetts legislature passed legislation dramatically expanding coverage to the uninsured in Massachusetts. The legislation combines an individual mandate for coverage for those able to afford it with assessments on certain employers not providing coverage. The bill required individuals to obtain coverage by July 1, 2007 and create a sliding scale subsidy to enable lower-income individuals to purchase protection. In connection with this legislation, the Commonwealth Health Insurance Connector (the “Connector”) was established to regulate these new insurance programs. These programs were discontinued January 31, 2015.

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 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 became effective January 1, 2014.

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

UDF is a tax-exempt, non-profit Massachusetts corporation involved in real estate development activities. UDF is wholly owned by the Medical Center and consolidates into the Medical Center.

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

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

BMCIC of Vermont is a 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 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”) (TRIA expired on December 31, 2005 and was not extended by the federal government). All coverages provided by BMCIC of Vermont were on a claims-made basis. BMCIC of Vermont is owned 100% by the Medical Center.

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

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

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

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

2. Summary of Significant Accounting Policies

Basis of Accounting and Principles of Consolidation

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

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 its cash and cash equivalents accounts at five institutions, $340,083,000 and $284,146,000 at September 30, 2016 and 2015, respectively. The System monitors the credit worthiness of the institutions and has not experienced any losses associated with deposits at these institutions.

Short-Term Investments

Short-term investments include certain investments in private investment funds and money market mutual funds, which the 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 (deficiency) excess of revenues over expenses unless the income or loss is restricted by donor or law. The change in unrealized appreciation (depreciation) on investments is recorded in the statement of operations as other changes in unrestricted net assets, unless their use is restricted by explicit donor-imposed stipulations or law, in which case they are reported in the appropriate restricted class of net assets.

The fair value of the System's investments in bonds, notes, and common stock is based on quoted prices in an active market when available. At September 30, 2016 and 2015, the System held interests in private investment funds. Interests in private investment funds are generally recorded at net asset value ("NAV") 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. In 2016 the System adopted *ASU 2015-10, Technical Corrections and Improvements* which amended the definition of readily determinable fair value ("RDFV"). Securities for which no such quotations or valuations are readily available are carried at NAV as estimated by management using values provided by external investment managers. The System believes that these valuations are a reasonable estimate of fair value as of September 30, 2016 and 2015, but are subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investment existed. The System has the ability to liquidate its investments periodically in accordance with the provisions of the respective fund agreements.

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

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

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 Settlements for Patient Services

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

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

Deferred Revenue

Deferred revenue consists of amounts received in advance of the contract period. Certain advances are received from the Commonwealth of Massachusetts (the “Commonwealth”) related to grants. Advances received related to grants were $23,366,000 and $19,769,000 as of September 30, 2016 and 2015, respectively. Also included in deferred revenue is a rebate received in advance. The System recorded deferred revenue related to the rebate of $177,000 and $121,000 for the years ended September 30, 2016 and 2015, respectively.

Health Care Cost Recognition

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

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

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, 2016 and 2015, the premium deficiency reserve totals approximately $28,000,000 and $0, respectively. During the fiscal year ending September 30, 2015, BMCHP eliminated $16,395,000 of premium deficiency reserve as it was no longer necessary.

Affordable Care Act Reserves

In 2014, the Affordable Care Act introduced the provisions of the risk adjustment program. This program will assess the actuarial risk of the insurance pool within each health plan as compared to the average of all health plans in the state. Under the federal provisions of the Affordable Care Act, BMCHP recorded a payable to the Massachusetts Health Connector for the risk adjustment program. The estimated amount due from BMCHP to the Massachusetts Health Connector as of September 30, 2016 is $10,815,000 and $9,310,000 as of September 30, 2016 and 2015, respectively. For risk corridor adjustments due to/from CMS, BMCHP recorded a receivable of $984,000 at September 30, 2016 and a payable of $4,627,000 at September 2015. For both years, the amounts included a risk corridor non-collectible accrual of $1,080,000. BMCHP recorded a net receivable from CMS for reinsurance recoveries. The estimated amount due to BMCHP from CMS was $1,082,000 and $573,000 as of September 30, 2016 and 2015, respectively. The balances include an accrual payable from BMCHP to CMS for reinsurance contributions of $661,000 and $556,000 at September 30, 2016 and 2015, respectively. BMCHP recorded a payable for Cost Sharing Reduction reconciliations. The estimated amount due to both CMS and the Massachusetts Health Connector for Cost Sharing Reduction reconciliations was $13,144,000 and $8,189,000 as of September 30, 2016 and 2015, respectively. BMCHP recorded a payable for Medical Loss Ratio ("MLR") rebates. The estimated amount for MLR rebates was $2,357,000 and $4,531,000 as of September 30, 2016 and 2015, respectively.

Net Assets

Permanently restricted net assets include only the historical dollar amount of gifts, which are required by donors to be held in perpetuity. Temporarily restricted net assets include gifts, grants, investment income, including realized gains and losses, and the change in unrealized appreciation (depreciation) 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. In 2016, there was a reclassification of $10,000 from permanently restricted net assets to temporarily restricted net assets as a result of a cy-pres filing with the State of Massachusetts to reassign the purpose of the restricted fund.

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 (deficiency) excess of revenues over expenses.

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

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

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

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

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

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

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

Favorable changes in prior year estimates from third-party payors recorded in the years ended September 30, 2016 and 2015 amounted to approximately $524,000 and $8,770,000, respectively.

Net Patient Service Revenue

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

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

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

The Plans are required to fund their share (from risk contracts) of any deficits in excess of the amounts withheld under this master contract. Surplus amounts in excess of amounts withheld have been recorded and retained by BACO and BMCICS. A surplus of $282,000 and $25,000 was earned for years ended June 30, 2016 and 2015, respectively.

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 $110,742,000 and $105,620,000 in 2016 and 2015, respectively. Such costs have been estimated based on the ratio of expenses (excluding bad debt expense) to establish patient service charges. Under healthcare reform, all documented Massachusetts citizens who were once eligible for charity care are now required to be enrolled in one of the subsidized Connector Care insurance products. Those patients who are over 300% of the federal poverty guidelines are now required to buy into an affordable insurance product either offered by their employer or the Connector Care or face financial penalties. Many of the System's patients that were previously uninsured are now enrolled in various health insurance plans in an effort to comply with the Commonwealth's healthcare reform mandate.

Through the Commonwealth's Health Safety Net Office ("HSNO"), the System receives reimbursement for a significant portion of the charity care it provides. The amounts received were $67,875,000 and $67,809,000 for the years ended September 30, 2016 and 2015, respectively.

In addition, the Medical Center received $20,000,000 in funding from the state through supplemental revenue payments for the years ended September 30, 2016 and 2015.

Capitation Revenue
Membership capitation payments, 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. The Connector remits monthly membership payments based upon actual enrollments. Also included in capitation revenue is certain risk sharing amounts under BMCHP's contract with MassHealth, the Connector and DHHS, whereby capitation revenue can be increased or decreased based upon actual net income that is above or below the permitted contract range. Gross capitation receivables from the state of Massachusetts amounted to approximately $14,228,000 and $0 at September 30, 2016 and 2015, respectively. Gross capitation receivables from the state of New Hampshire amounted to approximately $79,528,000 and $67,690,000 at September 20, 2016 and 2015, respectively.

Other Revenue
Other revenue consists primarily of revenue related to the retail pharmacy, including 340b consulting revenue. Also included is services rendered to other organizations under contractual agreements, which include community health centers and area hospitals. Additionally, included in other revenue are meaningful use payments received for meeting stage one of the CMS requirements and miscellaneous fees related to the sale of medical products.

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

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

Income Taxes
The System, the Medical Center, BMCHP, UDF, ECMF, BUAP, Faculty and the Plans, BACO, BMCICS, and BMCIC of Vermont are all non-profit corporations that have been recognized as tax exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. The shareholders of NAB are non-profit, tax-exempt corporations. Accordingly, no provision for income taxes has been made in the accompanying consolidated financial statements for any of these entities.

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

Adoption of New Accounting Guidance

In April 2013, the FASB issued Accounting Standards Update ("ASU") No. 2013-06----*Services Received from Personnel of an Affiliate*. ASU 2013-06 requires that contributed services be recognized at fair value if employees of separately governed affiliated entities regularly perform services (in other than an advisory capacity) for and under the direction of the donee. ASU 2013-06 is effective prospectively for fiscal years beginning after June 15, 2014. The System adopted ASU 2013–06 for the year ended September 30, 2015. The Medical Center recorded $6,476,000 and $5,121,000 in donated services to affiliates for the years ending September 30, 2016 and September 30, 2015, respectively. The System recorded $2,050,000 and $1,517,000 in donated services from affiliates for the years ending September 30, 2016 and September 30, 2015, respectively. The Foundation recorded $4,426,000 and $3,604,000 in donated services from affiliates for the years ending June 30, 2016 and June 30, 2015, respectively. Donated services are eliminated in consolidation.

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

In April 2015, the FASB issued ASU 2015-03 - *Imputation of Interest*: *Simplifying the Presentation of Debt Issuance Costs*, which requires all costs incurred to issue debt to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability. The System has decided to early adopt the guidance effective September 30, 2016 and change its reporting on debt issuance cost. Accordingly, certain amounts within the 2015 consolidated financial statements have been reclassified to conform to the 2016 presentation. Previously reported debt issuance costs amounts in other noncurrent assets of $2,621,000, in 2015, have been reclassified as a reduction of long-term debt.

In May 2015, the FASB issued ASU 2015-07 – *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent),* which eliminates the requirement to categorize investments valued using the net asset value of the investment as a practical expedient within the fair value hierarchy. This standard is effective for fiscal years beginning after December 15, 2016 (The System fiscal year ended as of September 30, 2018); however, early adoption is permitted. The System adopted ASU 2015-07 effective September 30, 2016, and the impact to the financial statements is limited to note 4, which enhanced the disclosure around the leveling table.

In June 2015, the FASB issued *ASU 2015-10, Technical Corrections and Improvements* which amended the definition of readily determinable fair value ("RDFV"). This adoption is reflected in the System's financials effective September 30, 2016.

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, which address certain aspects of recognition, measurement, presentation and disclosure of financial instruments. This guidance allows an entity to choose, investment-by-investment, to report an equity investment that neither has a readily determinable fair value, nor qualifies for the practical expedient for fair value estimation using NAV, at its cost minus impairment (if any), plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issue. Impairment of such investments must be assessed qualitatively at each reporting period. Entities must disclose their financial assets and liabilities by measurement category and form of asset either on the face of the balance sheet or in the accompanying notes. The ASU is effective for annual reporting periods beginning after December 15, 2018 or fiscal year 2020 for the System. The provision to eliminate the requirement to disclose the fair value of financial instruments measured at cost (such as the fair value of debt) may be early adopted. The System has decided to early adopt the guidance for the year ended September 30, 2016.

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

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

Reclassification
Certain amounts from the 2015 financial statements have been reclassified to conform with the 2016 presentation.

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:

	2016		2015	
(in thousands)	At Fair Value	Cost	At Fair Value	Cost
Cash and cash equivalents	$ 3,181	$ 3,182	$ 10,306	$ 10,311
Bonds and U.S. Treasury Notes	211,746	202,420	187,081	182,663
Private investment funds	330,099	281,818	214,365	181,737
Mutual funds	285,091	268,253	265,257	248,582
Marketable equity securities	135,723	105,751	126,913	101,812
Money market mutual funds	106,290	106,789	85,753	87,380
Asset-backed securities	12,907	13,135	9,262	9,475
	1,085,037	981,348	898,937	821,960
Funds held by trustees	78,850	78,847	160,001	160,032
	$ 1,163,887	$ 1,060,195	$ 1,058,938	$ 981,992

At September 30, 2016 and 2015, the System recorded certain private investment funds of $0 and $54,729,000 using the cost method, respectively. For the private investment funds reflected in the balance sheet at cost, the difference (unrecorded net unrealized (appreciation/(depreciation)) between the value reported by the investment managers and the cost for these investments was $0 and $(6,580,000) as of September 30, 2016 and 2015, 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 $330,099,000 and $214,365,000 at September 30, 2016 and 2015, 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 $16,378,000 and $15,321,000 at September 30, 2016 and 2015, respectively and is included in assets whose use is limited. In addition to the reinsurance fund, BMCHP is required by its contract with MassHealth to place deposits with the state for additional reserves. The cash reserves were $2,012,000 and $2,004,000 at September 30, 2016 and 2015, respectively, and are also included in assets whose use is limited.

In connection with its licensure with the Massachusetts Division of Insurance, BMCHP has placed on deposit with the Commonwealth a $1,000,000 U.S. Treasury note with an amortized cost of $1,000,000. In addition, for licensure in New Hampshire, BMCHP has purchased and placed on deposit a $500,000 U.S. Treasury note with an amortized cost of $500,000. Both security deposits are also included in assets limited as to use in 2016 and 2015.

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

(in thousands)	**2016**	**2015**
Unrestricted		
Dividends and interest	28,455	$ 21,094
Net realized gains on investments	2,145	15,118
Change in net unrealized appreciation (depreciation) on investments	13,810	(22,693)
	44,410	13,519
Temporarily restricted		
Dividends and interest	5,992	6,338
Net realized gains on investments	2,034	34,916
Change in net unrealized appreciation (depreciation) on investments	17,053	(36,247)
	25,079	5,007
	$ 69,489	$ 18,526

Unrealized losses related to BMCIC of $4,117,000 and $6,376,000 as of September 30, 2016 and 2015, 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:

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 quoted price for such assets and liabilities.

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

Level 3 is typically based on unobservable inputs that are supported by little or no market activity and rely on assumptions and estimates about pricing derived from available information.

NAV represents investments that strike a NAV.

Effective September 30, 2016, the System early adopted new guidance about Fair Value Measurement and Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). This guidance requires the System to show investments that use net asset value (“NAV”) as a practical expedient for valuation purposes, separately from other investments categorized in the fair value hierarchy. This disclosure change, which was applied retrospectively, can be seen in the investment leveling table for both fiscal years 2016 and 2015.

The NAV of the securities held by limited partnerships that do not have readily determinable fair values are determined by the general partner and are based on appraisals, or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by the general partner taking into consideration, among other things, the cost of the securities, prices of recent placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate. The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the System believe sits valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following table presents the financial instruments carried at fair value and is intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position as of September 30, 2016:

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

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

(in thousands)	Level 1	Level 2	Level 3	Net Asset Value	Total
Investments					
Cash and cash equivalents	$ 10,306	$ -	$ -	$ -	$ 10,306
Bonds and U.S. Treasury Notes	89,384	97,697	-	-	187,081
Private investment funds	-	206,533	-	7,831	214,364
Mutual funds	162,384	52,932	-	49,941	265,257
Marketable equity securities	126,913	-	-	-	126,913
Money market mutual funds	78,052	-	-	7,701	85,753
Asset-backed securities	-	9,262	-	-	9,262
	$ 467,039	$ 366,424	$ -	$ 65,473	$ 898,936
Funds held by trustee					
Cash and cash equivalents	$ 8,855	$ -	$ -	$ -	$ 8,855
U.S. government securities	135,904	-	-	-	135,904
Money market mutual funds	15,242	-	-	-	15,242
	$ 160,001	$ -	$ -	$ -	$ 160,001

There were transfers of $47,739,000 and $5,647,000 from Level 1 to 2 in 2016 and 2015, respectively, due to observable market data that were no longer available for the securities. There were transfers of $434,000 and $80,301,000 from Level 2 to 1 in 2016 and 2015, respectively, due to observable market data that became available for the securities.

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

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

	Investments Asset Value			
(in thousands)		**Net Asset Value**	**Redemption Frequency**	**Notice Period**
Investment Type				
Private investment funds	$	21,554	Bi-Monthly-Monthly	3 - 45 days
Money Market Mutual Funds	$	32,333	Daily	0 days
Mutual funds		31,490	Daily-Monthly	2 - 6 days
	$	85,377		

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

	Investments Asset Value			
(in thousands)		**Net Asset Value**	**Redemption Frequency**	**Notice Period**
Investment Type				
Private investment funds	$	7,831	Bi-Monthly-Monthly	3 - 45 days
Money Market Mutual Funds	$	7,701	Daily	0 days
Mutual funds		49,941	Daily-Monthly	2 - 6 days
	$	65,473		

There were no unfunded commitments as of September 30, 2016 and 2015.

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 2016 and 2015, the System reported recognized losses of approximately $752,000 and $3,022,000, respectively, relating to declines in fair value of investments that were determined by management to be other-than-temporary.

5. Contributions Receivable

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

Unconditional promises expected to be collected in:

(in thousands)	**2016**	**2015**
Less than one year	$ 8,314	$ 7,005
One year to five years	17,443	21,547
More than five years	2,417	1,436
	28,174	29,988
Less: Discounts and allowance for uncollectible accounts	(5,883)	(7,630)
Net contributions receivable	$ 22,291	$ 22,358

Included in total gross contributions receivable is a single donor in the amount of $6,000,000 and $7,500,000 for the years ended September 30, 2016 and 2015, respectively. The original contribution from the donor in 2008 was $15,000,000, of which $9,000,000 was paid. Discount rates used to calculate the present value of contributions receivable ranged from 2.95%-17.00%, depending upon the anticipated pledge fulfillment date.

6. Property, Plant and Equipment

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

(in thousands)	Useful Life	2016	2015
Land		$ 6,302	$ 6,302
Land improvements	5 - 40 years	775	775
Buildings	15 - 45 years	197,138	197,138
Building and leasehold improvements	5 - 40 years	695,356	616,555
Fixed equipment	5 - 25 years	44,706	44,825
Major movable equipment	3 - 20 years	585,529	529,357
Leased buildings and equipment	15 - 20 years	119,812	119,073
Construction in progress		197,449	162,465
		1,847,067	1,676,490
Accumulated depreciation and amortization		(941,726)	(866,452)
Property, plant and equipment, net		$ 905,341	$ 810,038

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

Depreciation expense amounted to $79,245,000 and $68,860,000 for the years ended September 30, 2016 and 2015, respectively. Amortization expense amounted to $8,462,000 and $11,160,000 for the years ended September 30, 2016 and 2015, respectively.

Fully depreciated property, plant and equipment with an original cost of $9,365,000 and $639,000 was disposed of during the year ended September 30, 2016 and 2015, respectively.

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

As of September 30, 2016 and 2015, assets under capital lease agreements amounted to approximately $119,812,000 and $119,073,000, respectively, with accumulated amortization of $117,746,000 and $109,284,000, respectively. Amortization expense is included with depreciation and amortization expense in the statement of operations.

The System has capitalized interest in the amount of $58,406,000 and $52,107,000 for the years ended September 30, 2016 and 2015, respectively.

On December 18, 2014, the System closed on the sale of three parcels of land to an unrelated, for-profit entity for $80,100,000. The System will continue to lease and occupy a portion of the buildings that are included in the parcels for varying amounts of time, consistent with clinical and administrative needs, while it completes its campus redesign construction project. The sale of two of the buildings resulted in a financing transaction and a capital lease obligation of $50,092,000 was recorded (Note 9). At the end of the lease term, the remaining capital asset and liability will be written down and a gain on the sale of buildings will be recorded. The sale of the third building qualified for a sales-leaseback transaction and resulted in a gain of $14,793,000, of which $14,478,000 was recognized as of September 30, 2015. The remaining $315,000 was recognized in fiscal year 2016 as the System is no longer leasing the property.

Additionally, the System signed an agreement with the same unrelated, for-profit entity to purchase the Newton Pavilion (including the Health Services Building) in 2017, when construction is expected to be completed. At that time, all services in the Newton Pavilion will be relocated to the Menino Pavilion and the Yawkey Ambulatory Care Center. A deposit of $6,000,000 was received and recorded as an other long term liability. The System has accrued interest related to the deposit of $1,142,000 and $465,000 for the years ended September 30, 2016 and 2015, respectively, also recorded as an other long term liability.

7. Other Noncurrent Assets

Other noncurrent assets consist of the Medical Center's investments in Medical Research Realty Trust, the 650 Albany Street Trust, Biosquare Realty Trust, NEIDL (Note 23) and notes receivable. The investments in Medical Research Realty Trust, 650 Albany Street Trust and Biosquare Realty Trust are recorded utilizing the equity method of accounting.

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

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

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

In November and December 2008, the Medical Center closed on a second and third round of NMTC financing for the construction of the Shapiro Ambulatory Care Center. The Medical Center was the beneficiary of an allocation of the two federal NMTCs in the amounts of $46,697,000 and $24,000,000, respectively. In these two financing transactions, the Medical Center provided loans of $33,582,000 and $19,517,000 with the capital contribution of $14,715,000 and $4,483,000 provided by a third party. In the second round of NMTC financing, the Medical Center also entered into an additional loan in the amount of $472,000 with an interest rate of 3.00%. All loans are recorded as notes receivable as of September 30, 2015. These funds also became equity investments into CDEs. The CDEs, in turn, are required to make a series of loans to the BMC NAB Business Trust totaling $46,234,000 and $24,000,000 for the construction of the facility.

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

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

The Medical Center is in negotiations with Genesys Research Institute, Inc., to purchase their 10% ownership in NAB. As of September 30, 2016, an agreement has not been executed.

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

8. Long-Term Debt

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

(in thousands)	**Interest Rate**	**2016**	**2015**
Revenue Bonds Series B	4.00 - 5.75 %	$ -	$ 217,060
Revenue Bonds Series C	3.00 - 5.25 %	42,490	45,380
Revenue Bond Series D	4.00 - 5.00 %	158,155	158,155
Revenue Bond Series E	2.00 - 5.00 %	176,345	-
Revenue Bond Series 2016	4.52 %	75,000	-
ECMF Series A Bonds	6.45 %	5,400	6,500
Series O - Tax Exempt (Garage)	Varies	9,114	9,689
Series O - Taxable (Garage)	Varies	2,855	3,035
CDE Loans	1.60 - 2.00 %	-	70,235
Citizens Bank Non-Revolving Credit Loan	varies	79,270	79,270
		548,629	589,324
Less: Current portion of long-term debt		(5,720)	(5,569)
Revenue Bonds Series B discount		-	(6,450)
Revenue Bonds Series C premium		5,668	6,112
Revenue Bonds Series D premium		7,725	7,994
Revenue Bonds Series E premium		26,437	-
Revenue Bonds Series 2016 discount		(493)	-
Revenue Bond Issuance Costs		(2,785)	(2,758)
Total Long-term debt		$ 579,461	$ 588,653

In September 2016, the Medical Center advance refunded a portion of the Massachusetts Health and Education Facilities Authority (“Authority”) Revenue Bonds, Boston Medical Center Issue, Series B (2008) (“Series B Revenue Bonds”) and issued a new money portion through the sale of $176,345,000 Massachusetts Development Finance Agency (“MassDevelopment”), Series E tax-exempt (2016) (“Series E Revenue Bonds”). As part of this issuance, the Medical Center defeased $26,570,000 of the Series B Revenue Bonds due to tax issues. The interest rate on the Series E Revenue Bonds ranges from 2.00% to 5.00% based on the bonds’ maturities. Principal and sinking fund payments will be made annually between 2017 and 2038 and range from $425,000 to $19,890,000. The loss on defeasance and advanced refunding of the Series B Revenue Bonds was $16,187,000.

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

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

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

In December 2014, the Medical Center closed on a $95,000,000 secured nonrevolving credit loan with Citizens Bank, N.A. The proceeds of the nonrevolving loan were used solely for the purpose of defeasing the bonds allocable to the Newton Pavilion. In January 2015, the Medical Center pre-paid $15,730,000 in principal of the loan.

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

In July 2008, the Medical Center issued through the Authority $245,175,000 Series B Revenue Bonds. The bonds were issued to finance the cost of demolition of 91 East Concord Street, the design, construction and equipping of the Shapiro Ambulatory Care Center, the design and construction of a two-story addition to the Menino Pavilion, and routine capital expenditures. The interest rate on the Series B Revenue Bonds varies from 4.00% to 5.75% based on the bonds' maturities. A portion of this bond was advanced refunded with the issuance of the Series E Revenue Bonds, the remainder of the bond was defeased as of September 30, 2016.

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

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

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

In October 2012, the Medical Center entered into a Line of Credit for short-term borrowings with a bank under which up to $25,000,000 may be borrowed on such terms as outlined by the Amended and Restated Line of Credit Agreement. This Agreement will be renewed annually but can be withdrawn at the bank's option. The Medical Center has pledged certain board designated accounts to secure the line of credit. The assets of these accounts will collateralize borrowings against the line of credit. The Medical Center has not borrowed against the line of credit as of September 30, 2016 and 2015.

Included in the Medical Center's debt is approximately $11,969,000 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 $12,164.000. There are no drawings under the LOCs as of September 30, 2016 and 2015. The LOC supporting the Series O-1 and O-2 will expire on December 31, 2017. RBS Citizens provided a Federal Home Loan Bank wrap (AAA rated) for the two Letters of Credit. The term and payment schedule for the loans did not change. The interest rates at September 30, 2016 were 0.757% and 0.897% for the tax-exempt and taxable loan, respectively. The interest rates at September 30, 2015 were 0.03% for the tax-exempt and taxable loan.

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

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

NAB has $0 and $70,235,000 in CDE loans as of September 30, 2016 and 2015, respectively, related to financing for the construction of the Shapiro Ambulatory Care Center. The interest rates on the CDE loans range from 1.6% to 2.0%. One CDE loan with a principal balance of $2,917,000 was repaid in May 2015. The remainder of the CDE loans were transferred to the Medical Center and terminated in May 2015, November 2015 and December 2015 for the first, second and third rounds of NMTC, respectively, in conjunction with the unwinds of the NMTCs (Note 7).

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

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

	September 30,	
(in thousands)	**2016**	**2015**
Construction fund	$ 49,174	$ 101,818
Debt service fund	2,658	8,091
Debt service reserve funds	20,624	43,152
Accrued interest receivable	77	135
Workers' compensation reserve fund	5,980	6,470
Other held funds	337	335
	$ 78,850	$ 160,001

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

Maturities of long-term debt are as follows:

(in thousands)

Years Ending September 30,		
2017	$	5,720
2018		5,778
2019		85,338
2020		5,586
2021		5,633
Thereafter		440,574
	$	548,629

9. Obligations Under Capital Leases

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

(in thousands)		**2016**		**2015**
Doctors Office Building	$	36,228	$	37,497
Gambro Building		11,657		11,657
City of Boston (forgivable)		-		7,921
City of Boston		-		266
Other		363		300
Less:				
Current portion (forgivable)		-		(7,921)
Current portion		(69)		(350)
	$	48,179	$	49,370

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 was 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.

On May 25, 2016, the Medical Center notified the Boston Public Health Commission that it had determined that the rent payments, after adjustments authorized by the Medical Center's lease, would be zero effective July 1, 2016.

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

(in thousands)

Years Ending September 30,		
2017	$	69
2018		111
2019		97
2020		61
2021		44
Thereafter		-
Total minimum lease payments		382
Less: Amount representing interest		(19)
Present value of minimum lease payments		363
Less: Current portion		(69)
	$	294

In conjunction with the sale of the Gambro and Doctor's office building (Note 6), the System recorded a capital lease liability of $50,092,000. The payments on the capital lease are not included in the above schedule and are accounted for as a portion as interest expense, a portion as a reduction in liability and a portion as lease expense. The remaining capital lease liability at September 30, 2016 and 2015 is $47,885,000 and $49,154,000, respectively.

10. Operating Lease Commitments

The System amortizes deferred rent on a straight-line basis over the term of the lease. At September 30, 2016 and 2015 approximately $175,000 and $593,000, respectively, of amortization had been recorded as an offset to rent expense and at September 30, 2016 and 2015.

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

(in thousands)	**Lease Obligations**
Years Ending September 30,	
2017	$ 10,649
2018	9,095
2019	9,048
2020	7,215
2021	5,740
Thereafter	9,301
	$ 51,048

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, 2016 and 2015, the accumulated difference between rent expense and amounts paid amounted to $1,902,000 and $2,377,000, respectively, and is included in accounts payable and accrued expenses and other long-term liabilities on the balance sheet.

11. Restricted Net Assets

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

(in thousands)	**2016**	**2015**
Temporarily Restricted Net Assets-Purpose		
Research	$ 132,615	$ 127,039
Buildings & Capital	102,781	127,883
Hospital Programs	41,726	40,786
Other Restricted Purposes	19,096	18,843
Total Temporarily Restricted Net Assets	$ 296,218	$ 314,551
Permanently Restricted Net Assets-Purpose		
Total Permanently Restricted Net Assets	$ 16,250	$ 16,260

12. Endowments

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

The System has interpreted the UPMIFA as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the System 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 System in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the System considers certain factors in making a determination to appropriate or accumulate endowment funds. The factors include the duration and preservation of the fund, the purpose of the organization and the donor-restricted endowment fund, general economic conditions, the possible effect of inflation and deflation, the expected total return from income and the appreciation of investments, other resources of the organization and the investment policies of the organization.

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

(in thousands)	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ 184,014	$ 16,250	$ 200,264
	$ 184,014	$ 16,250	$ 200,264

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

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

As of September 30, 2015, the Medical Center did not have board-designated funds included in the endowment. The endowment net asset composition by type of fund consisted of the following:

(in thousands)	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ 175,010	$ 16,260	$ 191,270
	$ 175,010	$ 16,260	$ 191,270

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

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

13. Third-Party Reimbursement

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

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

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

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 $0 and $7,921,000 and is included in the grants receivable and temporarily restricted net assets on the balance sheet at September 30, 2016 and 2015, 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 $141,000 and $574,000 for the years ended September 30, 2016 and 2015, respectively, and is included in contribution revenue of temporarily restricted net assets in the statement of changes in net assets.

15. Benefit Plans Available to Employees

The Medical Center has 3 defined contribution retirement plans under section 403(b) of the Internal Revenue code. Participation in the Plans is voluntary. The Medical Center offers contributions in 2 of the plans, one based on years of services and one is a flat percentage, under these plans. The contributions under these plans amounted to $17,697,000 and $17,079,000 for the years ended September 30, 2016 and 2015, respectively.

University Hospital provided postretirement medical and life insurance benefits to retirees. These benefits were grandfathered to employees who terminated employment prior to January 1, 1994. Employees who terminated on or before December 31, 1993 were offered a life insurance benefit, employees who terminated on or before July 31, 1993 and had 20 years of services were granted medical benefits. Due to FASB Statement 106, the cost of medical benefits was capped at $185.00 per month per participant. The accrued benefit cost amounted to $113,000 and $141,000 as of September 30, 2016 and 2015, respectively. The net periodic benefit cost recorded on the Plan amounted to ($13,000) and ($21,000) for the years ended September 30, 2016 and 2015, respectively.

BMCHP has a defined contribution retirement plan (“DC Plan”) under Section 401(k) of the Internal Revenue Code established effective August 1, 2001. The DC Plan covers all eligible employees at BMCHP who do not opt out of participation, and requires BMCHP to match employees’ contributions up to specified limitations. Participants are 100% vested in their deferred contributions, and rollover contribution accounts immediately plus actual earnings thereon. The matching employer contribution is based on a discretionary formula and vests over a four year period. BMCHP contributions under this DC Plan were $2,064,000 and $1,798,000 in 2016 and 2015, respectively.

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

(in thousands)	**2016**	**2015**
Accumulated benefit obligation	$ 159,723	$ 139,095
Change in projected benefit obligation		
Projected benefit obligation at beginning of year	$ 152,432	$ 149,672
Service cost	4,562	5,010
Interest cost	6,360	6,112
Actuarial loss (gain)	15,299	(5,037)
Benefits paid	(4,034)	(3,325)
Projected benefit obligation at end of year	$ 174,619	$ 152,432
Change in plan assets		
Fair value of plan assets at beginning of year	$ 116,170	$ 115,266
Actual return (loss) on plan assets	11,326	(2,571)
Employer contributions	6,800	6,800
Benefits paid	(4,034)	(3,325)
Fair value of plan assets at end of year	$ 130,262	$ 116,170
Reconciliation of funded status		
Projected benefit obligation	$ 174,619	$ 152,432
Fair value of plan assets	130,262	116,170
Funded status	(44,357)	(36,262)
Amounts recognized in the balance sheet included within other long-term liabilities	$ (44,357)	$ (36,262)

The components of net periodic benefit cost for the years ended September 30, 2016 and 2015 are as follows:

(in thousands)	**2016**	**2015**
Service cost	$ 4,562	$ 5,010
Interest cost	6,360	6,112
Expected return on plan assets	(8,266)	(8,205)
Amortization of net loss	1,738	1,460
Net periodic benefit cost	$ 4,394	$ 4,377
Weighted average assumptions used to determine the net periodic cost for the period just ended		
Discount rate	4.23 %	4.14 %
Long-term rate of return	N/A	7.00 %
Rate of compensation increase	3.50 %	3.50 %
Weighted average assumptions used to determine the benefit obligations		
Discount rate	3.46 %	4.23 %
Rate of compensation increase	3.00 %	3.50 %
Other changes in plan assets and benefit obligations recognized in unrestricted net assets		
New net actuarial loss	$ 12,239	$ 5,740
Amortization of net loss	(1,738)	(1,460)
	$ 10,501	$ 4,280
Amounts recognized in unrestricted net assets		
Net actuarial loss	$ 38,259	$ 27,758
	$ 38,259	$ 27,758

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 $3,001,000 and $1,738,000.

Pension Plan Assets

The Pension Plan weighted average asset allocation as of the measurement dates September 30, 2016 and 2015, respectively, is as follows:

	Target Allocation Fiscal Year Ending September 30, 2016	**Percentage of Plan Assets at September 30,**	
		2016	**2015**
Asset category			
Equity securities	60 %	58 %	61 %
Debt securities	30	31	28
Other	10	11	11
	100 %	100 %	100 %

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

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

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

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

There were transfers of $6,618,000 and $0 from level 1 to level 2 in 2016 and 2015, respectively, due to observable market data that became available for the securities. There were transfers of $0 and $8,496,000 from Level 2 to 1 in 2016 and 2015, respectively, due to observable market data that became available for the securities.

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

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

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

Cash Flows

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

Expected contributions for fiscal year ending September 30, 2017	
Expected employer contributions	$ 6,800,000
Estimated future benefit payments reflecting expected future service for the fiscal year(s) ending September 30,	
2017	$ 4,967,000
2018	5,708,000
2019	6,419,000
2020	7,087,000
2021	7,818,000
2022 - 2025	50,515,000

The Medical Center contributed $6,800,000 to the Pension Plan for each of the years ended September 30, 2016 and 2015. The Medical Center plans to make any necessary contributions during the upcoming fiscal year 2017 to ensure the Pension Plan continues to be adequately funded during the current market conditions.

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, 2016 and 2015 was as follows:

	2016	**2015**
Medicare	15 %	16 %
Medicaid	27	29
HMOs	35	26
Self-Pay	6	6
Commercial	9	8
Blue Cross	3	3
Commonwealth Care	1	1
Other	4	11
	100 %	100 %

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

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

(in thousands)	Receivable Balance	Allowance for Doubtful Accounts
Other hospitals and health centers	$ 5,684	$ 1,198
Outside contracts	9,889	1,191
Contributions receivable	8,314	517
Capitation receivable	93,750	-
Other	59,614	202
	$ 177,251	$ 3,108

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

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

(in thousands)	Receivable Balance	Allowance for Doubtful Accounts
Other hospitals and health centers	$ 7,524	$ 2,251
New market tax credits	14,989	-
Outside contracts	12,406	1,329
Contributions receivable	7,005	695
Capitation receivable	67,690	-
CMS DSTI receivable (Note 20)	103,553	-
Other	44,888	139
	$ 258,055	$ 4,414

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.

Changes in the allowance for doubtful accounts for the years ended September 30, 2016 and 2015 were as follows:

(in thousands)	**2016**	**2015**
Beginning balances at September 30, 2015	$ 4,414	$ 6,445
Recoveries	(2,562)	(1,778)
Net charge-offs	-	(500)
New reserves	1,256	247
Ending balances at September 30, 2016	$ 3,108	$ 4,414

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, 2016 and 2015 is summarized as follows:

(in thousands)	**2016**	**2015**
Patient and HSNO	$ 52,149	$ 63,569
Third-party payors (net of contractuals)	796,669	738,780
State supplemental funds	155,561	155,553
Less: Provision for bad debt	(56,781)	(53,591)
Net patient service revenue	$ 947,598	$ 904,311

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, 2016 and 2015:

(in thousands)	**2016**	**2015**
Patient	$ 17,444	$ 17,300
Third-party payors	375,878	353,952
Total	393,322	371,252
Reserve for contractual allowance	(271,848)	(256,975)
Reserve for doubtful accounts	(33,251)	(35,012)
Patient accounts receivable, net	$ 88,223	$ 79,265

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, 2016 and 2015, the Medical Center provided funding of approximately $105,826,000 and $88,178,000, 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 $66,897,000 and $60,287,000 at September 30, 2016 and 2015, respectively. In addition, the Medical Center owed the Foundation $38,888,000 and $32,904,000 at September 30, 2016 and 2015, 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 $137,071,000 and $114,621,000 for the years ended September 30, 2016 and 2015, respectively, and is included in net patient service revenue. In addition, BMCHP owed the Medical Center $11,865,000 and $11,298,000 at September 30, 2016 and 2015, respectively, and the amounts due are included in patient accounts receivable. The Medical Center approved a net asset transfer of $0 and $7,300,000 to BMCHP for the years ending September 30, 2016 and 2015, respectively.

The System and the Medical Center have significant transactions with each other for system-wide purposes. At September 30, 2016 and 2015, the System owed the Medical Center $13,148,000 and $6,056,000, respectively for operating related activities. At September 30, 2016 and 2015, the Medical Center owed the System $26,197,000 and $30,949,000, respectively, for System operating related activities. The Medical Center approved a net asset transfer of $0 and $12,000,000 to the System for the years ending September 30, 2016 and 2015, respectively, for purposes related to replacing the electronic medical record system the Medical Center currently hosts and supports for community health centers.

The Medical Center and BMCIC have significant transactions with each other for the purpose of providing professional and general liability insurance. Total expenses incurred by the Medical Center related to the insurance provided by BMCIC were $4,473,000 and $4,505,000 for the years ending September 30, 2016 and 2015, respectively. The Medical Center has $28,517,000 and $24,642,000 of prepaid premiums and retrospective premium credits that were prepaid by the Medical Center to BMCIC at September 30, 2016 and 2015, respectively. The Medical Center and the Foundation recorded an insurance recovery receivable and a professional liability claims payable of $82,212,000 and $75,136,000 for the year ended September 30, 2016 and 2015, 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, 2016 and 2015, respectively. At September 30, 2016 and 2015, respectively, there were no premiums owed to BMCIC of Vermont as all premiums written were paid prior to year-end. The Medical Center approved a net asset transfer of $10,000,000 and $0 to BMCIC of Vermont for the years ending September 30, 2016 and 2015, respectively. BMCHP approved a net asset transfer of $10,000,000 and $0 to the BMCIC of

Vermont for the years ending September 30, 2016 and 2015, respectively. The purpose of the net asset transfers were to fund the cost of activating BMCIC of Vermont.

BUAP and the Medical Center have transactions with each other for operating purposes. During the years ended September 30, 2016 and 2015, respectively, the Medical Center provided funding of approximately $1,877,000 and $2,155,000, respectively, to BUAP for professional and support services. The Medical Center has various accounts receivable from BUAP which totaled approximately $3,911,000 and $4,040,000 at September 30, 2016 and 2015, respectively.

The Medical Center is affiliated with several community health centers. At September 30, 2016 and 2015, the Medical Center had loaned a total of $4,140,000 and $4,360,000, 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 $19,498,000 and $18,807,000 for the years ended September 30, 2016 and 2015, respectively, and is included in net patient service revenue and supplies and other expenses. Also as of September 30, 2016 and 2015, BMCHP owed the Foundation $703,000 and $515,000, respectively.

The System and the Foundation have significant transactions with each other for operating purposes. At September 30, 2016 and 2015, the System owed the Foundation $647,000 and $3,198,000, respectively, for operating expenses. The Foundation approved a net asset transfer of $0 and $49,398,000 to the System for the years ending September 30, 2016 and 2015, respectively, for its management and oversight.

The Medical Center and the BMC NAB Business Trust have significant transactions with each other relating to the construction of the Shapiro Ambulatory Care Center. In December 2015, in conjunction with the unwind of the final NMTC, the transactions between NAB and the Medical Center were limited to lease transactions for the land and building.

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 28.8% of each Faculty Member's salary up to a $265,000 base, for reimbursement of fringe benefits and related paymaster fees. If a particular Faculty Member's salary exceeds the base amount of $265,000, the Plans further pay BU 8.0% on such excess, up to an amount equal to the FICA limit for that particular year, and then 1.8% on any amount in excess of the applicable FICA limit. Additionally, the Plans pay the Medical Center for medical malpractice insurance premiums for each Faculty Member. The Medical Center insures the Faculty members under agreement with BMCIC. The Plans also pay for a portion of administrative salaries and fringe benefits for nonphysician employees of the Medical Center, who provide services to them. These expenses are included in salaries and wages and fringe benefits in the statements of operations and changes in unrestricted net assets.

The Medical Center, the System and BUSM pay a portion of salaries of several physicians of the Foundation, and the Foundation is not responsible for reimbursing either institution. The Foundation also receives from the Medical Center reimbursement for a portion of free care services provided by the Foundation, as well as for teaching and other administrative duties. The Foundation received a total of $31,078,000 and $32,066,000 for institutional support from BUSM, all of which was recorded in reimbursement of operating expenses for the years ended June 30, 2016 and 2015, respectively. The Foundation received a total of $481,000 for the years ended June 30, 2016 and 2015. The Foundation received a total of $98,197,000 and $88,659,000 for institutional support from the Medical Center for the years ended June 30, 2016 and 2015, respectively. The Foundation also received $35,203,000 and $30,825,000 from the Medical Center which was recorded as reimbursement of operating expenses for the years ended June 30, 2016 and 2015, respectively. The Foundation received $3,113,000 and $0 from the System, which was recorded to reimbursement of operating expenses for the years ended June 30, 2016 and 2015, 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, 2016 and 2015, respectively.

Retirement Plan

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

The Medical Center sponsors a defined contribution retirement plan which covers all employees, including administrative employees of the Foundation. This retirement plan is available to regular employees who have completed 1,000 hours of service within a one-year period. The Medical Center 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, 2016 and 2015:

(in thousands)	2016	2015
Accrued at beginning of year	$ 114,660	$ 123,852
Incurred services		
Current year	1,452,869	1,524,531
Prior years	(18,833)	(16,529)
Total incurred	1,434,036	1,508,002
Paid claims		
Current year	1,319,806	1,393,103
Prior years	107,824	124,091
Total paid	1,427,630	1,517,194
Accrued at end of year	$ 121,066	$ 114,660

The estimated cost of losses and loss adjustment expenses attributable to insured events of the prior year decreased by approximately $18,833,000 and $16,529,000 during 2016 and 2015, respectively. Increases or decreases occur as a result of claim settlements during the year and receipt of additional information regarding individual claims. Recent loss development trends are also considered in evaluating the adequacy of the claims payable account.

20. Functional Expenses

The total operating expenses of the System by function are as follows for the years ended September 30, 2016 and 2015:

(in thousands)	2016	2015
Patient care	$ 2,386,963	$ 2,333,784
Medical education	69,289	71,935
Research, sponsored programs and community health services	99,915	102,043
General and administrative	346,542	324,992
	$ 2,902,709	$ 2,832,754

21. Governmental Subsidies

On October 30, 2014, CMS approved a five-year Massachusetts Medicaid Waiver extension for the period of July 1, 2014 through June 30, 2019 that included Delivery System Transformation Initiative ("DSTI") potential funding of $113,908,667 annually for the Medical Center for three years through June 30, 2017. These initiatives are designed as incentive payments to support investment in health care delivery systems that will support payment reform, and transition away from fee-for-service payments toward alternative payment arrangements that reward high-quality, efficient, and integrated systems of care. Participating hospitals must select a minimum number of projects from each category as outlined in the Master DSTI Plan. The Medical Center has submitted a DSTI plan with detailed projects to be implemented consistent with the categories outlined. CMS finalized the approval of the Medical Center's DSTI plan on October 30, 2015. The Medical Center has recorded revenue of $103,553,000 for the years ending September 30, 2016 and 2015.

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, 2016 and 2015.

22. Commitments and Contingencies

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

In 2016 the System executed a lease for space in Charlestown, MA. The lease term was from 2017 to 2027 with lease payments that range from $3,200,000 to $5,800,000.

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.

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.

The System estimates that the expected claims liabilities at September 30, 2016 and 2015, on an undiscounted basis, are approximately $88,961,000 and $81,038,000, respectively.

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

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

In 2011, Boston Medical Center and Boston University agreed to contribution repayment terms whereas Boston University owes Boston Medical Center the total principal of $29,064,000. Boston University will make five annual payments of $5,813,000 plus 2% interest on the outstanding balance due. The remaining balance owed to the Medical Center is $0 and $5,861,000 as of September 30, 2016 and 2015, respectively, and is included in other accounts receivable on the balance sheet.

25. Subsequent Events

The System has assessed the impact of subsequent events through January 25, 2017, the date the audited financial statements were issued, and have concluded that other than the note below, there were no such events that require adjustment to the audited consolidated financial statements or disclosure in the notes to the consolidated financial statements.

Effective October 20, 2016, the System replaced the Medical Center as BMCIC of Vermont's sole corporate member. BMCIC of Vermont now provides medical stop-loss coverage for the Medical Center employee and BMCHP Medicaid programs.

Supplemental Consolidating Information

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

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

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

BMC Health System, Inc.
Consolidating Balance Sheet
September 30, 2015

(in thousands)	BMC Health System, Inc.	Medical Center	BMCHP	Foundation	BMCIC and BMCIC of Vermont	NAB	BUAP	Boston Accountable Care Organization	Eliminations	Consolidated BMC Health System, Inc.
Assets										
Current assets										
Cash and cash equivalents	$ 28,396	$ 82,673	$ 156,674	$ 48,723	$ 588	$ 982	$ 1,955	$ -	$ -	$ 319,991
Short-term investments	-	-	38,486	-	-	-	-	-	-	38,486
Patients accounts receivable, less allowance of $35,012 in 2015	-	75,575	-	15,064	-	-	439	-	(11,813)	79,265
Other accounts receivable, less allowance of $4,414 in 2015	-	142,779	75,099	2,739	2,681	509	283	62	29,489	253,641
Current portion of grants receivable, less allowance of $586 in 2015	-	28,959	-	-	-	-	-	-	-	28,959
Current portion of estimated receivable for final settlements with third-party payors	-	11,962	-	-	-	-	-	-	-	11,962
Current portion due from related parties	30,948	120,140	29	20,160	-	14,375	220	749	(186,621)	-
Inventories	-	8,316	-	-	-	-	-	-	-	8,316
Prepaid expenses and other current assets	-	18,530	-	378	602	-	-	-	(568)	18,942
Insurance recoveries receivable	-	37,568	-	37,568	-	-	-	-	(75,136)	-
Current portion of funds held by Trustees	-	65,000	-	-	-	-	-	-	-	65,000
Total current assets	59,344	591,502	270,288	124,632	3,871	15,866	2,897	811	(244,649)	824,562
Assets limited as to use										
Board-designated investments	-	314,940	-	-	-	-	-	-	-	314,940
Funds held by Trustees	-	95,001	-	-	-	-	-	-	-	95,001
Donor-restricted investments	-	305,907	-	-	-	-	-	-	-	305,907
Reserve funds	-	-	18,825	-	103,279	-	-	-	-	122,104
Total assets limited as to use	-	715,848	18,825	-	103,279	-	-	-	-	837,952
Other assets										
Long-term investments	-	-	134,756	37,473	-	-	-	-	-	172,229
Property, plant and equipment, net	-	660,062	5,651	4,141	-	139,881	303	-	-	810,038
Due from related parties	-	30,570	-	-	-	-	-	-	(30,570)	-
Other noncurrent assets	4,666	169,038	-	104	-	-	-	-	(63,458)	110,350
Total assets	$ 64,010	$ 2,167,020	$ 429,520	$ 166,350	$ 107,150	$ 155,747	$ 3,200	$ 811	$ (338,677)	$ 2,755,131
Liabilities and Net Assets										
Current liabilities										
Accounts payable and accrued expenses	$ -	$ 160,983	$ 65,277	$ 18,239	$ 53	$ 508	$ 409	$ 1,103	$ 28,028	$ 274,600
Claims payable	-	-	126,719	-	-	-	-	-	(12,059)	114,660
Deferred revenue	-	19,890	-	-	568	-	-	-	(568)	19,890
Current portion of due to related parties	-	78,256	-	36,798	6,309	18,392	4,210	-	(143,965)	-
Current portion of long-term debt and capital leases	-	13,756	-	84	-	-	-	-	-	13,840
Professional liability claims	-	37,568	-	37,568	-	-	-	-	(75,136)	-
Other current liabilities	-	-	13,567	-	-	-	-	-	(89)	13,478
Total current liabilities	-	310,453	205,563	92,689	6,930	18,900	4,619	1,103	(203,789)	436,468
Long-term liabilities										
Estimated final settlements with third-party payors	-	57,787	-	-	-	-	-	-	-	57,787
Obligations under capital leases	-	49,154	-	216	-	-	-	-	-	49,370
Due to related parties	9,861	-	-	5,971	24,642	30,570	-	386	(71,430)	-
Long-term debt	-	518,418	-	-	-	70,235	-	-	-	588,653
Other long-term liabilities	-	65,148	40	4,888	75,137	61,412	-	-	(61,412)	145,213
Total liabilities	9,861	1,000,960	205,603	103,764	106,709	181,117	4,619	1,489	(336,631)	1,277,491
Commitments and contingencies										
Net assets										
Unrestricted	54,149	835,249	223,917	62,586	441	(25,370)	(1,419)	(678)	(2,046)	1,146,829
Temporarily restricted	-	314,551	-	-	-	-	-	-	-	314,551
Permanently restricted	-	16,260	-	-	-	-	-	-	-	16,260
Total net assets	54,149	1,166,060	223,917	62,586	441	(25,370)	(1,419)	(678)	(2,046)	1,477,640
Total liabilities and net assets	$ 64,010	$ 2,167,020	$ 429,520	$ 166,350	$ 107,150	$ 155,747	$ 3,200	$ 811	$ (338,677)	$ 2,755,131

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

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

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

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

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

(in thousands)	BMC Health System, Inc.	Medical Center	BMCHP	Foundation	BMCIC and BMCIC of Vermont	NAB	BUAP	Boston Accountable Care Organization	Eliminations	Consolidated BMC Health System, Inc.
Operating revenue										
Net patient service revenue, net of provision for bad debt ($53,591 in 2015)	$ -	$ 899,727	$ -	$ 135,606	$ -	$ -	$ 2,406	$ -	$ (133,428)	$ 904,311
Capitation revenue	-	-	1,637,629	-	-	-	-	-	-	1,637,629
Grants and contract revenue	-	101,045	-	-	-	-	-	-	(11,981)	89,064
Institutional support	-	-	-	88,659	-	-	2,155	270	(91,084)	-
Other revenue	-	115,785	11,263	89,517	-	3,372	1,238	90	(36,970)	184,295
Net assets released from restrictions for operations	-	33,184	-	-	-	-	-	-	-	33,184
Total operating revenue	-	1,149,741	1,648,892	313,782	-	3,372	5,799	360	(273,463)	2,848,483
Operating expenses										
Salaries, wages and fringe benefits	2,631	524,211	59,998	266,221	-	-	4,037	104	(25,022)	832,180
Supplies and expenses	5,578	349,355	1,546,467	55,523	3,046	874	1,244	233	(154,128)	1,808,192
Institutional support	608	90,333	-	-	-	-	-	-	(90,941)	-
Depreciation and amortization	-	69,132	3,869	1,264	-	5,567	188	-	-	80,020
Interest expense	-	7,039	-	7	-	3,273	-	-	-	10,319
Research, sponsored programs and community health services	-	102,043	-	-	-	-	-	-	-	102,043
Total operating expenses	8,817	1,142,113	1,610,334	323,015	3,046	9,714	5,469	337	(270,091)	2,832,754
(Loss) income from operations	(8,817)	7,628	38,558	(9,233)	(3,046)	(6,342)	330	23	(3,372)	15,729
Nonoperating gains (losses), net										
Income from investments (including other-than-temporary impairment losses of $3,022 in 2015)	51	25,488	2,770	1,494	3,032	-	5	-	3,372	36,212
Gain on sale of real estate	-	14,478	-	-	-	-	-	-	-	14,478
Loss on defeasance of debt	-	(13,436)	-	-	-	-	-	-	-	(13,436)
Fundraising costs and other	-	(4,825)	-	(9,534)	-	14	-	-	-	(14,345)
Total nonoperating gains, net	51	21,705	2,770	(8,040)	3,032	14	5	-	3,372	22,909
(Deficiency) excess of revenue over expenses	(8,766)	29,333	41,328	(17,273)	(14)	(6,328)	335	23	-	38,638
Other changes in unrestricted net assets										
Change in unrealized (depreciation) appreciation on investments	-	(18,951)	(3,673)	(69)	-	-	-	-	-	(22,693)
Net asset transfer to Health System	61,398	(12,000)	-	(49,398)	-	-	-	-	-	-
Net asset transfer to BMCHP	-	(7,300)	7,300	-	-	-	-	-	-	-
Other changes	-	701	-	-	-	-	-	(701)	-	-
Net assets released from restrictions for property, plant and equipment	-	23,420	-	-	-	-	-	-	-	23,420
Pension-related changes other than net periodic pension costs	-	(4,329)	-	-	-	-	-	-	-	(4,329)
Donated services from/(to) affiliates	1,517	(5,121)	-	3,604	-	-	-	-	-	-
Change in unrestricted net assets	54,149	5,753	44,955	(63,136)	(14)	(6,328)	335	(678)	-	35,036
Unrestricted net assets										
Beginning of year	-	829,496	178,962	125,722	455	(19,028)	(1,754)	-	(2,060)	1,111,793
End of year	$ 54,149	$ 835,249	$ 223,917	$ 62,586	$ 441	$ (25,356)	$ (1,419)	$ (678)	$ (2,060)	$ 1,146,829

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

1. Basis of Presentation

The accompanying supplemental consolidating information includes the consolidating balance sheets and the consolidating statement of operations of the individual entities of BMC Health System, Inc. All intercompany accounts and transactions between entities have been eliminated. The consolidating information presented is prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America consistent with the consolidated financial statements. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements and is not required as part of the basic financial statements.